

VICTORY ENERGY CORP  
Form 10-Q  
August 19, 2014

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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 June 30, 2014

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.)

3355 Bee Caves Road Ste 608, Austin,  
Texas  
(Address of principal executive offices)

78746  
(Zip Code)

(512)-347-7300  
(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

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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	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

(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

As of August 18, 2014, there were 28,537,826 shares of common stock, par value \$0.001, issued and outstanding.

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VICTORY ENERGY CORPORATION  
 QUARTERLY REPORT ON  
 FORM 10-Q  
 FOR THE THREE MONTHS ENDED JUNE 30, 2014

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Cautionary Notice Regarding Forward Looking Statements

The terms “Victory,” “Company,” “we,” “our,” and “us,” refer to Victory Energy Corporation and its consolidated subsidiaries unless the context suggests otherwise. Victory’s asset interests are held through Aurora Energy Partners (“Aurora”), a Texas General Partnership, which Victory controls as managing partner and consolidates as a subsidiary of Victory. Victory holds a 50% controlling partnership interest in Aurora.

This Quarterly Report on Form 10-Q contains a number of forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 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 Quarterly Report on Form 10-Q 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 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.

Our actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. It is not possible to identify all of these risks, uncertainties or assumptions. Among the important factors that could cause actual results to differ materially from those in the forward-looking statements are:

- continued operating losses;
- our ability to continue as a going concern;
- difficulties in raising additional capital;
- our inability to pay a preferred return to The Navitus Energy Group for new capital contributions to Aurora Energy Partners;
- challenges in growing our business;
- designation of our common stock as a “penny stock” under Securities and Exchange Commission (the “SEC”) regulations;
- FINRA requirements that may limit the ability to buy and sell our common stock;
- illiquidity and price volatility of our common stock;
- the highly speculative nature of an investment in our common stock;
- climate change and greenhouse gas regulations;
- global economic conditions;
- the substantial amount of capital required by our operations;
- the volatility of oil and natural gas prices;
- the high level of risk associated with drilling for and producing oil and natural gas;
- the accuracy of assumptions associated with reserve estimates;
- the potential that drilling activities will not yield oil or natural gas in commercial quantities;

- potential exploration, production and acquisitions may not maintain revenue levels in the future;
- our recent acquisition of additional oil and natural gas assets in the Permian Basin and other future acquisitions may yield revenues or production that differ significantly from our projections;
- our ability to close on the final portion of our recently announced acquisition of additional oil and natural gas assets in the Permian Basin, integrate the assets with our operations and realize the anticipated benefits from the acquisition;
- difficulties associated with managing a growing enterprise;
- strong competition from other oil and natural gas companies;
- the unavailability or high cost of drilling rigs and related equipment;
- our inability to control properties that we do not operate;
- our dependence on key management personnel and technical experts;
- our dependence on third parties for the marketing of our natural gas production;
- our inability to keep pace with technological advancements in our industry;
- the potential for write-downs in the carrying values of our oil and natural gas properties;
- our compliance with complex laws governing our business;
- our failure to comply with environmental laws and regulations;
- the demand for oil and natural gas and our ability to transport our production;
- the financial condition of the operators of the properties in which we own an interest;
- our levels of insurance or those of our operators may be insufficient;
- terrorist attacks on our operations;
- the dilutive effect of additional issuances of our common stock, options or warrants;
- any impairments of our oil and natural gas properties;
- the results of pending litigation; and
- the dissolution of the Aurora Energy Partners agreement.

Additionally, the information set forth under the heading “Risk Factors” in Item 1A of our Annual Report on Form 10-K/A for the year ended December 31, 2013, as well as disclosures made under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of this Quarterly Report on Form 10-Q and under the caption “Risk Factors”, in Item 1A of the Quarterly Report on Form 10-Q could cause actual results to differ materially from those in the forward-looking statements. Other unpredictable or unknown factors not discussed in this Quarterly Report on Form 10-Q and other documents filed with the SEC could also cause actual results to differ materially from those in the forward-looking statements. The reader should not place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Unless legally required, we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

## Part I – Financial Information

## Item 1. Financial Statements

VICTORY ENERGY CORPORATION AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 1,224,482	\$ 20,858
Accounts receivable - less allowance for doubtful accounts of \$200,000, and \$200,000 for June 30, 2014 and December 31, 2013, respectively	39,032	116,542
Accounts receivable - affiliates	154,358	68,571
Prepaid expenses	23,111	38,663
<b>Total current assets</b>	<b>1,440,983</b>	<b>244,634</b>
<b>Fixed Assets</b>		
Furniture, equipment, and application software	46,883	43,173
Accumulated depreciation	(14,733)	(11,597)
<b>Total furniture and fixtures, net</b>	<b>32,150</b>	<b>31,576</b>
Oil gas properties (successful efforts method)	4,749,341	3,715,648
Accumulated depletion, depreciation and amortization	(1,309,763)	(1,517,836)
<b>Total oil and gas properties, net</b>	<b>3,439,578</b>	<b>2,197,812</b>
<b>Other Assets</b>		
Deferred debt financing costs	108,295	-
<b>Total Assets</b>	<b>\$ 5,021,006</b>	<b>\$ 2,474,022</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 196,703	\$ 351,435
Accrued liabilities	197,114	196,913
Accrued liabilities - affiliates	60,932	18,542
Liability for unauthorized preferred stock issued	9,283	9,283
<b>Total current liabilities</b>	<b>464,032</b>	<b>576,173</b>
<b>Other Liabilities</b>		
Asset retirement obligations	35,157	51,954
Long term note payable	800,000	-
<b>Total long term liabilities</b>	<b>835,157</b>	<b>51,954</b>

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Total liabilities	1,299,189	628,127
Stockholders' Equity		
Common stock, \$0.001 par value, 47,500,000 shares authorized, 28,598,619 shares and 27,563,619 shares issued and outstanding for June 30, 2014 and December 31, 2013, respectively	28,599	27,564
Additional paid-in capital	34,795,356	34,404,239
Accumulated deficit	(37,065,008)	(36,901,894)
Total Victory Energy Corporation stockholders' deficit	(2,241,053)	(2,470,091)
Non-controlling interest	5,962,870	4,315,986
Total stockholders' equity	3,721,817	1,845,895
Total Liabilities and Stockholders' Equity	\$ 5,021,006	\$ 2,474,022

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



VICTORY ENERGY CORPORATION AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
<b>OIL AND GAS REVENUES</b>	\$ 237,977	\$ 161,910	\$ 432,960	\$ 255,678
<b>COSTS AND EXPENSES</b>				
Lease operating expenses	53,963	51,396	115,632	74,986
Production taxes	15,127	11,655	25,262	20,603
Dry hole costs	-	-	-	3,610
Exploration	19,677	2,419	24,172	15,577
General and administrative expense	981,713	421,647	1,463,628	900,443
Depletion, depreciation, and amortization	92,040	59,324	170,071	77,899
Total cost and expenses	1,162,520	546,441	1,798,765	1,093,118
<b>INCOME (LOSS) FROM OPERATIONS</b>	(924,543 )	(384,531 )	(1,365,805 )	(837,440 )
<b>OTHER INCOME (EXPENSE):</b>				
Gain on sale of oil and gas properties	2,159,592	-	2,159,592	-
Management fee income	84,993	-	88,892	-
Amortization of debt financing costs and interest expense	(22,223 )	(501 )	(31,008 )	(946 )
Total net other income and expense	2,222,362	(501 )	2,217,476	(946 )
<b>INCOME (LOSS) BEFORE TAX EXPENSE</b>	1,297,819	(385,032 )	851,671	(838,386 )
<b>TAX EXPENSE</b>	-	-	-	-
<b>NET INCOME (LOSS)</b>	1,297,819	\$ (385,032 )	\$ 851,671	\$ (838,386 )
Less: net income (loss) attributable to non-controlling interest	1,025,630	(73,313 )	1,014,785	(112,289 )
<b>NET INCOME (LOSS) ATTRIBUTABLE TO VICTORY ENERGY CORPORATION</b>	272,189	\$ (311,719 )	\$ (163,114 )	\$ (726,097 )
<b>Weighted average shares</b>				
Basic	28,230,612	27,563,619	27,898,958	27,563,619
Diluted	28,835,476	27,563,619	27,898,958	27,563,619
Net income (loss) per share, basic and diluted				