

VICTORY ENERGY CORP  
Form 10-Q  
May 16, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 002-76219NY

VICTORY ENERGY CORPORATION  
(Exact Name of Company as Specified in its Charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

87-0564472  
(I.R.S. Employer  
Identification No.)

20341 Irvine Avenue, Newport Beach, 92660  
California  
(Address of principal executive offices)

(Zip Code)

(714) 480-0300  
(Registrant's telephone number, including area code)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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  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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company   
(Do not check if a 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

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes  No

Applicable only to corporate issuers:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of March 31, 2010, there were 136,719,608 shares of common stock, par value \$0.001, issued and outstanding.

---

VICTORY ENERGY CORPORATION  
QUARTERLY REPORT ON  
FORM 10-Q  
FOR THE THREE MONTHS ENDED MARCH 31, 2010  
TABLE OF CONTENTS

	Page
<b>PART I—FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	4
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosures about Market Risk.	19
Item 4. Controls and Procedures	19
<b>PART II—OTHER INFORMATION</b>	
Item 1. Legal Proceedings	20
Item 1A. Risk Factors	20
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 3. Default Upon Senior Securities	20
Item 4. Removed and Reserved	21
Item 5. Other Information	21
Item 6. Exhibits	21
<b>SIGNATURES</b>	<b>22</b>

## Explanatory Note

On March 30, 2011, the Company filed its December 31, 2009 Annual Report on Form 10-K which was designed to be comprehensive in nature and includes audited financial statements for the 2007 (restated), 2008 and 2009 fiscal years and unaudited quarterly financial statements for 2008 (restated) and 2009. In addition, it includes all material information that would have been available and disclosed in its December 31, 2009, 2008 and 2007 Forms 10-K and interim 2009 and 2008 Forms 10-Q had they been timely filed.

The Company is filing this Quarterly Report on Form 10-Q for the three months ended March 31, 2010 contemporaneously with its December 31, 2010 Annual Report on Form 10-K. As a consequence, this Quarterly Report on Form 10-Q for the three months ended March 31, 2010 will reiterate much of the material presented in the Annual Report on Form 10-K for the year ended December 31, 2010.

## Cautionary Notice Regarding Forward Looking Statements

Victory Energy Corporation desires to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. This report contains a number of forward-looking statements that reflect management's current views and expectations with respect to business, strategies, future results and events and financial performance. All statements made in this Annual Report other than statements of historical fact, including statements that address operating performance, events or developments that management expects or anticipates will or may occur in the future, including statements related to revenues, cash flow, profitability, adequacy of funds from operations, statements expressing general optimism about future operating results and non-historical information, are forward looking statements. In particular, the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “may,” “will,” variations of these words, and similar expressions identify forward-looking statements, but are not the exclusive means of identifying such statements and their absence does not mean that the statement is not forward-looking.

Readers should not place undue reliance on these forward-looking statements, which are based on management's current expectations and projections about future events, are not guarantees of future performance, are subject to risks, uncertainties and assumptions and apply only as of the date of this report. Victory Energy Corporation's actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, the “Risk Factors” as well as those discussed elsewhere in this report, and the risks discussed in press releases and other communications to stockholders issued by Victory Energy Corporation from time to time which attempt to advise interested parties of the risks and factors that may affect the business. Except as may be required under the federal securities laws, Victory Energy Corporation undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## Part I

## Item 1. Financial Statements

VICTORY ENERGY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$48,600	\$22,076
Accounts receivable, net	97,588	100,319
Prepaid expenses	36,596	46,818
Total current assets	182,784	169,213
<b>FIXED ASSETS</b>		
Furniture and equipment	2,294	2,294
Accumulated depreciation	(2,294 )	(2,294 )
Total furniture and fixtures	-	-
Oil and natural gas properties	1,660,533	1,660,533
Accumulated depletion	(878,135 )	(853,152 )
Oil and natural gas properties, net	782,398	807,381
<b>OTHER ASSETS</b>		
Fund held at court	13,006	13,006
<b>TOTAL ASSETS</b>	<b>\$978,188</b>	<b>\$989,600</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$212,492	\$240,310
Accrued liabilities	37,913	61,331
Accrued interest	34,503	27,148
Line of credit - bank	79,387	85,444
Notes payable - related parties	445,000	355,000
Liability for unauthorized preferred stock issued	85,654	85,654
Amounts due former officer	-	404,623
Total Current Liabilities	894,949	1,259,510
<b>OTHER LIABILITIES</b>		
Asset retirement obligation	34,977	34,977
<b>TOTAL LIABILITIES</b>	<b>929,926</b>	<b>1,294,487</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Common Stock, \$0.001 par value, 490,000,000 shares authorized, 136,719,608 and 136,719,608 issued		

Edgar Filing: VICTORY ENERGY CORP - Form 10-Q

and outstanding, respectively	136,720	136,720
Additional paid in capital	31,265,972	31,263,272
Accumulated deficit	(31,354,430)	(31,704,879)
TOTAL STOCKHOLDERS' DEFICIT	48,262	(304,887 )
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$978,188	\$989,600

4

---

VICTORY ENERGY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)

	For the Three Months Ending March 31,	
	2010	2009
<b>REVENUES</b>	\$ 149,371	\$ 140,000
<b>COSTS AND EXPENSES</b>		
Costs of production	11,882	57,186
General and administrative expense	158,428	257,889
Depletion and accretion	24,983	72,910
Malfeasance losses	-	249,771
Loss (gain) on settlements	(404,623 )	9,661
Total expenses	(209,330 )	647,417
<b>INCOME (LOSS) FROM OPERATIONS</b>	358,701	(507,417 )
<b>OTHER EXPENSE</b>		
Interest expense	8,252	4,519
Total other expense	8,252	4,519
<b>NET INCOME (LOSS)</b>	\$ 350,449	\$(511,936 )
Weighted average shares, basic and diluted	136,719,608	136,719,608
Net loss per share, basic and diluted	\$0.00	\$(0.00 )

VICTORY ENERGY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOW  
(Unaudited)

For the Three Months Ended  
March 31,  
2010                      2009

**CASH FLOW FROM OPERATING ACTIVITIES**

Net income (loss)	\$350,449	\$(511,936 )
Adjustment to reconcile net income (loss) from operations to net cash used in operating activities		
Depletion	24,983	72,586
Accretion to asset retirement obligation	-	324
Warrants for services	2,700	12,992
Gain on settlement with former officer	(404,623 )	-
Change in working capital		
Accounts receivable	2,731	-
Prepaid expenses	10,222	-
Funds held at court	-	(3,432 )
Accounts payable	(27,818 )	29,820
Accrued liabilities	(16,063 )	1,359
Asset retirement obligations	-	629
Net cash used in operating activities	(57,419 )	(397,658 )

**CASH FLOWS FROM INVESTING ACTIVITIES**

Drilled wells	-	(9,715 )
Purchase of wells	-	(398,619 )
Net cash used in investing activities	-	(408,334 )

**CASH FLOWS FROM FINANCING ACTIVITIES**

Bank line of credit net repayments	(6,057 )	(2,495 )
Proceeds from notes payable to related parties	90,000	30,000
Proceeds from unauthorized preferred stock issued	-	53,499
Proceeds from former officer	-	75,674
Payments on notes payable to related party	-	(70,000 )
Payments to former officer	-	(27,159 )
Aurora capital contributions	-	890,000
Aurora capital distributions	-	(266,217 )
Net cash provided by financing activities	83,943	683,302
Net change in cash and cash equivalents	26,524	(122,690 )
Beginning cash and cash equivalents	22,076	166,189
Ending cash and cash equivalents	\$48,600	\$43,499

**Supplemental disclosures of cash flow information:**

Cash paid during the period for

Edgar Filing: VICTORY ENERGY CORP - Form 10-Q

Interest	\$-	\$-
Income taxes	\$-	\$-

6

---

Victory Energy Corporation and Subsidiaries  
Notes to the Consolidated Financial Statements (Unaudited)

Note 1 – Financial Statement Presentation

Organization and nature of operations

Victory Energy Corporation (Pink Sheets symbol VYFY), formerly known as Victory Capital Holdings Corporation (the “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 the Corporation’s name was changed to New Environmental Technologies Corporation and on April 28, 2003 to Victory Capital Holdings Corporation. The name was changed finally to Victory Energy Corporation on May 3, 2006.

The business of the Company is to acquire, develop, produce and exploit oil and natural gas properties. The Company’s major oil and natural gas properties are located in Texas. The Company’s executive offices are located in Newport Beach, California and its operations offices are located in Austin, Texas.

The 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, has authorized capital of 490,000,000 shares of \$0.001 par value common stock.

Going Concern

As presented in the consolidated financial statements, we had net income of \$350,449 for the three months ended March 31, 2010 due to the one-time gain of \$404,623 on the settlement with the former executive officer of the Company. Without that one time gain we would have incurred a net loss of \$54,174 during the three months ended March 31, 2010. Losses are expected to continue in the near term. Current liabilities exceeded current assets by \$712,165 and the accumulated deficit is \$31,354,430 at March 31, 2010. Amounts outstanding and payable to creditors are in arrears and the Company is in negotiations with certain creditors to obtain extensions and settlements of outstanding amounts. The Company is currently in default on one of its debt obligations and the Company has no future borrowings or funding sources available under existing financing arrangements. Management anticipates that significant additional capital expenditures will be necessary to develop the Company’s oil and natural gas properties, which consist primarily of proved reserves that are non-producing, before significant positive operating cash flows will be achieved.

Management's plans to alleviate these conditions include the renegotiation of certain trade payables, settlements of debt amounts with stock, and deferral of certain scheduled payments, as considered necessary. In addition, management is pursuing business partnering arrangements for the acquisition and development of its properties as well as debt and equity funding through private placements. Without outside investment from the sale of equity securities, debt financing or partnering with other oil and natural gas companies, operating activities and overhead expenses will be reduced to a pace that available operating cash flows will support.

The accompanying consolidated financial statements are prepared as if the Company will continue as a going concern. The consolidated financial statements do not contain adjustments, including adjustments to recorded assets and liabilities, which might be necessary if the Company were unable to continue as a going concern.

Note 2 – Summary of Significant Accounting Policies

Principles of consolidation

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company and Aurora Energy Partners, A Texas General Partnership. The Company holds a 15% equity interest in Aurora Energy Partners. Since the Company serves as managing partner and is responsible for managing all business operations of the partnership, the financial statements of Aurora have been consolidated with the Company. All significant intercompany transactions have been eliminated. The consolidated financial statements reflect necessary adjustments, all of which were of a recurring nature and are in the opinion of management necessary for a fair presentation.

### Property and equipment

Property and equipment are recorded at cost. Cost of repairs and maintenance are expensed as they are incurred. Major repairs that extend the useful life of equipment are capitalized and depreciated over the remaining estimated useful life. When property and equipment are sold or otherwise disposed, the related costs and accumulated depreciation are removed from the respective accounts and the gains or losses realized on the disposition are reflected in operations. The Company uses the straight-line method in computing depreciation for financial reporting purposes.

### Revenue Recognition

We use the sales method of accounting for oil and natural gas revenues. Under this method, revenues are recognized based on actual volumes of gas and oil sold to purchasers. The volumes sold may differ from the volumes to which we are entitled based on our interests in the properties. Differences between volumes sold and entitled volumes create oil and gas imbalances which are generally reflected as adjustments to reported proved oil and gas reserves and future cash flows in our supplemental oil and gas disclosures. If our excess takes of natural gas or oil exceed our estimated remaining proved reserves for a property, a natural gas or oil imbalance liability is recorded in the consolidated balance sheet.

### Allowance for Doubtful Accounts

We recognize an allowance for doubtful accounts to ensure trade receivables are not overstated due to uncollectability. Bad debt reserves are maintained for all customers based on a variety of factors, including the length of time receivables are past due, macroeconomic conditions, significant one-time events and historical experience. An additional reserve for individual accounts is recorded when we become aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted.

### Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, other assets, fixed assets, derivative liability, deferred revenue, accounts payable, accrued liabilities and short-term debt. The estimated fair value of cash, accounts receivable, other assets, accounts payable, deferred revenue and accrued liabilities approximated their carrying amounts due to the short-term nature of these instruments. The carrying value of short-term debt also approximates fair value since their terms are similar to those in the lending market for comparable loans with comparable risks. None of these instruments are held for trading purposes.

The Company utilizes various types of financing to fund its business needs, including debt with warrants attached and other instruments indexed to its stock. The Company reviews its warrants and conversion features of securities issued as to whether they are freestanding or contain an embedded derivative and if so, whether they are classified as a liability at each reporting period until the amount is settled and reclassified into equity with changes in fair value recognized in current earnings.

Inputs used in the valuation to derive fair value are classified based on a fair value hierarchy which distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

- Level one – Quoted market prices in active markets for identical assets or liabilities;

- Level two – Inputs other than level one inputs that are either directly or indirectly observable; and
- Level three – Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter. The following table presents all assets that were measured and recognized at fair value as of March 31, 2010 and 2009, and for the three months then ended on a non-recurring basis. The assets shown below were presented at fair value due to the impairment analysis indicating an estimated fair value below the carrying value for the proved oil and gas properties.

Fair value of assets measured and recognized at fair value on a non-recurring basis as of March 31, 2010 were as follows:

Description	Level 1	Level 2	Level 3	Total Realized (Loss) due to valuation	Total Unrealized (Loss)
Proved Properties (net)	\$ —	\$ —	\$ 782,398	\$ —	\$ —
Totals	\$ —	\$ —	\$ 782,398	\$ —	\$ —

The Company valued the Proved Properties at their fair value in accordance with the applicable Financial Accounting Standards Board (“FASB”) standard due to the impairment indicators prevalent as of March 31, 2010. The inputs that were used in determining the fair value of these assets were Level 3 inputs. These inputs consist of but are not limited to the following: estimates of reserve quantities, estimates of future production costs and taxes, estimates of consistent pricing of commodities, 10% discount rate, etc. No impairment expense was recorded as of March 31, 2010.

#### Recent Accounting Pronouncements

#### Recently Issued Accounting Standards

In January 2010, the FASB issued ASU No. 2010-16, “Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements”. ASU 2010-16 will require the reporting entity to 1) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers and 2) present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). This ASU also clarifies existing disclosures about levels of disaggregation and about inputs and valuation techniques. This ASU is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal periods. The Company has adopted the provisions of the ASU that were effective for reporting periods beginning after December 15, 2009 and it is currently assessing the impact of the Level 3 disclosures.

In January 2010, the FASB issued ASU No. 2010-03, “Extractive Activities – Oil and Gas (Topic 932) – Oil and Gas Reserve Estimation and Disclosures”. The ASU expands and amends certain definition of terms used in the Topic, requires an entity to disclose separately information about reserve quantities and financial statements amounts for geographic areas that represent 15 percent or more of proved reserves, clarifies that an entity’s equity method investments must be considered in determining whether it has significant oil – and gas- producing activities, required that an entity continue to disclose separately the amounts and quantities for consolidated and equity method investments and requires that disclosures about equity method investments be in the same level of detail as is required for consolidated investments. Amendments to this Topic are effective to annual reporting periods ending on or after December 31, 2009.

The Company valued the Proved Properties at their fair value in accordance with the applicable FASB standard due to the impairment indicators prevalent as of December 31, 2009 and 2008. The inputs that were used in determining the fair value of these assets were Level 3 inputs. These inputs consist of but are not limited to the following: estimates of reserve quantities, estimates of future production costs and taxes, estimates of consistent pricing of commodities, 10% discount rate, etc. Impairment expense was recorded at both year ends at the amount the carrying value of the assets exceeded their estimated fair values as of December 31, 2009 and 2008.

In August 2009, the FASB issued an amendment to the accounting standards related to the measurement of liabilities that are recognized or disclosed at fair value on a recurring basis. This standard clarifies how a company should measure the fair value of liabilities and that restrictions preventing the transfer of a liability should not be considered as a factor in the measurement of liabilities within the scope of this standard. This standard was effective for the Company on October 1, 2009.

In October 2009, the FASB issued an amendment to the accounting standards related to the accounting for revenue in arrangements with multiple deliverables including how the arrangement consideration is allocated among delivered and undelivered items of the arrangement. Among the amendments, this standard eliminates the use of the residual method for allocating arrangement consideration and requires an entity to allocate the overall consideration to each deliverable based on an estimated selling price of each individual deliverable in the arrangement in the absence of having vendor-specific objective evidence or other third party evidence of fair value of the undelivered items. This standard also provides further guidance on how to determine a separate unit of accounting in a multiple-deliverable revenue arrangement and expands the disclosure requirements about the judgments made in applying the estimated selling price method and how those judgments affect the timing or amount of revenue recognition. This standard, for which the Company is currently assessing the impact, will become effective for the Company on January 1, 2011.

### Concentrations

There is a ready market for the sale of crude oil and natural gas. During the three months ended March 31, 2010, each of our fields sold all of its oil production to one purchaser for each field and all of its natural gas production to one purchaser for each field. However, because alternate purchasers of oil and natural gas are readily available at similar prices, we believe that the loss of any of our purchasers would not have a material adverse effect on our financial results

### Accounting estimates

The preparation of 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 assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from these estimates.

Significant estimates include volumes of oil and natural gas reserves used in calculating depletion of proved oil and natural gas properties, future net revenues and abandonment obligations, impairment of proved and unproved properties, future income taxes and related assets and liabilities, the fair value of various common stock, warrants and option transactions, and contingencies. Oil and natural gas reserve estimates, which are the basis for unit-of-production depletion and the calculation of impairment, have numerous inherent uncertainties. The accuracy of any reserve estimate is a function of the quality of available data, the engineering and geological interpretation and judgment. Results of drilling, testing and production subsequent to the date of the estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered. In addition, reserve estimates are vulnerable to changes in wellhead prices of crude oil and natural gas. Such prices have been volatile in the past and can be expected to be volatile in the future.

These significant estimates are based on current assumptions that may be materially affected by changes to future economic conditions such as the market prices received for sales of volumes of oil and natural gas, interest rates, the fair value of the Company's common stock and corresponding volatility, and the Company's ability to generate future taxable income. Future changes to these assumptions may affect these significant estimates materially in the near term.

### Oil and natural gas properties

The Company accounts for its oil and natural gas properties using the successful efforts method of accounting. Under this method, all costs associated with property acquisitions, successful exploratory wells, all development wells, including dry hole development wells, and asset retirement obligation assets are capitalized. Additionally, interest is capitalized while wells are being drilled and the underlying property is in development. Costs of exploratory wells are capitalized pending determination of whether each well has resulted in the discovery of proved reserves. Oil and natural gas mineral leasehold costs are capitalized as incurred. Items charged to expense generally include geological and geophysical costs, costs of unsuccessful exploratory wells, and oil and natural gas production costs. Capitalized costs of proved properties including associated salvage are depleted on a well-by-well or field-by-field (common reservoir) basis using the units-of-production method based upon proved producing oil and natural gas reserves. The depletion rate is the current period production as a percentage of the total proved producing reserves. The depletion rate is applied to the net book value of property costs to calculate the depletion expense. Proved reserves materially impact depletion expense. If the proved reserves decline, then the depletion rate (the rate at which we record depletion expense) increases, reducing net income. Dispositions of oil and natural gas properties are accounted for as adjustments to capitalized costs with gain or loss recognized upon sale. A gain (loss) is recognized to the extent the sales price exceeds or is less than original cost or the carrying value, net of impairment. Oil and natural gas properties

are also subject to impairment at the end of each reporting period. Unproved property costs are excluded from depletable costs until the related properties are developed. See impairment discussed in “Long-lived assets and intangible assets” below.

We depreciate other property and equipment using the straight-line method based on estimated useful lives ranging from five to 10 years.

#### Long-lived assets and intangible assets

The Company accounts for intangible assets in accordance with the applicable ASC. Intangible assets that have defined lives are subject to amortization over the useful life of the assets. Intangible assets held having no contractual factors or other factors limiting the useful life of the asset are not subject to amortization but are reviewed at least annually for impairment or when indicators suggest that impairment may be needed. Intangible assets are subject to impairment review at least annually or when there is an indication that an asset has been impaired. While there are prospects for possible capital funding (either debt or equity), much is left to the market and outside instability. As such, at this time, management cannot anticipate with a comfortable degree of certainty if the appropriate amount of funding will be achieved and any funding will be diverted fully to its E&P activities. This will further postpone the Company's ability to dedicate financial as well as human resources to its technology division in the short term future. As such, the Company has eliminated the division entirely.

For unproved property costs, management reviews these investments for impairment on a property-by-property basis if a triggering event should occur that may suggest that impairment may be required.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying amount of the asset, including any intangible assets associated with that asset, exceeds its estimated future undiscounted net cash flows, the Company will recognize an impairment loss equal to the difference between its carrying amount and its estimated fair value. The fair value used to calculate the impairment for producing oil and natural gas field that produces from a common reservoir is first determined by comparing the undiscounted future net cash flows associated with total proved properties to the carrying value of the underlying evaluated property. If the cost of the underlying evaluated property is in excess of the undiscounted future net cash flows, the future net cash flows are discounted at 10%, which the Company believes approximates fair value, to determine the amount of impairment.

No impairment expense was recorded for the three months ended March 31, 2010.

#### Asset retirement obligation

In accordance with the ASC, the Company recognizes the fair value of the liability for asset retirement costs in an entity's balance sheet, as both a liability and an increase in the carrying values of such assets, in the periods in which such liabilities can be reasonably estimated. The present value of the estimated future asset retirement obligation ("ARO"), as of the date of acquisition or the date at which a successful well is drilled, is capitalized as part of the costs of proved oil and natural gas properties and recorded as a liability. The asset retirement costs are depleted over the production life of the oil and natural gas property on a unit-of-production basis.

The ARO is recorded at fair value and accretion expense is recognized as the discounted liability is accreted to its expected settlement value. The fair value of the ARO liability is measured by using expected future cash outflows discounted at the Company's credit adjusted risk free interest rate.

Amounts incurred to settle plugging and abandonment obligations that are either less than or greater than amounts accrued are recorded as a gain or loss in current operations. Revisions to previous estimates, such as the estimated cost to plug a well or the estimated future economic life of a well, may require adjustments to the ARO and are capitalized as part of the costs of proved oil and natural gas property.

#### Income taxes

The Company accounts for income taxes in accordance with ASC 740 "Income Taxes" which requires an asset and liability approach for financial accounting and reporting of income taxes. Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Deferred tax assets include tax loss and credit carry forwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

On January 1, 2007, the Company adopted the FASB Interpretation on accounting for uncertainty in income taxes. The interpretation prescribes a measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, the interpretation provides guidance regarding uncertain tax positions relating to derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company will classify any interest and penalties associated with income taxes as interest expense.

## Stock based compensation

Beginning January 1, 2006, the Company adopted the FASB standard for accounting for stock based compensation to account for its issuance of warrants to key partners, directors and officers. The standard requires all share-based payments, including employee stock options, warrants and restricted stock, be measured at the fair value of the award and expensed over the requisite service period (generally the vesting period). The fair value of common warrants granted to key partners, directors and officers is estimated at the date of grant using the Black-Scholes option pricing model by using the historical volatility of comparable public companies. The calculation also takes into account the common stock fair market value at the grant date, the exercise price, the expected life of the common stock option or warrant, the dividend yield and the risk-free interest rate.

The Company from time to time may issue stock options, warrants and restricted stock to acquire goods or services from third parties. Restricted stock, options or warrants issued are recorded on the basis of their fair value, which is measured as of the date issued. The options or warrants are valued using the Black-Scholes option pricing model on the basis of the market price of the underlying equity instrument on the "valuation date," which for options and warrants related to contracts that have substantial disincentives to non-performance, is the date of the contract, and for all other contracts is the vesting date. Expense related to the options and warrants is recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period.

The Company recognized stock-based compensation expense from warrants granted to directors for the three months ended March 31, 2010 and 2009 were of \$2,700 and \$12,992, respectively.

## Earnings per share

Basic earnings per share are computed using the weighted average number of common shares outstanding. Diluted earnings per share reflect the potential dilutive effects of common stock equivalents such as options, warrants and convertible securities. Given the historical and projected future losses of the company, all potentially dilutive common stock equivalents are anti-dilutive.

## Note 3 – Oil and natural gas properties

Oil and natural gas properties are comprised of the following at March 31:

	2010	2009
Proved property – purchased wells	\$ 3,022,153	\$ 3,022,153
Proved property – drilled wells	1,756,442	1,756,442
Total oil and natural gas properties, cost	4,778,595	4,778,595
Less: accumulated depreciation, depletion and impairment	(3,996,197)	(3,411,090)
Oil and natural gas properties, net	\$ 782,398	\$ 1,367,505

## Note 4 –Loans payable to related parties

Loans payable to related parties consists of the following at March 31:

	2010	2009
Loan payable to former CEO and shareholder	\$ —	\$ 1,685,055
Total loans payable to related parties	\$ —	\$ 1,685,055

The loans payable are due on demand and do not bear interest.

On March 24, 2011 the former CEO and shareholder waived his claim to this loan payable as part of a comprehensive settlement agreement with the Company. See Note 7. The Company realized a gain on settlement of \$404,623 at March 31, 2010 as a result of the cancellation of this debt.

## Note 5 – Unsecured notes payable to related parties

Unsecured notes payable to related parties consists of the following at March 31:

	2010	2009
Notes payable to a shareholder and director, unsecured, 10% interest payable at maturity, due on December 31, 2010	\$ 395,000	\$ 293,673
Note payable to an affiliate of a shareholder and director, unsecured, 10% interest payable at maturity, due on December 31, 2010	50,000	50,000
Totals, notes payable to related parties	\$ 445,000	\$ 343,673

## Note 6 – Line of credit payable to Wells Fargo Bank

On October 7, 2008, the Company executed an unsecured Business Line of Credit Agreement with Wells Fargo Bank, National Association. The Credit Agreement provides the Company with a line of credit facility in the aggregate amount of \$96,761. Interest on the loan is payable monthly, at the rate of 10.0% per annum. Payments of \$2,055, including interest, are due on the line of credit and the line matures on October 13, 2013. The line of credit was personally guaranteed by the Company's former CEO and shareholder.

During the three months ended December 31, 2010, the Company defaulted on its monthly loan payments to Wells Fargo Bank and the loan was referred to the Bank's workout department. The Company has negotiated an informal repayment program with the Bank's workout department whereby the Bank will not institute collection actions provided the Company continues to make monthly principal payments of \$2,200 monthly to the Bank. As of March 31, 2010, the Company was current on the terms of this line of credit.

	March 31,	
	2010	2009
Line of credit payable to Wells Fargo Bank, 10% interest payable at maturity, due on October 13, 2013	\$ 79,387	\$ 91,858

Note 7 – Separation Settlement Payable to former officer and shareholder

On May 15, 2009, the Company entered into a “Separation Agreement and General Release of Claims” with Jon Fullenkamp (“Fullenkamp”) and the Virgin Family Trust. The terms of the Agreement include (a) termination of an employment agreement between the Company and Fullenkamp; (b) payment of all accrued salaries, unreimbursed expenses, and shareholder advances previously made by Fullenkamp; (c) reduction of shareholder advances from estimated balance owed at the time of settlement of \$1,665,375 to a balance of \$500,000 (the “Separation Settlement”); (d) Payment terms of the Separation Settlement of \$10,000 monthly commencing June 1, 2009, and payable over a fifty (50) month period, including imputed interest at the rate of 3.52% per annum; (e) cancellation of 2,000,000 shares of preferred stock, convertible at the rate of 100 shares of common, (d) lockup agreement with respect to all shares owned directly or indirectly by Fullenkamp for a period of five years, (e) Fullenkamp was to cooperate with the Company to recover misappropriated funds and agreed to bring litigation or induce others to bring litigation against the Company.

At the time of the agreement, Fullenkamp was owed the sum of approximately \$1,665,375 in shareholder advances which were settled for \$500,000, resulting in a gain on the settlement of this debt of \$1,199,748. After the first payment of \$10,000 the company recorded a discount of 3.25% on \$490,000, the minimum federal rate in the amount of \$34,373 against the note. The discount is amortized to interest expense over the period of estimated maturity. During the year ended December 31, 2009, the Company recorded interest expense of \$8,997 and the note had an unamortized discount of \$24,476. During the year ended December 31, 2009, the Company paid \$51,004 of the principal of the Separation Settlement, reducing the outstanding balance as of December 31, 2009 to \$404,623.

During the year ended December 31, 2009, Fullenkamp filed a lawsuit against the Company. The Company subsequently filed a lawsuit against Fullenkamp and others on January 19, 2010, in Midland County, Texas.

On March 24, 2011 the Company, James Capital Energy, LLC and other related parties entered into a comprehensive Settlement Agreement with Jon Fullenkamp. Under the Settlement Agreement, Victory agreed to i) dismiss Jon Fullenkamp from the Texas lawsuit with prejudice, ii) provide him with a general release from all acts related thereto, and iii) pay him \$30,000 over 70 days. In turn, Jon Fullenkamp agreed to i) dismiss with prejudice the lawsuit he filed against the Company and others in California; ii) transfer to Victory 2,000,000 shares of Victory preferred stock; iii) transfer to Victory 400,000 warrants for Victory common stock; iv) transfer to James Capital Energy, LLC 16,144,563 shares of Victory common stock; v) voluntarily appear for his deposition to discuss events that occurred at the Adams-Baggett Ranch; vi) waive the claim he had to the \$430,000 severance payment under the May 15, 2009 Separation Agreement; and vii) provide Victory James Capital Energy, LLC and other related parties with a general release.

Note 8 – Liability for Unauthorized Preferred Stock Issued

During the year ended December 31, 2006, the Company authorized 10,000,000 shares of Preferred Stock, convertible to common stock at the rate of 100 shares of common for every share of preferred. During 2006, the Company issued 715, 517 of this preferred stock for cash of \$246,950. The Company subsequently issued additional preferred stock and had several preferred shareholders convert their shares into common stock during the years ended December 31, 2009, 2008, and 2007.

During the course of the Company’s internal investigation, it was determined by the Company’s legal counsel that the preferred shares had not been duly authorized by the State of Nevada. Since the Company had issued and received consideration for the preferred stock, notwithstanding that the stock was not legally authorized, the Company reclassified the preferred stock into a liability at its cash receipt value. The Company has offered to settle the debt with the remaining holders of the unauthorized preferred stock by honoring the terms of conversion of one share of

preferred into 100 shares of common stock.

The preferred stock liability consists of the following at March 31:

	2010	2009
Liability for unauthorized preferred stock	\$ 85,654	\$ 85,654

#### Note 9 – Income Taxes

As a result of net operating losses and the inability to record a benefit for its deferred income tax assets, the Company has no income tax provision for the three months ended March 31, 2010 or for the year ended December 31, 2009.

The Internal Revenue Code of 1986, as amended, imposes substantial restrictions on the utilization of net operating losses in the event of an “ownership change” of a corporation. Accordingly, a company’s ability to use net operating losses may be limited as prescribed under Internal Revenue Code Section 382 (“IRC Section 382”). Events which may cause limitations in the amount of the net operating losses that the company may use in any one year include, but are not limited to, a cumulative ownership change of more than 50% over a three-year period. There have been transactions that have changed the Company’s ownership structure since inception that may have resulted in one or more ownership changes as defined by the Internal Revenue Code of 1986.

At December 31, 2009, 2008, and 2007, the Company had available Federal and state net operating loss and capital loss carry forwards to reduce future taxable income. The net operating loss carryovers available were approximately \$2,373,000, \$1,700,000, and \$714,000 for federal and for state purposes, respectively. The Federal net operating loss carry forward begins to expire in 2025. Capital loss carryovers may only be used to offset capital gains. The capital loss carryover available was \$50,900 for each of those years and will expire in 2010.

Given the Company’s history of net operating losses, management has determined that it is more-likely-than-not the Company will not be able to realize the tax benefit of the carry forwards. Current standards require that a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized.

Accordingly, the Company has recorded a full valuation allowance against its net deferred tax assets at December 31, 2009, 2008 and 2007. Upon the attainment of taxable income by the Company, management will assess the likelihood of realizing the tax benefit associated with the use of the carry forwards and will recognize a deferred tax asset at that time.

#### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist you in understanding our business and results of operations together with our present financial condition. This section should be read in conjunction with our consolidated financial statements and the accompanying notes included elsewhere in this report. Statements in our discussion may be forward-looking statements. These forward-looking statements involve risks and uncertainties. We caution that a number of factors could cause future production, revenues and expenses to differ materially from our expectations.

The following is management’s discussion and analysis of certain significant factors that have affected certain aspects of our financial position and results of operations during the periods included in the accompanying audited consolidated financial statements. You should read this in conjunction with the discussion under “Financial Information” and the audited consolidated financial statements included in our Annual Report on Form 10-K for the years ended December 31, 2009 and 2008.



## Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements concerning our beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, operations, future results and prospects, including statements that include the words “may,” “could,” “should,” “would,” “believe,” “expect,” “will,” “shall,” “anticipate,” “estimate,” “in,” “may,” “could,” “should,” “would,” “believe,” “expect,” “will,” “shall,” “anticipate,” “estimate,” “in,” similar expressions. These forward-looking statements are based upon current expectations and are subject to risk, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, expected, projected, intended, committed or believed. We provide the following cautionary statement identifying important factors (some of which are beyond our control) which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

## General Overview

We are an independent oil and natural gas company engaged in the production, acquisition and exploitation of oil and natural gas properties geographically focused on the onshore United States. Our operational focus is the acquisition, through the most cost effective means possible, of production or near production oil and natural gas field assets. Our areas of operation include Crockett County and South Padre Island, Texas.

Our revenue, profitability, cash flow, oil and natural gas reserves value, future growth, and ability to borrow funds or obtain additional capital, as well as the carrying value of our properties, are substantially dependent on prevailing prices of natural gas and oil. Historically, the markets for natural gas and oil have been volatile, and those markets are likely to continue to be volatile in the future. It is impossible to predict future natural gas and oil price movements with certainty. Prices for natural gas and oil are subject to wide fluctuations in response to relatively minor changes in the supply of and demand for natural gas and oil, market uncertainty, and a variety of additional factors beyond our control.

## Going Concern

As presented in the consolidated financial statements, we had net income of \$350,449 for the three months ended March 31, 2010 due to the one-time gain of \$404,623 on the settlement with our former executive officer. Without that one time gain we would have incurred a net loss of \$54,174 during the three months ended March 31, 2010. Losses are expected to continue in the near term. Current liabilities exceeded current assets by \$712,165 and the accumulated deficit is \$31,354,430 at March 31, 2010. Amounts outstanding and payable to creditors are in arrears and we are in negotiations with certain creditors to obtain extensions and settlements of outstanding amounts. We are currently in default on one of our debt obligations and we have no future borrowings or funding sources available under existing financing arrangements. Management anticipates that significant additional capital expenditures will be necessary to develop our oil and natural gas properties, which consist primarily of proved reserves that are non-producing, before significant positive operating cash flows will be achieved.

Management's plans to alleviate these conditions include the renegotiation of certain trade payables, settlements of debt amounts with stock, deferral of certain scheduled payments, as considered necessary. In addition, management is pursuing business partnering arrangements for the acquisition and development of its properties as well as debt and equity funding through private placements. Without outside investment from the sale of equity securities, debt financing or partnering with other oil and natural gas companies, operating activities and overhead expenses will be reduced to a pace that available operating cash flows can support.

The accompanying consolidated financial statements are prepared as if we will continue as a going concern. The consolidated financial statements do not contain adjustments, including adjustments to recorded assets and liabilities,

which might be necessary if we were unable to continue as a going concern.

Edgar Filing: VICTORY ENERGY CORP - Form 10-Q

Three Months Ended March 31, 2010 Compared to the Three Months Ended March 31, 2009

Our revenue, operating expenses, and net loss from operations for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009 were as follows:

	Three Months Ended March 31,			Percentage Change	
	2010	2009	Change	Inc (Dec)	
<b>REVENUES</b>	\$ 149,371	\$ 140,000	\$ 9,371	6.7	%
<b>COSTS AND EXPENSES</b>					
Costs of production	11,882	57,186	(45,304 )	(79.2	%)
General and administrative expense	158,428	257,889	(99,461 )	(38.6	%)
Depletion and accretion	24,983	72,910	(47,927 )	(65.7	%)
Loss on malfeasance	-	249,771	(249,771 )	n/m	
Loss (gain) on settlements	(404,623 )	9,661	(414,284 )	n/m	
Total expenses	(209,330 )	647,417	(856,747 )	(132.3	%)
<b>LOSS FROM OPERATIONS</b>	358,701	(507,417 )	866,118	(170.7	%)
<b>OTHER INCOME AND EXPENSE</b>					
Interest expense	8,252	4,519	3,733	82.6	%
Total other expense	8,252	4,519	3,733		
<b>NET LOSS</b>	\$ 350,449	\$ (511,936 )	\$ 862,385	(168.5	%)
Weighted average shares, basic and diluted	136,719,608	136,719,608			
Net loss per share, basic and diluted	\$ 0.00	\$(0.00 )			

**Revenues:** All of our revenue was derived from the sale of natural gas. Our revenues increased \$9,371 or 6.7% to \$149,371 for the three months ended March 31, 2010 from \$140,000 for the three months ended March 31, 2009. The increase reflects both a decline in volume of gas sold to 21,406 MCF (thousand cubic feet) in the three months ended March 31, 2010 compared to 33,970 MCF for the three months ended March 31, 2009 and the increase in the average natural gas price received of \$7.16 per MCF for the three months ended March 31, 2010 compared to \$4.12 for the three months ended March 31, 2009.

**Costs of Production:** Our cost of production, including royalties, lease, operations, production taxes and expenses decreased \$45,304 or 79.2% to \$11,882 for the three months ended March 31, 2010 from \$57,186 for the three months ended March 31, 2009. This decrease is not meaningful as it includes a one-time favorable adjustment to royalties stemming from the change in the contract operator in September, 2009.

**General and Administrative Expense:** General and administrative expenses declined \$99,461 or 38.6% to \$158,428 for the three months ended March 31, 2010 from \$257,889 for the three months ended March 31, 2009. The decrease reflects the stronger management role played by the largest investors following the resignation of the then chief executive officer of the Company in May, 2010.

**Depletion and Accretion:** Depletion and accretion expenses declined \$47,927 or 65.7% to \$24,983 for the three months ended March 31, 2010 from \$72,910 for the three months ended March 31, 2009. The decrease was due to the

lower amount of asset cost basis available to deplete following the impairment adjustment of 2009.

**Malfeasance Losses:** There were no malfeasance losses for the three months ended March 31, 2010 compared to \$249,771 that were traceable to the three months ended March 31, 2009. The malfeasance losses in 2009 were related to the misdirection of investor funds for purposes unrelated to the operations of the Company. Our prior management responsible for these actions has now been entirely replaced.

**Interest Expense:** Interest expense increased \$3,733 or 82.6% to \$8,252 for the three months ended March 31, 2010 from \$4,519 for the three months ended March 31, 2009. The increase reflects an increase in note payable to a related party during the period.

**Income Taxes:** There is no provision for income tax recorded for either the three months ended March 31, 2010 or for the three months ended March 31, 2009 due to the expected operating losses of both years. We had available Federal income tax net operating loss (“NOL”) carry forwards of approximately \$2,373,000 at December 31, 2009. Our NOL generally begins to expire in 2025. We recognize the tax benefit of NOL carry forwards as assets to the extent that management believes that the realization of the NOL carry forward is more likely than not. The realization of future tax benefits is dependent on our ability to generate taxable income within the carry forward period. This valuation allowance is provided for all deferred tax assets.

**Net Income:** We had net income of \$350,449 for the three months ended March 31, 2010 due to the one-time gain of \$404,623 on the settlement with our former executive officer. Without that one time gain we would have incurred a net loss of \$54,174 during the three months ended March 31, 2010. This net income should be viewed in light of the cash flow from operations discussions below. We had net loss of \$511,936 for the three months ended March 31, 2009.

During the three months ended March 31, 2010, as with the three months ended March 31, 2009, we did not generate positive cash flow. As a result, we funded our operations through the private sale of equity and debt securities, the issuance of our securities in exchange for services, and loans.

#### Liquidity and Capital Resources

The global financial and credit crisis may have impacts on our liquidity and financial condition that we currently cannot predict.

The continued credit crisis and related turmoil in the global financial system may have a material impact on our liquidity and our financial condition, and we may ultimately face major challenges if conditions in the financial markets do not improve. Our ability to access the capital markets or borrow money may be restricted at a time when we would like, or need, to raise capital, which could have an adverse impact on our flexibility to react to changing economic and business conditions and on our ability to fund our operations and capital expenditures in the future. Additionally, the current economic situation could lead to reduced demand for natural gas and oil, or further reductions in the prices of natural gas and oil, or both, which could have a negative impact on our financial position, results of operations and cash flows. While the ultimate outcome and impact of the current financial crisis cannot be predicted, it may have a material adverse effect on our future liquidity, results of operations and financial condition.

Our cash and cash equivalents, total current assets, total assets, total current liabilities, and total liabilities as of March 31, 2010 as compared to March 31, 2009, are as follows:

	March 31,	
	2010	2009
Cash	\$ 48,600	\$ 43,499
Total current assets	182,784	50,749
Total assets	978,188	1,427,350
Total current liabilities	894,949	2,275,786
Total liabilities	929,926	2,296,859

At March 31, 2010, we had a working capital deficit of \$712,165 compared to a working capital deficit of \$2,225,037 at March 31, 2009. Current liabilities decreased to \$894,949 at March 31, 2010 from \$2,275,786 at March 31, 2009 primarily due to a decrease of \$1,685,055 in amounts due to a former officer of the Company as a result of a two settlements.

Net cash used by operating activities for the three months ended March 31, 2010 totaled \$57,419 after the cash provided by the net income of \$350,449 was decreased by \$376,940 in non-cash charges and increased by \$30,928 in net increases in the working capital accounts. This compares to cash used by operating activities for the three months ended March 31, 2009 of \$397,658 after the net loss for the period of \$511,936 was offset by \$85,902 in non cash charges and by \$28,376 in changes to the working capital accounts.

There was no cash used in investing activities for the three months ended March 31, 2010. This compares to \$408,334 used in investing activities for the three months ended March 31, 2009 for continued operations of completed wells.

Net cash provided by financing activities for the three months ended March 31, 2010 totaled \$83,943 in which \$90,000 came from notes payable to a related party. At the same time, \$6,057 was used to pay down the line of credit. This compares to a net of \$683,302 provided by financing activities for the three months ended March 31, 2009 wherein Aurora provided a net of \$623,783 in financing, a net of \$48,515 came from a former officer of the Company and \$40,000 was paid to a related party.

### Item 3. Qualitative and Quantitative Discussions About Market Risk

As a smaller reporting company we are not required to provide the information required by this Item. However, we did include market risk factors in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 30, 2011.

### Item 4. Controls and Procedures

#### Material Weaknesses in Internal Control Over Financial Reporting

Management's assessment of the effectiveness of the registrant's internal control over financial reporting is for the quarter ended March 31, 2010.

Based on that evaluation, our management concluded that our control over financial reporting and related disclosure controls and procedures were not effective because for the significant part of the year (a) we did not have adequate controls over our control environment, (b) our accounting processes lacked appropriate segregation of responsibilities necessary for an effective system of internal control, and (c) we were unable to complete the financial statements for the quarterly reporting periods and the year ended December 31, 2010, in a timely manner to enable us to file the Quarterly Reports on Forms 10-Q and the Annual Report on Form 10-K by the respective due dates. We believe that our lack of segregation of duties and inadequate controls over the control environment constitute material weaknesses in our internal control.

Management has taken steps to remediate the material weakness over our control over financial reporting and related disclosure controls and procedures by implementing the following controls:

During November, 2008, we hired a CFO who possesses the needed GAAP accounting and SEC reporting skills necessary to improve our internal controls over financial reporting.

During January, 2009, we appointed our CFO to the board of directors. While the CFO is qualified as an audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K, he is not independent and, as such, his role on the board of directors does not meet the independence requirements of Item 407(d)(5)(ii) of Regulation S-K.

During February, 2011, we engaged a corporate accountant who has significant SEC financial reporting and accounting experience. This individual assisted with the accounting update for the year ended December 31, 2010,

including preparation of the delinquent quarterly Forms 10-Q for the quarterly periods ended March 31, 2010, June 30, 2010, and September 30, 2010. This individual also is assisting in preparing the quarterly report for the period ended March 31, 2011.

Part II

Item 1. Legal Proceedings

We are subject to litigation and claims that have arisen in the ordinary course of business, the majority of which have resulted from our thorough restructuring and turnaround efforts resulting from the malfeasance that occurred in 2008. Many of these claims have been resolved. Management believes individually such litigation and claims will not have a material adverse impact on our financial position or our results of operations but these matters are subject to inherent uncertainties and management's view may change in the future. If an unfavorable final outcome were to occur, there exists the possibility of a material impact on our financial position and the results of operations for the period in which the effect becomes reasonably estimable.

The current legal action is detailed in Item 3 of the Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 30, 2011. The following are the only material developments since the time of that filing:

Victory Energy Corporation vs. Jim Dial, Remuda Operating Company, and Jon Fullenkamp

On March 24, 2011 the Company, James Capital Energy, LLC and other related parties entered into a comprehensive Settlement Agreement with Jon Fullenkamp. Under the Settlement Agreement, Victory agreed to i) dismiss Jon Fullenkamp from the Texas lawsuit with prejudice, ii) provide him with a general release from all acts related thereto, and iii) pay him \$30,000 over 70 days. In turn, Jon Fullenkamp agreed to i) dismiss with prejudice the lawsuit he filed against the Company and others in California; ii) transfer to Victory 2,000,000 shares of Victory preferred stock; iii) transfer to Victory 400,000 warrants for Victory common stock; iv) transfer to James Capital Energy, LLC 16,144,563 shares of Victory common stock; v) voluntarily appear for his deposition to discuss events that occurred at the Adams-Baggett Ranch; vi) waive the claim he had to the \$430,000 severance payment under the May 15, 2009 Separation Agreement; and vii) provide Victory James Capital Energy, LLC and other related parties with a general release.

Item 1A. Risk Factors

As a smaller reporting company we are not required to provide the information required by this Item. However, we did include risk factors in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 30, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended March 31, 2010, the following unregistered securities were distributed for the purposes noted.

On January 29, 2010, we agreed to issue warrants to purchase a total of 300,000 shares of common stock to board members of the Company at an exercise price of \$0.01 per share in exchange for services. Of these warrants, each board member is to receive warrants to purchase 100,000 shares. These warrants were issued by us to the individuals on December 31, 2010.

On February 26, 2010, we agreed to issue warrants to purchase a total of 300,000 shares of common stock to board members of the Company at an exercise price of \$0.01 per share in exchange for services. Of these warrants, each board member is to receive warrants to purchase 100,000 shares. These warrants were issued by us to the individuals on December 31, 2010.

On March 31, 2010, we agreed to issue warrants to purchase a total of 300,000 shares of common stock to board members of the Company at an exercise price of \$0.01 per share in exchange for services. Of these warrants, each board member is to receive warrants to purchase 100,000 shares. These warrants were issued by us to the individuals on December 31, 2010.

Unless otherwise indicated, we relied on the exemption from registration relating to offerings that do not involve any public offering pursuant to Section 4(2) under the Securities Act of 1933 (the "Act") and/or Rule 506 of Regulation D of the Act. We believe that each investor had adequate access to information about us through the investor's relationship with us.

Item 3. Default Upon Senior Securities

None

20

---

Item 4. Removed and Reserved

None

Item 5. Other Information

This Quarterly Report on Form 10-Q is being filed contemporaneously with the relevant Annual Report on Form 10-K for the year ending December 31, 2010 which was filed with the SEC on or about May XX, 2011 and which is incorporated herein by reference.

Item 6. Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Certification of Robert Miranda

31.2 Rule 13a-14(a)/15d-14(a) Certification of Robert Miranda

32 Section 1350 Certification of Robert Miranda

21

---

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

VICTORY ENERGY CORPORATION

Date: May 16, 2011

By: /s/ Robert J. Miranda  
Robert J. Miranda  
Chief Executive Officer,  
Chief Financial Officer,  
Chairman, and Director