

UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION

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Administrative Proceeding  
File No. 3-16000

In the Matter of:

**HOUSTON AMERICAN ENERGY CORP.,  
JOHN F. TERWILLIGER, JR.,  
UNDISCOVERED EQUITIES, INC., and  
KEVIN T. MCKNIGHT,**

Respondents

**ANSWER OF RESPONDENTS UNDISCOVERED EQUITIES  
AND KEVIN T. MCKNIGHT**

Respondents, **UNDISCOVERED EQUITIES, INC., and KEVIN T. MCKNIGHT**, by and through their undersigned counsel, hereby answer the allegations of the Division of Enforcement in its Order Instituting Cease-and-Desist Proceedings.

Respondents deny all allegations in the Order to the extent they assert or suggest that Respondents acted fraudulently or negligently or to the extent that they assert or suggest that any of Respondents' actions constitute violations of the securities laws of the United States.

Respondents further respond to the allegations in the Order as follows:

**Section I:** To the extent that Section I of the Order contains legal conclusions, no response is required. Otherwise, Respondents deny the allegations contained in Section I.

**Section II: A. Respondents**

Respondents agree with the characterization of Houston American Energy Corp. However, Respondents are without knowledge as the issue of where the stock was listed, or where it is

currently listed. Respondents agree with the characterization of John Terwilliger. However, Respondents are without knowledge about the issue regarding how his stocks were pledged. Respondents agree with the characterization of Undiscovered Equities, Inc., and Kevin T. McKnight.

**Section II: B. Other Relevant Entities**

Respondents are without sufficient knowledge to admit or deny the characterization of the relevant entities.

**Section II: C. False and Misleading Statements Concerning the CPO-4 Block**

Respondents are without sufficient knowledge to admit or deny the allegations in paragraphs 1 through 35, as Respondents were not privy to such information. Furthermore, no response is required because these paragraphs contain no factual allegations pertaining to Respondents.

As to paragraph 36, Respondents admit that such announcement occurred.

As to paragraphs 37 through 45, Respondents are without sufficient knowledge to admit or deny the allegations therein. Furthermore, no response is required because these paragraphs contain no factual allegations pertaining to Respondents.

As to paragraphs 46 and 47, Respondents admit.

As to paragraph 48, Respondents admit that beginning in November 2009 Undiscovered Equities posted a four page article about Houston American on the website. Respondents further admit that Undiscovered Equities distributed that article along with several corporate press releases and technical charts regarding Houston American to subscribers only, through an email system which included a disclaimer link. However, Respondents deny that Undiscovered Equities posted its list of "Top Picks for 2010 on "November 29, 2009," and instead admit that the date should be "January 1, 2010." Respondents are without sufficient knowledge to admit or deny the allegations

regarding whether Terwilliger and Houston American provided McKnight and Undiscovered Equities with false and misleading statements, as more fully alleged herein. Respondents deny that they had knowledge of false and/or misleading statements by either Houston American or Terwilliger.

As to paragraph 49, Respondents are without sufficient knowledge to know whether Terwilliger and Houston American “intentionally or recklessly” provided McKnight and Undiscovered Equities with false and misleading statements, as more fully alleged therein. Respondents deny that they had any knowledge of false and/or misleading statements by either Houston American or Terwilliger.

As to paragraph 50, Respondents deny that they had any knowledge of false and/or misleading statements by either Houston American or Terwilliger. Respondents are without sufficient knowledge to admit or deny the allegations regarding the “repeated identical claims” and the posting of anonymous messages. Respondents admit that they posted links to either Undiscovered Equities’ “Top 10 List for 2009” or “Top 10 List for 2010” These links directed the message board followers/participants back to those top ten lists contained on the Undiscovered Equities’ website, which included a listing of ten (10) different companies. Houston American was included in Undiscovered Equities’ “Top 10 List for 2009” and “Top 10 List for 2010”.

As to paragraph 51, Respondents admit that they disclosed that they received compensation from Houston American on their website, but deny they had any duty to indicate the specific amount of compensation. Respondents investor relations contract with Houston American included many different services, which included managing a corporate profile, conducting and arranging meetings with analysts, brokers, and other investment professionals, and also positioning the company for

business media coverage. As to the second sentence, Respondents deny that no disclosure was provided. All of the articles to the subscribers were distributed through an email system which contained a link to the detailed disclaimer. The message board posts were simply links to the Top 10 lists (for 2009 and 2010), which clearly contained the disclaimer. Respondents did not need to provide a disclaimer in the link itself. Hence, Respondents deny that the promotional articles or anonymous posts failed to disclose the fact of compensation that Undiscovered Equities received from Houston American. Respondents agree that at no time did they disclose a detailed, actual amount of compensation anywhere.

As to paragraphs 52 through 93, Respondents are without sufficient knowledge to admit or deny the allegations therein, because the allegations relate to third parties. Furthermore, no response is required because these paragraphs contain no factual allegations pertaining to Respondents.

**Section II: D. Violations**

To the extent that paragraphs 1 through 4 contain legal conclusions, no response is required from Respondents. To the extent that a response is required, Respondents deny those allegations. Furthermore, Furthermore, no response is required because these paragraphs contain no factual allegations pertaining to Respondents.

To the extent that paragraph 5 contains a legal conclusion, no response is required from Respondents. To the extent that a response is required, Respondents deny those allegations, and further argue that Respondents did not violate Section 17(b) of the Securities Act.

**Section III:**

To the extent that Section III of the Order contains legal conclusions, no response is required from Respondents. To the extent that a response is required, Respondents deny those allegations.

Furthermore, no response is required as to paragraphs A, B, and C, because these paragraphs contain no factual allegations pertaining to Respondents.

**Section IV:**

To the extent that Section IV of the Order contains legal conclusions, no response is required from Respondents. To the extent that a response is required, Respondents deny those allegations.

**ADDITIONAL AFFIRMATIVE DEFENSES**

Respondents hereby give notice that they may assert certain affirmative defenses, and in doing so, Respondents do not assume any burden of proof that would otherwise rest with the Commission. Respondents further reserve their right to assert additional defenses as the litigation proceeds.

1. The Order fails to state a claim upon which relief can be granted.
2. Respondents acted in good faith at all material times.
3. Respondents substantially complied with Section 17(b) of the Securities Act, in that they disclosed the fact that they were compensated by Houston American.
4. This administrative proceeding deprives Respondents of their right to a jury trial under the Seventh Amendment to the U.S. Constitution.
5. The Order and these proceedings deprive Respondents' due process rights under the Fifth Amendment to the U.S. Constitution, because the proceedings fail to afford an adequate opportunity to defend the charges, and seek penalties not available in an administrative forum at the time the conduct alleged in the Order was alleged to have taken place.
6. The Order and these proceedings deprive Respondents' equal protection rights under

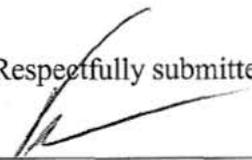
the Fifth Amendment to the U.S. Constitution, because the Commission has selectively decided to pursue proceedings against similarly-situated individuals in federal court without a rational basis for such disparate treatment of Respondents.

7. The demand for a disgorgement in the Order is not disgorgement, but rather is a punitive attempt to “claw back” legitimately-earned compensation as a form of monetary damages against Respondents.

**WHEREFORE**, Respondents having answered the Order Instituting the Cease and Desist Proceedings, hereby requests that this case be dismissed in its entirety as to Respondents, with prejudice, that disgorgement not be ordered, and that this Court recognize the defenses raised herein.

[REDACTED]

Respectfully submitted,



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