KFORCE INC
Form 10-Q
August 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 000-26058

Kforce Inc.

(Exact name of registrant as specified in its charter)

FLORIDA	**59-3264661**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1001 East Palm Avenue TAMPA, FLORIDA	**33605**
(Address of principal executive offices)	**(Zip-Code)**

Registrant s telephone number, including area code: (813) 552-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ¨ NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

The number of shares outstanding of the registrant s common stock as of August 2, 2010, was 39,526,720.

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KFORCE INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED JUNE 30, 2010

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

References in this document to the Registrant, Kforce, we, our or us refer to Kforce Inc. and its subsidiaries, except where the context otherv requires.

This report, particularly Part I, Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Part II, Item 1A, Risk Factors, and the documents we incorporate into this report, contain certain statements that are, or may be deemed to be, forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and are made in reliance upon the protections provided by such acts for forward-looking statements. Such statements may include, but may not be limited to, projections of revenue, income, losses, cash flows, capital expenditures, future prospects, anticipated costs and benefits of proposed (or future) acquisitions, integration of acquisitions, plans for future operations, capabilities of business operations, effects of interest rate variations, financing needs or plans, plans relating to services of Kforce, estimates concerning the effects of litigation or other disputes, as well as assumptions as to any of the foregoing and all statements that are not based on historical fact but rather reflect our current expectations concerning future results and events. For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the Risk Factors and MD&A sections. In addition, when used in this discussion, the terms anticipates, estimates, expects, intends, plans, believes, will, may, could, should and variations thereof and similar expressions are intended t forward-looking statements.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted. Future events and actual results could differ materially from those set forth in or underlying the forward-looking statements. Readers are cautioned not to place undue reliance on any forward-looking statements contained in this report, which speak only as of the date of this report. Kforce undertakes no obligation to publicly publish the results of any adjustments to these forward-looking statements that may be made to reflect events on or after the date of this report or to reflect the occurrence of unexpected events.

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements*.**

KFORCE INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Flexible billings	$ 236,270	$ 219,326	$ 455,033	$ 442,813
Search fees	9,867	6,626	17,760	14,448
Net service revenues	246,137	225,952	472,793	457,261
Direct costs of services	167,742	154,331	326,253	313,419
Gross profit	78,395	71,621	146,540	143,842
Selling, general and administrative expenses	66,222	62,084	127,162	125,494
Depreciation and amortization	3,137	2,885	6,113	5,925
Income from operations	9,036	6,652	13,265	12,423
Other expense, net	269	275	643	624
Income before income taxes	8,767	6,377	12,622	11,799
Income tax expense	3,623	2,470	4,770	4,731
Net income	5,144	3,907	7,852	7,068
Other comprehensive income (loss):				
Defined benefit pension and postretirement plans, net of tax	6	6	31	(265)
Comprehensive income	$ 5,150	$ 3,913	$ 7,883	$ 6,803
Earnings per share basic	$ 0.13	$ 0.10	$ 0.20	$ 0.18
Earnings per share diluted	$ 0.13	$ 0.10	$ 0.19	$ 0.18
Weighted average shares outstanding basic	39,500	38,314	39,379	38,229
Weighted average shares outstanding diluted	40,532	38,988	40,452	38,737

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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KFORCE INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS)

	June 30, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 410	$ 2,812
Trade receivables, net of allowances of $6,211 and $6,604, respectively	142,912	123,144
Income taxes receivable	2,528	246
Deferred tax asset, net	5,679	6,011
Prepaid expenses and other current assets	6,635	4,924
Total current assets	158,164	137,137
Fixed assets, net	38,314	11,407
Other assets, net	33,441	32,914
Deferred tax asset, net	9,371	10,380
Intangible assets, net	8,865	10,075
Goodwill	137,912	137,912
Total assets	$ 386,067	$ 339,825
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable and other accrued liabilities	$ 24,950	$ 25,437
Accrued payroll costs	51,507	50,690
Other current liabilities	2,254	2,807
Income taxes payable		279
Total current liabilities	78,711	79,213
Long-term debt credit facility	38,000	3,000
Long-term debt other	1,667	1,784
Other long-term liabilities	28,314	29,103
Total liabilities	146,692	113,100
Commitments and contingencies		
Stockholders Equity:		
Preferred stock, $0.01 par; 15,000 shares authorized, none issued and outstanding		
Common stock, $0.01 par; 250,000 shares authorized, 63,852 and 63,281 issued, respectively	639	633
Additional paid-in capital	346,260	338,890
Accumulated other comprehensive income	(1,182)	(1,213)
Retained earnings	49,197	41,345
Treasury stock, at cost; 24,346 and 24,176 shares, respectively	(155,539)	(152,930)
Total stockholders equity	239,375	226,725
Total liabilities and stockholders equity	$ 386,067	$ 339,825

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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KFORCE INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT

OF CHANGES IN STOCKHOLDERS EQUITY

(IN THOUSANDS)

		Six Months Ended June 30, 2010
Common stock shares:		
Shares at beginning of period		63,281
Issuance of restricted stock		133
Exercise of stock options		438
Shares at end of period		63,852
Common stock par value:		
Balance at beginning of period	$	633
Issuance of restricted stock		1
Exercise of stock options		5
Balance at end of period	$	639
Additional paid-in capital:		
Balance at beginning of period	$	338,890
Issuance of restricted stock		(1)
Exercise of stock options		3,002
Income tax benefit from restricted stock and stock option exercises		1,463
Stock-based compensation expense		2,906
Balance at end of period	$	346,260
Accumulated other comprehensive income:		
Balance at beginning of period	$	(1,213)
Pension and postretirement plans, net of tax		31
Balance at end of period	$	(1,182)
Retained earnings:		
Balance at beginning of period	$	41,345
Net income		7,852
Balance at end of period	$	49,197
Treasury stock shares:		
Shares at beginning of period		24,176
Shares repurchased for minimum tax withholding on restricted stock and stock option exercises		87
Shares tendered in payment of the exercise price of stock options		83
Shares at end of period		24,346

Treasury stock cost :		
Balance at beginning of period	$	(152,930)
Shares repurchased for minimum tax withholding on restricted stock and stock option exercises		(1,293)
Shares tendered in payment of the exercise price of stock options		(1,316)
Balance at end of period	$	(155,539)

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CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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KFORCE INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	Six Months Ended	
	June 30, 2010	June 30, 2009
Cash flows from operating activities:		
Net income	$ 7,852	$ 7,068
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Intangible asset impairment charge		870
Deferred income tax provision, net	1,321	165
Depreciation and amortization	6,113	5,925
Stock-based compensation	2,906	1,619
Recovery of bad debts on accounts receivable and fallouts	(658)	(712)
Pension and postretirement benefit plans expense	1,993	950
Alternative long-term incentive award	560	872
Deferred compensation liability (decrease) increase, net	(487)	866
Tax benefit attributable to stock-based compensation	1,463	201
Excess tax benefit attributable to stock-based compensation	(995)	(2)
Loss (gain) on cash surrender value of company-owned life insurance	1,091	(322)
Other	101	8
(Increase) decrease in operating assets:		
Trade receivables, net	(19,110)	5,296
Income tax refund receivable	(2,283)	180
Prepaid expenses and other current assets	(1,710)	(1,552)
Other assets, net	(113)	168
Increase (decrease) in operating liabilities:		
Accounts payable and other accrued liabilities	(167)	702
Accrued payroll costs	817	(2,354)
Income taxes payable	(279)	(3,230)
Other long-term liabilities	(1,245)	120
Cash (used in) provided by operating activities	(2,830)	16,838
Cash flows from investing activities:		
Capital expenditures	(32,593)	(1,878)
Premiums paid for company-owned life insurance	(2,197)	(2,200)
Acquisitions, net of cash received		91
Proceeds from escrow account		1,170
Other	83	90
Cash used in investing activities	(34,707)	(2,727)
Cash flows from financing activities:		
Proceeds from bank line of credit	275,780	167,122
Payments on bank line of credit	(240,780)	(180,281)
Payment of capital expenditure financing	(938)	(953)
Short-term vendor financing	(320)	11
Excess tax benefit attributable to stock-based compensation	995	2
Proceeds from exercise of stock options, net of shares tendered in payment of the exercise price of stock options	1,691	253
Shares repurchased for minimum tax withholding on restricted stock and stock option exercises	(1,293)	(458)
Cash provided by (used in) financing activities	35,135	(14,304)
Decrease in cash and cash equivalents	(2,402)	(193)

Cash and cash equivalents at beginning of period		2,812		660
Cash and cash equivalents at end of period	$	410	$	467
Supplemental Cash Flow Information:				
Cash paid during the period for:				
Income taxes, net	$	4,365	$	7,246
Interest, net	$	354	$	513
Non-Cash Transaction Information:				
Employee stock purchase plan	$		$	410
Shares tendered in payment of the exercise price of stock options	$	1,316	$	1,465
Equipment acquired under capital lease	$	605	$	196

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE UNAUDITED

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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KFORCE INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

Kforce Inc. and subsidiaries (collectively, Kforce) provide professional staffing services and solutions to customers in the following segments: Technology (Tech), Finance and Accounting (FA), Health and Life Sciences (HLS) and Government Solutions (GS). Kforce provides flexible staffing services and solutions on a temporary basis and also provides permanent placement services. Kforce operates through its corporate headquarters in Tampa, Florida and its 64 field offices, which are located throughout the United States. One of our subsidiaries, Kforce Global Solutions, Inc. (Global), provides outsourcing services internationally through two offices in Manila, Philippines. Our international operations comprised approximately 2% of net service revenues for the six months ended June 30, 2010 and are included in our Tech segment.

Kforce serves Fortune 1000 companies, the Federal government, state and local governments, local and regional companies, and small to mid-sized companies.

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) regarding interim financial reporting. Accordingly, certain information and footnotes normally required by accounting principles generally accepted in the United States of America (GAAP) for complete financial statements have been condensed or omitted pursuant to those rules and regulations, although Kforce believes that the disclosures made are adequate to make the information not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009. In management s opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation of our financial condition as of June 30, 2010, our results of operations and cash flows for the six months ended June 30, 2010. The data in the condensed consolidated balance sheet as of December 31, 2009 was derived from our audited consolidated balance sheet as of December 31, 2009, as presented in our 2009 Annual Report on Form 10-K.

Our quarterly operating results are affected by the number of billing days in a quarter and the seasonality of our customers businesses. In addition, we experience an increase in direct costs of services and a corresponding decrease in gross profit in the first fiscal quarter of each year as a result of certain U.S. state and federal employment tax resets. Thus, the results of operations for any interim period are not necessarily indicative of, nor comparable to, the results of operations for a full year.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Kforce Inc. and its subsidiaries. References in this document to Kforce, the Company, we, our or us refer to Kforce and its subsidiaries, except where the context indicates otherwise. All intercompany transactions an balances have been eliminated in consolidation.

In addition to its wholly-owned subsidiaries, the condensed consolidated financial statements of Kforce also include its 49% interest in a joint venture, which was acquired in the 2008 acquisition of RDI Systems, Inc., d/b/a dNovus RDI (RDI or dNovus). This joint venture is recorded as an investment in an unconsolidated entity and is accounted for under the equity method of accounting. Kforce s equity in the earnings of its equity method investment is recorded as income with a corresponding increase in the investment with distributions received reducing the investment. This investment had an insignificant effect on the accompanying unaudited condensed consolidated financial statements for the six months ended June 30, 2010 and 2009.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported

amounts of revenue and expenses during the reporting period. The most important of these estimates and assumptions relate to the following: allowance for doubtful accounts, fallouts and other accounts receivable reserves; accounting for goodwill and identifiable intangible assets and any related impairment; self-insured liabilities for workers compensation and health insurance; stock-based compensation; obligations for pension and postretirement benefit plans; expected annual commission rates and accounting for income taxes. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

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Cash and Cash Equivalents

Kforce classifies all highly liquid investments with an original initial maturity of three months or less as cash equivalents. Cash and cash equivalents consist of cash on hand with banks, either in commercial accounts or overnight interest-bearing money market accounts and, at times, may exceed federally insured limits. Cash and cash equivalents are stated at cost, which approximates fair value due to the short duration of their maturities.

Accounts Receivable Reserves

Kforce establishes its reserves for expected credit losses, fallouts, early payment discounts and revenue adjustments based on past experience and expectations of future activity. Specific to our allowance for doubtful accounts, which comprises approximately 90% of our accounts receivable reserves, Kforce performs an ongoing analysis of factors including recent write-off and delinquency trends, a specific analysis of significant receivable balances that are past due, the concentration of accounts receivable among clients and higher-risk sectors, and the current state of the U.S. economy. Trade receivables are written off by Kforce after all collection efforts have been exhausted. The allowance as a percentage of gross accounts receivable was 4.2% and 5.1% as of June 30, 2010 and December 31, 2009, respectively.

Revenue Recognition

We earn revenue from two primary sources: Flexible billings and Search fees. Flexible billings are recognized as the services are provided by Kforce s temporary employees, who are Kforce s legal employees while they are working on assignments. Kforce pays all related costs of such employment; including workers compensation insurance, state and federal unemployment taxes, social security and certain fringe benefits. Search fees are recognized by Kforce when employment candidates accept offers of permanent employment and are scheduled to commence employment within 30 days. Kforce records revenue net of an estimated reserve for fallouts, which is based on Kforce s historical fallout experience. Fallouts occur when a candidate does not remain employed with the client through the contingency period, which is typically 90 days or less.

Net service revenues represent services rendered to customers less credits, discounts, rebates and allowances. Revenue includes reimbursements of travel and out-of-pocket expenses (billable expenses) with equivalent amounts of expense recorded in direct costs of services.

Our GS segment generates its revenues under contracts that are, in general, greater in duration than our other segments and which can often span several years. GS provides these services under time and materials (which account for the majority of this segment s contracts), fixed-price, and cost-plus contracts. Our GS segment does not generate any Search fees. Except as provided below, Kforce considers amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectability is reasonably assured.

- Revenue for time and materials contracts, which accounted for approximately 67% of this segment s revenue for the six months ended June 30, 2010, is recorded based on contractually-established billing rates at the time services are provided.

- Revenue on fixed-price contracts is recognized on the basis of the estimated percentage-of-completion. Approximately 26% of this segment s revenue for the six months ended June 30, 2010, is recognized under this method. Progress towards completion is typically measured based on achievement of specified contract milestones, or other measures of progress when available, or based on costs incurred as a proportion of estimated total costs. Profit in a given period is reported at the expected profit margin to be achieved on the overall contract.

Direct Costs of Services

Direct costs of services are composed primarily of payroll wages, payroll taxes, payroll-related insurance for Kforce s flexible employees, and subcontract costs. Direct costs of permanent placement services primarily consist of reimbursable expenses. Direct costs of services exclude depreciation and amortization expense, which is presented on a separate line in the accompanying unaudited condensed consolidated statements of operations and comprehensive income.

Income Taxes

Kforce accounts for income taxes using the asset and liability approach to the recognition of deferred tax assets and liabilities for the expected future tax consequences of differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Unless it is more likely than not that a deferred tax asset can be utilized to offset future taxes, a valuation allowance must be recorded against that asset. The tax benefits of deductions attributable to employees disqualifying dispositions of shares obtained from incentive stock options, exercises of non-qualified stock options, and vesting of restricted stock are reflected as increases in additional paid-in capital.

Kforce evaluates tax positions that have been taken or are expected to be taken in its tax returns, and records a liability for uncertain tax positions. Kforce uses a two-step approach to recognize and measure uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, tax positions are measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. Kforce recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes in the accompanying unaudited condensed consolidated financial statements.

Fair Value Measurements

Kforce uses the framework established by the Financial Accounting Standards Board (FASB) for measuring fair value and disclosures about fair value measurements. Kforce uses fair value measurements in areas that include, but are not limited to: the allocation of purchase price consideration to tangible and identifiable intangible assets; impairment testing of goodwill and long-lived assets; share-based compensation arrangements and capital lease obligations. The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of the short-term nature of these instruments. The carrying value of our long-term debt approximates fair value due to the variable nature of the interest rates under Kforce s credit facility resulting from the Second Amended and Restated Credit Agreement that it entered into on October 2, 2006 with a syndicate led by Bank of America, N.A. (the Credit Facility). Using available market information and appropriate valuation methodologies, Kforce has determined the estimated fair value measurements; however, considerable judgment is required in interpreting data to develop the estimates of fair value.

Fixed Assets

Fixed assets are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the related leases, which range from three to five years.

Impairment of Long-Lived Assets

Kforce reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset group to the future undiscounted net cash flows expected to be generated by those assets. If a long-lived asset is considered to be impaired, the impairment charge recognized is the amount by which the carrying amount of the asset exceeds its fair value. There were no impairment charges recorded during the six months ended June 30, 2010 or 2009.

Goodwill and Other Intangible Assets

Goodwill

Kforce performs an annual review to ensure that no impairment of goodwill exists or more frequently if events or changes in circumstances indicate that the value of goodwill may not be recoverable. Kforce considered factors, including continued economic developments and the overall macro-economic environment, and determined that there were no triggering events necessitating an interim review of the carrying value of our goodwill. There were no goodwill-related impairment charges recorded during the six months ended June 30, 2010 or 2009.

Other Intangible Assets

Identifiable intangible assets arising from certain of Kforce s acquisitions include non-compete agreements, contractual relationships, customer contracts, trademarks and trade names. The impairment evaluation for indefinite-lived intangible assets, which consist of trademarks and trade names, is conducted as of December 31 of each fiscal year or more frequently if events or changes in circumstances indicate that an asset may be impaired.

For definite-lived intangible assets, Kforce has determined that the straight-line method is an appropriate methodology to allocate the cost over the periods of expected benefit, which range from one to 15 years.

During the three and six months ended June 30, 2009, Kforce recognized an impairment charge of $870 related to a trade name that was acquired in the 2004 acquisition of Hall, Kinion and Associates, Inc. There were no impairment charges related to identifiable intangible assets recorded during the three and six months ended June 30, 2010.

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Capitalized Software

Kforce purchases, occasionally develops, and implements new computer software to enhance the performance of its accounting and operating systems. Direct internal costs, such as payroll and payroll-related costs, and external costs incurred during the development stage of each project, are capitalized and classified as capitalized software. Kforce capitalized development-stage implementation costs of $1,101 and $2,251 during the three and six months ended June 30, 2010, respectively, compared to $453 and $721 during the three and six months ended June 30, 2009, respectively. Capitalized software development costs are classified as other assets, net in the accompanying unaudited condensed consolidated balance sheets and are being amortized over the estimated useful lives of the software, which range from one to five years, using the straight-line method.

Commissions

Our associates make placements and earn commissions as a percentage of actual revenue or gross profit pursuant to a calendar-year-basis commission plan. The amount of commissions paid as a percentage of revenue or gross profit increases as volume increases. Kforce accrues commissions for actual revenue or gross profit at a percentage equal to the percent of total expected commissions payable to total revenue or gross profit for the year, as applicable.

Stock-Based Compensation

Kforce accounts for stock-based compensation by measuring the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized over the period in which the employee is required to provide service in exchange for the award, which is usually the vesting period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. For awards settled in cash, we measure compensation expense based on the fair value of the award at each reporting date, net of estimated forfeitures.

Accounting for Postretirement Benefits

Kforce recognizes the overfunded or underfunded status of its defined benefit postretirement plans as an asset or liability in its unaudited condensed consolidated balance sheets and recognizes changes in that funded status in the year in which the changes occur through other comprehensive income. Kforce also measures the funded status of the defined benefit postretirement plan as of the date of its fiscal year-end, with limited exceptions.

Amortization of a net unrecognized gain or loss in accumulated other comprehensive income is included as a component of net periodic benefit cost and net periodic postretirement benefit cost if, as of the beginning of the year, that net gain or loss exceeds 10% of the greater of the projected benefit obligation or accumulated postretirement benefit obligation. If amortization is required, the minimum amortization shall be that excess divided by the average remaining service period of active plan participants.

Workers Compensation

Kforce retains the economic burden for the first $250 per occurrence in workers compensation claims except: (i) in states that require participation in state-operated insurance funds and (ii) for its GS segment, which is fully insured for workers compensation claims. Workers compensation includes ongoing healthcare and indemnity coverage for claims and may be paid over numerous years following the date of injury. Workers compensation expense includes insurance premiums paid, claims administration fees charged by Kforce s workers compensation administrator, premiums paid to state-operated insurance funds and an estimate for Kforce s liability for Incurred but Not Reported (IBNR) claims and for the ongoing development of existing claims.

Kforce estimates its workers compensation liability based upon historical claims experience, actuarially-determined loss development factors, and qualitative considerations such as claims management activities.

Health Insurance

Except for certain fully-insured health insurance lines of coverage, Kforce retains liability of up to $270 annually for each health insurance plan participant. For its partially self-insured lines of coverage, health insurance costs are accrued using estimates to approximate the liability for reported claims and IBNR claims, which are primarily based upon an evaluation of historical claims experience, actuarially-determined completion factors, and a qualitative review of its health insurance exposure, including the extent of outstanding claims and expected changes in health insurance costs.

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Taxes Assessed by Governmental Agencies Revenue Producing Transactions

Kforce collects sales tax for various taxing authorities and it is our policy to record these amounts on a net basis; thus, sales tax amounts are not included in net service revenues.

Business Combinations

Kforce utilizes the purchase method in accounting for acquisitions whereby the total purchase price is first allocated to the tangible and identifiable intangible assets acquired and liabilities assumed, and any remaining purchase price is allocated to goodwill. Kforce recognizes intangible assets apart from goodwill if they arise from contractual or other legal rights, or if they are capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged. Assumptions and estimates are used in determining the fair value of assets acquired and liabilities assumed in a business combination. Valuation of intangible assets acquired requires that we use significant judgment in determining fair value, whether such intangibles are amortizable and, if the asset is amortizable, the period and the method by which the intangible asset will be amortized. Changes in the initial assumptions could lead to changes in amortization charges recorded in our financial statements. Additionally, estimates for purchase price allocations may change as subsequent information becomes available.

Earnings per Share

Basic earnings per share is computed as earnings divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing the earnings attributable to common shareholders for the period by the weighted average number of common shares outstanding during the period plus the dilutive effect of stock options and other potentially dilutive securities such as non-vested stock grants using the treasury stock method, except where the effect of including potential common shares would be anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Numerator:				
Net income	$ 5,144	$ 3,907	$ 7,852	$ 7,068
Denominator:				
Weighted average shares outstanding basic	39,500	38,314	39,379	38,229
Common stock equivalents	1,032	674	1,073	508
Weighted average shares outstanding diluted	40,532	38,988	40,452	38,737
Earnings per share basic	$ 0.13	$ 0.10	$ 0.20	$ 0.18
Earnings per share diluted	$ 0.13	$ 0.10	$ 0.19	$ 0.18

For the three and six months ended June 30, 2010, total weighted average awards to purchase or receive 33 and 116 shares of common stock, respectively, were not included in the computations of diluted earnings per share because their inclusion would have had an anti-dilutive effect. For the three and six months ended June 30, 2009, total weighted average awards to purchase or receive 2,118 and 3,028 shares of common stock, respectively, were not included in the computations of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

Treasury Stock

Kforce s Board of Directors (Board) may authorize share repurchases of Kforce s common stock. Shares repurchased under Board authorizations are held in treasury for general corporate purposes, including issuances under various employee share-based award plans. Treasury shares are accounted for under the cost method and reported as a reduction of stockholders equity in the accompanying unaudited condensed consolidated financial statements.

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Comprehensive Income

Accumulated other comprehensive income represents the net after-tax impact of unrecognized actuarial gains and losses related to (i) the supplemental executive retirement plan and supplemental executive retirement health plan, both of which cover a limited number of executives, and (ii) a defined benefit plan covering all eligible employees in our international Philippine operations. Because each of these plans is unfunded as of June 30, 2010, the actuarial gains and losses arise as a result of the actuarial experience of the plans as well as changes in actuarial assumptions in measuring their associated obligation as of year-end, or at an interim date if any re-measurement is necessary. This information is provided in our unaudited condensed consolidated statements of operations and comprehensive income.

Subsequent Events

Kforce considers events that occur after the balance sheet date but before the financial statements are issued to determine appropriate accounting and disclosure for those events. We evaluated all events or transactions that occurred subsequent to June 30, 2010 and through the time of filing this Quarterly Report on Form 10-Q. We are not aware of any significant events that occurred subsequent to June 30, 2010 but prior to the filing of this report that would have a material impact on our unaudited condensed consolidated financial statements.

New Accounting Standards

In November 2008, the SEC issued for comment a proposed roadmap regarding the potential use of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). IFRS is a set of standards and interpretations adopted by the International Accounting Standards Board. Under the proposed roadmap, Kforce would be required to prepare its financial statements in accordance with IFRS in our fiscal year ending December 31, 2015. Kforce is currently assessing the potential impact of IFRS on its financial statements and will continue to follow the proposed roadmap for future developments.

In October 2009, the FASB issued guidance related to multiple-deliverable revenue arrangements. This guidance requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. This guidance should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on our future consolidated financial statements.

Note B Acquisition of Corporate Headquarters

On April 6, 2010, Kforce entered into a purchase and sale agreement to acquire its corporate headquarters for a purchase price of $28,500. This transaction closed on May 27, 2010 and was funded under the Credit Facility. Kforce incurred $382 of costs that were directly attributable to the acquisition of its corporate headquarters, which were capitalized as part of the purchase price. In addition, Kforce decreased the purchase price by $373 for certain balances that arose as a result of its previous operating lease, which included a rental obligation that represented the difference between the straight-line rent expense and actual cash payments made and certain rent prepayments. The resulting aggregate purchase price of $28,509 was allocated between land and building and improvements in the amounts of $4,581 and $23,928, respectively. The estimated useful lives of the building and improvements range from 5 to 40 years.

Upon the closing of the transaction, all lease agreements and amendments related to our corporate headquarters were immediately terminated. The future minimum lease payments previously associated with our corporate headquarters, which Kforce is no longer obligated to make and which were included along with certain other lease payments in Note 15, *Commitments and Contingencies,* of our Annual Report on Form 10-K for the year ended December 31, 2009, were $1,463 remaining in 2010, $2,566 in 2011, $2,643 in 2012, $2,723 in 2013, $2,804 in 2014, and $5,042 thereafter.

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Note C Commitments and Contingencies

Litigation

On September 30, 2009, Kforce Inc. was served with a complaint brought in California Superior Court by Plaintiff Toma Barseghian, on behalf of himself and a putative class of California Account Managers. The complaint alleges that Account Managers based in California have been misclassified under California law as exempt employees and seeks unspecified sums for unpaid overtime, failure to provide meal and rest periods, statutory penalties, as well as injunctive relief. At this stage of the litigation, it is not feasible to predict the outcome or a range of loss, should a loss occur, and accordingly, no amounts have been reserved for in the accompanying unaudited condensed consolidated financial statements. Kforce believes it has meritorious defenses to the allegations, and intends to vigorously defend the litigation.

In the ordinary course of its business, Kforce is also from time to time threatened with litigation or named as a defendant in various lawsuits and administrative proceedings. While management does not expect any of these other matters to have a material adverse effect on the Company s results of operations, financial position or cash flows, litigation is subject to certain inherent uncertainties. Kforce maintains liability insurance in such amounts and with such coverage and deductibles as management believes is reasonable. The principal liability risks that Kforce insures against are workers compensation, personal injury, bodily injury, property damage, directors and officers liability, errors and omissions, employment practices liability and fidelity losses. There can be no assurance that Kforce s liability insurance will cover all events or that the limits of coverage will be sufficient to fully cover all liabilities.

Kforce is not aware of any litigation that would reasonably be expected to have a material adverse effect on its results of operations, its cash flows or its financial condition.

Employment Agreements

Kforce has entered into employment agreements with certain executive officers and managers that provide for minimum compensation, salary and continuation of certain benefits for a six-month to a three-year period under certain circumstances. The agreements also provide for a severance payment of one to three times annual salary and one half to three times average annual bonus if such an employee is terminated without good cause by the employer or for good reason by the employee. These agreements contain certain post-employment restrictive covenants. Kforce s liability at June 30, 2010 would be approximately $55,993 if all of the employees under contract were terminated without good cause by the employer or the employees resigned for good cause following a change in control, and would be approximately $19,000 if all of the employees under contract were terminated by Kforce without good cause or the employees resigned for good cause in the absence of a change of control.

Kforce has not recorded any liability related to the employment agreements as no events have occurred that would require payment under the agreements.

Note D Employee Benefit Plans

Foreign Pension Plan

Kforce maintains a foreign defined benefit pension plan for eligible employees of the Philippine branch of Global that is required by Philippine labor law. The plan defines retirement as those employees who have attained the age of 60 and have completed at least five years of credited service. Benefits payable under the plan equate to one-half month s salary for each year of credited service. Benefits under the plan are paid out as a lump sum to eligible employees at retirement.

The following represents the components of net periodic benefit cost for the three and six months ended:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Service cost	$ 19	$ 16	$ 38	$ 31
Interest cost	13	10	26	21
Amortization of actuarial gain	(5)	(5)	(9)	(10)

Net periodic benefit cost	$ 27	$ 21	$ 55	$ 42

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The net periodic benefit cost recognized for the three and six months ended June 30, 2010 was based upon the actuarial valuation at the beginning of the fiscal year. The significant assumptions used by Kforce in the actuarial valuation include the discount rate, the estimated rate of future annual compensation increases and the estimated turnover rate. As of December 31, 2009 and 2008, the discount rate used to determine the actuarial present value of the projected benefit obligation and pension expense was 10.3% and 11.1%, respectively. The discount rate was determined based on long-term Philippine government securities yields commensurate with the expected payout of the benefit obligation. The estimated rate of future annual compensation increases as of December 31, 2009 and 2008 was 6.5% and was based on historical compensation increases as well as future expectations. The Company applies a turnover rate to the specific age of each group of employees, which ranges from 20 to 64 years of age.

As of June 30, 2010 and December 31, 2009, the projected benefit obligation associated with our foreign defined benefit pension plan was $511 and $446, respectively, which is classified in other long-term liabilities in the accompanying unaudited condensed consolidated balance sheets.

Supplemental Executive Retirement Plan

Effective December 31, 2006, Kforce implemented a Supplemental Executive Retirement Plan (the SERP) for the benefit of certain executive officers. The primary goals of the SERP are to create an additional wealth accumulation opportunity, restore lost qualified pension benefits due to government limitations and retain the executive officers. The SERP is a non-qualified benefit plan and does not include elective deferrals of the executive officers compensation.

Normal retirement age under the SERP is defined as age 65; however, certain conditions allow for early retirement as early as age 55 or upon a change in control. Vesting under the plan is defined as 100% upon a participant s attainment of age 55 and 10 years of service and 0% prior to a participant s attainment of age 55 and 10 years of service. Full vesting also occurs if a participant with five years or more of service is involuntarily terminated by Kforce without cause or upon death, disability or a change in control. The SERP is funded entirely by Kforce, and benefits are taxable to the executive officer upon receipt and deductible by Kforce when paid. Benefits payable under the SERP upon the occurrence of a qualifying distribution event, as defined, are targeted at 45% of the covered executive officers average salary and bonus, as defined, from the three years in which the executive officer earned the highest salary and bonus during the last 10 years of employment, which is subject to adjustment for retirement prior to the normal retirement age and the participant s vesting percentage. The benefits under the SERP are reduced for a participant that has not reached age 62 with 10 years of service or age 55 with 25 years of service with a percentage reduction up to the normal retirement age.

Benefits under the SERP are normally paid based on the lump sum present value but may be paid over the life of the executive officer or through a 10-year annuity, as elected by the executive officer upon commencement of participation in the SERP. None of the benefits earned pursuant to the SERP are attributable to services provided prior to December 31, 2006. For purposes of the measurement of the benefit obligation, Kforce has assumed that all participants will elect to take the lump sum present value option.

The following represents the components of net periodic benefit cost for the three and six months ended:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	**2009**	**2010**	**2009**
Service cost	$ 756	$ 567	$ 1,512	$ 1,134
Interest cost	99	64	198	128
Amortization of actuarial loss	21		41	
Curtailment gain				(279)
Net periodic benefit cost	$ 876	$ 631	$ 1,751	$ 983

The net periodic benefit cost recognized for the three and six months ended June 30, 2010 was based upon the actuarial valuation at the beginning of the year, which utilized the assumptions noted in our Annual Report on Form 10-K for the year ended December 31, 2009. During the six months ended June 30, 2009, Kforce recognized a curtailment gain of $279 as a result of the termination of an executive officer. There is no requirement for Kforce to fund the SERP and no contributions were made to the plan during the six months ended June 30, 2010. Kforce does not currently anticipate funding the SERP during the year ending December 31, 2010.

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Supplemental Executive Retirement Health Plan

Effective April 20, 2007, the Board of Directors approved the Supplemental Executive Retirement Health Plan (SERHP) to provide postretirement health and welfare benefits to certain executive officers. The vesting and eligibility requirements mirror those of the SERP, and no advance funding is required by Kforce or the participants. Consistent with the SERP, none of the benefits earned are attributable to services provided prior to the effective date.

The following represents the components of net periodic postretirement benefit cost for the three and six months ended:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Service cost	$ 78	$ 36	$ 155	$ 72
Interest cost	6	9	13	18
Amortization of actuarial loss			1	
Curtailment gain				(180)
Net periodic benefit cost	$ 84	$ 45	$ 169	$ (90)

The net periodic postretirement benefit cost recognized for the three and six months ended June 30, 2010 was based upon the actuarial valuation at the beginning of the year, which utilized the assumptions noted in our Annual Report on Form 10-K for the year ended December 31, 2009. During the six months ended June 30, 2009, Kforce recognized a curtailment gain of $180 as a result of the termination of an executive officer.

Note E Stock Incentive Plans

On June 20, 2006, the shareholders approved thw roman">

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375,000

Net cash provided by (used in) financing activities

(700,029

)

375,000

Increase (decrease) in cash and equivalents	(5,024,467)	13,135,565
Cash, beginning of period	9,910,694	417,818
Cash, end of period	$ 4,886,227	$ 13,553,383

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	$ —

$

—

Taxes paid

$

55,163

$

5,026,982

NONCASH INVESTING AND FINANCING INFORMATION

Cash proceeds from sale of oil and gas properties escrowed

$

—

$

1,673,551

Change in asset retirement obligation

$

31,534

—

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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HOUSTON AMERICAN ENERGY CORP.
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited financial statements of Houston American Energy Corp., a Delaware corporation (the "Company"), have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete financial presentation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited financial statements. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the financial statements and footnotes, which are included as part of the Company's Form 10-K for the year ended December 31, 2008.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk include cash, cash equivalents and any marketable securities. The Company had cash deposits of approximately $4,212,310 in excess of the FDIC's $250,000 current insured limits at the period end. The Company has not experienced any losses on its deposits of cash and cash equivalents.

NOTE 2 – CHANGES IN PRESENTATION

Certain financial presentations for the periods presented for 2008 have been reclassified to conform to the 2009 presentation.

NOTE 3 – RECENT ACCOUNTING PRONOUNCEMENTS

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ("FSP EITF 03-6-1"). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in computing earnings per share under the two-class method described in SFAS No. 128, Earnings Per Share. FSP EITF 03-6-1 is effective for the Company as of January 1, 2009 and in accordance with its requirements it will be applied retrospectively. The adoption of FSP EITF 03-6-1 did not have a material impact on the Company's consolidated financial statements.

On December 31, 2008, the SEC published the final rules and interpretations updating its oil and gas reporting requirements. Many of the revisions are updates to definitions in the existing oil and gas rules to make them consistent with the petroleum resource management system, which is a widely accepted standard for the management of petroleum resources that was developed by several industry organizations. Key revisions include changes to the pricing used to estimate reserves to the utilization of a 12-month average price rather than a single day spot price which eliminates the ability to utilize prices subsequent to the end of a reporting period in those instances where the full cost ceiling was exceeded and subsequent pricing exceeds pricing at the end of a reporting period, the ability to include nontraditional resources in reserves, the use of new technology for determining reserves, and permitting disclosure of probable and possible reserves. The SEC will require companies to comply with the amended disclosure

requirements for registration statements filed after January 1, 2010, and for annual reports on Form 10-K for fiscal years ending on or after December 15, 2009. Early adoption is not permitted. The Company is currently assessing the impact that the adoption will have on the Company's disclosures, operating results, financial position and cash flows.

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In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), or SFAS 167. SFAS 167 amends FASB Interpretation No. 46, Consolidation of Variable Interest Entities (revised December 2003) — an interpretation of ARB No. 51, or FIN 46(R), to require an enterprise to determine whether it's variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. SFAS 167 also amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS 167 is effective for all variable interest entities and relationships with variable interest entities existing as of January 1, 2010. We have not determined the effect that the adoption of SFAS 167 will have on our financial position or results of operations.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162, or SFAS 168. SFAS 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, to establish the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. We do not expect the adoption of this standard to have an impact on our financial position or results of operations.

With the exception of the pronouncements noted above, no other accounting standards or interpretations issued or recently adopted are expected to a have a material impact on our consolidated financial position, operations or cash flows.

NOTE 4 – SALE OF CARACARA OIL AND GAS PROPERTIES

Gain on Sale of Oil and Gas Properties

In June 2008, the Company, through Hupecol Caracara LLC as owner/operator under the Caracara Association Contract, sold all of its interest in the Caracara Association Contract and related assets for a total cash consideration of $11,917,418.

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The following table presents pro forma data that reflects revenue, income from continuing operations, net income and income per share for the three and six months ended June 30, 2008 as if the Caracara transaction had occurred at the beginning of that period.

Pro-Forma Information:	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Oil and gas revenue	$ 2,453,264	$ 3,261,220
Loss from operations	(550,266)	(894,766)
Net loss	$ (568,888)	$ (938,786)
Basic loss per share	$ (0.02)	$ (0.03)
Diluted loss per share	$ (0.02)	$ (0.03)

Pursuant to the terms of the sale of the Caracara assets, on the closing date of the sale, a portion of the purchase price was deposited in escrow to settle post-closing adjustments under the purchase and sale agreement. The Company's proportionate interest in the escrow deposit totaled $1,673,551, and was recorded as other current assets. On June 17, 2009, $1,169,101 of the funds deposited in escrow were released to the Company. At June 30, 2009, the balance of the funds held in escrow, including $514,938 representing the Company's proportionate interest in the escrow deposit, continued to be held in escrow pending resolution of disputes among Hupecol, the purchaser of the Caracara assets and Ecopetrol.

The net proceeds and the gain realized from the sale of the Caracara assets may be adjusted based on post-closing adjustments.

NOTE 5 – NOTES RECEIVABLE

On February 4, 2009, the Company entered into a letter agreement (the "Letter Agreement") with Yazoo Pipeline Co., L.P. ("Yazoo"), Sterling Exploration & Production Co., L.L.C. ("Sterling"), and Matagorda Operating Company (together with Yazoo and Sterling, the "Debtors"), pursuant to which the Company agreed to provide debtor-in-possession financing ("DIP Financing") to the Debtors subject to approval of the Letter Agreement by the U.S. Bankruptcy Court for the Southern District of Texas (the "Bankruptcy Court"). On February 4, 2009, the Bankruptcy Court entered an order approving the DIP Financing on the terms set out in the Letter Agreement.

Under the terms of the Letter Agreement, all advances by the Company to the Debtors incurred interest at 10% per annum and were repayable in full ninety (90) days from approval of the DIP Financing by the Bankruptcy Court, or the earlier consummation of a sale of the principal assets of the Debtors to the Company. Advances made under the Letter Agreement totaled $115,724.

Pursuant to its rights under the Letter Agreement, the Company ultimately decided to terminate negotiations with the Debtors with respect to the potential acquisition of the assets of the Debtors. On April 10, 2009, the Debtors repaid the DIP Financing in full in the amount of $117,897, including principal and interest and at June 30, 2009 no amounts were owed to the Company relative to the DIP Financing.

NOTE 6 – STOCK-BASED COMPENSATION EXPENSE AND WARRANTS

The Company periodically grants options to employees, directors and consultants under the Company's 2005 Stock Option Plan and the Company's 2008 Equity Incentive Plan. The Company is required to make estimates of the fair value of the related instruments and recognize expense over the period benefited, usually the vesting period.

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In 2008, the Company's Board of Directors adopted the Houston American Energy Corp. 2008 Equity Incentive Plan (the "2008 Plan" and, together with the 2005 Plan, the "Plans"). The terms of the 2008 Plan allow for the issuance of up to 2,200,000 shares of the Company's common stock pursuant to the grant of stock options and restricted stock. Persons eligible to participate in the Plans are key employees, consultants and directors of the Company.

During the six months ended June 30, 2008, the Company granted 3,333 options to the members of the Board of Directors, 1,050,000 options to employees and 55,600 shares of restricted stock. Shares available for issuance under the Plans as of June 30, 2009 totaled 1,161,002.

2009 Stock Option and Warrant Activity

A summary of stock option activity and related information for the six months ended June 30, 2009 is presented below:

	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1, 2009	1,392,333	$ 6.21	$-
Granted	146,665	2.05	-
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at June 30, 2009	1,538,998	$ 5.81	$-
Exercisable at June 30, 2009	568,998	$ 4.53	$-

In June 2009, the Company granted to its Chief Financial Officer 120,000 options to purchase shares of the Company's common stock. The exercise price is $2.05 per share. The options have a term of ten years and vest over three years.

Also in June 2009, the Company granted to its directors 26,665 options to purchase shares of the Company's common stock. The options vest immediately, have an exercise price of $2.05 per share and a term of ten years.

The above options were valued at a total of $221,006 using the Black-Scholes option-pricing model and the following parameters: (1) 3.19% risk-free discount rate, (2) expected volatility of 87.625%, (3) $0 expected dividends, and (4) an expected option life of 6.0 years for each grant calculated pursuant to the terms of SAB 107 as the options granted qualify as 'plain vanilla' under that literature.

As of June 30, 2009, total unrecognized stock-based compensation expense related to non-vested stock options was $4,393,740. The unrecognized expense is expected to be recognized over the weighted average period of 2.75 years and the weighted average remaining contractual term of the outstanding and exercisable options at June 30, 2009 is 8.57 years.

At June 30, 2009, the Company had remaining 190,000 warrants outstanding with a remaining contractual life of 1.83 years. The weighted average exercise price for all remaining outstanding warrants was $3.00. The warrants had an intrinsic value of $0 at June 30, 2009.

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Share-Based Compensation Expense

The following table reflects share-based compensation recorded by the Company for the three months ended June 30, 2009 and 2008:

	Three Months Ended June 30,	
	2009	2008
Share-based compensation expense included in general and administrative expense	$ 295,114	$ 536,437
Per share effect of share-based compensation expense	$ (0.01)	$ (0.02)

The following table reflects share-based compensation recorded by the Company for the six months ended June 30, 2009 and 2008:

	Six Months Ended June,	
	2009	2008
Share-based compensation expense included in general and administrative expense	$ 542,874	$ 577,603
Per share effect of share-based compensation expense	$ (0.02)	$ (0.02)

NOTE 7 – INCOMETAXES

Deferred income taxes are provided on a liability method whereby deferred tax assets and liabilities are establish for the difference between the financial reporting and income tax basis of assets and liabilities as well as operating loss and tax credit carry forwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company has computed the tax provision for the six months ended June 30, 2009 in accordance with the provisions of FASB Interpretation No. 18, “Accounting for Income Taxes in Interim Periods” and Accounting Principles Board Opinion No. 28, “Interim Financial Reporting.”

During the second quarter, the Company updated its tax projection for the remainder of the year based upon events through June 30, 2009 and management’s expectations for the second half of 2009, and consequently, recorded a tax benefit of $661,608 during the three months ended June 30, 2009. The income tax benefit for the three and six months ended is attributable primarily to net operating losses generated in Colombia and the United States. The Company recognized the benefit based upon management’s expectations that the Company will be able to realize these losses during the remainder of fiscal year 2009 or is expected to recognize a deferred tax asset related to such losses at December 31, 2009 that will more likely than not be realized.

NOTE 8 – DIVIDEND

During the quarter ended June 30, 2009, we declared and paid cash dividends to our shareholders of $0.005 per share, or an aggregate of $140,014. During the six months ended June 30, 2009, we declared and paid cash dividends to our shareholders of $0.025 per share, or an aggregate of $700,029.

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NOTE 9 – OIL AND GAS ACQUISITION – SERRANIA CONTRACT FARMOUT

In June 2009, the Company entered into a farmout agreement with Shona Energy Limited pursuant to which the Company will pay 25% of designated Phase 1 geological and seismic costs relating to the Serrania Contract for Exploration and Production relating to the approximately 110,769 acre Serrania Block in Colombia and for which the Company will receive a 12.5% interest in the Serrania Contract. The Company's share of Phase 1 costs are estimated at $1,125,000, and are expected to be paid out by September 30, 2009.

NOTE 10 - GEOGRAPHICAL INFORMATION

The Company currently has operations in two geographical areas, the United States and Colombia. Revenues for the six months ended June 30, 2009 and Long Lived Assets as of June 30, 2009 attributable to each geographical area are presented below:

	Six Months Ended June 30, 2009	
	Revenues	Long Lived Assets, Net
United States	$ 43,708	$ 2,618,349
Colombia	$ 1,535,552	$ 5,395,110

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Lease Commitment

The Company leases office facilities under an operating lease agreement that expires May 31, 2012. The lease agreement requires future payments as follows:

Year	Amount
2009	$ 40,973
2010	84,315
2011	86,684
2012	36,530
Total	$ 248,502

For the three and six months ended June 30, the total base rental expense was $24,453 and $48,227, respectively, in 2009 and $20,919 and $31,462, respectively, in 2008. The Company does not have any capital leases or other operating lease commitments.

NOTE 12 - SUBSEQUENT EVENTS

On August 7, 2009 the Board of directors declared a cash dividend of $0.005 per share to shareholders of record as of August 27, 2009. The payment date was set for September 16, 2009.

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ITEM 2MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Information

This Form 10-Q quarterly report of Houston American Energy Corp. (the "Company") for the six months ended June 30, 2009, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The actual results or events may differ materially from those anticipated and as reflected in forward-looking statements included herein. Factors that may cause actual results or events to differ from those anticipated in the forward-looking statements included herein include the Risk Factors described in Item 1A of our Form 10-K for the year ended December 31, 2008.

Readers are cautioned not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date hereof. We believe the information contained in this Form 10-Q to be accurate as of the date hereof. Changes may occur after that date, and we will not update that information except as required by law in the normal course of our public disclosure practices.

Additionally, the following discussion regarding our financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part 1 of this Form 10-Q, as well as the Risk Factors in Item 1A and the financial statements in Item 7 of Part II of our Form 10-K for the fiscal year ended December 31, 2008.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We believe certain critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements. A description of our critical accounting policies is set forth in our Form 10-K for the year ended December 31, 2008. As of, and for the quarter ended, June 30, 2009, there have been no material changes or updates to our critical accounting policies other than the following updated information relating to Unevaluated Oil and Gas Properties:

Unevaluated Oil and Gas Properties. Unevaluated oil and gas properties not subject to amortization include the following at June 30, 2009:

	June 30, 2009	
Acquisition costs	$	845,614
Evaluation costs		1,653,364
Retention costs		47,295
Total	$	2,546,273

Included in the carrying value of unevaluated oil and gas prospects above, was $0 for properties in the South American country of Colombia. We are maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

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Current Year Developments

Production Levels, Commodity Prices and Revenues

Our production levels and revenues during the quarter and six months ended June 30, 2009, as compared to the same period in 2008, were affected by the sale of our Caracara prospect in 2008 and the sharp decline in oil and natural gas prices that began during the second half of 2008 and continued through the second quarter of 2009. As a result of depressed commodity prices, our operator in Colombia temporarily shut-in production from a majority of our Colombian properties and we had no sales in Colombia from February 13, 2009 through April 5, 2009.

During the six months ended June 30, 2008, the Caracara prospect accounted for approximately 29,954 barrels of oil (net to the Company) produced, or 49% of the Company's oil production, and $3,004,865 of revenues.

Drilling Activity

During the six months ended June 30, 2009, we drilled 9 international wells in Colombia, as follows:

6 wells were drilled on concessions in which we hold a 12.5% working interest, of which 3 were in production at June 30, 2009, 1 was shut in and 2 were dry holes.

1 well was drilled on a concession in which we hold a 6.25% working interest and was a dry hole.

2 wells were drilled on a concession in which we hold a 1.6% working interest and both were in production at June 30, 2009.

During the six months ended June 30, 2009, we drilled 2 domestic well, the Wilberts & Sons #1 (Home Run Prospect) which was a dry hole and the Allar # 1 which was placed into production on May 27, 2009.
At June 30, 2009, drilling operations were ongoing in Colombia on 1 well.

Leasehold Activity

Domestic Leases & Activity

During the six months ended June 30, 2009, we acquired interests in 4 additional prospects in Louisiana, the N. Jade and W. Jade prospects, acquired for $67,480, and the Profit Island and North Profit Island prospects, acquired for $355,267. Subsequent to purchasing our interest in the Profit and North Profit Island prospects, on July 16, 2009 we sold down our interest in the Profit Island and North Profit Island prospects and received reimbursement of initial capital of $291,763, with a profit $135,074. We still retain an interest in both of the prospects.

During the six months ended, June 30, 2009, we acquired (1) a 2.5% working interest in over 4,500 acres under lease within a 50,000 acre area of mutual interest (AMI) in Karnes County, Texas, for a purchase price of $75,000, and (2) a 1.25% Overriding Royalty in the same leases and all acreage within the AMI, for a purchase price of $100,000. Per the contract, we will be carried to the completion point on the first well.

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Colombian Farm-Outs

In June 2009, we entered into a farmout agreement with Shona Energy Limited pursuant to which we will pay 25% of designated Phase 1 geological and seismic costs relating to the Serrania Contract for Exploration and Production relating to the approximately 110,769 acre Serrania Block in Colombia and for which we will receive a 12.5% interest in the Serrania Contract. Our share of Phase 1 costs are estimated at $1,125,000, and are expected to be paid out by September 30, 2009.

Seismic Activity

During the six months ended June 30, 2009, our operator in Colombia acquired approximately 40 square miles of additional seismic and geological data. The additional data relates primarily to prospects in which we hold a 1.594674% working interest. Our share of the costs of such data acquisition was $41,656.

Acquisition Activity

In light of our debt-free capital structure, solid cash position and low overhead and in response to conditions in the oil and gas market, in particular the non-economical cost and capital structures of many operators and financiers following the sharp decline in commodity prices during the second half of 2008 continuing into early 2009, during the first half of 2009, we began actively seeking opportunistic oil and gas acquisitions.

Pursuant to those efforts, on February 4, 2009, we entered into a letter agreement (the “Letter Agreement”) with Yazoo Pipeline Co., L.P. (“Yazoo”), Sterling Exploration & Production Co., L.L.C. (“Sterling”), and Matagorda Operating Company (together with Yazoo and Sterling, the “Debtors”), pursuant to which we agreed to provide debtor-in-possession financing (“DIP Financing”) to the Debtors subject to approval of the Letter Agreement by the U.S. Bankruptcy Court for the Southern District of Texas (the “Bankruptcy Court”). On February 4, 2009, the Bankruptcy Court entered an order approving the DIP Financing on the terms set out in the Letter Agreement.

Under the terms of the Letter Agreement, we agreed to advance to the Debtors up to $300,000 (the “Maximum Borrowing Amount”), with all advances bearing interest at 10% per annum and being repayable in full ninety (90) days from approval of the DIP Financing by the Bankruptcy Court, or the earlier consummation of a sale of the principal assets of the Debtors to our company. Under the Letter Agreement, we and the Debtors agreed to commence negotiations and due diligence with respect to the potential acquisition by our company of the principal assets of the Debtors based on certain financial terms described in the Letter Agreement. Advances were made under the Letter Agreement in the total amount of $115,724.

Pursuant to our rights under the Letter Agreement, after conducting due diligence with respect to the Debtors, we determined to terminate negotiations with the Debtors with respect to the potential acquisition of the assets of the Debtors. On April 10, 2009, the Debtors repaid the DIP Financing in full in the amount of $117,897, including principal and interest, and at June 30, 2009 no amounts were owed to us relative to the DIP Financing.

We intend to continue to seek out and evaluate opportunities to acquire existing oil and gas assets and operations where we determine attractive returns on invested capital can be realized in current market conditions and superior returns can be derived from a recovery in primary prices. There is no assurance, however, that we will be successful in our efforts to identify and acquire oil and gas assets or operations or that any acquisitions that may be consummated will provide the returns expected by management.

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Compensation Expense – Stock Options

During the six months ended June 30, 2009, we granted 120,000 stock options to our Chief Financial Officer and 26,665 stock options to our non-employee directors and, in connection therewith, recognized non-cash compensation expense of $41,847. Our total non-cash compensation expense for the three and six months ended June 30, 2009 was $295,114 and $542,874, respectively.

Results of Operations

Oil and Gas Revenues. Total oil and gas revenues decreased 65.9% to $1,134,118 in the three months ended June 30, 2009 compared to $3,328,951 in the three months ended June 30, 2008. For the six month period, oil and gas revenues decreased 74.8% to $1,579,260 in the 2009 period from $6,266,085 in the 2008 period.

The decrease in revenue is principally due to (1) the sale of our Caracara interest during 2008, which accounted for $875,687 of our revenues in the 2008 quarter and $3,004,865 of our revenue in the 2008 six month period, (2) lower oil and gas prices during the 2009 period and (3) the cessation of production and sales from the majority of our Colombian properties for 5 days during the quarter ended June 30, 2009 and 52 days during the 2009 six month period.

The following table sets forth the gross and net producing wells, net oil and gas production volumes and average hydrocarbon sales prices for the quarter and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Gross producing wells	26	51	24	50
Net producing wells	2.88	2.0	2.55	1.75
Net oil and gas production (BOE)	19,389	32,473	31,969	64,248
Average sales price – oil (per barrel)	$58.57	$102.57	$49.40	$99.36
Average sales price – natural gas (per Mcf)	$4.50	$10.54	$4.62	$9.49

The change in gross and net producing wells reflects the 2008 sale of our Caracara interest offset by the increase in average working interest during 2009, while the change in net oil and gas production reflects the same factors plus the effects of the temporary cessation of production of a majority of our Colombian properties during the 2009 period. Giving pro forma effect to exclude sales revenues from the Caracara interest, oil and gas revenues for the quarter ended June 30, 2008 would have been $2,453,264 and oil and gas revenues for the first six months of 2008 would have been $3,261,220.

Oil and gas sales revenues for the first six months of 2009 and 2008, by region, were as follows:

	Columbia	U.S.	Total
2009 Six Month Period			
Oil sales	$ 1,535,552	$ 31,201	$ 1,566,753
Gas sales	$ —	$ 12,507	$ 12,507
2008 Six Month Period			
Oil sales	$ 6,015,101	$ 93,474	$ 6,108,575
Gas sales	$ —	$ 157,510	$ 157,510

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Lease Operating Expenses. Lease operating expenses, excluding joint venture expenses relating to our Columbian operations discussed below, decreased 38.8% to $712,560 in the 2009 quarter from $1,165,048 in the 2008 quarter. For the six month period, lease operating expenses decreased 20.5% to $1,623,047 in the 2009 period from $2,041,890 in the 2008 period.

The increase in lease operating expenses as a percentage of revenues, from 32.6% of revenues for the 2008 six month period to 102.8% of revenues for the 2009 period, was primarily attributable to the temporary cessation of production from a majority of our Colombian properties during the 2009 period as discussed above, the steep decline in oil and gas prices and an increase in our average working interest following the Caracara sale, as well as increased cost in Colombia relating to personnel expenses, facilities and equipment expenses, catering expenses, road maintenance, as well environmental services expenses. Following is a summary comparison of lease operating expenses for the periods.

		Columbia	U.S.	Total
Quarter	- 2009	$ 715,476	$ (2,916)	$ 712,560
	- 2008	$ 1,121,158	$ 43,890	$ 1,165,048
Six Months	- 2009	$ 1,613,711	$ 9,336	$ 1,623,047
	- 2008	$ 1,959,141	$ 82,749	$ 2,041,890

Hupecol, our operator in Colombia, has implemented cost cutting measures in order to improve field economics from our Colombian operations. We have also seen declines in drilling and operating costs in the Llanos Basin which, together, are expected to result in improved margins during the balance of 2009.

Joint Venture Expenses. Our allocable share of joint venture expenses attributable to the Colombian Joint Venture totaled $37,982 during the 2009 quarter and $54,340 during the 2008 quarter. For the six month period, joint venture expenses totaled $78,706 during 2009 as compared to $101,694 during 2008.

The decrease in joint venture expenses was attributable to a decrease in drilling activity.

Depreciation and Depletion Expense. Depreciation and depletion expense was $287,317 and $424,102 for the quarter ended June 30, 2009 and 2008, respectively, and $541,732 and $765,903 for the six months ended June 30, 2009 and 2008, respectively.

The decrease in depreciation and depletion is due to reduced production as a result of the sale of our Caracara assets, the shut in of our Colombian wells for 5 days during the 2009 quarter and 52 days during the six month period, and an increase in Colombian reserves.

General and Administrative Expenses. General and administrative expense decreased by 60.1% to $672,447 during the 2009 quarter from $1,686,390 during the 2008 quarter and by 30.6% to $1,393,314 during the 2009 six month period from $2,007,315 during the 2008 period.

The decrease in general and administrative expense was primarily attributable to decreases in employee compensation and professional fees, including a decrease of $750,000 related to cash bonuses paid in 2008 not repeated in 2009, $400,320 related to restricted stocks grants in 2008 and $34,788 in share-based compensation charges attributable to stock option grants during 2008 and 2009.

Other Income. Other income consists of interest earned on cash balances and marketable securities. Other income totaled $26,687 during the 2009 quarter as compared to $66,402 during the 2008 quarter and $44,536 during the 2009

six month period as compared to $160,443 during the 2008 period.

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The decrease in other income resulted from the sale of the balance of our marketable securities held during 2008 and a reduction in interest rates on short-term cash investments, partially offset by interest earned on DIP Financing provided to the Creditors under the Letter Agreement.

Income Tax Expense. Income tax expense decreased to a benefit of $661,608 during the 2009 quarter from an expense of $4,480,907 during the 2008 quarter and to a benefit of $646,791 during the 2009 six month period from an expense of $5,053,438 during the 2008 period. The income tax benefit during 2009 was primarily attributable to net operating losses generated in Colombia and the United States.

The decrease in income tax expense during the 2009 quarter and six month period was attributable to higher commodity prices and the one time sale of the Caracara assets which resulted in profitable operations during 2008 as compared to 2009, when we incurred a loss from operations due to the steep decline in oil and gas prices and other factors discussed above. Currently, the Company expects to be able to utilize the incremental foreign tax credit carryforward and net operating loss generated during the 2009 periods and therefore, no valuation allowance has been recorded to date. The Company recorded no U.S. income tax liability in the 2009 or 2008 quarter or six month periods.

Financial Condition

Liquidity and Capital Resources. At June 30, 2009, we had a cash balance of $4,886,227 and working capital of $5,607,898 compared to a cash balance of $9,910,694 and working capital of $10,536,834 at December 31, 2008. The change in working capital during the period was primarily attributable to the drilling of wells, the acquisition of oil and gas properties, payment of dividends and the payment of operating cost in Colombia.

Operating activities used $2,222,525 of cash during the 2009 six month period as compared to $2,915,773 used during the 2008 period. Excluding the decrease in operating cash from the gain on the Caracara sale in 2008, the change in operating cash flow was primarily attributable to (1) a reduction of accounts payable of $1,133,277, and (2) a reduction of accounts receivable of $59,942 in 2009 verse $1,002,557 in 2008.

Investing activities used $2,101,913 during the 2009 six month period compared to $15,676,338 provided during the 2008 period. The funds used in investing activities principally reflect investments in oil and gas properties and assets of $3,260,526 during the 2009 period and $4,081,567 during the 2008 period. For the 2009 period, funds used in investing activities was partially offset by the receipt of $1,158,613 in monies from the escrow account related to the sale of the Caracara assets. For the 2008 period, funds used in investing activities were more than offset by funds provided by the sale of marketable securities of $9,650,000 and funds provided by the sale of the Caracara assets.

Financing activities used $700,029 during the 2009 period, consisting of cash dividends paid. Financing activities provided $375,000 during the 2008 period, consisting of proceeds from the exercise of warrants.

Long-Term Liabilities. At June 30, 2009, we had long-term liabilities of $254,931 as compared to $205,524 at December 31, 2008. Long-term liabilities at June 30, 2009 and December 31, 2008 consisted of a reserve for plugging costs and a deferred rent obligation.

Capital and Exploration Expenditures and Commitments. Our principal capital and exploration expenditures relate to ongoing efforts to acquire, drill and complete prospects. We expect that future capital and exploration expenditures will be funded principally through funds on hand and funds generated from operations.

During the first six months of 2009, we invested approximately $3,260,526 for the acquisition and development of oil and gas properties, consisting of (1) drilling of 9 wells in Colombia ($1,888,547), (2) seismic cost in Colombia

($422,123), (3) delay rentals on U.S. properties ($19,112), (4) leasehold costs on U.S. properties ($625,574), (5) drilling of 2 U.S. well ($292,876), and (6) additions to plug and abandonment reserves ($12,294).

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At June 30, 2009, our only material contractual obligation requiring determinable future payments was a lease relating to the Company's executive offices which was unchanged when compared to the 2008 Form 10-K.

At June 30, 2009, our acquisition and drilling budget for the balance of 2009 totaled approximately $3,225,000, which consisted of the drilling of 4 wells in Colombia ($1,500,000), 1 well in the United States ($600,000), and Phase 1 costs on the Serrania Contract farmout ($1,125,000). Our acquisition and drilling budget has historically been subject to substantial fluctuation over the course of a year based upon successes and failures in drilling and completion of prospects and the identification of additional prospects during the course of a year. In particular, we note that, in light of the sharp decline in commodity prices during the second half of 2008 and early 2009, we expect to see an increase in asset acquisition opportunities as operators and financiers are faced with uneconomical cost and capital structures resulting in forced liquidations of holdings. We intend to evaluate, and as appropriate pursue, asset acquisition opportunities. Should we pursue any such opportunities, our acquisition and drilling budget could be materially altered.

Management anticipates that our current financial resources combined with expected operating cash flows will meet our anticipated objectives and business operations, including planned property acquisitions and drilling activities, for at least the next 12 months without the need for additional capital. Management continues to evaluate producing property acquisitions as well as a number of drilling prospects. It is possible that we may require and seek additional financing if additional drilling prospects are pursued beyond those presently under consideration. We have no commitments to provide any additional financing should we require and seek such financing.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or guarantees of third party obligations at June 30, 2009.

Inflation

We believe that inflation has not had a significant impact on operations since inception.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk

The price we receive for our oil and gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Crude oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and gas have been volatile, and these markets will likely continue to be volatile in the future. The prices we receive for production depends on numerous factors beyond our control.

We have not historically entered into any hedges or other transactions designed to manage, or limit, exposure to oil and gas price volatility.

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ITEM 4 CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation as of June 30, 2009 of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2009.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 6 EXHIBITS

Exhibit Number	Description
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf by the undersigned thereunto duly authorized.

HOUSTON AMERICAN ENERGY CORP.

By:	/s/ John F. Terwilliger John F. Terwilliger CEO and President
By:	/s/ James J. Jacobs James J. Jacobs Chief Financial Officer

Date: August 10, 2009