

PYRAMID OIL CO  
Form 10-Q  
May 15, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D. C. 20549**

**FORM 10-Q**

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

**For the quarterly period ended March 31, 2012**

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

**Commission File Number 001-32989**

**PYRAMID OIL COMPANY**

(Exact Name of registrant as specified in its charter)

CALIFORNIA 94-0787340  
(State of other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

2008 – 2<sup>nd</sup> Street, P.O. Box 832, Bakersfield, California 93302  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number: 661) 325-1000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or 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.

Large accelerated filer  Accelerated Filer   
Non-accelerated filer  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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

(Class)	(Outstanding at May 14, 2012)
<b>Common Stock Without Par Value</b>	4,683,853

**PYRAMID OIL COMPANY**

**FORM 10-Q**

**March 31, 2012**

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## PYRAMID OIL COMPANY

## BALANCE SHEETS

## ASSETS

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$2,740,356	\$2,762,676
Short-term investments	2,130,510	2,128,380
Trade accounts receivable (net of reserve for doubtful accounts of \$4,000 in 2012 and 2011)	519,581	549,476
Joint interest billing receivable	8,495	6,019
Income taxes receivable	0	21,169
Crude oil inventory	134,709	118,156
Prepaid expenses and other assets	205,726	255,846
Deferred Income taxes	262,500	262,500
<b>TOTAL CURRENT ASSETS</b>	<b>6,001,877</b>	<b>6,104,222</b>
<b>PROPERTY AND EQUIPMENT, at cost:</b>		
Oil and gas properties and equipment (successful efforts method)	19,727,871	19,124,558
Capitalized asset retirement costs	409,338	401,242
Drilling and operating equipment	1,966,750	1,956,371
Land, buildings and improvements	1,073,918	1,073,918
Automotive, office and other property and equipment	1,192,118	1,192,118
	24,369,995	23,748,207
Less - accumulated depletion, depreciation, amortization and valuation allowances	(20,272,811)	(20,091,655)
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>4,097,184</b>	<b>3,656,552</b>

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INVESTMENTS AND OTHER ASSETS		
Long-term investments	1,078,787	1,071,984
Deferred income taxes	735,200	781,600
Deposits	250,000	250,000
Other assets	17,380	17,380
TOTAL INVESTMENTS AND OTHER ASSETS	2,081,367	2,120,964
TOTAL ASSETS	\$12,180,428	\$11,881,738

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

## PYRAMID OIL COMPANY

## BALANCE SHEETS

## LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 126,360	\$ 88,494
Accrued professional fees	43,784	142,990
Accrued taxes, other than income taxes	77,471	77,471
Accrued payroll and related costs	59,645	51,252
Accrued royalties payable	209,085	224,810
Accrued insurance	45,354	82,428
Accrued income taxes	27,231	0
Current maturities of long-term debt	32,560	32,285
<b>TOTAL CURRENT LIABILITIES</b>	<b>621,490</b>	<b>699,730</b>
Long-term debt, net of current maturities	5,981	22,330
<b>LIABILITY FOR ASSET RETIREMENT OBLIGATIONS</b>	<b>1,300,072</b>	<b>1,278,889</b>
<b>TOTAL LIABILITES</b>	<b>1,927,543</b>	<b>2,000,949</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 4)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, no par value		
Authorized - 10,000,000 shares		
Issued and outstanding - none	0	0
Common stock, no par value (Note 6 and 9)		
Authorized - 50,000,000 shares		
Issued and outstanding - 4,683,853 shares	1,682,971	1,682,971
Retained earnings	8,569,914	8,197,818
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>10,252,885</b>	<b>9,880,789</b>

TOTAL LIABILITES AND SHAREHOLDERS' EQUITY \$12,180,428 \$11,881,738

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

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## PYRAMID OIL COMPANY

## STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three months ended	
	March 31,	
	2012	2011
REVENUES:		
Oil and gas sales	\$1,369,058	\$1,327,310
COSTS AND EXPENSES:		
Operating expenses	429,941	413,656
General and administrative	211,016	224,720
Taxes, other than income and payroll taxes	47,421	36,855
Provision for depletion, depreciation, and amortization	181,156	185,528
Valuation allowances	0	48,533
Accretion expense	13,087	16,335
Other costs and expenses	29,805	25,487
	912,426	951,114
OPERATING INCOME	456,632	376,196
OTHER INCOME (EXPENSE):		
Interest income	10,690	13,352
Other income	0	500
Interest expense	(426 )	(1,506 )
	10,264	12,346
INCOME BEFORE INCOME TAX PROVISION	466,896	388,542
Income tax provision		
Current	48,400	46,200
Deferred	46,400	22,700
	94,800	68,900
NET INCOME	\$ 372,096	\$ 319,642
BASIC INCOME PER COMMON SHARE	\$0.08	\$0.07
DILUTED INCOME PER COMMON SHARE	\$0.08	\$0.07

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Weighted average number of common shares outstanding	4,683,853	4,679,770
Diluted average number of common shares outstanding	4,687,033	4,687,030

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

## PYRAMID OIL COMPANY

## STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three months ended March 31,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$372,096	\$319,642
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depletion, depreciation, and amortization	181,156	185,528
Valuation allowances	0	48,533
Gain on sale of property and equipment	0	(1,012 )
Accretion expense	13,087	16,335
Deferred income taxes	46,400	22,700
Changes in operating assets and liabilities:		
Decrease (increase) in trade accounts receivable	48,588	(313,809 )
(Increase) in crude oil inventory	(16,553 )	(9,375 )
Decrease in prepaid expenses	50,120	36,078
(Increase) in other assets	0	(10,000 )
Increase (decrease) in accounts payable and accrued liabilities	(78,515 )	1,144,071
Net cash provided by operating activities	616,379	1,438,691

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



## PYRAMID OIL COMPANY

## STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three months ended March 31,	
	2012	2011
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	\$(613,692 )	\$(1,193,949)
Increase in short-term investments	(8,933 )	(10,742 )
Proceeds from sale of property and equipment	0	21,000
Net cash used in investing activities	(622,625 )	(1,183,691)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Loans to employees	0	(800 )
Proceeds from issuance of long-term debt	0	55,979
Principal payments from loans to employees	0	500
Principal payments on long-term debt	(16,074 )	(4,793 )
Net cash (used in) provided by financing activities	(16,074 )	50,886
Net (decrease) increase in cash and cash equivalents	(22,320 )	305,886
Cash and cash equivalents at beginning of period	2,762,676	1,535,532
Cash and cash equivalents at end of period	\$2,740,356	\$1,841,418
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the three months for interest	\$426	\$1,506
Cash paid during the three months for income taxes	\$0	\$0

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

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**PYRAMID OIL COMPANY**

**NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2012**

**(UNAUDITED)**

**1. Summary of Significant Accounting Policies**

The financial statements include the accounts of Pyramid Oil Company (the "Company"). Such financial statements included herein have been prepared by the Company, without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

A summary of the Company's significant accounting policies is contained in its December 31, 2011 Form 10-K. The financial data presented herein should be read in conjunction with the Company's December 31, 2011 financial statements and notes thereto, contained in the Company's Form 10-K.

In the opinion of the Company, the unaudited financial statements, contained herein, include all adjustments necessary to present fairly the Company's financial position as of March 31, 2012 and the results of its operations and its cash flows for the three month periods ended March 31, 2012 and 2011. The results of operations for any interim period are not necessarily indicative of the results to be expected for a full year.

*Income Taxes* - When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for

unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

The Company files income tax returns in the U.S. federal jurisdiction, California, Texas and New York states. With few exceptions, the Company is no longer subject to U.S. federal tax examination for the years before 2008. State jurisdictions that remain subject to examination range from 2007 to 2011. The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months.

The Company policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FASB ASC 740, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during the quarter.

Interest associated with unrecognized tax benefits are classified as interest expense and penalties are classified in selling, general and administrative expenses in the statements of operations.

*Income (Loss) per Share* - Basic income (loss) per common share is computed by dividing the net income (loss) applicable to common stock by the weighted average number of shares of common stock outstanding during the period.



*Valuation Allowances* - The Company has recorded valuation allowances for certain of its oil and gas properties when the undiscounted future net cash flows are less than the net capitalized costs for the property. On March 21, 2011, the Company participated in the drilling of a joint venture well in Menard County, Texas. Log analysis of this well indicated that the well would not be commercially viable, and was plugged and abandoned. The Company owns a 30% interest in the joint venture. The Company recorded a valuation allowance of \$48,533 against the costs incurred during the first quarter of 2011 for the drilling of this well. There was no valuation allowance recorded in the first quarter of 2012.

*Joint Interest Billing Receivable* - The Company entered into a joint venture agreement on February 23, 2011 with Victory Oil Company for the drilling of a well on the Company's Pike lease. The well was drilled during the first quarter of 2011. The well was completed and placed into production during April 2011. The Company's share of the total costs for drilling and completing this well was 68% and Victory Oil's share of costs was 32%. As of March 31, 2011, the Company's share of costs for drilling this well was approximately \$1,046,000 and Victory Oil's share of the costs were approximately \$492,000. Victory Oil, prior to March 31, 2011, had made a prepayment in the amount of \$300,000 for its share of the costs of drilling this well. At March 31, 2011, the Company has a joint interest billing receivable of approximately \$192,000 for its remaining share of the costs for drilling this well. At March 31, 2012, the Company had a joint interest billing receivable of \$8,495 from Victory Oil Company for its share of the costs of operating this well.

*Reclassifications* - Certain reclassifications have been made to prior period financial statements to conform to the current year presentation.

## **2. Recent Accounting Pronouncements**

*ASU 2011-04* - In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" (ASU 2011-04) which amends ASC Topic 820, Fair Value Measurement. The updated guidance in ASC Topic 820 changes the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The updated guidance in ASC Topic 820 is effective during interim and annual period beginning after December 15, 2011. Early adoption is not permitted. The adoption of this new guidance is not expected to have a significant impact on the Company's fair value measurements, financial condition, results of operations or cash flows.

*ASU 2011-05* - In June 2011, the FASB issued ASU 2011-05, "Presentation of Comprehensive Income" (ASU 2011-05) which amends ASC Topic 220, Comprehensive Income. The updated guidance in ASC Topic 220 gives an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but

consecutive statements. The updated guidance in ASC Topic 220 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not have any impact on our results of operations or financial condition.

In September 2011, the FASB issued ASU 2011-08, "*Intangibles – Goodwill and Other (Topic 350) — Testing Goodwill for Impairment*". This amendment allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative impairment test. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption is permitted. The Company decided to early adopt this guidance which did not have a significant impact on the Company's financial position or results of operations.

### **3. Dividends**

No cash dividends were paid during the three months ended March 31, 2012 and 2011.

#### **4. Commitments and Contingencies**

In February 2002, the Company entered into an employment agreement with John H. Alexander pursuant to which Mr. Alexander agreed to serve as the Company's Vice President. On June 3, 2004, Mr. Alexander was appointed as the Company's President and Chief Executive Officer. The employment agreement is for an initial term of six years, which term automatically renews annually if written notice is not tendered. The agreement was automatically renewed on June 3, 2011.

Pursuant to the employment agreement, the Company may terminate Mr. Alexander's employment with or without cause at any time before its term expires upon providing written notice. In the event the Company terminates Mr. Alexander's employment without cause, Mr. Alexander would be entitled to receive a severance amount equal to his annual base salary and benefits for the balance of the term of his employment agreement. In the event of termination by reason of Mr. Alexander's death or permanent disability, his legal representative will be entitled to receive his annual salary and benefits for the remaining term of his employment agreement. In the event of, or termination following, a change in control of the Company, as defined in the agreement, Mr. Alexander would be entitled to receive his annual salary and benefits for the remainder of the term of his agreement. In the event that Mr. Alexander is terminated the Company would incur approximately \$600,000 in costs.

The Company has been notified by the United States Environmental Protection Agency (EPA) of a final settlement offer to settle its potential liability as a generator of waste containing hazardous substances that was disposed of at a waste disposal site in Santa Barbara County. The Company has responded to the EPA by indicating that the waste contained petroleum products that fall within the exception to the definition of hazardous substances for petroleum-related substances of the pertinent EPA regulations. Management has concluded that under both Federal and State regulations no reasonable basis exists for any valid claim against the Company. As such, the likelihood of any settlement is deemed remote. There has been no further communication from the EPA on this matter since September 25, 2009.

#### **5. Income Tax Provision**

The Company recognized an income tax provision of \$94,800 for the first quarter of 2012 compared to an income tax provision of \$68,900 for the same period in 2011.

Income tax provision for the first quarter of 2012 was calculated as follows:

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	Federal	State	Total
Current tax provision	\$41,500	\$6,900	\$48,400
Deferred tax provision	36,150	10,250	46,400
	\$77,650	\$17,150	\$94,800

Income tax provision for the first quarter of 2011 was calculated as follows:

	Federal	State	Total
Current tax provision	\$40,300	\$5,900	\$46,200
Deferred tax provision	17,700	5,000	22,700
	\$58,000	\$10,900	\$68,900

Deferred income taxes are recognized using the asset and liability method by applying income tax rates to cumulative temporary differences based on when and how they are expected to affect the tax returns. Deferred tax assets and liabilities are adjusted for income tax rate changes. Deferred income tax assets have been offset by a valuation allowance of \$1,705,600 as of March 31, 2012. Management reviews deferred income taxes regularly throughout the year, and accordingly makes any necessary adjustments to properly reflect the valuation allowance based upon current financial trends and projected results.

## **6. Incentive and Retention Plan**

On January 9, 2007, the Company's Board of Directors adopted an Incentive and Retention Plan pursuant to which the Company's officers and other employees selected by the Company's Compensation Committee are entitled to receive payments if they are employed by the Company as of the date of a 'Corporate Transaction,' as defined in the Incentive and Retention Plan. A 'Corporate Transaction' includes certain mergers involving the Company, sales of Company assets, and other changes in the control of the Company, as specified in the Incentive and Retention Plan. In general, the amount that is payable to each plan participant will equal the number of plan units that have been granted to him or her, multiplied by the increase in the value of the Company between January 9, 2007 and the date of a Corporate Transaction. There has been no Corporate Transaction since the adoption of the Incentive and Retention Plan.

## **7. Related-party Transaction**

Effective January 1, 1990, John H. Alexander, an officer and director of the Company participated with a group of investors that acquired the mineral and fee interest on one of the Company's oil and gas leases (Santa Fe Energy lease) in the Carneros Creek field after the Company declined to participate. The thirty-three percent interest owned by Mr. Alexander represents a minority interest in the investor group. Royalties on oil and gas production from this property paid to the investor group approximated \$75,000 during the first quarter of 2012 and \$54,000 during the first quarter of 2011.

## **8. Stock Based Compensation**

The Company issued warrants and options to purchase common shares of the Company as compensation for consulting and Board of Director services. The value of warrants and options issued for compensation is accounted for as a non-cash expense to the Company at fair value as calculated by using Black-Scholes option-pricing model. At March 31, 2012 the Company has \$0 in unamortized stock based compensation related to outstanding options and warrants.

The following table summarizes the warrant and option activity for the three months ended March 31, 2012:

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(Unaudited)	Number of Warrants and Options	Weighted-Average Exercise Price
Outstanding, December 31, 2011	25,000	\$ 4.08
Granted	0	0
Exercised	0	0
Cancelled	0	0
Outstanding, March 31, 2012	25,000	\$ 4.08

The following summarizes the warrants issued, outstanding and exercisable as of March 31, 2012:

Grant Date	November, 2008
Strike Price	\$3.20
Expiration Date	October 31, 2012
Warrants Remaining	15,000
Proceeds if Exercised	\$48,000
Call Feature	None

The following summarizes the options issued, outstanding and exercisable as of March 31, 2012:

Grant Date	June 2, 2011
Strike Price	\$5.40
Expiration Date	June 1, 2016
Warrants Remaining	10,000
Proceeds if Exercised	\$54,000
Call Feature	None

## 9. Fair Value

Effective January 1, 2009, we adopted FASB ASC 820 (formerly SFAS No. 157) for our nonfinancial assets and nonfinancial liabilities measured on a non-recurring basis. We adopted the provisions of FASB ASC 820 for measuring the fair value of our financial assets and liabilities during 2008. As defined in FASB ASC 820, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We utilize market data or assumptions that we believe market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. FASB ASC 820 establishes a three-tiered fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1 - Observable inputs such as quoted prices in active markets;

Level 2 - Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and

Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions. Included in this category is the Company's determination of the value of its asset retirement obligation liability. The obligation has increased \$21,183 during the three months ended March 31, 2012 as a result of normal accretion expense and the drilling of a new well.

The carrying amount of our cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued expenses reported in the balance sheets approximates fair value because of the short maturity of those instruments.

### Fair Value on Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis in accordance with GAAP (for example, when there is evidence of impairment). There were no instances of impairment recorded in the quarter ending March 31, 2012.

## **10. Registration Statement on Form S-3**

The Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission (SEC) on December 22, 2009, that became effective on January 14, 2010. The registration statement is designed to provide the Company the flexibility to offer and sell from time to time up to \$20 million of the Company's common stock. The Company may offer and sell such securities through one or more methods of distribution, subject to market conditions and the Company's capital needs. The terms of any offering under the shelf registration statement will be established at the time of such offering and will be described in a prospectus supplement filed with the SEC prior to the completion of the offering. The Company has not filed any supplemental prospectus with the SEC or sold any common stock under this registration statement.

## **11. Asset Retirement Obligations**

The Company recognizes a liability at discounted fair value for the future retirement of tangible long-lived assets and associated assets retirement cost associated with the petroleum and natural gas properties. The fair value of the liability is capitalized as part of the cost of the related asset and amortized to expense over its useful life. The liability accretes until the date of expected settlement of the retirement obligations. The related accretion expense is recognized in the statement of operations. The provision will be revised for the effect of any changes to timing related to cash flow or undiscounted abandonment costs. Actual expenditures incurred for the purpose of site reclamation are charged to the asset retirement obligations to the extent that the liability exists on the balance sheet. Differences between the actual costs incurred and the fair value of the liability recorded are recognized in income in the period the actual costs are incurred.



There are no legally restricted assets for the settlement of asset retirement obligations. A reconciliation of the Company's asset retirement obligations from the periods presented, are as follows:

Balance at December 31, 2011	\$ 1,278,889
Incurred during the period	0
Additions for new wells	8,096
Accretion expense	13,087
Balance at March 31, 2012	\$ 1,300,072

## 12. Subsequent Events

The Company evaluated subsequent events after the balance sheet date of March 31, 2012 through the date these unaudited financial statements were issued.

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

FORWARD LOOKING INFORMATION

Looking forward into the balance of fiscal 2012, crude oil prices have decreased by \$6.60 per barrel.

During the first quarter of fiscal 2012, the Company drilled a development well - the Santa Fe #20 - in the Carneros Creek Field in Kern County, California. The well penetrated the intended zones and after completion operations was stimulated with a gel-fracking operation that concluded in April. After an initial production of fluids from the well, an unexplained blockage occurred, and efforts are ongoing to determine the cause and implement a procedure to correct the situation.

The Company hopes to drill two additional wells during 2012, subject to the availability of contract drilling rigs. We also will continue to evaluate external opportunities that could range from joint ventures to asset acquisitions.

Management continues to seek and evaluate opportunities within the energy sector to enhance the value of the Company. Pyramid's growth during the balance of 2012 will be highly dependant on the level of success the Company has in its operations and capital investments, including the outcome of wells that have not yet been drilled. The Company's capital investment program may be modified during the year due to exploration and development successes or failures, market conditions and other variables. The production and sales of oil and gas involves many complex processes that are subject to numerous uncertainties, including reservoir risk, mechanical failures, human error and market conditions.

The Company has positioned itself, over the past several years, to withstand various types of economic uncertainties, with a program of consolidating operations on certain producing properties and concentrating on properties that provide the major revenue sources. The drilling of a new well and several limited work-overs of certain wells have allowed the Company to maintain its crude oil reserves for the last three years. The Company expects to maintain its reserve base in 2012 by drilling new wells and routine maintenance of its existing wells.

The Company may be subject to future costs necessary for compliance with the new implementation of air and water environmental quality requirements of the various state and federal governmental agencies. The requirements and costs are unknown at this time, but management believes that costs could be significant in some cases. As the scope of

the requirements become more clearly defined, management may be better equipped to determine the true costs to the Company.

The Company continues to absorb the costs for various state and local fees and permits under new environmental programs, the sum of which were not material during 2011. The Company retains outside consultants to assist the Company in maintaining compliance with these regulations. The Company is actively pursuing an ongoing policy of upgrading and restoring older properties to comply with current and proposed environmental regulations. The costs of upgrading and restoring older properties to comply with environmental regulations have not been determined. Management believes that these costs will not have a material adverse effect upon its financial position or results of operations.

#### CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Portions of this Quarterly Report, including Management's Discussion and Analysis, contain forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results and performance in future periods to be materially different from any future results or performance suggested in forward-looking statements in this release. Such forward-looking statements speak only as of the date of this report and the Company expressly disclaims any obligation to update or revise any forward-looking statements found herein to reflect any changes in Company expectations or results or any change in events. Factors that could cause results to differ materially include, but are not limited to: the timing and extent of changes in commodity prices of oil, gas and electricity, environmental risk, drilling and operational costs, uncertainties about estimates of reserves and government regulations.

## ANALYSIS OF SIGNIFICANT CHANGES IN RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2012 COMPARED TO THE QUARTER ENDED MARCH 31, 2011

#### REVENUES

The increase in oil and gas sales of \$42,760 is due to higher average sales prices for the first quarter of 2012. The average sales price of the Company's oil and gas for the first quarter of 2012 increased by approximately \$14.70 per equivalent barrel when compared to the same period of 2011. This was offset by lower sales volumes of 1,400 barrels for the first three months of 2012.

#### OPERATING EXPENSES

Operating expenses increased by \$16,285 for the first quarter of 2012. The cost to produce an equivalent barrel of crude oil during the first quarter of 2012 was approximately \$35.12 per barrel, an increase of approximately \$4.83 per barrel when compared with production costs for the first quarter of 2011. The increase in lease operating expenses is caused by many factors. These include higher costs for contract operations, production equipment repairs and maintenance, equipment fuel and professional services. This was offset by lower costs for outside services, insurance and the quarterly adjustment for inventory change.

Contract operations increased by \$17,158, due primarily to the Wyoming joint venture. The Wyoming joint venture operator is conducting a major renovation project on the joint venture properties. Production equipment repair and maintenance costs increased by \$15,966 due to higher costs for outside repair services on one of its well servicing rigs. Equipment fuel costs increased by \$10,856 due to an increase in the volume of fuel purchased and higher average costs for gasoline and diesel used by the Company's vehicles and production equipment. Professional services increased by \$8,388 due to a review of the Company's Pike #1-H well that was conducted by a third-party petroleum engineering firm.

Outside services decreased by \$8,174 due to lower demand for third-party repair and maintenance services. Insurance expense decreased by \$8,151 due to lower premiums for health insurance of approximately \$4,300 and lower liability insurance premiums. The remaining net favorable variance of \$12,580 is attributable to many different cost categories,

none of them significant in amount.

Inventory change decreased operating expenses by \$16,553 for the first quarter of 2012 and decreased operating expenses by \$9,375 for the first quarter of 2011. As a result, operating expenses decreased by \$7,178 for the first quarter of 2012, when compared with the same period of 2011. Inventory change at March 31, 2012 of \$16,553 is due primarily to higher average per barrel inventory valuations combined with slightly higher inventory volumes at March 31, 2012. Inventory change at March 31, 2011 of \$9,375 is due primarily to higher average per barrel inventory valuations.

#### GENERAL AND ADMINISTRATIVE

General and administrative expenses decreased by \$13,704 for the first quarter of 2012 when compared with the same period for 2011. Accounting services decreased by \$9,472 due primarily to lower costs for third-party accounting services and lower costs for tax consulting services. Legal services decreased by \$7,852.

## PROVISION FOR DEPLETION, DEPRECIATION AND AMORTIZATION

The provision for depletion, depreciation and amortization decreased by \$4,372 for the first quarter of 2012, when compared with the same period for 2011. The decrease is due to a decrease in depletion of \$2,430 and a decrease in depreciation of \$1,942.

## VALUATION ALLOWANCES

On March 21, 2011, the Company participated in the drilling of a joint venture well in Menard County, Texas. Log analysis of this well indicated that the well would not be commercially viable, and was plugged and abandoned. The Company owns a 30% interest in the joint venture. The Company recorded a valuation allowance of \$48,533 against the costs incurred during the first quarter of 2011 for the drilling of this well. There was no valuation allowance recorded in the first quarter of 2012.

## LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by \$22,320 for the three months ended March 31, 2012. During the three months ended March 31, 2012, operating activities provided cash of \$616,379. Cash was used for capital spending of \$613,692 and principal payments on long-term debt of \$16,074. See the accompanying Statements of Cash Flows for additional detailed information. The Company had available a line of credit of \$500,000 and short-term investments of \$3,209,297 at March 31, 2012 that provided additional liquidity during the first three months of 2012.

## IMPACT OF CHANGING PRICES

The Company's revenue is affected by crude oil prices paid by the major oil companies. Average crude oil prices for the first three months of 2012 increased by approximately \$14.70 per equivalent barrel when compared with the same period of 2011. The Company cannot predict the future course of crude oil prices.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable

Item 4. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) are effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

There was no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. - Legal Proceedings

None

Item 1A. - Risk Factors

See the risk factors that are included in the Company's Annual Report on Form 10K for the fiscal year ended December 31, 2011.

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

None

Item 3. - Defaults Upon Senior Securities

None

Item 4. - Mine Safety Disclosures

None

Item 5. - Other Information



None

Item 6. - Exhibits

a. Exhibits

31.1 Certification of the Registrant's Principal Executive Officer under Exchange Act Rules 13a-14(a) and 15-d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Registrant's Principal Financial Officer under Exchange Act Rules 13a-14(a) and 15-d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Registrant's Principal Executive Officer under 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Registrant's Principal Financial Officer under 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

The following information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (1) Balance Sheets as of March 31, 2012 and December 31, 2011; (2) Statements of Operations for the three months ended March 31, 2012 and 2011; (3) Statements of Cash Flows for the three months ended March 31, 2012 and 2011; and (4) Notes to Financial Statements. \*

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Pursuant to Rule 406T of Regulation S-T, the information in Exhibit 101 (a) is "furnished" and is not deemed to be \* "filed" or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, (b) is deemed not to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and (c) is not otherwise subject to liability under those sections.

SIGNATURES

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.

PYRAMID OIL COMPANY  
(registrant)

Dated: May 14, 2012 JOHN H. ALEXANDER  
John H. Alexander  
President

Dated: May 14, 2012 LEE G. CHRISTIANSON  
Lee G. Christianson  
Chief Financial Officer