

PYRAMID OIL CO  
Form 10-Q  
May 14, 2013

**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 March 31, 2013**

.. 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.)

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

93302  
(Zip Code)

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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 x 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 x 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 x

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

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, 2013)
<b>Common Stock Without Par Value</b>	<b>4,688,085</b>

**PYRAMID OIL COMPANY**

**FORM 10-Q**

**March 31, 2013**

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## PYRAMID OIL COMPANY

## BALANCE SHEETS

## ASSETS

	March 31, 2013 (Unaudited)	December 31, 2012 (Audited)
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$3,827,960	\$3,834,097
Short-term investments	2,137,040	2,135,709
Trade accounts receivable (net of reserve for doubtful accounts of \$4,000 in 2013 and 2012)	468,564	375,090
Income taxes receivable	67,069	73,069
Crude oil inventory	116,666	82,180
Prepaid expenses and other assets	201,135	257,370
Deferred Income taxes	264,400	264,400
<b>TOTAL CURRENT ASSETS</b>	<b>7,082,834</b>	<b>7,021,915</b>
<b>PROPERTY AND EQUIPMENT, at cost:</b>		
Oil and gas properties and equipment (successful efforts method)	20,044,387	20,007,453
Capitalized asset retirement costs	425,978	425,978
Drilling and operating equipment	2,058,744	1,966,750
Land, buildings and improvements	1,098,918	1,098,918
Automotive, office and other property and equipment	1,202,544	1,202,544
	24,830,571	24,701,643
Less - accumulated depletion, depreciation,		

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amortization and valuation allowances	(21,066,303)	(20,953,324)
TOTAL PROPERTY AND EQUIPMENT	3,764,268	3,748,319
INVESTMENTS AND OTHER ASSETS		
Long-term investments	1,108,968	1,101,526
Deferred income taxes	565,700	621,800
Deposits	250,000	250,000
Other assets	17,380	17,380
TOTAL INVESTMENTS AND OTHER ASSETS	1,942,048	1,990,706
TOTAL ASSETS	\$12,789,150	\$12,760,940

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

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

	March 31, 2013 (Unaudited)	December 31, 2012 (Audited)
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$191,426	\$226,759
Accrued professional fees	89,838	120,000
Accrued taxes, other than income taxes	70,407	70,407
Accrued payroll and related costs	72,978	58,954
Accrued royalties payable	205,892	204,509
Accrued insurance	49,348	94,116
<b>TOTAL CURRENT LIABILITIES</b>	<b>679,889</b>	<b>774,745</b>
<b>LIABILITY FOR ASSET RETIREMENT OBLIGATIONS</b>	<b>1,338,240</b>	<b>1,327,861</b>
<b>TOTAL LIABILITES</b>	<b>2,018,129</b>	<b>2,102,606</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 8)		
Authorized - 50,000,000 shares		
Issued and outstanding - 4,688,085 shares	1,682,971	1,682,971
Retained earnings	9,088,050	8,975,363
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>10,771,021</b>	<b>10,658,334</b>
<b>TOTAL LIABILITES AND SHAREHOLDERS' EQUITY</b>	<b>\$12,789,150</b>	<b>\$12,760,940</b>

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





**PYRAMID OIL COMPANY**

**STATEMENTS OF OPERATIONS**

**(UNAUDITED)**

	Three months ended March 31,	
	2013	2012
<b>REVENUES:</b>		
Oil and gas sales	\$1,007,803	\$1,369,058
<b>COSTS AND EXPENSES:</b>		
Operating expenses	434,438	429,941
General and administrative	222,141	211,016
Taxes, other than income and payroll taxes	30,397	47,421
Provision for depletion, depreciation, and amortization	112,979	181,156
Accretion expense	10,379	13,087
Other costs and expenses	33,224	29,805
	843,558	912,426
<b>OPERATING INCOME</b>	164,245	456,632
<b>OTHER INCOME (EXPENSE):</b>		
Interest income	10,311	10,690
Interest expense	0	(426 )
	10,311	10,264
<b>INCOME BEFORE INCOME TAX PROVISION</b>	174,556	466,896
Income tax provision		
Current	5,769	48,400
Deferred	56,100	46,400
	61,869	94,800
<b>NET INCOME</b>	\$112,687	\$372,096
<b>BASIC INCOME PER COMMON SHARE</b>	\$0.02	\$0.08
<b>DILUTED INCOME PER COMMON SHARE</b>	\$0.02	\$0.08

Weighted average number of common shares outstanding	4,688,085	4,683,853
Diluted average number of common shares outstanding	4,688,085	4,687,033

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

**PYRAMID OIL COMPANY****STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Three months ended March 31,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$112,687	\$372,096
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depletion, depreciation, and amortization	112,979	181,156
Accretion expense	10,379	13,087
Deferred income taxes	56,100	46,400
Changes in operating assets and liabilities:		
Decrease (increase) in trade accounts and income taxes receivable	(87,474 )	48,588
(Increase) in crude oil inventory	(34,486 )	(16,553 )
Decrease in prepaid expenses	56,235	50,120
(Decrease) in accounts payable and accrued liabilities	(94,856 )	(78,515 )
Net cash provided by operating activities	131,564	616,379

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

**STATEMENTS OF CASH FLOWS****(UNAUDITED)**

	Three months ended March 31,	
	2013	2012
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	\$(128,928 )	\$(613,692 )
Increase in short-term investments	(1,331 )	(2,131 )
Increase in long-term investments	(7,442 )	(6,802 )
Net cash used in investing activities	(137,701 )	(622,625 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt	0	(16,074 )
Net cash used in financing activities	0	(16,074 )
Net decrease in cash and cash equivalents	(6,137 )	(22,320 )
Cash and cash equivalents at beginning of period	3,834,097	2,762,676
Cash and cash equivalents at end of period	\$3,827,960	\$2,740,356
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the three months for interest	\$0	\$426

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

**PYRAMID OIL COMPANY**

**NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2013**

**(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, 2012 Form 10-K. The financial data presented herein should be read in conjunction with the Company's December 31, 2012 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, 2013 and the results of its operations and its cash flows for the three month periods ended March 31, 2013 and 2012. 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 2009. State jurisdictions that remain subject to examination range from 2008 to 2012. 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. There were no valuation allowances recorded in the first quarter of 2013 or 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%. 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. During December of 2012, the Company purchased Victory's share of the Pike 1-H well.

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

## **2. Recent Accounting Pronouncements**

In January 2013, the FASB issued ASU 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The amendments in this ASU clarify the scope for derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either offset or subject to netting arrangements. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013. The Company does not expect the adoption of ASU 2013-01 to have a material impact on its financial statements.

In April 2013, the FASB issued ASU 2013-07, "Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting." The amendments in this update are being issued to clarify when an entity should apply the liquidation basis of accounting. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. The Company does not expect the adoption of ASU 2013-07 to have a material impact on its financial statements.

### **3. Dividends**

No cash dividends were paid during the three months ended March 31, 2013 and 2012.

### **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 \$870,000 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 not further communication from the EPA on this matter since September 25, 2009.

## 5. Income Tax Provision

The Company recognized an income tax provision of \$61,869 for the first quarter of 2013 compared to an income tax provision of \$94,800 for the same period in 2012.

Income tax provision for the first quarter of 2013 was calculated as follows:

	Federal	State	Total
Current tax provision	\$4,769	\$1,000	\$5,769
Deferred tax provision	43,700	12,400	56,100
	\$48,469	\$13,400	\$61,869

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

	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

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 March 31, 2013. 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 \$43,000 during the first quarter of 2013 and \$75,000 during the first quarter of 2012.

## 8. Stock Based Compensation

The Company issued options to purchase common shares of the Company as compensation for Board of Director services. The value of 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, 2013 the Company has \$0 in unamortized stock based compensation related to outstanding options.

The following table summarizes the option activity for the three months ended March 31, 2013:

(Unaudited)	Number of Options	Weighted-Average Exercise Price
Outstanding, December 31, 2012	10,000	\$ 5.40
Granted	0	0
Exercised	0	0
Cancelled	0	0
Outstanding, March 31, 2013	10,000	\$ 5.40

The following summarizes the options issued, outstanding and exercisable as of March 31, 2013:

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, 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 \$10,379 during the three months ended March 31, 2013 as a result of normal accretion expense.

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, 2013.

### **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, 2012	\$1,327,861
Incurred during the period	0
Additions for new wells	0
Accretion expense	10,379
Balance at March 31, 2013	\$1,338,240

## 12. Subsequent Events

The Company evaluated subsequent events after the balance sheet date of March 31, 2013 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 2013, crude oil prices have decreased by \$3.55 per barrel.

The Company is in the planning and permitting process to re-drill three of its existing wells sometime during the third quarter of 2013, depending on drilling rig availability. The three wells are located on the Company's Delaney Tunnell property in Santa Maria, California. Two will be production wells, and will be re-drilled into the Monterey formation at a depth of approximately 6,700 feet. The wells were previously drilled to a depth of 4,700 feet. One of the wells will be re-drilled as a disposal well for production water. The Company has submitted its water disposal plan to the State of California and is awaiting approval.

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 2013 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 2013 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 2012. 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, 2013

### COMPARED TO THE QUARTER ENDED MARCH 31, 2012

#### REVENUES

The decrease in oil and gas sales of \$361,255 is due primarily to lower sales volumes of 2,800 barrels for the first three months of 2013. The average sales price of the Company's oil and gas for the first quarter of 2013 decreased by approximately \$5.54 per equivalent barrel when compared to the same period of 2012. Production declined due to a tank testing program which started in the fourth quarter of 2012 and was not completed until the first quarter of 2013 along with a natural decline in production. The tank testing program was mandated by the California Department of Oil and Gas, because of the procedures required to complete the testing, production was disrupted on many of the Company's oil and gas producing properties.

#### OPERATING EXPENSES

Operating expenses increased by \$4,497 for the first quarter of 2013. The cost to produce an equivalent barrel of crude oil during the first quarter of 2013 was approximately \$45.82 per barrel, an increase of approximately \$10.70 per barrel when compared with production costs for the first quarter of 2012. Although the increase in operating expenses was not significant, the increase in production costs per barrel of \$10.70 is due primarily to lower production/sales volumes of 2,800 barrels during the first quarter of 2013. There were many offsetting increases and decreases in operating expense categories that resulted in the net increase of \$4,497 during the first quarter of 2013.

Labor costs increased by \$23,316 for the first quarter of 2013. Labor increased due to the addition of one new field employee who was hired in October of 2012 and a 7% wage increase for all field employees that was effective May 1, 2012. Equipment rentals increased by \$15,271 due primarily to the rental of tanks for crude oil storage. These tanks were used during the testing of Company owned storage tanks. The testing was required by the California Department of Oil and Gas.

Contract operations decreased by \$23,033 due to lower costs for the Wyoming, New York and Texas joint venture properties. Production equipment repair and maintenance costs decreased by \$18,562 due primarily to lower costs for repair and maintenance parts and supplies. During the first quarter of 2012, the tubing and sand lines on one of the Company's well servicing rigs were replaced. No such costs were incurred during the first quarter of 2013.

#### GENERAL AND ADMINISTRATIVE

General and administrative expenses increased by \$11,125 for the first quarter of 2013 when compared with the same period for 2012. Salaries increased by \$6,944 due primarily to a 7% salary increase that was effective May 1, 2012. Computer services increased by \$4,166 due primarily to the greater utilization of third-party IT consultants.

#### PROVISION FOR DEPLETION, DEPRECIATION AND AMORTIZATION

The provision for depletion, depreciation and amortization decreased by \$68,178 for the first quarter of 2013, when compared with the same period for 2012. Depletion of oil and gas properties decreased by \$71,595 due primarily to lower production/sales volumes for the first quarter of 2013.

## LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by \$6,137 for the three months ended March 31, 2013. During the three months ended March 31, 2013, operating activities provided cash of \$131,564. Cash was used for capital spending of \$128,928. 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 \$3,246,008 at March 31, 2013 that provided additional liquidity during the first three months of 2013.

## 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 2013 decreased by approximately \$5.54 per equivalent barrel when compared with the same period of 2012. 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, 2013 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, 2012.

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.

101 - The following information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (1) Balance Sheets as of March 31, 2013 and December 31, 2012; (2) Statements of Operations for the three months ended March 31, 2013 and 2012; (3) Statements of Cash Flows for the three months ended March 31, 2013 and 2012; 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, 2013 JOHN H. ALEXANDER  
John H. Alexander  
President

Dated: May 14, 2013 LEE G. CHRISTIANSON  
Lee G. Christianson  
Chief Financial Officer