

VICTORY CAPITAL HOLDINGS CORP  
Form 10QSB  
September 06, 2005

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (D)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended: June 30, 2005

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 2-76219-NY

VICTORY CAPITAL HOLDINGS CORPORATION  
(Name of small business issuer in its charter)

Nevada	87-0564472
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

27762 Antonio Parkway, Suite L1-497  
Ladera Ranch, CA 92694  
(Address of principal executive offices)

Registrant's telephone number, including area code: (866) 279-9257  
Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, \$.001 par value  
(Title of class)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days. Yes  No

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

At May 17, 2005, 22,100,258 shares of common stock were outstanding.

Transitional Small Business Disclosure Format: Yes  No

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VICTORY CAPITAL HOLDINGS CORPORATION  
AND SUBSIDIARIES  
(A DEVELOPMENT-STAGE COMPANY)  
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MARCH 31, 2005

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**PART I**

## Item 1. Financial Statements

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

## ASSETS

	June 30, 2005 (Unaudited)	December 31, 2004 (Restated)
<b>CURRENT ASSETS</b>		
Cash	\$ 43,044	\$ --
Prepaid Expenses	--	246
Marketable Securities	88,300	
Total Current Assets	131,344	246
FIXED ASSETS, net of accumulated depreciation of \$599	16,636	1,924
<b>OTHER ASSETS</b>		
Deposits	2,020	--
Total Other Assets	2,020	--
	\$ 150,000	\$ 2,170
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 330,970	\$ 18,070
Accrued Liabilities	11,000	11,000
Accrued Payroll and payroll taxes	137,792	137,792
Total Current Liabilities	479,762	166,862
<b>LONG TERM LIABILITIES</b>		
Notes Payable	160,481	--
<b>OTHER LIABILITIES</b>		
Accounts Payable - Related Party	172,179	147,927
Accrued Liabilities - Related	110,000	110,000
Total Other Liabilities	282,179	257,927
Total Liabilities	761,941	424,789
<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>		
Common Stock authorized 100,000,000 shares at \$0.001 par value; 21,200,258 and 16,120,258 shares issued and outstanding, respectively	22,100	22,100
Additional paid-in-capital	1,977,463	1,977,463
Deficit accumulated during the development stage	(2,771,985)	(2,422,182)
Total Stockholders' Equity (Deficit)	(772,422)	(422,619)

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 150,000	\$ 2,170
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The accompanying notes are an integral part of these consolidated financial statements

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

	For the Six Months Ended June 30 2005	2004	From Inception January 1982 Through June 30, 2005
REVENUES	\$ 32,207	\$	--\$ 32,207
EXPENSES			
Consulting expense	310,136	965,450	2,007,617
Wages and salaries	--	144,000	501,683
General and administrative expenses	71,249	53,705	248,000
Total Expenses	381,385	1,163,155	2,757,300
LOSS FROM OPERATIONS	(349,178)	(1,163,155)	(2,725,093)
OTHER INCOME (EXPENSE)			
Gain/(Loss) from extinguishment of debt		(48,363)	(48,363)
Interest expense	(625)		(625)
Other income			2,096
	(625)	(48,363)	(46,892)
NET LOSS	\$ (349,803)	\$ (1,211,518)	\$ 2,771,985)
BASIC LOSS PER SHARE	0	\$ (0.06)	
WEIGHTED AVERAGE NUMBER			
OF SHARES OUTSTANDING	22,100,258	19,387,291	

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

VICTORY CAPITAL HOLDINGS AND SUBSIDIARIES  
(A Development Stage Company)  
Consolidated Statement of Stockholders' Equity (Deficit)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit During Development Stage	Total
Balances at January 7, 1982	-	-	-	-	-
Common stock issued for cash at \$7.50 per share	6,000	6	45,000	-	45,006
Common stock issued for cash at \$0.39 per share	168,503	169	65,819	-	65,988
Net loss from inception on January 7, 1982 through Dec. 31, 1982	-	-	-	(39,597)	(39,597)
Balances at Dec. 31, 1982	174,503	175	110,819	(39,597)	71,397
Net loss for the year ended Dec. 31, 1983	-	-	-	(71,397)	(71,397)
Balances at Dec. 31, 1983	174,503	175	110,819	(110,994)	(0)
Common stock issued for cash at \$25.00 per share	57	0	1,425	-	1,425
Common stock issued for cash at \$25.00 per share	3	0	75	-	75
Common stock issued for cash at \$0.025 per share	1,580,000	1,580	38,373	-	39,953
Net loss - FYE 12/31/84	-	-	-	-	-
Balances at Dec. 31, 1984	1,754,563	1,755	150,692	(110,994)	41,453
Cancellation of common stock	(1,296,132)	(1,297)			(1,297)
Net loss - FYE 12/31/85	-	-	-	-	-
Balances at Dec. 31, 1985	458,431	458	150,692	(110,994)	40,156
Net loss - FYE 12/31/86	-	-	-	-	-
Balances at Dec. 31, 1986	458,431	458	150,692	(110,994)	40,156
Net loss - FYE 12/31/87	-	-	-	-	-
Balances at Dec. 31, 1987	458,431	458	150,692	(110,994)	40,156
Net loss - FYE 12/31/88	-	-	-	-	-
Balances at Dec. 31, 1988	458,431	458	150,692	(110,994)	40,156
Net loss - FYE 12/31/89	-	-	-	-	-
Balances at Dec. 31, 1989	458,431	458	150,692	(110,994)	40,156
Net loss - FYE 12/31/90	-	-	-	-	-
Balances at Dec. 31, 1990	458,431	458	150,692	(110,994)	40,156
Net loss - FYE 12/31/91	-	-	-	-	-
Balances at Dec. 31, 1991	458,431	458	150,692	(110,994)	40,156
Net loss - FYE 12/31/92	-	-	-	-	-

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Balances at Dec. 31, 1992	458,431	458	150,692	(110,994)	40,156
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The accompanying notes are an integral part of these consolidated financial statements

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VICTORY CAPITAL HOLDINGS AND SUBSIDIARIES  
(A Development Stage Company)  
Consolidated Statement of Stockholders' Equity (Deficit)  
(Continued)

	Common Stock		Additional Paid-in		Accumulated Deficit During Development Stage	Total
	Shares	Amount	Capital			
Net loss - FYE 12/31/93	-	-	-	-	-	-
Balances at Dec. 31, 1993	458,431	458	150,692	(110,994)		40,156
Cancellation of common stock	(316,000)	(316)				(316)
Net loss - FYE 12/31/94	-	-	-	(6,656)		(6,656)
Balances at Dec. 31, 1994	142,431	142	150,692	(117,650)		33,184
Common stock issued for cash at \$0.001 per share	2,357,895	2,359	-	-		2,359
Net loss - FYE 12/31/95	-	-	-	(49,097)		(49,097)
Balances at Dec. 31, 1995	2,500,326	2,500	150,692	(166,747)		(13,555)
Common stock issued for cash at \$0.001 per share	120,000	120	-	-		120
Net loss - FYE 12/31/96	-	-	-	(1,681)		(1,681)
Balances at Dec. 31, 1996	2,620,326	2,620	150,692	(168,428)		(15,116)
Net loss - FYE 12/31/97	-	-	-	(3,517)		(3,517)
Balances at Dec. 31, 1997	2,620,326	2,620	150,692	(171,945)		(18,633)
Net loss - FYE 12/31/98	-	-	-	(2,479)		(2,479)
Balances at Dec. 31, 1998	2,620,326	2,620	150,692	(174,424)		(21,112)
Net loss - FYE 12/31/99	-	-	-	(6,307)		(6,307)
Balances at Dec. 31, 1999	2,620,326	2,620	150,692	(180,731)		(27,419)
Net loss - FYE 12/31/00	-	-	-	(9,011)		(9,011)
Balances at Dec. 31, 2000	2,620,326	2,620	150,692	(189,742)		(36,430)
Net loss - FYE 12/31/01	-	-	-	(19,461)		(19,461)
Balances at Dec. 31, 2001	2,620,326	2,620	150,692	(209,203)		(55,891)
Contributed capital for rent and other compensation	-	-	1,950	-		1,950
Net loss - FYE 12/31/02	-	-	-	(13,960)		(13,960)
Balances at Dec. 31, 2002	2,620,326	2,620	152,642	(223,163)		(67,901)
Contributed capital for rent and officer compensation	-	-	488	-		488
Capital contributed by shareholders through forgiveness of accounts payable and interest	-	-	77,415	-		77,415

The accompanying notes are an integral part of these consolidated financial statements  
4VICTORY CAPITAL HOLDINGS AND SUBSIDIARIES

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(A Development Stage Company)  
 Consolidated Statement of Stockholders' Equity (Deficit)  
 (Continued)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit During Development Stage	Total
Common stock issued for services \$0.025 per share	13,389,932	13,390	321,358	-	334,748
Common stock issued for legal services at \$0.61 per share	100,000	100	60,900	-	61,000
Common stock issued for consulting services at \$0.47 per share	10,000	10	4,690	-	4,700
Net loss - FYE 12/31/03	-	-	-	(592,962)	(592,962)
Balances at Dec. 31, 2003	16,120,258	16,120	617,493	(816,125)	(182,512)
Common stock issued for services at \$0.16 per share	1,000,000	1,000	159,000	-	160,000
Common stock issued for services at \$0.17 per share	1,800,000	1,800	304,200	-	306,000
Common stock issued for services at \$0.165 per share	800,000	800	131,200	-	132,000
Common stock issued for services at \$0.215 per share	30,000	30	6,420	-	6,450
Common stock issued for debt at \$0.45 per share	150,000	150	67,350	-	67,500
Common stock issued for services at \$0.40 per share	300,000	300	119,700	-	120,000
Common stock issued for services at \$0.34 per share	700,000	700	237,300	-	238,000
Common stock issued for services at \$0.41 per share	300,000	300	122,700	-	123,000
Common stock issued for services at \$0.27 per share	300,000	300	80,700	-	81,000
Common stock issued for services at \$0.22 per share	600,000	600	131,400	-	132,000
Net loss - FYE 12/31/04				(1,606,057)	(1,606,057)
Balances at Dec. 31, 2004	22,100,258	22,100	1,977,463	(2,422,182)	(422,619)
Net loss for the six months ended June 30, 2005				(349,803)	(349,803)
Balances at June 30, 2005 (Unaudited)	22,100,258	22,100	1,977,463	(2,771,985)	(772,422)

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

VICTORY CAPITAL HOLDINGS CORPORATION AND SUBSIDIARIES  
(A Development Stage Company)  
Consolidated Statements of Cash Flows  
(Unaudited)

	For the Six Months Ended June 30,		From Inception on Jan. 7, 1982 Through June 30, 2005
	2005	2004	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Loss	(349,804)	(1,211,518)	(2,771,986)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation	229	60	598
Loss on extinguishment of debt		48,363	48,363
Stock issued for services		1,085,450	1,696,850
Contributed capital for rent and officer compensation			2,438
Decrease in Prepaid Expenses	247		
Increase in Deposits	(2,020)		(2,020)
Increase in accounts payable and accounts payable - related party	312,900		312,900
Increase to accrued liabilities	24,252	53,502	290,803
Increase to accrued liabilities		25,836	254,792
Increase in Note Payable-Related Entity	481		481
Net Cash used by Operating Activities	(13,715)	1,693	(166,781)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Fixed Assets	(14,941)	(1,693)	(12,648)
Purchase of Marketable Securities	(88,300)		(88,300)
Net Cash used by Investing Activities	(103,241)	(1,693)	(100,948)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Issuance of common stock for cash			150,773
Loan proceeds	160,000		160,000
Net Cash provided by Financing Activities	160,000	0	310,773
<b>NET INCREASE IN CASH</b>	<b>43,044</b>	<b>0</b>	<b>43,044</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>CASH AT END OF PERIOD</b>	<b>43,044</b>	<b>--</b>	<b>43,044</b>
<b>CASH PAID FOR:</b>			
Interest	--	--	--
Income Taxes	--	--	--

SCHEDULE OF NON CASH FINANCING  
ACTIVITIES

Stock issued for services	--	1,085,450	1,696,850
Contributed capital for rent and officer compensation	--	--	2,438
Contributed Capital by shareholders	--	--	77,415

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

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VICTORY CAPITAL HOLDINGS AND SUBSIDIARIES  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2005

NOTE 1 - BUSINESS AND CONTINUED OPERATIONS

The consolidated financial statements presented are those of Victory Capital Holdings Corporation and subsidiaries (the Company). The Company was incorporated as All Things, Inc. under the laws of the State of Nevada on January 7, 1982. On March 21, 1985, the Company changed its name to New Environmental Technologies Corporation. On April 28, 2003 the Company changed its name to Victory Capital Holdings Corporation. The Company was organized for the purpose of engaging in any activity or business not in conflict with the laws of the State of Nevada or of the United States of America.

On October 3, 2001, the Company formed a wholly owned subsidiary named Papadog, Inc. Papadog has since changed its name to Global Card Services, Inc and then to Global Card Incorporated (Global). As of the date of this report, there has been no activity for this subsidiary.

On November 12, 2003, the Company formed a wholly owned subsidiary named On Demand Communications (On Demand). As of the date of this report, there has been no activity for this subsidiary.

On May 27, 2005 the Company purchased 100% of the outstanding stock of L & M Resources, Inc., a Nevada corporation. L & M Resources, Inc. was consolidated into these financial statements at June 30, 2005.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Statements

The interim financial data as of June 30, 2005, and for the six months ended June 30, 2005 and 2004 are unaudited; however, in the opinion of management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of June 30, 2005, and the results of its operations for the six months and cash flows for the six months ended June 30, 2005 and 2004. These results are not necessarily indicative of the results expected for the year ending December 31, 2005. These financial statements and notes thereto do not reflect all disclosures necessary for preparation under accounting principles generally accepted in the United States. Refer to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004.

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 \$348,418 and a stockholders' deficit of \$772,422 at June 30, 2005. 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



VICTORY CAPITAL HOLDINGS AND SUBSIDIARIES  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)  
June 30, 2005

common stock. It is the intent of the Company to seek a merger with an existing, operating company. 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 no 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 \$2.8 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, and loans made by officers of the Company. 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.

Principles of Consolidation

The consolidated financial statements include those of Victory Capital Holdings Corporation and its wholly owned subsidiaries, Global Card Services, Inc. On Demand Communications and L & M Resources, Inc. All material inter-company items and transactions have been eliminated.

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.



VICTORY CAPITAL HOLDINGS AND SUBSIDIARIES  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)  
June 30, 2005

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the six months ended June 30, 2005 and 2004:

	2005	2004
Basic and diluted net loss per share:		
Numerator:		
Net loss	\$ (349,803)	\$ (1,211,518)
Denominator:		
Basic and diluted weighted average number of common shares outstanding	22,100,258	19,387,291
Basic and diluted net loss per share	\$ (0.02)	\$ (0.06)

#### 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.

VICTORY CAPITAL HOLDINGS AND SUBSIDIARIES  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)  
June 30, 2005

In December 2004, the FASB issued SFAS Statement No. 153, "Exchanges of Non-monetary Assets." The Statement is an amendment of APB Opinion No. 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. The Company believes that the adoption of this standard will have no material impact on its financial statements.

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 six months ended June 30 2005 and 2004.

NOTE 3 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2004, the Company's former president and CEO paid a total of \$92,324 on behalf of the Company towards the payment of certain accounts payable. This amount has been included in accounts payable - related party. The balance owed to the former officer was \$134,927 as of March 31, 2005. This amount is due on demand and does not accrue any interest.

During the six months ended June 30, 2005, the current president and CEO of the Company incurred \$17,633 in reimbursable expenses on behalf of the Company. This amount is included in accounts payable - related party. The balance owed to this officer was \$30,633 as of June 30, 2005. In addition, \$110,000 in accrued liabilities for services rendered to the Company was recorded for this officer during the quarter ended December 31, 2004. This amount is due on demand and does not accrue any interest under the terms of the employment agreement.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

The company formed a wholly owned subsidiary named Papadog, Inc. Papadog since changed its name to Global Card Services, Inc., and then to Global Card Incorporated (Global). In October 2003, Global entered into an employment agreement with an individual to serve as its Chief Executive Officer. The annual salary was to be \$96,000 per annum beginning October 7, 2003. Additionally, the Company was to issue the CEO 1,000,000 free trading shares of the Company's common stock on the date of six months from when employment commenced. In addition the CEO was granted options to purchase 1,000,000 freely traded shares at an exercise price of \$0.50 per share on a date that is 12 months from the date that



VICTORY CAPITAL HOLDINGS AND SUBSIDIARIES  
(A Development Stage Company)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Continued)  
June 30, 2005

employment commenced and options to purchase 1,000,000 freely trades shares at an exercise price of \$1.00 per share 18 months after employment commenced. Global was to grant to the CEO common stock equal to 5% of the outstanding shares of Global with said shares to be vested 12 months from the date the employment commenced, additionally Global was to grant to the CEO, options to purchase an additional 5% of the outstanding shares of Global at an exercise price of \$0.10 per share. These options were to vest 18 months after the employment commenced. In March 2004, the employment agreement was terminated and all related stock options were cancelled. The Company has accrued \$48,000 in wages payable and \$3,672 in related taxes payable for the term of the employment.

On March 8, 2005, the Company entered into a Share Exchange Agreement with Union Media News (“Union”), a Nevada corporation whereby the Company exchanged 20% of the outstanding shares of its wholly-owned subsidiary Victory Communication Services, Inc. for 100% of the outstanding shares of Union. After the close of the agreement, Union would become a wholly-owned subsidiary of the Company. The agreement calls for Union and the Company to cooperate in various joint ventures. If any joint ventures are launched, the agreement requires Union to pay the Company the greater of (i) fifteen-percent (15%) of Union’s net revenues or (ii) ten thousand dollars (\$10,000) per month beginning the third month after the formation of any joint ventures. The agreement also requires the Company to assist in obtaining \$300,000 in financing for Union within sixty days of the closing. In the event, the Company is unable to obtain the necessary financing the agreement is cancelled. At the date of this report, the agreement had not been closed nor any financing obtained for Union.

NOTE 5 - STOCKHOLDERS’ DEFICIT

Common Stock Transactions During the Six Months Ended June 30, 2004

In February 2004, the Company issued a total of 3,600,000 shares of its common stock to various consultants for services rendered. The shares were valued using the closing price of the stock at the date of issuance at a total of \$598,000 or an average of \$0.17 per share.

On March 16, 2004, the Company issued 150,000 shares of its common stock in payment of amounts owed to a vender. The shares were valued using the closing price of the stock at the date of issuance of \$67,500 or \$0.45 per share. In connection with this, a loss on extinguishment of debt of \$48,363 was recorded.

On March 23, 2004, the Company issued 300,000 shares of its common stock for services rendered in accordance with an employment agreement. The shares were valued using the closing price of the stock at the date of issuance of \$120,000 or \$0.40 per share.

In March, 2004, the Company issued a total of 1,030,000 shares of its common stock to a various consultants for services rendered. The shares were valued using the closing price of the stock at the date of issuance of \$367,450 or an average of \$0.36 per share.

Common Stock Transactions During the Six Months Ended June 30, 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. As of the date of this report, the shares have not been

issued.

VICTORY CAPITAL HOLDINGS AND SUBSIDIARIES  
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Additional Common Stock

As of June 30, 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.

NOTE 6 - LITIGATION

On November 19, 2004 RingCentral, Inc. filed a complaint for breach of contract against the Company asserting they were owed by the Company \$10,000 due to under the terms of their contract. On February 15, 2005, the Company reached a settlement with the plaintiff and agreed to pay RingCentral a total of \$11,000 in several installments. This amount has been recorded as an accrued liability in the accompanying consolidated financial statements.

On December 28, 2004, the Company was served with an action for breach of contract with a former independent contractor. The complaint seeks damages in excess of \$200,000 plus punitive damages in an unstated amount. The Company denies any liability on this claim and is vigorously defending itself against it.

NOTE 7-BUSINESS COMBINATION

The Company acquired all of the outstanding common stock of L & M Resources, Inc., a Nevada corporation, on May 27, 2005. L & M Resources was consolidated in these financial statements as of June 30, 2005. The following is the information required by Financial Accounting Standards Board FAS 141: Business Combinations.

- a. L & M Resources, Inc. is a jobber in the clothing business, obtaining orders for U.S. clothing manufacturers for partially finished apparel and securing manufacture for the orders. The Company acquired 100% of the outstanding common stock of the acquired company. There were no other classes of shares outstanding.
- b. The primary reason for the acquisition was to develop a reliable source of revenues. The Company will use its resources to finance and promote the business.
- c. The period for which the results of operations of L & M Resources, Inc. are included in the income statement of the combined entity is the first six months of 2005, which dates from the beginning of the financial year of L & M Resources, Inc.
- d. The cost of the acquired entity was 30% of the outstanding common stock of Victory Apparel, Inc., a dormant corporation which is a wholly owned subsidiary of Victory Capital, Inc. The cost was the de minimus value of the Victory Apparel stock. The net worth at fair market value of L & M Resources, Inc. was \$10,000, which was assigned as the value of its common shares.



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e. The following is the Balance Sheet of L & M Resources, Inc. at the date of acquisition, May 27, 2005 showing the amount assigned to each major asset and liability caption.

L & M RESOURCES, INC.  
 BALANCE SHEET  
 As at May 27, 2005

ASSETS	
Supplies	10,000
Total Assets	10,000
LIABILITIES & STOCKHOLDERS' EQUITY	
LIABILITIES	
Total Liabilities	--
Common Stock	10,000
Retained Earnings	--
Total Liabilities and Stockholder' Equity	10,000

f. Contingent payments, options, or commitments in the acquisitions agreement:  
 The Company is to use its best efforts to provide \$50,000 on or before June 30, 2005. (The Company provided \$33,900 of this amount by June 30, 2005, and the balance in the subsequent period). The Company will use its best efforts to provide monthly operating expenses of up to \$25,000 per month for a period not to exceed twelve months, or until revenues cover these operating expenses.

g. There were no purchased research and development assets purchased.

h. All purchase price allocations have been finalized.

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

The following discussion is intended to assist in an understanding of the Company's financial position and results of operations for three months ended June 30, 2005.

### **Forward-Looking Information.**

This report contains certain forward-looking statements and information relating to the Company that is based on the beliefs of its management as well as assumptions made by and information currently available to its management. When used in this report, the words "anticipate", "believe", "estimate", "expect", "intend", "plan", and similar expressions as they relate to the Company or its management, are intended to identify forward-looking statements. These statements reflect management's current view of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should any of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this report as anticipated, estimated or expected. The Company's realization of its business aims could be materially and adversely affected by any technical or other problems in, or difficulties with, planned funding and technologies, third party technologies which render the Company's technologies obsolete, the unavailability of required third party technology licenses on commercially reasonable terms, the loss of key research and development personnel, the inability or failure to recruit and retain qualified research and development personnel, or the adoption of technology standards which are different from technologies around which the Company's business ultimately is built. The Company does not intend to update these forward-looking statements.

### **Plan of Operation**

For the second quarter of 2005 the Company had \$12,000 in revenues from its wholly owned subsidiary, L&M Resources ("L&M"). This reflects consolidated operations only for the month of June as L&M became a wholly owned subsidiary during June. L&M is focused on the apparel and fashion business with an established distribution channel for the Americas and Europe. Additionally L&M has the capability to source manufacture in many markets, ensuring it the lowest production costs. L&M has established many significant brand distribution relationships and is in the process of rolling out its private label, 'Soho District', for cashmere garments. Victory continues to support its existing commitments to other acquisitions and will remain vigilant for new profitable opportunities with a focus on potential cash flow.

L&M has secured a distribution agreement with Linea Pella, the premier vintage leather belt designer in the USA. Linea Pella granted L&M sales and distribution rights in the United Kingdom, the Caribbean, Italy, Mexico, and South America.

L&M signed an exclusive sales and distribution agreement with Rudewear, Ltd of London, England. The agreement provides the exclusive rights to sell and distribute Rudewear, Rude Apparel, and Rudecube lines of clothing in North America, Central America, South America, and the Caribbean.

Credit lines for L&M Resources were established in excess of \$1,000,000 through Hino International Industrial Ltd., located in Hong Kong. This credit line is for use in multiple garment factories in China.



The development of the 'Soho District' as a private label for L&M, initially for cashmere garments, will grow into a brand for all of the company' private label apparel. Shirts, jeans, shoes, business casual, and evening wear will be the beginning of products the company will market under this name.

Although our Company had not engaged in any material operations during the three months ending June 30, 2004, we acquired L&M in the middle of the second quarter of 2005 through a non-dilutive share exchange agreement. The Company established L&M in new offices on June 1, 2005. The new office acts as the showroom for L&M and is located in the Cooper Building in the heart of the Los Angeles Fashion District. L&M focuses on three primary areas of business: (i) outsourcing of manufacturing for new and established designers, (ii) design and manufacturing of private label goods, and (iii) buying and selling of closeouts.

Our Company's plan of operation for the next year is to execute the current business plans of our subsidiary companies in the technology, media, and apparel sectors. Victory's business objective is to increase net operating income and net asset value by focusing its efforts and assets in companies and industries with high potential growth, equity appreciation and overall return. The Company is engaged in the formation of subsidiary companies to operate in emerging markets, and incubating them from their initial stages to maturity and independence.

#### Critical Accounting Policies

Our financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States ("GAAP"). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, and expense amounts reported. These estimates can also affect supplemental information contained in the external disclosures of the Company including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. Valuations based on estimates are reviewed for reasonableness and conservatism on a consistent basis throughout the Company. Primary areas where our financial information is subject to the use of estimates, assumptions and the application of judgment include our evaluation of impairments of intangible assets, and the recoverability of deferred tax assets, which must be assessed as to whether these assets are likely to be recovered by us through future operations. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

#### Valuation Of Long-Lived And Intangible Assets

The recoverability of these assets requires considerable judgment and is evaluated on an annual basis or more frequently if events or circumstances indicate that the assets may be impaired. As it relates to definite life intangible assets, we apply the impairment rules as required by SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Assets to Be Disposed Of" which requires significant judgment and assumptions related to the expected future cash flows attributable to the intangible asset. The impact of modifying any of these assumptions can have a significant impact on the estimate of fair value and, thus, the recoverability of the asset.

## Income Taxes

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based upon historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. During 2004, we estimated the allowance on net deferred tax assets to be one-hundred percent of the net deferred tax assets.

## Results of Operations

### Quarter Ended June 30, 2005 Compared to Quarter Ended June 30, 2004

Victory has had \$12,000 revenues since inception (January 7, 1982) through June 30 31, 2005. Accordingly, Victory has, and continues to be, a development-stage company. With any development-stage company of this nature, there are inherent risks, which may prohibit Victory from reaching commercial viability. Until one of our subsidiaries begins operations, we will have no operating revenues but will continue to incur substantial expenses.

General and administrative expenses were \$71,249 in the current six months compared to \$53,705 in the comparable period last year. For the three months ended June 30, 2005 and 2004, consulting expenses were \$310,136 and \$965,450. The increase is mainly due to stock issued to consultants in the prior period.

## Liquidity and Capital Resources

The Company continues to incur operating losses as a result of being a development-stage company. The Company had cash of approximately \$43,044 at June 30, 2005.

For six months ended June 30, 2005 and 2004, Victory incurred net losses of \$349,803 and \$1,211,518, respectively. As of June 30, 2005, the Company had a stockholders' deficiency and a working capital deficiency of approximately \$772,422 and \$348,418, respectively. The report of Victory's independent certified public accountants on the Company's December 31, 2004 financial statements notes that Victory is a development-stage company with no revenues from its intended operations, has recurring losses and has a working capital deficiency and stockholders' deficiency at December 31, 2004 and these conditions raise substantial doubt about Victory's ability to continue as a going concern.

Net cash used by operating activities was \$13,715 compared to \$1,693 for the six months ended June 30, 2005 and 2004, respectively.

Net cash used by investing activities was \$103,241, compared to \$1,693 for the six months ended June 30, 2005 and 2004, respectively.

Net cash provided by financing activities was \$160,000 for the current three months compared to \$0 for the comparable period last year from the proceeds of a loan.

Victory is exploring additional sources of working capital including borrowing, sales of securities, joint ventures and acquisition of subsidiaries. Management believes that Victory can raise adequate capital to keep the Company functioning at a minimum level of operation in the next fiscal year. However, there can be no assurances that management will be successful in obtaining adequate funding.

The Company has no current commitments for capital expenditures or additional equity or debt financing.



**Item 3 -- Controls and Procedures**

(a) As of the end of the period covered by this report, the Chief Executive Officer and the Chief Financial Officer made an evaluation of the company's disclosure controls and procedures (as defined in ss.240.13a-15(e) or 240.15d-15(e) of the Securities Exchange Act). Based on the evaluation of these controls and procedures required by paragraph (b) of Rule 13a-15 or 15d-15 under the Exchange Act, in their opinion, the disclosure controls and procedures are effective.

(b) During the most recent fiscal year, there have not been any significant changes in our internal controls over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**PART II: OTHER INFORMATION**

**Item 1. Legal Proceedings**

None

**Item 2. Changes in Securities**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission Of Matters To A Vote Of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

Exhibit 31.1	Certification of the Chief Executive Officer of Victory Capital Holdings Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of the Chief Financial Officer of Victory Capital Holdings Corporation pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of the Chief Executive Officer of Victory Capital Holdings Corporation pursuant to Section 906 of the Sarbanes Oxley Act of 2002
Exhibit 32.2	Certification of the Chief Financial Officer of Victory Capital Holdings Corporation pursuant to Section 906 of the Sarbanes Oxley Act of 2002



SIGNATURES

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

VICTORY CAPITAL HOLDINGS CORPORATION, Registrant

Date: September 6, 2005

By: /s/ Jon Fullenkamp

Jon Fullenkamp

Chief Executive Officer, President, Chief Financial Officer and Director