

PYRAMID OIL CO  
Form 10-Q  
August 14, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D. C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 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

(State of other jurisdiction of incorporation or organization)

94-0787340  
(I.R.S.  
Employer  
Identification  
No.)

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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

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 August 14, 2012)
<b>Common Stock Without Par Value</b>	4,683,853

**PYRAMID OIL COMPANY**

**FORM 10-Q**

**June 30, 2012**

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## PYRAMID OIL COMPANY

## BALANCE SHEETS

## ASSETS

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$3,213,023	\$2,762,676
Short-term investments	2,132,644	2,128,380
Trade accounts receivable (net of reserve for doubtful accounts of \$4,000 in 2012 and 2011)	358,945	549,476
Joint interest billing receivable	3,235	6,019
Income taxes receivable	23,669	21,169
Crude oil inventory	116,168	118,156
Prepaid expenses and other assets	113,352	255,846
Deferred Income taxes	262,500	262,500
<b>TOTAL CURRENT ASSETS</b>	<b>6,223,536</b>	<b>6,104,222</b>
<b>PROPERTY AND EQUIPMENT, at cost:</b>		
Oil and gas properties and equipment (successful efforts method)	19,847,970	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

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Automotive, office and other property and equipment	1,228,147	1,192,118
	24,526,123	23,748,207
Less - accumulated depletion, depreciation, amortization and valuation allowances	(20,459,549)	(20,091,655)
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>4,066,574</b>	<b>3,656,552</b>
<b>INVESTMENTS AND OTHER ASSETS</b>		
Long-term investments	1,086,311	1,071,984
Deferred income taxes	680,700	781,600
Deposits	250,000	250,000
Other assets	17,380	17,380
<b>TOTAL INVESTMENTS OTHER ASSETS</b>	<b>2,034,391</b>	<b>2,120,964</b>
<b>TOTAL ASSETS</b>	<b>\$12,324,501</b>	<b>\$11,881,738</b>

The accompanying notes are an integral part of these balance sheets.

**PYRAMID OIL COMPANY****BALANCE SHEETS****LIABILITIES AND SHAREHOLDERS' EQUITY**

	June 30, 2012 (Unaudited)	December 31, 2011 (Audited)
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$98,430	\$88,494
Accrued professional fees	100,834	142,990
Accrued taxes, other than income taxes	0	77,471
Accrued payroll and related costs	51,968	51,252
Accrued royalties payable	189,753	224,810
Accrued insurance	13,928	82,428
Current maturities of long-term debt	22,330	32,285
<b>TOTAL CURRENT LIABILITIES</b>	<b>477,243</b>	<b>699,730</b>
Long-term debt, net of current maturities	0	22,330
<b>LIABILITY FOR ASSET RETIREMENT OBLIGATIONS</b>	<b>1,305,802</b>	<b>1,278,889</b>
<b>TOTAL LIABILITIES</b>	<b>1,783,045</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, 8 and 10)		
Authorized - 50,000,000 shares		
Issued and outstanding - 4,683,853 shares	1,682,971	1,682,971
Retained earnings	8,858,485	8,197,818
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>10,541,456</b>	<b>9,880,789</b>

TOTAL LIABILITES AND SHAREHOLDERS' EQUITY \$12,324,501 \$11,881,738

The accompanying notes are an integral part of these balance sheets.



**PYRAMID OIL COMPANY**

**STATEMENTS OF OPERATIONS**

**(UNAUDITED)**

	Three months ended	
	June 30,	
	2012	2011
REVENUES:		
Oil and gas sales	\$ 1,340,314	\$ 1,549,029
COSTS AND EXPENSES:		
Operating expenses	459,798	447,889
General and administrative	228,878	219,072
Stock based compensation	0	43,743
Taxes, other than income and payroll taxes	36,960	27,104
Provision for depletion, depreciation, and amortization	186,738	225,895
Valuation allowances	0	5,851
Accretion expense	5,730	5,229
Other costs and expenses	54,669	62,197
	972,773	1,036,980
OPERATING INCOME	367,541	512,049
OTHER INCOME (EXPENSE):		
Interest income	10,170	13,159
Other income	250	0
Interest expense	(290 )	(385 )
	10,130	12,774
INCOME BEFORE INCOME TAX PROVISION	377,671	524,823
Income tax provision		
Current	34,600	64,400
Deferred	54,500	33,400
	89,100	97,800
NET INCOME	\$ 288,571	\$ 427,023
BASIC INCOME PER COMMON SHARE	\$ 0.06	\$ 0.09
DILUTED INCOME PER COMMON SHARE	\$ 0.06	\$ 0.09

Weighted average number of common shares outstanding	4,683,853	4,683,853
Diluted average number of common shares outstanding	4,686,827	4,725,992

The accompanying notes are an integral part of these statements.

**PYRAMID OIL COMPANY**

**STATEMENTS OF OPERATIONS**

**(UNAUDITED)**

	Six months ended June	
	30,	
	2012	2011
<b>REVENUES:</b>		
Oil and gas sales	\$2,709,372	\$2,876,339
<b>COSTS AND EXPENSES:</b>		
Operating expenses	889,739	861,545
General and administrative	439,894	443,792
Stock based compensation	0	43,743
Taxes, other than income and payroll taxes	84,381	63,959
Provision for depletion, depreciation, and amortization	367,894	411,423
Valuation allowances	0	54,384
Accretion expense	18,817	21,564
Other costs and expenses	84,474	87,684
	1,885,199	1,988,094
<b>OPERATING INCOME</b>	824,173	888,245
<b>OTHER INCOME (EXPENSE):</b>		
Interest income	20,860	26,511
Other income	250	500
Interest expense	(716 )	(1,891 )
	20,394	25,120
<b>INCOME BEFORE INCOME TAX PROVISION</b>	844,567	913,365
Income tax provision		
Current	83,000	110,600
Deferred	100,900	56,100
	183,900	166,700
<b>NET INCOME</b>	\$660,667	\$746,665
<b>BASIC INCOME PER COMMON SHARE</b>	\$0.14	\$0.16

DILUTED INCOME PER COMMON SHARE	\$0.14	\$0.16
Weighted average number of common shares outstanding	4,683,853	4,681,811
Diluted average number of common shares outstanding	4,686,929	4,723,536

The accompanying notes are an integral part of these statements.

**PYRAMID OIL COMPANY**

**STATEMENTS OF CASH FLOWS**

**(UNAUDITED)**

	Six months ended June 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$660,667	\$746,665
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depletion, depreciation, and amortization	367,894	411,423
Valuation allowances	0	54,384
Gain on sale of fixed assets	0	(1,012 )
Stock based compensation	0	43,743
Accretion expense	18,817	21,564
Deferred income taxes	100,900	56,100
Asset retirement obligations	8,096	11,779
Changes in operating assets and liabilities:		
Decrease (increase) in trade accounts and income taxes receivable	190,815	(159,627 )
Decrease in crude oil inventories	1,988	156
Decrease in prepaid expenses	142,494	118,272
(Increase) in other assets	0	(10,000 )
(Decrease) in accounts payable and accrued liabilities	(212,532 )	(128,879 )
Net cash provided by operating activities	1,279,139	1,164,568

The accompanying notes are an integral part of these statements.



**PYRAMID OIL COMPANY**

**STATEMENTS OF CASH FLOWS**

**(UNAUDITED)**

	Six months ended June 30,	
	2012	2011
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	\$(777,916 )	\$(1,125,556 )
(Increase) in short-term investments	(4,264 )	(6,691 )
(Increase) in long-term investments	(14,327 )	(14,966 )
Proceeds from sale of property and equipment	0	21,000
Net cash used in investing activities	(796,507 )	(1,126,213 )
<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	800
Principal payments on long-term debt	(32,285 )	(12,659 )
Net cash (used in) provided by financing activities	(32,285 )	43,320
Net increase in cash and cash equivalents	450,347	81,675
Cash and cash equivalents at beginning of period	2,762,676	1,535,532
Cash and cash equivalents at end of period	\$3,213,023	\$1,617,207
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the six months for interest	\$716	\$1,891
Cash paid during the six months for income taxes	\$85,500	\$111,800

The accompanying notes are an integral part of these statements.



**PYRAMID OIL COMPANY**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 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 June 30, 2012 and the results of its operations and its cash flows for the three and six month periods ended June 30, 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 \$54,384 against the costs incurred during the first six months of 2011 for the drilling of this well. There was no valuation allowance recorded during the first six months 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 June 30, 2011, the Company's share of costs for drilling this well was approximately \$897,000 and Victory Oil's share of the costs was approximately \$422,000. At June 30, 2011, the Company has a joint interest billing receivable of approximately \$69,000 for its remaining share of the costs for drilling and operating this well. At June 30, 2012, the Company has a joint interest billing receivable of \$3,235 from Victory Oil Company for its share of the costs of operating this well.

## **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. We are currently evaluating the impact of ASU 2011-04 on our results of operations, financial condition and disclosure requirements. We will apply the provisions of these accounting standards after the effective date.

*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 will not have any impact on our results of operations or financial condition.

## **3. Dividends**

No cash dividends were paid during the six months ended June 30, 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, 2012.

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 \$183,900 for the six months ended June 30, 2012 compared to an income tax provision of \$166,700 for the same period in 2011.

Income tax provision for the six months ended June 30, 2012 was calculated as follows:

	Federal	State	Total
Current tax provision	\$71,000	\$12,000	\$83,000
Deferred tax provision	78,500	22,400	100,900
	\$149,500	\$34,400	\$183,900

Income tax provision for the six months June 30, 2011 was calculated as follows:

	Federal	State	Total
Current tax provision	\$94,800	\$15,800	\$110,600
Deferred tax provision	43,800	12,300	56,100
	\$138,600	\$28,100	\$166,700

Income tax provision for the three months ended June 30, 2012 was calculated as follows:

	Federal	State	Total
Current tax provision	\$29,500	\$5,100	\$34,600
Deferred tax provision	42,350	12,150	54,500
	\$71,850	\$17,250	\$89,100

Income tax provision for the three months ended June 30, 2011 was calculated as follows:

	Federal	State	Total
Current tax provision	\$54,500	\$9,900	\$64,400
Deferred tax provision	26,100	7,300	33,400
	\$80,600	\$17,200	\$97,800

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 \$1,719,000 as of June 30, 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 \$137,000 during the six months ended June 30, 2012 and \$119,000 during the six months ended June 30, 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 Directors services. The value of warrants and options issued for compensation are accounted for as a non-cash expense to the Company at the fair value of the warrants and options issued. The Company values the warrants and options at fair value as calculated by using the Black-Scholes option-pricing model. As of June 30, 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 six months ended June 30, 2012:

(Unaudited)	Number of Warrants and	Weighted-Average Exercise Price
-------------	---------------------------------	------------------------------------



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	Options	
Outstanding, December 31, 2011	25,000	\$ 4.08
Granted	0	0
Exercised	0	0
Cancelled	0	0
Outstanding, June 30, 2012	25,000	\$ 4.08

The following summarizes the warrants issued, outstanding and exercisable as of June 30, 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 June 30, 2012:

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

## 9. Fair Value

Effective January 1, 2009, the Company adopted FASB ASC 820 (formerly SFAS No. 157) for our nonfinancial assets and nonfinancial liabilities measured on a non-recurring basis. The Company 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. The Company utilizes 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 \$26,913 during the six months ended June 30, 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 June 30, 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	18,817
Balance at June 30, 2012	\$1,305,802

## 12. Subsequent Events

The Company evaluated subsequent events after the balance sheet date of June 30, 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 \$8.15 per barrel.

During the second quarter, the Company attempted to improve production on the Santa Fe #20, a development well drilled during this year's first quarter in Pyramid's Carneros Creek Field in Kern County, California. The well has produced only nominal oil volumes to date, and the Company has continued efforts to correct what it believes is a blockage in the well bore that occurred after the well was fracked. A variety of technical procedures have yielded limited results, and the Company may ultimately elect to re-perforate the well or plug and abandon it.

The Company also is attempting to secure a contract drilling rig, which it hopes to deploy late in the second half of the year for drilling an additional well on its Kern County leases. However, contract rig availability in Kern County remains tight, and there are no guarantees the Company will be successful in locating a rig before the end of the year. Meantime, Pyramid has further enhanced its balance sheet, and will continue to evaluate strategic opportunities to increase reserves and production volumes. At June 30, 2012, the Company's balance sheet was free of long-term debt and included cash, cash equivalents and short-term investments of \$5.3 million, up from \$4.9 million at December 31, 2011. Pyramid also held long-term assets in the form of certificates of deposit of \$1.1 million.

Pyramid has maintained a strong balance sheet and working capital position, and 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 dependent 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 THREE MONTHS ENDED JUNE 30, 2012 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2011

#### REVENUES

The decrease in oil and gas sales of \$208,715 is due primarily to lower crude oil production combined with lower average sales prices for the second quarter of 2012. The Company's net revenue share of crude oil production/sales decreased by approximately 1,800 barrels for the second quarter of 2012. The average sales price of the Company's oil and gas for the second quarter of 2012 decreased by approximately 72 cents per equivalent barrel when compared to the same period of 2011. The decline in production for the second quarter of 2012 is not attributable to any one property. Most of the oil and gas leases had lower production due primarily to natural decline.

#### OPERATING EXPENSES

Operating expenses increased by \$11,909 for the second quarter of 2012. The cost to produce an equivalent barrel of crude oil during the second quarter of 2012 was approximately \$37.07 per barrel, an increase of approximately \$5.62 per barrel when compared with production costs for the second quarter of 2011. The net increase in lease operating expenses is caused by many offsetting factors. These include higher costs for equipment fuel, gas engine repairs and parts and supplies. This was offset by lower costs for contract operations, equipment rental and labor.

Equipment fuel costs increased by \$16,532 due primarily to an increase in average fuel costs for gasoline and diesel and higher volumes purchased during the second quarter of 2012. In 2011, the Company recorded the purchase of approximately \$8,900 of fuel costs as rig maintenance costs for the Pike 1-H well. Gas engine repairs increased by \$12,861 due primarily to maintenance activities on the Santa Fe and Anderson wells. Parts and supplies increased by \$10,408 due to higher maintenance activities for the second quarter of 2012.

Contract operations decreased by \$13,057 due primarily to lower operating costs for the New York gas properties and the Texas joint venture. Equipment rental costs decreased by \$9,371 due primarily to lower costs on the Pike lease during the second quarter of 2012. The Company leased the surface pumping unit and a crude oil storage tank for the new 1-H well that was drilled in the first quarter of 2011.

Labor costs decreased by \$4,836 due primarily to fewer overtime hours worked during the second quarter of 2012 when compared with the same period of 2011.



## GENERAL AND ADMINISTRATIVE

General and administrative expenses increased by \$9,806 for the second quarter of 2012 when compared with the same period for 2011. General expenses increased by \$10,000 due to a donation the Company made during the second quarter of 2012 to a local medical facility. Computer supplies increased by \$6,821 due to greater utilization of IT consultants. Legal fees increased by \$5,716 due primarily to general corporate matters. This was offset by lower cost for accounting services. Accounting services decreased by \$18,399 due to lower audit fees and lower fees paid to a third-party individual who has assisted with the training and implementation of a new oil and gas accounting software that was effective January 1, 2011. The remaining net increase in general and administrative costs of \$5,668 is attributable to many different cost categories, none of them significant in amount.

## STOCK BASED COMPENSATION

Effective June 2, 2011, the Company's board of directors approved the issuance of options to purchase 5,000 shares of the Company's common stock to the Company's two outside directors. These options vest immediately and must be exercised within ninety days after the director leaves office. The Company recorded \$43,743 in stock based compensation during the second quarter of 2011, based on a valuation performed using a Black-Scholes option-pricing model.

## PROVISION FOR DEPLETION, DEPRECIATION AND AMORTIZATION

The provision for depletion, depreciation and amortization decreased by \$39,157 for the second quarter of 2012, when compared with the same period for 2011. The decrease is due primarily to a decrease in the amortization of oil and gas leaseholds. The amortization of Texas oil and gas leaseholds decreased by approximately \$41,000 during the second quarter of 2012 when compared with the same period for 2011. The Texas leaseholds were fully amortized as of June 30, 2011.

## 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 \$5,851 against

the costs incurred for the drilling of this well during the second quarter of 2011. There was no valuation allowance recorded in the first quarter of 2012.

## RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2012 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2011

### REVENUES

The decrease in oil and gas sales of \$165,955 is due primarily to lower crude oil sales volumes offset by higher average sales prices for the six months ended June 30, 2012. The Company's net revenue share of crude oil production/sales decreased by approximately 3,200 barrels for the six months ended June 30, 2012. The decline in production for the first half of 2012 is not attributable to any one property. Most of the oil and gas leases had lower production due primarily to natural decline. The average sales price of the Company's oil and gas for the six months ended June 30, 2012 increased by approximately \$6.60 per equivalent barrel when compared to the same period of 2011.

## OPERATING EXPENSES

Operating expenses increased by \$28,194 for the six months ended June 30, 2012. The cost to produce an equivalent barrel of crude oil during the six months ended June 30, 2012 was approximately \$36.02 per barrel, an increase of approximately \$5.13 per barrel when compared with production costs for the same period of 2011. The increase in lease operating expenses is caused by many factors. These include higher costs for equipment fuel, gas engine repairs, parts and supplies, professional services and chemicals. This was offset by lower costs for outside services, insurance expense, equipment rental and labor.

Equipment fuel costs increased by \$27,388 due to an increase in average fuel costs for gasoline and diesel and higher volumes purchased during the first half of 2012. In 2011, the Company recorded the purchase of approximately \$8,900 of fuel costs as rig maintenance costs for the Pike 1-H well. Gas engine repairs increased by \$14,802 due primarily to maintenance activities on the Santa Fe and Anderson wells. Parts and supplies increased by \$10,596 due to higher maintenance activities for the second quarter of 2012. 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. Chemicals increased by \$5,479 due to higher usage on certain oil producing properties.

Outside services decreased by \$12,185 due to lower demand for third-party repair and maintenance services. Insurance expense decreased by \$11,037 due to lower premiums for auto, health and workers' compensation insurance. Equipment rental costs decreased by \$8,608 due primarily to lower costs on the Pike lease during the second quarter of 2012. The Company leased the surface pumping unit and a crude oil storage tank for the new 1-H well that was drilled in the first quarter of 2011. Labor costs decreased by \$7,406 due primarily to fewer overtime hours worked during the first six months of 2012 when compared with the same period of 2011.

## GENERAL AND ADMINISTRATIVE

General and administrative expenses decreased by \$3,898 for the six months ended June 30, 2012 when compared with the same period for 2011. Accounting services decreased by \$27,871 due to lower audit fees and lower fees paid to a third-party individual who has assisted with the training and implementation of a new oil and gas accounting software that was effective January 1, 2011. General expenses increased by \$8,000 due to a donation the Company made during the second quarter of 2012 to a local medical facility. Computer supplies increased by \$4,920 due to greater utilization of IT consultants. General liability insurance increased by \$4,398 due to an increase in the allocation of insurance costs to general and administrative expense from operating expenses during 2012. Administrative salaries increased by \$3,825 due primarily to a 7.5% annual salary increase that was effective May 1, 2012. The remaining net increase in general and administrative costs of \$2,818 is attributable to many different cost categories, none of them significant in amount.

PROVISION FOR DEPLETION, DEPRECIATION AND AMORTIZATION

The provision for depletion, depreciation and amortization decreased by \$43,528 for the six months ended June 30, 2012, when compared with the same period for 2011. The amortization of Texas leaseholds decreased by approximately \$48,000 during the second quarter of 2012, when compared with the same period for 2011. The Texas leaseholds were fully amortized as of June 30, 2011.

## 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 \$54,384 against the costs incurred during the six months ended June 30, 2011 for the drilling of this well. No valuation allowances were recorded during the six months ended June 30, 2012.

## LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased by \$450,347 for the six months ended June 30, 2012. During the six months ended June 30, 2012, operating activities provided cash of \$1,271,043. Cash was used for capital spending of \$769,820 and principal payments on long-term debt of \$32,285. 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 and long-term investments of \$3,218,955 at June 30, 2012 that provided additional liquidity during the first six 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 six months ended June 30, 2012 increased by approximately \$6.60 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

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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 June 30, 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

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.

101 - The following information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (1) Balance Sheets as of June 30, 2012 and December 31, 2011; (2) Income Statements for the three and six months ended June 30, 2012 and 2011; (3) Statements of Cash Flows for the six months ended June 30, 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: August 14, 2012 JOHN H. ALEXANDER  
John H. Alexander  
President

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