

VICTORY ENERGY CORP
Form 10QSB
November 14, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-QSB

Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the quarterly period ended: September 30, 2006

Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from: _____ to _____

Commission file number: 2-76219-NY

VICTORY ENERGY CORPORATION
(Exact name of small business issuer as specified in its charter)

NEVADA (State or other jurisdiction of incorporation or organization)	87-0564472 (I.R.S. Employer I.D. Number)
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27762 Antonio Parkway, Suite L1-497, Ladera Ranch, CA 92694
(Address of principal executive offices)

(866) 279-9265
(Issuer's telephone number)

Victory Capital Holdings Corporation
(Former name if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 NO

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 14, 2006, there were 4,352,411 shares of our common stock outstanding.

Transitional Small Business Disclosure Format. YES [] NO [X]

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VICTORY ENERGY CORPORATION AND SUBSIDIARIES
(A Development Stage Company)
Consolidated Balance Sheets

ASSETS

	September 30, 2006 (Unaudited)	December 31, 2005
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 19,847	\$ 4,074
Note Receivable	210,984	88,300
Total Curent Assets	230,831	92,374
FIXED ASSETS, NET	198	1,096
OTHER ASSETS		
Investment in Joint Venture	50,000	-
TOTAL ASSETS	\$ 281,029	\$ 93,470
LIABILITIES & STOCKHOLDERS' DEFICIT		
CURRENT LIABILITES		
Accounts Payable	\$ 9,176	\$ 330,970
Accrued Liabilities	16,006	11,416
Accrued Payroll	750,970	240,000
Credit Line - WFB Business Line	61,128	
Prepaid Subscriptions	246,950	
Total Curent Liabilities	1,084,230	582,386
LONG TERM LIABILITIES		
Notes Payable	149,458	146,431
OTHER LIABILITIES		
Loan from Officer	125,031	83,367
Account Payable - Related Party	169,679	172,179
Accrued Liabilities - Related	125,500	121,000
Other Loans Payable	19,000	
Total Other Liabilities	439,210	376,546
Total Liabilities	1,672,898	1,105,363
Commitments and contingencies (Note 6)		
STOCKHOLDERS' DEFICIT		
Common Stock, \$0.001 par value, 200,000,000 shares authorized, 98,143,592 issued and outstanding	98,144	41,960

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Additional paid-in capital	3,758,220	2,692,104
Deficit accumulated in the development stage	(5,248,233)	(3,745,957)
Total Stockholders' Deficit	(1,391,869)	(1,011,893)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 281,029	\$ 93,470

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

VICTORY ENERGY CORPORATION AND SUBSIDIARIES
(A Development Stage Company)
Consolidated Statement of Operations
(Unaudited)

	For the		For the		For the
	Three Months Ended		Nine Months Ended		period of Inception, from January 2, 1982 through September 30, 2006
	September 30, 2006	2005	September 30, 2006	2005	
Revenues	\$ -	\$ 32,207	\$ -	\$ 32,207	\$ 20,207
Costs and Expenses					
Consulting Expense	254,350	310,136	997,165	310,136	3,736,756
Land Leases			24,040	-	24,040
Wages and Salaries	80,000		102,500	-	350,500
General & Administrative	11,074	71,249	378,571	71,249	1,059,977
Total Expenses	345,424	381,385	1,502,276	381,385	5,171,273
Operating Loss	(345,424)	(349,178)	(1,502,276)	(349,178)	(5,151,066)
Other Income and (expenses)					
Loss on abandonment of subsidiary					(50,900)
Loss from reduction in debt					(48,363)
Interest Expense		(625)		(625)	0
Other Income					2,096
Total Other Income and (expenses)	0	(625)	0		(97,167)
Net Loss	\$ (345,424)	\$ (349,803)	\$ (1,502,276)	\$ (349,803)	\$ (5,248,233)
Basic and Dilutive net loss per share	\$ (\$0.004)	\$ (\$0.016)	\$ (\$0.022)	\$ (\$0.016)	\$
Weighted average number of shares outstanding	79,485,983	22,100,258	67,286,083	22,100,258	

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

VICTORY ENERGY CORPORATION AND SUBSIDIARIES
(A Development Stage Company)
Consolidated Statements of Cash Flows

	For the		For the		From
	Three Months Ended		Nine Months Ended		Inception
	September 30,		September 30,		on
	2006	2005	2006	2005	Jan. 7,
					1982
					Through
					Sep. 30,
					2006
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net Loss	\$ (345,424)	(398,635)	(1,502,276)	(747,812)	(5,248,233)
Adjustments to reconcile net loss to net cash used by operating activities:					
Depreciation	299		898	229	2,096
Loss on extinguishment of debt					48,363
Issuance of common stock for services	244,800	139,327	1,122,300		3,296,143
Increase in Short Term Receivables					
Decrease (Increase) in Prepaid Expenses				246	
Increase in Deposits				(2,020)	
Increase (Decrease) in Prepaid Subscriptions	43,450		246,950		246,950
Increase (Decrease) in accounts payable	9,176		(321,794)	312,900	9,176
Increase (Decrease) in accounts payable -related			4,500	24,253	169,679
Increase (Decrease) in accrued liabilities	16,006		4,590	232,000	16,006
Increase in Accrued Payroll and Payroll Taxes	43,994	232,000	510,970		750,970
Repayment of long term debt					(13,569)
Increase in Accrued Liabilities - Related	4,500				125,500
Non-cash contributed capital					(524)
Net Cash provided by (used by)					
Operating Activities	\$ 16,801	\$ (27,308)	\$ 66,138	\$ (180,204)	\$ (597,443)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of Fixed Assets				(14,941)	(2,294)
			88,300	(88,300)	

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Purchase and Sale of Marketable Securities

Investment in Joint Venture				(50,000)			(50,000)
Net Cash (used by) Investing Activities	\$	0	\$	0	\$	38,300	\$ (103,241) \$ (52,294)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds of Note Payable			(2,950)	3,027	157,531	149,458	
Proceeds (Repayment) of Loans				(210,984)		(245,778)	
Increase in Credit Line	61,128			61,128		61,128	
Proceeds (Repayment) of Loan from Officer	(75,000)			41,664		125,031	
Proceeds (Repayment) of Note Payable-Related Party				(2,500)			
Increase (Decrease) in Other Loans Payable	19,000			19,000		19,000	
Contributed capital for rent and officers' compensation						2,438	
Issuance of Common Stock for Cash						41,960	
Proceeds from the sale of Common Stock					138,700	300,231	
Contributed Capital by shareholders						216,116	
Net Cash provided by Financing Activities	\$	5,128	\$	(2,950)	\$	(88,665)	\$ 296,231 \$ 669,584

NET INCREASE IN CASH	21,929	(30,258)	15,773	12,786	19,847
CASH AT BEGINNING OF PERIOD	(2,082)	43,044	4,074	-	-
CASH AT END OF PERIOD	\$ 19,847	\$ 12,786	\$ 19,847	\$ 12,786	\$ 19,847

CASH PAID FOR:

Interest	\$	-	\$	-	\$	-	\$	-
Income Taxes	\$	-	\$	-	\$	-	\$	-

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Proceeds from the sale of Common Stock	\$	-	\$	-	\$	-	\$	342,191
Contributed Capital by shareholders		-	\$	-	\$	-	\$	138,701 \$ 216,116
Stock issued for services	\$	334,350	\$	310,136	\$	1,099,665	\$	310,136 \$ 3,296,143
Contributed capital for rent, officer compensation	\$	-	\$	-	\$	-	\$	2,438
Non cash contributed capital	\$	-	\$	-	\$	-	\$	(524)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The accompanying interim unaudited consolidated financial statements have been prepared by Victory Energy Corporation “the Company”, without audit. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The consolidated financial statements include our accounts and those of our subsidiaries, Global Card Services, Inc. and On Demand Communications. All inter-company balances have been eliminated in consolidation.

During 2005 the Company changed its focus to the oil and gas industry, specifically oil and gas drilling projects on oil field leases. The first oil field leases were identified during 2005 but rejected. In the first three months of 2006, the company entered into a farm-out agreement with the owner of certain oil and gas leases for a 100% working interest in an oil field in Montana, subject to overriding royalties. The Company also identified an additional prospect in Oklahoma and continues to search for new prospects. In May of 2006 the company entered into a joint venture with Geo Surveys for exploration in the Mesa Gas Prospect located in New Mexico.

On May 3, 2006 the name of the company was changed to Victory Energy Corporation.

In the opinion of our management, the unaudited financial information for the interim periods presented reflects all adjustments necessary for a fair presentation of our financial position, results of operations and cash flows. The results reported in these condensed consolidated financial statements are not necessarily indicative of results that may be expected for the entire year.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going Concern

The Company’s financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has not yet established an ongoing source of revenues sufficient to cover its operating costs and to allow it to continue as a going concern. In addition, the Company has a working capital deficit of \$853,399 and a stockholders’ deficit of \$5,248,233 at September 30, 2006. The ability of the Company to continue as a going concern is dependent on the Company obtaining adequate capital to fund operating losses until it becomes profitable. If the Company is unable to obtain adequate capital, it could be forced to cease development of operations.

In order to continue as a going concern, develop a reliable source of revenues, and achieve a profitable level of operations the Company will need, among other things, additional capital resources. Management’s plans to continue as a going concern include raising additional capital through sales of common stock. In the interim, shareholders of the Company are committed to meeting its minimal operating expenses. However, management cannot provide any assurances that the Company will be successful in accomplishing any of its plans.

The ability of the Company to continue as a going concern is dependent upon its ability to successfully accomplish the plans described in the preceding paragraph and eventually secure other sources of financing and attain profitable operations. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Development-Stage Company

The Company is considered a development-stage company, with de minimus operating revenues during the periods presented, as defined by Statement of Financial Accounting Standards (“SFAS”) No. 7. SFAS No. 7 requires companies to report their operations, shareholders deficit and cash flows since inception through the date that revenues are generated from management’s intended operations, among other things. Management has defined inception as January 7, 1982. Since inception, the Company has incurred operating losses totaling \$5.2 million, much of which relates to stock-based compensation to officers, directors and consultants as a means to preserve working capital. The Company’s working capital has been generated through the sales of common stock, loans made by officers of the Company and a third party loan. Management has provided financial data since January 7, 1982 “Inception” in the financial statements, as a means to provide readers of the Company’s financial information to make informed investment decisions.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

Loss Per Share

Basic earnings per share (“Basic EPS”) is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share (“Diluted EPS”) gives effect to all dilutive potential common shares outstanding during a period. In computing Diluted EPS, the treasury stock method is used in determining the number of shares assumed to be purchased from the conversion of common stock equivalents. Securities that could potentially dilute Basic EPS in the future, that were not included in the computation of Diluted EPS because to do so would have been anti-dilutive for the periods presented, consist of options, warrants, convertible notes and debentures.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the six months ended September 30, 2006 and 2005:

	2006	2005
Numerator:		
Basic and diluted net loss per share:		
Net Loss	\$ (1,502,276)	\$ (381,385)
Denominator		
Basic and diluted weighted average number of shares outstanding	67,286,083	22,100,258
Basic and Diluted Net Loss Per Share	\$ (0.022)	\$ (0.016)

Equipment and Fixtures

Equipment and fixtures are recorded at cost. Depreciation is provided using accelerated and straight-line methods over the estimated useful lives of the related assets as follows:

Description	Years
Furniture and fixtures	7
Computer hardware and software	3-5

Recent Accounting Pronouncements

In March 2004, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments.” The EITF reached a consensus about the criteria that should be used to determine when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss and how that criteria should be applied to investments accounted for under SFAS No. 115, “ACCOUNTING IN CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES.” EITF 03-01 also included accounting considerations subsequent to the recognition of other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. Additionally, EITF 03-01 includes new disclosure requirements for

investments that are deemed to be temporarily impaired. In September 2004, the Financial Accounting Standards Board (FASB) delayed the accounting provisions of EITF 03-01; however, the disclosure requirements remain effective for annual reports ending after June 15, 2004. The Company will evaluate the impact of EITF 03-01 once final guidance is issued.

In December 2004, the FASB issued FASB Statement No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123" ("FAS No. 123R"). FAS No. 123R requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees. FAS No. 123R is effective beginning in the Company's second quarter of fiscal 2006. The Company is evaluating the effects adoption of SFAS 123R will have on its financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment". Statement 123(R) will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Statement 123(R) replaces FASB Statement No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Statement 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. However, that Statement permitted entities the option of continuing to apply the guidance in Opinion 25, as long as the footnotes to financial statements disclosed what net income would have been had the preferable fair-value-based method been used. Public entities (other than those filing as small business issuers) will be required to apply Statement 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. The Company adopted Statement 123(R) in December of 2005.

In March 2005, the SEC released Staff Accounting Bulletin No. 107, "Share-Based Payment" ("SAB 107"), which provides interpretive guidance related to the interaction between SFAS 123(R) and certain SEC rules and regulations. It also provides the SEC staff's views regarding valuation of share-based payment arrangements. In April 2005, the SEC amended the compliance dates for SFAS 123(R), to allow companies to implement the standard at the beginning of their next fiscal year, instead of the next reporting period beginning after June 15, 2005. Management is currently evaluating the impact SAB 107 will have on our consolidated financial statements.

In February of 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments", which is intended to simplify the accounting and improve the financial reporting of certain hybrid financial instruments (i.e., derivatives embedded in other financial instruments). The statement amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125." SFAS No. 155 is effective for all financial instruments issued or acquired after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company is currently evaluating the impact SFAS No. 155 will have on its consolidated financial statements, if any.

Stock Based Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), and related interpretations in accounting for its employee stock options because the alternative fair value accounting provided under FASB Statement No. 123, Accounting for Stock-Based Compensation, ("SFAS 123") requires the use of option valuation models that were not developed for use in valuing employee stock options. As permitted, the Company adopted the disclosure alternative of SFAS 123 and SFAS 148, which require pro forma disclosure of net income and earnings per share as if the fair value method of accounting had been applied. Since the Company has no significant stock options outstanding, the pro forma financial data is not meaningful.

Under APB 25, when the exercise price of the Company's stock options equals or exceeds the fair value of the underlying stock on the date of grant, no compensation expense is recorded.

There were no options granted during the fiscal years ended December 31, 2005 and 2004 nor in the nine months ended September 30, 2006.

NOTE 3 - RELATED PARTY TRANSACTIONS

In 2005 officer loans to the company totaling \$83,367 were made due on demand which does not accrue any interest. In the first quarter of 2006 loans to the company totaling an additional \$58,354 were made to the company, the total of which is \$141,721. Further loans of \$58,310 and repayments of \$75,000 were made in the second and third quarters of fiscal year 2006, and the Balance at September 30, 2006 was \$125,031.

In March 2006 the company issued a promissory note to a group of stockholders for consideration of \$141,458 in cash. The terms are repayable in one year at an interest rate of 10%, payable quarterly. Interest was deferred for six months. In September 2006 the deferral was extended a further six months.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Note Receivable

The company borrowed \$160,000 from Treetop Investments Inc. in July, 2005 at an interest rate of 10% payable upon demand. A moratorium on interest was negotiated with the lender. Repayments of \$13,569 were made in 2005. In June of 2006 an accommodation was made wherein 5,000,000 shares were issued to Treetop Investments at a price of 6 cents per share, having a value of \$300,000. The stock issue combined the retirement of the loan with a stock purchase. The stock purchase was paid for partially in cash. The balance of the purchase price, \$210,984.00 is recorded as a demand Note Receivable with no fixed interest. Even though this settlement was reached with the issuance of 5,000,000 shares of stock, continued demands for additional stock and or cash has been requested of the company by Treetop and its various creditors. The company has made multiple attempts to satisfy these requests while keeping the initial terms intact.

NOTE 5 - COMMON STOCK TRANSACTIONS

Common Stock Transactions During the Year Ended December 31, 2005

On January 5, 2005, the Company authorized the issuance of shares of the Company's common stock owed under an employment agreement to the current president and CEO.

Common Stock Transactions During the Six Months Ended June 30, 2006

During the three months ended March 31, 2006 the company issued 17,583,334 shares of common stock, of which 2,583,334 were restricted under Rule 4 (2), to company officers and consultants for services. Under FASB SFAS No.123 (revised 2004), the value of the services is measured by the fair value of the stock. The fair value of the stock was established by the trading price at closing on the date of issue January 6, 2006, \$0.03 per share. The value of services rendered was therefore recorded as \$527,500.

On May 10, 5,000,000 shares were issued to Treetop Investments, Inc. at a price of \$0.06 per share in a transaction that combined retiring a loan with sale of stock.

On May 15, 2,500,000 shares were issued for services. The fair value of the stock was established by the market price on that day of \$0.03 per share. The value of the services was recorded as \$75,000.

On June 1, 500,000 shares were issued for consulting services. The fair value of the stock was established by the market price on that day of \$0.05 per share. The value of the services was recorded as \$75,000.

On March 12, 2006, the Board of Directors effected a change to the articles of the corporation, increasing the number of shares authorized to be issued from 100,000,000 to 200,000,000.

Additional Common Stock

As of December 31, 2005, there were 10,666,667 shares of common stock that had been issued in a prior period in anticipation of a proposed transaction which was never consummated. The shares are being held in the Company's name. Since the shares were issued without consideration nor as a result of an economic transaction, they have no basis in value and are not being shown as issued and outstanding or treasury shares in the accompanying financial statements.

Additional shares of common stock, restricted under Rule 4(2), were issued in the quarter ended September 30, 2006, as follows: The fair value of these shares was established by the trading price during the quarter, one cent, discounted 20% to \$0.008 to allow for limited trading.

On August 3, 2006, 10,000,000 common shares were issued for services at \$0.008 per share. The value of services was recorded as \$80,000.

On August 8, 2006, 4,500,000 common shares were issued at \$0.008 per share. The value of consulting was recorded as \$36,000.

On August 8, 2006, 500,000 common shares were issued for consulting at \$0.008 per share. The value of consulting was recorded as \$4,000.

On August 9, 2006, 4,000,000 common shares were issued for consulting at \$0.008 per share. The value of consulting was recorded as \$32,000.

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On August 18, 2006, 700,000 common shares were issued for consulting at \$0.008 per share. The value of consulting was recorded as \$5,600.

On August 31, 2006, 300,000 common shares were issued for consulting at \$0.008 per share. The value of consulting was recorded as \$2,400.

On September 29, 2006, 3,000,000 common shares were issued for consulting at \$0.008 per share. The value of consulting was recorded as \$24,000.

On September 30, 2006, 4,000,000 common shares were issued for consulting at \$0.008 per share. The value of consulting was recorded as \$32,000.

The common stock outstanding at November 14, 2006, was 4,352,411. This was following a 25 to 1 reverse stock split.

NOTE 6 - LITIGATION

Neither the Company nor any of our officers or directors is involved in any other litigation either as plaintiffs or defendants and we have no knowledge of any threatened or pending litigation against us or any of our officers or directors.

Item 2. Management's Discussion and Analysis or Plan of Operation

The following discussion includes certain forward-looking statements within the meaning of the safe harbor protections of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Statements that include words such as “believe,” “expect,” “should,” “intend,” “may,” “anticipate,” “like,” “contingent,” “could,” “may,” or other future-oriented statements, are forward-looking statements. Such forward-looking statements include, but are not limited to, statements regarding our business plans, strategies and objectives, and, in particular, statements referring to our expectations regarding our ability to continue as a going concern, generate increased market awareness of, and demand for, our current products, realize profitability and positive cash flow, and timely obtain required financing. These forward-looking statements involve risks and uncertainties that could cause actual results to differ from anticipated results. The forward-looking statements are based on our current expectations and what we believe are reasonable assumptions given our knowledge of the markets; however, our actual performance, results and achievements could differ materially from those expressed in, or implied by, these forward-looking statements. Factors within and beyond our control that could cause or contribute to such differences include, among others, the following: those associated with drilling and subsequent sale of oil and gas, our critical capital raising efforts in an uncertain and volatile economical environment, our ability to maintain relationship with strategic companies, our cash preservation and cost containment efforts, our ability to retain key management personnel, our relative inexperience with advertising, our competition and the potential impact of technological advancements thereon, the impact of changing economic, political, and geo-political environments on our business, as well as those factors discussed elsewhere in this Form 10-QSB and in “Item 1 - Our Business,” “Item 6 - Management’s Discussion and Analysis,” and elsewhere in our most recent Form 10-KSB, filed with the United States Securities and Exchange Commission.

Readers are urged to carefully review and consider the various disclosures made by us in this report and those detailed from time to time in our reports and filings with the United States Securities and Exchange Commission that attempt to advise interested parties of the risks and factors that are likely to affect our business.

Our fiscal year ends on December 31. References to a fiscal year refer to the calendar year in which such fiscal year ends.

Our Business

Victory Energy Corporation (OTC symbol VYEV), formerly known as Victory Capital Holdings Corporation (our “Company”) was organized under the laws of the State of Nevada on January 7, 1982, under the name All Things, Inc. On March 21, 1985, our Company’s name was changed to New Environmental Technologies Corporation; on April 28, 2003, our name was changed to Victory Capital Holdings Corporation and on May 3, 2006, it was changed to Victory Energy Corporation. Our Company was formed for the purpose of engaging in all lawful businesses. Our Company’s initial authorized capital consisted of 100,000,000 shares of \$0.001 par value common voting stock and as of the date of this filing our authorized capital is 200,000,000 shares of \$.001 par value common stock.

Our Company has had no material business operations since 1989. In 2004, we began the search for the acquisition of assets, property or businesses that may benefit our Company and our shareholders. Our goal has been to bring value to the Company and to our shareholders through such acquisitions. Each merger and acquisition we approach is done with the intention to position us in markets and sectors where excellent growth is anticipated. We plan to retain a percentage of stock ownership in each subsidiary while spinning them out as their own new public company if such transaction is economically feasible. The balance of the stock will be distributed to the Company’s shareholders at the time of spin out of the new public company. This is a non-dilutive method to increase shareholder value as we grow and maintain a position in the market segments selected.

Current Business of the Company

Management has determined that the Company will focus on projects in the oil and gas industry. This is based upon a belief that this industry is becoming an economically viable sector in which to conduct business operations. We have targeted specific prospects and intend to engage in the drilling for oil and gas. Jon Fullenkamp, our President, has a great deal of experience in the oil and gas industry and has already recruited additional experience with the addition of a new director and advisory board member.

We have no other employees at this time and will seek to retain independent contractors to assist in operating and managing the prospects as well as to carry out the principal and necessary functions incidental to the oil and gas business. With the intended acquisition of oil and natural gas, we intend to establish ourselves as an industry partner within the industry. Once we can establish a revenue base with cash flow, we will seek opportunities more aggressive in nature.

During the fourth quarter of 2005, we evaluated two opportunities in Scott Oil & Gas and Thunder Oil & Gas. As we progressed into the due diligence of these prospects and the potential production, management determined that the development of the prospect was not worth the required investment capital. Even with the potential reduction in investment dollars, the prospects had an unacceptable pay back time for the initial investment. At that point, management felt the shareholders would be better served by seeking other prospects.

In the second quarter of 2006, we have continued with the two prospects previously reported and have taking a minority ownership position in a joint venture participation in the New Mexico based Glasgow gas project consisting of approximately 11,000 acres. In the event any of these prospects do not go forward for any reason, a replacement prospect will immediately be sought. The initial two prospects are described below.

The first prospect is a prospective oil field known as N.E. Glasgow Prospect located in Montana. We have entered into a Farmout Agreement with Laser Exploration, Inc. ("Laser") whereby Laser has farmed out certain leases through Rocky Mountain Exploration for drilling an exploratory well to a depth of an estimated 6,500 feet to test the various formations for potential commercial development. Rocky Mountain Exploration has assigned approximately 1,960 acres to the Company for 100% working interest reserving on to Rocky Mountain Exploration a 5% overriding royalty and a 12% total overriding royalty depending on specific retained landowner royalties. The second known prospect is the Mesa Prospect located in New Mexico:

1. A percentage of the Company's ownership interest may be sold off until we own a percentage of the prospect with no out-of-pocket expenses required from us; or
2. We may seek to raise between \$1 million and \$4 million to finance each respected prospect in its entirety.

In the second and third quarters of 2006, we continued to investigate potential projects in the oil and gas industry.

Plan of Operation

Our plan of operation for the next 12 months will be the continued acquisition of economically viable oil and gas prospects. Once acquired, we intend to develop and produce the prospects assuming they are commercially economical to produce based on a complete due diligence process. In that case, we can expect to derive revenues from operations. We intend to diversify our holdings in both oil and gas producing wells to take advantage of what we believe is a potentially strong window of opportunity that currently exists in the oil and gas industry for the next several years.

Our first project is an oil field known as the N.E. Glasgow Prospect in Montana. We have the opportunity to develop Federal and State leases consisting of 1,960 acres where we initially intend to drill an exploratory well to an estimated depth of 6,500 feet for the purpose of testing various formations for production. The most recent project is our joint venture, minority ownership participation in the New Mexico Mesa prospect which is a gas prospect on approximately 11,000 acres.

We completed due diligence on other projects which ultimately proved to be too expensive to pursue. We have continued to seek out other viable opportunities.

Results of Operations for Period Ended June 30, 2006

As of September 30, 2006, the Company has not earned any revenues and has incurred a net loss to date of \$5,248,233. Operations have been primarily seeking potential opportunities in the oil and gas industry through the location of commercially economical prospects, and raising capital and developing revenue generating opportunities and strategic relationships.

During the three month period ended September 30, 2006, we incurred operating expenses in the amount of \$345,424. These operating expenses included due diligence expenses, consulting fees, professional fees, and office and general expenses.

Liquidity and Capital Resources

To date, we have financed our operations from funds put into the Company by our CEO. We intend to raise future capital from the sale of a percentage of our prospects to fund development and production or through the sale of our common stock to raise from \$1 million to \$4 million to finance the prospects in their entirety.

Item 3. Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Under the supervision and with the participation of our management, including the Principal Executive Officer and Principal Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15 as of the end of the period covered by this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer have concluded that these disclosure controls and procedures were effective such that the material information required to be filed in our SEC reports is recorded, processed, summarized and reported within the required time periods specified in the SEC rules and forms. There were no changes in our internal control over financial reporting during the quarter ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Potential investors should be aware that the design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any

system of controls and procedures will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On July 24, 2006, all litigation was settled between the Company and the former CEO. The Company settled the case for an estimated value of \$280,000 to be realized over a 10-month period ending in May of 2007. The Company is unable to disclose the actual terms of this settlement as the court has sealed the settlement agreement.

In May 2006, we settled a past debt with Treetop Investments for 5,000,000 shares of our restricted common stock in a transaction combining settlement of debt and purchase of stock. . Even though this settlement was reached with the issuance of 5,000,000 shares of stock, continued demands for additional stock and or cash has been requested of the company by Treetop and its various creditors. The company has made multiple attempts to satisfy these requests while keeping the initial terms intact.

Neither the Company nor any of our officers or directors is involved in any other litigation either as plaintiffs or defendants and we have no knowledge of any threatened or pending litigation against us or any of our officers or directors.

Item 2. Preferred Stock

On August 22, 2006 the Board of Directors authorized the creation of a class of 10,000,000 preferred shares. The par value was set at \$0.001 per share, with a cumulative 5% per annum dividend rate. The preferred shares carry the right to be converted at will to 100 shares of common stock.

Item 3. Subscriptions for Preferred Stock

During the three months ended September 30, 2006, the company received subscriptions for 149,827.58 convertible preferred shares, at the subscriptions price of \$0.29 per share, pursuant to a regulation "S" offshore offering, raising a total of \$43,450. Proceeds were used for working capital and general administrations expenses.

The \$43,450 raised in the third quarter augmented prepaid subscriptions of \$203,500 raised in the second quarter, and totaled \$246,950. The company subsequently issued 715,517.23 preferred shares pursuant to Regulation "S" on October 22, 2006 in settlement of \$246,950 prepaid subscriptions.

Item 4. Submission of Matters to a Vote of Security Holders

On October 26, 2006 the majority of the shares entitled to vote elected to complete a reverse split of our common stock on a 25 to 1 basis. This restructuring is to allow the company to facilitate its financing plans, which will enable the development of the existing oil and gas properties the company currently has underway.

Item 5. Defaults Upon Senior Securities

During the nine months ended September 30, 2006, we were not in default on any of our indebtedness.

Item 6. Exhibits and Reports on Form 8-K

(a) Index to Exhibits

Exhibit No. Description of Exhibit

31	<u>Certification of Chief Executive/Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32	<u>Certification of Chief Executive/Financial Officer pursuant to Section 906</u>

(b) A report on Form 8-K was filed May 8, 2006

SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Victory Energy Corporation

Date: November 13, 2006

By: /s/ Jon Fullenkamp

Principal Executive Officer
Principal Financial Officer
Principal Accounting Officer and Director

