

PYRAMID OIL CO  
Form 10-K/A  
June 13, 2014

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 10-K/A**

**(Amendment No. 1)**

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**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 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)

<b>California</b>	<b>94-0787340</b>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

Registrant's telephone number, including area code: **(661) 325-1000**

Securities registered pursuant to Section 12(b) of the Exchange Act:

<b><u>Common Stock</u></b>	<b><u>NYSE MKT</u></b>
(Title of each class)	(Name of each exchange on which registered)

Securities registered under Section 12(g) of the Exchange Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
£ Yes R No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. £ Yes R No

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. R Yes £ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). R Yes £ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. R

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer £ Accelerated filer "

Non-accelerated filer  Smaller reporting company  R

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes  No

The aggregate market value on June 30, 2013, (the last business day of the registrant's most recently completed second fiscal quarter) of the voting shares held by non-affiliates was approximately \$12,991,000 based on the closing sales price of the registrant's Common Stock on such date.

At March 31, 2014, there were 4,688,085 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

EXPLANATORY NOTE

This Amendment No. 1 (this “Amendment”) to the Annual Report on Form 10-K of Pyramid Oil Company (the “Company”) for the year ended December 31, 2013, originally filed with the Securities and Exchange Commission (“SEC”) on March 31, 2014 (the “Original Filing”), which replaces in its entirety Item 8 and Item 15 of the Original Filing, is being filed for the sole purpose of clarifying that the Report of Independent Registered Public Accounting Firm in Item 8 (page 28) of the Original Filing covers the results of operations and cash flows for the three years ended December 31, 2013 and to update Item 15. This Amendment includes as exhibits new certifications by our Chief Executive Officer and Chief Financial Officer, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and a new Consent of Independent Registered Public Accounting Firm.

Except as described above, this Amendment does not modify or update the disclosures presented in, or exhibits to, the Original Filing in any way. This Amendment speaks as of the date of the Original Filing and does not reflect events occurring after the filing of the Original Filing. Accordingly, this Amendment should be read in conjunction with any other filings made by the Company with the SEC pursuant to Section 13(a) or Section 15(d) of the Exchange Act subsequent to the filing of the Original Filing.

**Item 8 - Financial Statements and Supplementary Data**

**PYRAMID OIL COMPANY**

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**DECEMBER 31, 2013**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders

Pyramid Oil Company

Bakersfield, California

We have audited the accompanying balance sheets of Pyramid Oil Company (the “Company”) as of December 31, 2013 and 2012, and the related statements of operations, stockholders’ equity and cash flows for the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pyramid Oil Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ SingerLewak LLP

Los Angeles, California

March 31, 2014

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**PYRAMID OIL COMPANY****BALANCE SHEETS****ASSETS**

	December 31,	
	2013	2012
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$4,404,246	\$3,834,097
Restricted cash	967,329	0
Short-term investments	2,140,822	2,135,709
Trade accounts receivable (net of reserve for doubtful accounts of \$4,000 in 2013 and 2012)	484,468	375,090
Income taxes receivable	12,400	73,069
Crude oil inventory	102,334	82,180
Prepaid expenses and other assets	249,030	257,370
Deferred Income taxes	711,800	264,400
<b>TOTAL CURRENT ASSETS</b>	<b>9,072,429</b>	<b>7,021,915</b>
<b>PROPERTY AND EQUIPMENT, at cost:</b>		
Oil and gas properties and equipment (successful efforts method)	19,883,190	20,007,453
Capitalized asset retirement costs	412,612	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	1,136,566	1,202,544
	24,590,030	24,701,643
Less - accumulated depletion, depreciation, amortization and valuation allowances	(21,335,914)	(20,953,324)
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>3,254,116</b>	<b>3,748,319</b>
<b>OTHER ASSETS</b>		
Long-term investments	1,131,707	1,101,526
Deferred income taxes	459,900	621,800
Deposits	250,000	250,000
Other assets	11,380	17,380
<b>TOTAL OTHER ASSETS</b>	<b>1,852,987</b>	<b>1,990,706</b>
<b>TOTAL ASSETS</b>	<b>\$14,179,532</b>	<b>\$12,760,940</b>



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

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

	December 31,	
	2013	2012
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 290,930	\$ 226,759
Accrued professional fees	140,711	120,000
Accrued taxes, other than income taxes	54,444	70,407
Accrued payroll and related costs	40,932	58,954
Accrued royalties payable	226,502	204,509
Accrued insurance	113,480	94,116
Liability for deferred compensation	1,026,655	0
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,893,654</b>	<b>774,745</b>
<b>LIABILITY FOR ASSET RETIREMENT OBLIGATIONS</b>	<b>1,305,862</b>	<b>1,327,861</b>
<b>TOTAL LIABILITIES</b>	<b>3,199,516</b>	<b>2,102,606</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 7)</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 11, 12 and 13)		
Authorized - 50,000,000 shares		
Issued and outstanding - 4,688,085 shares shares at December 31, 2013 and December 31, 2012	1,847,384	1,682,971
Retained earnings	9,132,632	8,975,363
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>10,980,016</b>	<b>10,658,334</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 14,179,532</b>	<b>\$ 12,760,940</b>

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



**PYRAMID OIL COMPANY****STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2013	2012	2011
<b>REVENUES:</b>			
Oil and gas sales	\$4,391,824	\$4,995,327	\$5,688,437
Gain on sales of property and equipment	809,476	0	1,512
	5,201,300	4,995,327	5,689,949
<b>COSTS AND EXPENSES:</b>			
Operating expenses	1,978,468	1,942,754	1,789,569
General and administrative	1,080,162	842,037	879,779
Deferred compensation	1,063,445	0	0
Stock based compensation	164,413	0	43,743
Taxes, other than income and payroll taxes	130,297	160,144	137,163
Provision for depletion, depreciation, and amortization	507,157	649,559	735,231
Valuation allowances	151,243	237,711	751,263
Accretion expense	37,477	38,341	45,314
Other costs and expenses	165,533	149,717	147,330
	5,278,195	4,020,263	4,529,392
<b>OPERATING INCOME (LOSS)</b>	<b>(76,895 )</b>	<b>975,064</b>	<b>1,160,557</b>
<b>OTHER INCOME (EXPENSE):</b>			
Interest income	40,519	42,943	49,863
Other income	0	450	500
Interest expense	0	(1,091 )	(3,020 )
	40,519	42,302	47,343
<b>INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT)</b>			
	<b>(36,376 )</b>	<b>1,017,366</b>	<b>1,207,900</b>
<b>Income tax expense (benefit)</b>			
Current	91,855	81,921	203,203
Deferred	(285,500 )	157,900	(90,500 )
	(193,645 )	239,821	112,703
<b>NET INCOME</b>	<b>\$157,269</b>	<b>\$777,545</b>	<b>\$1,095,197</b>
<b>BASIC AND DILUTED INCOME PER COMMON SHARE</b>	<b>\$0.03</b>	<b>\$0.17</b>	<b>\$0.23</b>
Basic and diluted average number of common shares outstanding	4,688,085	4,685,859	4,687,580

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



**PYRAMID OIL COMPANY****STATEMENTS OF SHAREHOLDERS' EQUITY**

	Common Shares Issued and Outstanding	Common Stock	Retained Earnings	Total Shareholders' Equity
Balances, December 31, 2010	4,677,728	\$1,1639,228	\$7,102,621	\$8,741,849
Stock based compensation		43,743		43,743
Shares issued on exercise of options	6,125			
Net income			1,095,197	1,095,197
Balances, December 31, 2011	4,683,853	1,682,971	8,197,818	9,880,789
Shares issued on exercise of options	4,232			
Net income			777,545	777,545
Balances, December 31, 2012	4,688,085	1,682,971	8,975,363	10,658,334
Stock based compensation		164,413		164,413
Net income			157,269	157,269
Balances, December 31, 2013	4,688,085	\$1,847,384	\$9,132,632	\$10,980,016

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

**PYRAMID OIL COMPANY**

**STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2013	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 157,269	\$ 777,545	\$ 1,095,197
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for depletion, depreciation, and amortization	507,157	649,559	735,231
Valuation allowances	151,243	237,711	751,263
Accretion expense	37,477	38,341	45,314
Gain on sale of property and equipment	(809,476 )	0	(1,512 )
Stock based compensation	164,413	0	43,743
Deferred income taxes	(285,500 )	157,900	(90,500 )
Asset retirement obligations	0	10,631	(1,618 )
Loss on disposal of fixed assets	30,790	0	0
Deferred compensation	1,026,655	0	0
Changes in operating assets and liabilities:			
(Increase) decrease in trade accounts and interest receivable	(48,709 )	128,505	(68,207 )
(Increase) decrease in crude oil inventory	(20,154 )	35,976	(31,795 )
Decrease (increase) in prepaid expenses	8,340	(1,523 )	(24,970 )
Decrease (increase) in other assets	6,000	0	(10,000 )
Increase in accounts payable and accrued liabilities	92,254	107,300	55,099
Net cash provided by operating activities	1,017,759	2,141,945	2,497,245

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

**PYRAMID OIL COMPANY****STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2013	2012	2011
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	\$(194,987 )	\$(979,038 )	\$(1,163,961 )
Payments to acquire short-term investments	0	0	(100,000 )
(Increase) in short-term investments	(5,113 )	(7,329 )	(11,655 )
(Increase) in long-term investments	(30,181 )	(29,542 )	(30,181 )
Restricted cash	(967,329 )	0	0
Proceeds from sale of property and equipment	750,000	0	21,500
Net cash used in investing activities	(447,610 )	(1,015,909)	(1,284,297)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of long-term debt	0	0	55,979
Principal payments on long-term debt	0	(54,615 )	(41,783 )
Net cash (used in) provided by financing activities	0	(54,615 )	14,196
Net increase in cash and cash equivalents	570,149	1,071,421	1,227,144
Cash and cash equivalents at beginning of year	3,834,097	2,762,676	1,535,532
Cash and cash equivalents at end of year	\$4,404,246	\$2,762,676	\$2,762,676
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Cash paid during the year for interest	\$0	\$1,091	\$3,020
Cash paid during the year for income taxes	\$48,800	\$133,821	\$216,874

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



## PYRAMID OIL COMPANY

### NOTES TO FINANCIAL STATEMENTS

#### 1. Significant Accounting Policies

##### *Nature of Operations*

Pyramid Oil Company (the “Company”), a California Corporation, has been in the oil and gas business continuously for 103 years since it was incorporated on October 9, 1909. The Company is in the business of exploration, development and production of crude oil and natural gas. The Company operated and has interests in 28 oil and gas leases in Kern and Santa Barbara Counties in the State of California. The Company also owns oil and gas interests in Wyoming, Texas and New York that it does not operate. The Company grants short-term credit to its customers and generally receives payment within 30 days.

##### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### *Cash and Cash Equivalents*

Cash and cash equivalents principally consist of demand deposits and certificates of deposits having original maturities of three months or less. At December 31, 2013, the Company had approximately \$3,813,898 of cash and cash equivalents that were not fully insured by the FDIC.

##### *Investments*

Investments consist of certificates of deposit having original maturities of three months or more and are valued at cost.

*Inventory*

Inventories of crude oil and condensate are valued at the lower of cost, predominately on a first-in, first-out (FIFO) basis, or market, and include certain costs directly related to the production process.

*Deposits*

In April 2004, the Company replaced its state of California oil and gas blanket performance surety bond, with a cash bond in the form of an irrevocable certificate of deposit in the amount of \$250,000.

## PYRAMID OIL COMPANY

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### *Costs Incurred in Oil and Gas Producing Activities*

The Company has adopted the “successful efforts” method of accounting for its oil and gas exploration and development activities, as set forth in FASB ASC Topic No. 932.

The Company initially capitalizes expenditures for oil and gas property acquisitions until they are either determined to be successful (capable of commercial production) or unsuccessful. The carrying value of all undeveloped oil and gas properties is evaluated periodically and reduced if such

carrying value appears to have been impaired. Leasehold costs relating to successful oil and gas properties remain capitalized while leasehold costs which have been proven unsuccessful are charged to operations in the period the leasehold costs are proven unsuccessful. Costs of carrying and retaining unproved properties are expensed as incurred.

The costs of drilling and equipping development wells are capitalized, whether the wells are successful or unsuccessful. The costs of drilling and equipping exploratory wells are capitalized until they are determined to be either successful or unsuccessful. If the wells are successful, the costs of the wells remain capitalized. If, however, the wells are unsuccessful, the capitalized costs of drilling the wells, net of any salvage value, are charged to operations in the period the wells are determined to be unsuccessful.

The Company adopted FASB ASC Topic No. 360-10-15, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of” (the Statement). The Statement specifies when an impairment loss should be recognized and how impairment losses should be measured for long-lived assets to be held and used and for long-lived assets to be disposed of. In accordance with the Statement, the costs of proved oil and gas properties and equipment are periodically assessed on a lease by lease basis to determine if such costs exceed undiscounted future cash flows, and if conditions warrant an impairment reserve will be provided based on the estimated future discounted cash flows. The Company recorded an impairment reserve of \$151,243, \$237,711 and \$751,263 at December 31, 2013, 2012 and 2011, respectively (see Note 6). The accumulated impairment reserve was \$4,988,758 and \$4,980,931 at December 31, 2013 and 2012, respectively.

#### *Joint Venture Investments*

The Company participates in two joint ventures as a non-operator. The properties are located in New York and Texas, both are primarily gas properties. The Company has a minority interest in both joint ventures. The Company's interest in the New York gas wells range from 19 to 38 percent. The Company's interest in the Texas joint venture wells range from 3.75 to 6.25 percent. The Company records its share of revenues, expenses and capital costs as provided to the Company by the joint-venture operators. The accounting policies for the joint venture properties are consistent with the accounting policies that the Company uses for its wholly-owned properties.

**PYRAMID OIL COMPANY**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

*Depletion, Depreciation, and Amortization*

Depletion of leasehold costs of producing oil and gas properties is provided on the unit-of-production method, by individual property unit, based on estimated recoverable proved reserves. Depreciation and amortization of the costs of producing wells and related equipment are provided on the unit-of-production method, by individual property unit, based on estimated recoverable proved developed reserves. Amortization of the costs of undeveloped oil and gas properties is based on the Company's experience, giving consideration to the holding periods of leaseholds. The average depletion per equivalent barrel of crude oil produced for 2013, 2012 and 2011 were \$11.88, \$16.66 and \$24.27, respectively.

Drilling and operating equipment, buildings, automotive, office and other property and equipment and leasehold improvements are stated at cost. Depreciation and amortization are computed using the straight-line method over the shorter of the estimated useful lives or the applicable lease terms (range of 3 to 19 years). Any permanent impairment of the carrying value of property and equipment is provided for at the time such impairments become known.

*Stock-based Compensation*

The Company accounts for its share based compensation in accordance with ASC718. Stock-based compensation cost represents stock options issued to non-employee members of the Board of Directors, and is measured at the grant date based on the estimated fair value of the award, and is recognized as expense over the requisite vesting period.

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model. Assumptions relative to volatility and anticipated forfeitures are determined at the time of grant. The following are the assumptions used for stock option grants during 2013. There were no stock option grants during 2012.

December 31,  
2013

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Expected life in years	2.5 years	
Stock price volatility	51.4	%
Discount rate	0.34	%
Expected dividends	None	
Forfeiture rate	0	%

## PYRAMID OIL COMPANY

### NOTES TO FINANCIAL STATEMENTS (Continued)

The assumptions used in the Black Scholes model referred to above are based upon the following data: (1) the expected life of the option is estimated by considering the contractual term of the option and the vesting period of the option, the employees' expected exercise behavior and the post-vesting employee turnover rate; (2) the expected stock price volatility of the underlying shares over the expected term of the option is based upon historical share price data of the Company's shares; (3) the risk free interest rate is based on published U.S. Treasury Department interest rates for the expected terms of the underlying options; (4) expected dividends are based on historical dividend data and expected future dividend activity; and (5) the expected forfeiture rate is based on historical forfeiture activity and assumptions regarding future forfeitures based on the composition of current grantees.

#### *Maintenance and Repairs*

Maintenance, repairs and replacement expenditures are charged to operations as incurred, while major renewals and betterments are capitalized and depreciated over their useful lives.

#### *Retirement or Disposal of Properties and Equipment*

Costs and accumulated depletion, depreciation, amortization and valuation allowances of property and equipment retired, abandoned, or otherwise disposed of are removed from the accounts upon disposal, and any resulting gain or loss is included in operations in the year of disposition. However, upon disposal of a portion of an oil and gas property, any proceeds received are treated as a recovery of cost and no gain or loss is recognized in the year of disposition.

#### *Income Taxes*

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which

those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

The Company adopted the provisions of FASB ASC Topic No. 740-10-25, "Accounting for Uncertainty in Income Taxes", on January 1, 2007 (ASC 740-10-25). As a result of the implementation of ASC 740-10-25, the Company made a comprehensive review of its portfolio of tax positions in accordance with recognition standards established by ASC 740-10-25. As a result of the implementation of ASC 740-10-25, the Company recognized no material adjustments to liabilities or stockholders equity.

The Company files income tax returns in the U.S. Federal jurisdiction, and California, Texas and New York states. With few exceptions, the Company is no longer subject to U.S. Federal tax examination for the years prior to 2010. State jurisdictions that remain subject to examination range from 2009 to 2012. The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months.



## PYRAMID OIL COMPANY

### NOTES TO FINANCIAL STATEMENTS (Continued)

The Company's 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 ASC 740-10-25, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any interest expense recognized during the year ended December 31, 2013.

#### *Concentration of Credit Risk*

The Company sells its crude oil to Phillips 66 and Kern Oil & Refining, accounting for approximately 51% and 47%, respectively, of the Company's crude oil and gas sales in 2013. Crude oil sales were approximately 51% and 47% attributable to Phillips 66 and Kern Oil and Refining, respectively at December 31, 2012. While revenue from these customers is significant, and the loss of any one could have an adverse effect on the Company, it is management's opinion that the oil and gas it produces could be sold to other crude oil purchasers, refineries or pipeline companies. Trade receivables were approximately 44% and 55% attributable to Phillips 66 and Kern Oil and Refining, respectively at December 31, 2013. Trade receivables were approximately 62% and 37.5% attributable to Phillips 66 and Kern Oil and Refining, respectively at December 31, 2012.

#### *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.

## PYRAMID OIL COMPANY

### NOTES TO FINANCIAL STATEMENTS (Continued)

In July 2013, the FASB issued ASU No. 2013-011, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or A Tax Credit Carryforward Exists." These amendments provide guidance on the financial statement presentation of unrecognized tax benefits to better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of ASU 2013-11 will not have a material impact on the Company's consolidated financial statements.

#### *Reclassifications*

Certain reclassifications have been made to the prior financial statements to conform to the 2013 presentation.

#### *Revenue Recognition*

The Company recognizes sales when: (1) persuasive evidence of an arrangement exists; (2) product delivery has occurred; (3) pricing is fixed or determinable; and (4) collection is reasonably assured. To satisfy these criteria, the Company: (1) has crude oil sales contracts with its crude oil purchasers; (2) records revenue based upon receipt of evidence of shipment of crude oil and when risk of loss and title transfer has occurred; (3) the Company's crude oil contracts specify the pricing terms which are fixed and determinable; (4) validates creditworthiness through past payment history and other financial data. Sales rebates, discounts and customer returns are not applicable to the oil and gas industry.

#### *Trade Accounts Receivable and Allowance for Doubtful Accounts*

Our accounts receivable are unsecured and are at risk to the extent such amounts become uncollectible. The Company has had the same two major customers for approximately 20 years with no history of non-payment or default. Pursuant to the terms of the crude oil sales contracts, the Company receives payment around the 20th of the month following crude oil shipments. The Company has established a nominal allowance for doubtful accounts due to the Company's

evaluation of its customers past payment history, creditworthiness and other financial data.

*Property and Equipment*

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 19 years. Maintenance and repairs are charged to operations as incurred, while significant improvements are capitalized. Upon retirement or disposition of property, the asset and related accumulated depreciation or amortization is removed from the accounts and any resulting gain or loss is charged to operations. The carrying value of property and equipment is assessed periodically and/or when factors indicating impairment are present. We recognize impairment losses when the expected cash flows are less than the asset's carrying value, in which case the asset is written down to its estimated fair value. The Company recorded an impairment reserve of \$151,243, \$237,711 and \$751,263 at December 31, 2013, 2012 and 2011, respectively (see Note 6).

## PYRAMID OIL COMPANY

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### 2. Fair Value Measurements

Effective January 1, 2008, the Company adopted the authoritative guidance on fair value measurements. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the guidance establishes a three tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity. Included in this category is the Company's valuation of its asset retirement obligation liability. The obligation increased \$37,477 during the year ended December 31, 2013, as a result of normal accretion. This was offset by a decrease in the obligation of \$59,476 due to the sale of the Chico-Martinez lease.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

In accordance with this guidance, we measure our cash equivalents and short-term investments at fair value. Our cash equivalents and short term investments are classified within Level 1. Cash equivalents and short term investments are valued primarily using quoted market prices utilizing market observable inputs. At December 31, 2013, cash equivalents and short term investments consisted of certificates of deposit measured at fair value on a recurring basis. Fair values of our certificates of deposit were \$3,678,639, of which \$406,110 was included in cash equivalents, \$2,140,822 was included in short-term investments and \$1,131,707 was included in long-term investments at December 31, 2013. Fair values of our certificates of deposit were \$3,642,944, of which \$405,709 was included in

cash equivalents, \$2,135,709 was included in short-term investments and \$1,101,526 was included in long-term investments at December 31, 2012.

Fair Value on a 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). The amounts below represent only balances measured at fair value during the period presented and still held as of the reporting date. These balances appear as a component of the “Oil and Gas Properties and Equipment” and “Accumulated Depletion, Depreciation, Amortization and Valuation Allowances” captions on the balance sheet.

## PYRAMID OIL COMPANY

## NOTES TO FINANCIAL STATEMENTS (Continued)

At and for the period ended December 31,  
2013:

	Total	Level 1	Level 2	Level 3	Total Valuation
Oil and gas properties and equipment	\$674,600	\$ —	\$ —	\$523,400	\$(151,200)

In the year ended December 31, 2013 certain oil and gas properties and equipment held and used with a carrying amount of \$674,600 were written down to their fair value of \$523,400, resulting in a valuation charge of \$151,200, which was included in earnings for this period. The fair value of these long-lived assets held and used was calculated based upon discounted cash flow projections. These projections incorporate management's assumptions about future cash flows based upon past experience and future expectations. The expected cash flows are then discounted using a discount rate that the Company believes is commensurate with the risks involved.

At and for the period ended December 31, 2012:

	Total	Level 1	Level 2	Level 3	Total Valuation
Oil and gas properties and equipment	\$1,019,100	\$ —	\$ —	\$781,400	\$(237,700)

In the year ended December 31, 2012 certain oil and gas properties and equipment held and used with a carrying amount of \$1,019,100 were written down to their fair value of \$781,400, resulting in a valuation charge of \$237,700, which was included in earnings for this period. The fair value of these long-lived assets held and used was calculated based upon discounted cash flow projections. These projections incorporate management's assumptions about future cash flows based upon past experience and future expectations. The expected cash flows are then discounted using a discount rate that the Company believes is commensurate with the risks involved.

### 3. Long-Term Debt and Line of Credit

At December 31, 2013, the Company had an unsecured line of credit with a bank, under which the Company may borrow up to \$500,000 through May 31, 2014. Interest on any borrowing is accrued at the bank's index rate plus 0.50

percentage points. The bank's index rate was 4.75% at December 31, 2013. As of December 31, 2013, the Company did not have any outstanding balance on its unsecured line of credit.



## PYRAMID OIL COMPANY

## NOTES TO FINANCIAL STATEMENTS (Continued)

## 4. Income Taxes

Income tax expense (benefit) consists of the following:

	Year Ended December 31,		
	2013	2012	2011
Federal income taxes:			
Current	\$78,226	\$69,700	\$174,403
Deferred	(228,800)	122,850	(70,350)
	(150,574)	192,550	104,053
State income taxes:			
Current	13,629	12,221	28,800
Deferred	(56,700)	35,050	(20,150)
	(43,071)	47,271	8,650
Income tax expense (benefit)	\$(193,645)	\$239,821	\$112,703

Differences exist between certain accounting policies and related provisions included in federal income tax rules. The amounts by which these differences and other factors cause the total income tax provision to differ from an amount computed by applying the federal statutory income tax rate to financial income is set forth in the following reconciliation:

	Year Ended December 31,		
	2013	2012	2011
Federal income tax expense (benefit) at statutory rate	\$(13,942)	\$351,395	\$410,686
Statutory depletion	(147,845)	(143,291)	(320,627)
Prior period tax changes	(2,443)	(8,000)	0
State income taxes	13,629	12,221	28,800
Other	(43,044)	27,496	(6,156)
Income tax expense (benefit)	\$(193,645)	\$239,821	\$112,703



**PYRAMID OIL COMPANY****NOTES TO FINANCIAL STATEMENTS (Continued)**

The components of net deferred tax asset (liability) are as follows:

	Year Ended December 31,		
	2013	2012	2011
Current deferred taxes:			
Gross assets	\$711,800	\$264,400	\$262,500
Gross liabilities	0	0	0
	711,800	264,400	262,500
Noncurrent deferred taxes:			
Gross assets	2,178,600	2,340,500	2,500,300
Gross liabilities	0	0	0
Valuation allowance	(1,718,700)	(1,718,700)	(1,718,700)
	459,900	621,800	781,600
	\$1,171,700	\$886,200	\$1,044,100

The tax effect of significant temporary differences representing deferred tax assets and (liabilities) are as follows:

	Year Ended December 31,		
	2013	2012	2011
Accounts receivable	\$1,600	\$1,600	\$1,600
Asset retirement obligations	520,200	519,800	500,100
Statutory depletion carryover	1,718,700	1,718,700	1,718,700
Accrued liabilities	710,200	262,800	260,900
Total deferred tax assets	2,950,700	2,502,900	2,481,300
Property and equipment	(60,300 )	102,000	281,500
Valuation allowance	(1,718,700)	(1,718,700)	(1,718,700)
	\$1,171,700	\$886,200	\$1,044,100

At December 31, 2013, a valuation allowance has been provided against the statutory depletion carryover due to the uncertainty of its future utilization.

The Company believes that its estimate of deferred tax assets and determination to record a valuation allowance against the statutory depletion carryover are critical accounting estimates because they are subject to, among other things, an estimate of future taxable income, which is susceptible to change and dependent upon events that may or may not occur, and because the impact of recording a valuation allowance may be material to the assets reported on the balance sheet and results of operations.

## **PYRAMID OIL COMPANY**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

At December 31, 2013, the Company has, for Federal income tax purposes, a statutory depletion carryover of approximately \$4,095,000, which currently has no expiration date.

#### **5. Related-Party Transactions**

Effective January 1, 1990, John H. Alexander, a former 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 (the "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 \$131,000, \$222,500 and \$226,200 in 2013, 2012 and 2011, respectively.

As a director, Mr. Alexander had abstained from voting on any of the above matters that have been brought before the Board of Directors, involving the Santa Fe lease. See Note 12 for discussion of severance awards entered into with Mr. Alexander.

#### **6. Fourth Quarter Results (Unaudited)**

During the fourth quarter of 2013, the Company made adjustments to the carrying value of some of its oil and gas properties. The Company recorded a valuation allowance in the amount of \$151,243 at December 31, 2013 to reflect the change in the projected future discounted net cash flows for this property, as the result of the analysis of the Company's oil and gas reserves by independent consultants. The Company also reduced depletion of its oil and gas properties by \$34,834 as a result of the analysis of the Company's oil and gas reserves by independent consultants at December 31, 2013.

## **PYRAMID OIL COMPANY**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

During the fourth quarter of 2012, the Company made adjustments to the carrying value of some of its oil and gas properties. The Company recorded a valuation allowance in the amount of \$237,711 at December 31, 2012 to reflect the change in the projected future discounted net cash flows for this property, as the result of the analysis of the Company's oil and gas reserves by independent consultants. The Company also reduced depletion of its oil and gas properties by \$39,414 as a result of the analysis of the Company's oil and gas reserves by independent consultants at December 31, 2012.

During the fourth quarter of 2011, the Company made adjustments to the carrying value of one of its oil and gas properties. The Company recorded a valuation allowance in the amount of \$23,879 at December 31, 2010 to reflect the change in the projected future discounted net cash flows for this property, as the result of the analysis of the Company's oil and gas reserves by independent consultants.

#### **7. Commitments and Contingencies**

The Company is liable for future dismantlement and abandonment costs associated with its oil and gas properties. These costs include down-hole plugging and abandonment of wells, future site restoration, post closure and other environmental exit costs. The costs of future dismantlement and abandonment have been accrued and recorded in the financial statements. See Note 10, Assets Retirement Obligations.

The Company is subject to potential litigation within the normal course of business. In management's opinion, the resolution of such litigation would not have a material adverse effect upon the Company's financial position or the results of its operations. The Company did not have any pending litigation at December 31, 2013.

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 were 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 liability is deemed remote.



## **PYRAMID OIL COMPANY**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

During the fourth quarter of 2012, pursuant to requirements of the California Department of Oil and Gas (“CA DOG”) the Company conducted a testing program on all of its crude oil storage tanks. The testing required the Company to empty each tank and measure for the thickness of the metal. The testing is almost complete and the results were favorable. The testing process disrupted crude oil production during the fourth quarter leading to lower revenues during the fourth quarter of 2012 and the first quarter of 2013.

#### **8. Defined Contribution Plan**

The Company has a defined contribution plan (Simple IRA) available to all employees meeting certain service requirements. Employees may contribute up to a maximum of \$6,000 of their compensation to the plan. The Company will make a contribution to the plan in an amount equal to the employee’s contributions up to 3% of their salaries. Contributions of \$12,641, \$12,646 and \$11,549 were made during the years ended December 31, 2013, 2012 and 2011, respectively.

#### **9. 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. The Company has recognized deferred tax benefits of approximately \$520,200 for the asset retirement obligations as of December 31, 2013.



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A reconciliation of the Company's asset retirement obligations from the periods presented, are as follows:

	December 31,		
	2013	2012	2011
Beginning balance	\$1,327,861	\$1,278,889	\$1,235,193
Incurring during the period	0	(14,105 )	(13,397 )
Additions for new wells	0	25,092	11,779
Deletions for wells sold	(59,476 )	0	0
Accretion expense	37,477	37,985	45,314
Ending balance	\$1,305,862	\$1,327,861	\$1,278,889

**PYRAMID OIL COMPANY**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**10. Share Based Compensation**

*Stock-Option Plan*

The Company has issued stock options as compensation for members of the Board of Directors under the Pyramid Oil Company 2006 Equity Incentive Plan (the “2006 Plan”). These options vested immediately and are exercisable for a five-year period from the date of the grant.

The following is a summary of the Company’s stock option activity.

	Number Of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2011	10,000	\$ 5.40	0	\$ 0
Granted	0	0		0
Exercised	0	0		0
Forfeited	0	0		0
Outstanding at December 31, 2012	10,000	\$ 5.40	3.42	\$ 0
Granted	100,000	5.16		0
Exercised	0	0		0
Forfeited	(5,000 )	5.40		0
Outstanding at December 31, 2013	105,000	\$ 5.17	4.66	\$ 0
Exercisable at December 31, 2013	105,000	\$ 5.17	4.66	\$ 0

As of December 31, 2013, there were no unvested stock options or unrecognized stock option expense. The weighted average grant date fair value of options issued and vested during 2013 was \$1.64 per option.



**PYRAMID OIL COMPANY****NOTES TO FINANCIAL STATEMENTS (Continued)**

The following table summarizes information about stock options outstanding and exercisable at December 31, 2013.

Exercise Price	Options Outstanding		Weighted Average Exercise Price	Options Exercisable	
	Number of Shares	Weighted Average Remaining Life (Years)		Number of Shares	Weighted Average Exercise Price
\$ 5.40	5,000	2.42	\$ 5.40	5,000	\$ 5.40
\$ 5.16	100,000 105,000	4.77	\$ 5.16	100,000 105,000	\$ 5.16

*Warrants*

During the year ended December 31, 2012, warrant holders exercised 15,000 outstanding warrants under a cash-less exercise provision in the warrant agreements. This resulted in 4,232 shares of common stock being issued to the warrant holders. There were no remaining warrants outstanding as of December 31, 2013 or 2012.

**11. Incentive and Retention Plan**

On January 9, 2007, the Company's Board of Directors adopted an Incentive and Retention Plan (the "Incentive 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 such term is defined in the Incentive 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. No employees have been selected by the Compensation Committee to receive payments under the Incentive Plan.

## **12. 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 November 5, 2013, that became effective on November 21, 2013. The registration statement is designed to provide the Company the flexibility to offer and sell from time to time up to \$30 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.

## **PYRAMID OIL COMPANY**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **13. Change in Directors of the Company**

On September 30, 2013, John H. Alexander resigned as the President and Chief Executive Officer, and as a director, of the Company, and John E. Turco resigned as a director of the Company. Michael D. Herman, currently the Chairman of the Board of Directors of the Company, was appointed as the Interim President and Chief Executive Officer of the Company.

Mr. Herman served as Pyramid's Chairman of the Board of Directors since 2005. Following his purchases of Pyramid common stock from Messrs. Alexander and Turco, Mr. Herman owns approximately 39.5% of the outstanding common stock of Pyramid (not including the 100,000 shares that Mr. Herman will acquire in April 2014).

As part of this Board of Directors and management transition, Mr. Herman purchased 243,579 shares of Pyramid common stock from Mr. Turco at a purchase price of \$6.00 per share. In addition, Mr. Herman purchased 95,592 shares of Pyramid common stock from Mr. Alexander at a purchase price \$6.00 per share, and will purchase an additional 100,000 of Mr. Alexander's shares by April 5, 2014, at the same price.

On October 8, 2013, the Board of Directors appointed Rick D. Kasch to the Company's Board of Directors to fill the vacancy created by the resignation of Mr. Turco. Mr. Kasch serves as President of ENSERVCO Corporation, which is a publicly traded energy services company based in Denver, Colorado. Pyramid's Chairman of the Board of Directors and Interim President and Chief Executive Officer, Michael D. Herman, serves as the Chairman of the Board of Directors and Chief Executive Officer of ENSERVCO Corporation.

#### **14. Settlement Agreement**

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 was 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, 2013. On September 30, 2013, Mr. Alexander resigned as the President and Chief Executive Officer of the Company.

**PYRAMID OIL COMPANY**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

In connection with Mr. Alexander's resignation, Mr. Alexander and the Company entered into a Settlement Agreement and General Release of Claims, dated as of September 30, 2013 (the "Settlement Agreement"). Pursuant to the Settlement Agreement, among other things:

· Mr. Alexander's existing employment agreement terminated effective as of September 30, 2013;

The Company agreed to pay an aggregate amount of \$967,329 to Mr. Alexander in satisfaction of amounts that are owed to Mr. Alexander under his employment agreement, with such amount to be paid in three equal installments of \$322,443 each, on April 5, 2014, January 5, 2015, and January 5, 2016. These amounts are included in restricted cash and deferred compensation liability;

The Company agreed to secure these payments owed to Mr. Alexander in a "rabbi trust" pursuant to a Trust Agreement, dated as of October 1, 2013 between the Company and Gilbert Ansolabehere, as trustee (the "Trust Agreement");

· Mr. Alexander agreed to resign as a director and officer of the Company;

The Company and Mr. Alexander entered into a Consulting Agreement, dated as of October 1, 2013 (the "Consulting Agreement"), pursuant to which Mr. Alexander will serve as a consultant to the Company on a part-time basis through September 30, 2014 for a fee of \$10,000 per month;

· The Company and Mr. Alexander waived known and unknown claims against each other;

Mr. Herman agreed to purchase shares of the Company's common stock held by Messrs. Alexander and Turco, see Footnote 14; and

The Company and Mr. Alexander entered into an Indemnity Agreement, dated as of September 30, 2013 (the "Indemnity Agreement"), pursuant to which the Company agreed to indemnify Mr. Alexander against certain claims, losses, costs and expenses that may result in the future from lawsuits and other proceedings in connection with his service as a director and an officer of the Company.



On March 18, 2014, the trust agreement, “Rabbi Trust dated October 1, 2013, ” noted above was terminated by agreement of the Company, Mr. Alexander and the trustee and the funds were disbursed.

## **15. Subsequent Events**

The Company evaluated subsequent events after the balance sheet date of December 31, 2013 through March 31, 2014.

On February 6, 2014, the Company and privately held Yuma Energy, Inc. (“Yuma”) announced they had entered into a definitive merger agreement for an all-stock transaction. Upon completion of the transaction, which is subject to the approval of shareholders of both companies, the Company will change its name to “Yuma Energy, Inc.,” and relocate its headquarters to Houston, Texas, while maintaining offices in Bakersfield, California, to oversee its California operations.

**PYRAMID OIL COMPANY**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

Under the terms of the merger agreement, the Company will reincorporate in Delaware and the Delaware successor corporation will issue an aggregate of approximately 66 million shares of its common stock to Yuma shareholders, resulting in former Yuma shareholders owning approximately 93% of the post-merger company. Upon closing, there will be an aggregate of approximately 71 million shares of common stock outstanding. The transaction is expected to qualify as a tax-deferred reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code").

The merger agreement is subject to the approval of the shareholders of both companies, as well as other customary approvals, including authorization to list the newly issued shares on the NYSE MKT. The companies anticipate completing the transaction in mid-2014.

**PYRAMID OIL COMPANY****SUPPLEMENTAL INFORMATION (UNAUDITED) (Continued)****OIL AND GAS PRODUCING ACTIVITIES**

FASB ASC Topic 932, Extraction Activities - Oil and Gas, requires disclosure of certain financial data for oil and gas operations and reserve estimates of oil and gas. This information, presented here, is intended to enable the reader to better evaluate the operations of the Company. All of the Company's oil and gas reserves are located in the United States.

The aggregate amounts of capitalized costs relating to oil and gas producing activities and the related accumulated depletion, depreciation, and amortization and valuation allowances as of December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Proved properties	\$19,704,600	\$19,828,900	\$18,946,000
Unproved properties being amortized	178,600	178,600	178,600
Unproved properties not being amortized	0	0	0
Capitalized asset retirement costs	412,612	425,978	401,200
Accumulated depletion, depreciation, amortization and valuation allowances	(18,214,400)	(17,912,400)	(17,132,100)
	\$2,081,412	\$2,521,078	\$2,393,700

The estimated quantities and the change in proved reserves, both developed and undeveloped, for the Company are as follows:

	2013		2012		2011	
	Oil	Gas	Oil	Gas	Oil	Gas
	(Mbbbls)	(MMCF)	(Mbbbls)	(MMCF)	(Mbbbls)	(MMCF)
Proved developed and undeveloped reserves:						
Beginning of year	482	0	546	42	538	44
Revisions of previous estimates	10	20	(19)	(36)	63	7
Extensions, discoveries and other additions	0	0	0	0	0	0
Production	(43)	(6)	(45)	(6)	(55)	(9)
End of year	449	14	482	0	546	42

Proved developed reserves:

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Beginning of year	482	0	474	42	433	35
End of year	449	14	482	0	474	42
Proved undeveloped reserves:						
Beginning of year	0	0	71	0	105	8
End of year	0	0	0	0	71	0

The foregoing estimates have been prepared by the Company from data prepared by an independent petroleum engineer in respect to certain producing properties. Revisions in previous estimates as set forth above can result from analysis of new information, as well as from additional production experience or from a change in economic factors. The primary factor that has impacted the revisions of previous estimates of crude oil and natural gas reserves noted above is from a change in crude oil and natural gas prices used to determine the valuation of year-end reserves. Higher crude oil and natural gas prices cause certain oil and gas leases to become more profitable, thus generating additional reserves. Net average crude oil sales prices (average crude oil sales prices net of operating costs, production taxes and development costs) used to value the year-end reserves decreased by approximately \$0.63 per barrel at December 31, 2013, decreased by approximately \$6.50 per barrel at December 31, 2012 and increased by approximately \$18.00 per barrel at December 31, 2011.

**PYRAMID OIL COMPANY****SUPPLEMENTAL INFORMATION (UNAUDITED) (Continued)****OIL AND GAS PRODUCING ACTIVITIES**

The reserve estimates are believed to be reasonable and consistent with presently known physical data concerning size and character of the reservoirs and are subject to change as additional knowledge concerning the reservoirs becomes available.

The present value of estimated future net revenues of proved developed and undeveloped reserves, discounted at 10%, were as follows:

	December 31,		
	2013	2012	2011
Proved developed and undeveloped reserves (Present value before income taxes)	\$13,135,000	\$13,712,000	\$18,439,000

FASB ASC Topic 932, Extraction Activities - Oil and Gas, requires certain disclosures of the costs and results of exploration and production activities and established a standardized measure of oil and gas reserves and the year-to-year changes therein.

In addition to the foregoing disclosures, FASB ASC Topic 932, Extraction Activities - Oil and Gas established a "Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves".

Costs incurred, both capitalized and expensed, of oil and gas property acquisition, exploration and development for the years ended December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Property acquisition costs	\$0	\$50,000	\$700
Exploration costs – expensed	0	0	0
Development costs	103,000	857,900	1,022,300
Asset retirement costs	0	24,700	11,800



**PYRAMID OIL COMPANY****SUPPLEMENTAL INFORMATION (UNAUDITED) (Continued)****OIL AND GAS PRODUCING ACTIVITIES**

The results of operations for oil and gas producing activities for the years ended December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Sales	\$4,392,000	\$4,995,000	\$5,688,000
Production costs	2,109,000	2,103,000	1,920,000
Exploration costs	0	0	0
Accretion expense	115,000	38,000	45,000
Depletion, depreciation, amortization and valuation allowance	658,000	887,000	1,486,000
	1,510,000	1,967,000	2,237,000
Income tax (benefit) provision	(246,000 )	240,000	113,000
Results of operations from production activities	\$1,756,000	\$1,727,000	\$2,124,000

The standardized measure of discounted estimated future net cash flows relating to proved oil and gas reserves for the years ended December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Future cash inflows	\$46,428,000	\$51,004,000	\$58,216,000
Future development and production costs	23,136,000	25,941,000	24,445,000
Future abandonment costs	1,442,000	1,328,000	1,279,000
Future income tax expense	5,100,000	5,238,000	7,987,000
Future net cash flow	16,750,000	18,497,000	24,505,000
10% annual discount	6,701,000	7,771,000	9,392,000
Standardized measure of discounted future net cash flow	\$10,049,000	\$10,726,000	\$15,113,000

**PYRAMID OIL COMPANY****SUPPLEMENTAL INFORMATION (UNAUDITED) (Continued)****OIL AND GAS PRODUCING ACTIVITIES**

The principal changes in the standardized measure of discounted future net cash flows during the years ended December 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Extensions	\$0	\$0	\$0
Revisions of previous estimates			
Price changes	(357,000 )	(2,155,000)	7,026,000
Quantity estimates	411,000	(894,000 )	1,901,000
Change in production rates, timing and other	143,000	(1,642,000)	(1,157,000)
Development costs incurred	103,000	858,000	1,023,000
Changes in estimated future development costs	0	(1,281,000)	315,000
Estimated future abandonment costs	(90,000 )	(6,000 )	8,000
Sales of oil and gas, net of production costs	(2,283,000)	(2,892,000)	(3,768,000)
Accretion of discount	1,450,000	1,922,000	1,386,000
	(623,000 )	(6,090,000)	6,734,000
Net change in income taxes	54,000	(1,703,000)	1,778,000
Net (decrease) increase	\$(677,000 )	\$(4,387,000)	\$4,956,000

Estimated future cash inflows are computed by applying year-end prices of oil and gas to year-end quantities of proved reserves. Estimated future development and production costs are determined by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. Estimated future income tax expense is calculated by applying the year-end effective tax rate to estimated future pretax net cash flows related to proved oil and gas reserves, less the tax basis of the properties involved.

These estimates are furnished and calculated in accordance with requirements of the Financial Accounting Standards Board and the SEC. Because of the unpredictable variances in expenses and capital forecasts, crude oil and natural gas price changes being largely influenced and controlled by United States and foreign governmental actions, and the fact that the basis for such estimates vary significantly, management believes the usefulness of these projections is limited. Estimates of future net cash flows do not represent management's assessment of future profitability or future actual cash flows of the Company. It should be recognized that applying current costs and prices and a ten percent standard discount rate allows for comparability but does not convey absolute value. The discounted amounts arrived at are only one measure of financial quantification of proved reserves.



The standardized measure of discounted future cash flows before income taxes decreased by \$623,000 at December 31, 2013. The increase in income taxes decreased discounted future cash flows by \$54,000 for a total decrease in future cash flows of \$677,000 after income taxes as of December 31, 2013. Future cash flows decreased due primarily to sales of oil and gas, net of production costs. This was offset by accretion of discount and revisions of quantity estimates.

**PYRAMID OIL COMPANY**

**SUPPLEMENTAL INFORMATION (UNAUDITED) (Continued)**

**OIL AND GAS PRODUCING ACTIVITIES**

The standardized measure of discounted future cash flows before income taxes decreased by \$6,090,000 at December 31, 2012. The decrease in income taxes offset discounted future cash flows by \$1,703,000 for a net decrease in future cash flows of \$4,387,000 after income taxes as of December 31, 2012. The factors contributing to the decrease in cash flows are lower net average crude oil prices (average crude oil sales prices net of operating costs, production taxes and development costs). During 2012, net average crude oil prices decreased by approximately \$6.50 per barrel. At December 31, 2012 the Company did not have any proved undeveloped reserves which also contributed to the decrease in future cash flows for 2012. The proved undeveloped reserves at December 31, 2011 included two wells that were projected to be drilled during 2012. One of these wells was the Santa Fe #20 development well that was drilled in 2012. This well is not currently producing and a valuation allowance of \$204,000 was recorded at December 31, 2012 for the Santa Fe energy lease. The other well project to be drilled in 2012, the CLI 4-H, was not drilled during 2012 and is not expected to be drilled in the future.

The standardized measure of discounted future cash flows before income taxes increased by \$6,734,000 at December 31, 2011. The increase in income taxes offset discounted future cash flows by \$1,778,000 for a net increase in future cash flows of \$4,956,000 after income taxes as of December 31, 2011. The major factor contributing to the increase in cash flows is higher net average crude oil prices (average crude oil sales prices net of operating costs, production taxes and development costs). During 2011, net average crude oil prices increased by approximately \$18.00 per barrel. This price increase contributed to an increase in discounted cash flows due to price changes of \$7,026,000.

**PYRAMID OIL COMPANY****SUPPLEMENTAL INFORMATION (UNAUDITED)****QUARTERLY RESULTS**

	2013	2012
REVENUES:		
Quarter Ended:		
March 31	\$1,007,803	\$1,369,058
June 30	1,154,409	1,340,314
September 30	1,138,438	1,198,420
December 31 (a)	1,900,650	1,087,535
	\$5,201,300	\$4,995,327
NET INCOME (LOSS):		
Quarter Ended:		
March 31	\$112,687	\$372,096
June 30	130,071	288,571
September 30 (b)	(533,781 )	207,896
December 31 (a) (c) (d)	448,292	(91,018 )
	\$157,269	\$777,545
INCOME (LOSS) PER COMMON SHARE:		
Quarter Ended:		
March 31	\$0.02	\$0.08
June 30	0.03	0.06
September 30 (b)	(0.11 )	0.04
December 31 (a) (c) (d)	0.09	(0.01 )
	\$0.03	\$0.17

(a) Reflects gain on sale of fixed assets of \$809,476 for the sale of one of the Company's oil and gas properties recorded in the fourth quarter of 2013.

(b) Reflects deferred compensation of \$1,040,764, see Item 8. Financial Statements and Supplementary Data - Note 14, "Settlement Agreement".

(c) Reflects a valuation allowance of \$151,243 recorded in the fourth quarter of 2013 for the write-down of certain oil and gas properties.

(d) Reflects a valuation allowance of \$237,711 recorded in the fourth quarter of 2012 for the write-down of certain oil and gas properties.

**PYRAMID OIL COMPANY**

**CORPORATE INFORMATION**

Board of Directors Michael D. Herman, President and Chairman of the Board  
Rick D. Kasch, President of ENSERVCO  
Gary L. Ronning, former Executive Vice President, Western Region  
of Prime Natural Resources, Inc.

Officers Michael D. Herman, President  
Lee G. Christianson, Chief Financial Officer, Secretary and Treasurer

Independent Auditor SingerLewak LLP - Los Angeles, California

Transfer Agent and Registrar Computershare Investor Services  
250 Royall Street  
Canton, MA 02021  
800-962-4284

Corporate Offices 2008-21st Street  
Bakersfield, California 93301

District Offices Bakersfield, California

Legal Counsel TroyGould PC - Los Angeles, California

Investor Information Availability of Form 10-K: The Annual Report of  
Pyramid Oil Company on Form 10-K, as filed with the  
Securities and Exchange Commission, is available to any  
stockholder upon request without charge. Please  
address all such requests to:

Corporate Secretary  
Pyramid Oil Company  
P.O. Box 832  
Bakersfield, California 93302

COMMON STOCK: The Company's common stock is traded on the NYSE MKT using the  
symbol PDO.

**Item 15 - Exhibits and Financial Statement Schedules**

- 2.1 Agreement and Plan of Merger and Reorganization dated as of February 6, 2014, by and among Pyramid Oil Company, Yuma Energy, Inc., Pyramid Delaware Merger Subsidiary, Inc., and Pyramid Merger Subsidiary, Inc. (previously filed by the registrant on February 6, 2014 as Exhibit 2.1 to the registrant's Current Report on Form 8-K and incorporated herein by reference).
- 3.1 Restated Articles of Incorporation of Pyramid Oil Company (previously filed by the registrant on August 13, 2010 as Exhibit 3.1 to the registrant's Quarterly Report on Form 10-Q, and incorporated herein by reference).
- 3.2 Amended and Restated Bylaws of Pyramid Oil Company (previously filed by the registrant on November 21, 2013 as Exhibit 4.2 to the registrant's registration statement on Form S-3, and incorporated herein by reference).
- 10.1 Employment Agreement of John H. Alexander, dated February 21, 2002 (previously filed by the registrant on March 29, 2002 as Exhibit 10.4 to the registrant's Quarterly Report on Form 10-QSB, and incorporated herein by reference).
- 10.2 Severance Award Agreement of John H. Alexander, dated January 9, 2007 (previously filed by the registrant on January 16, 2007 as Exhibit 99.1 to the registrant's Current Report on Form 8-K, and incorporated herein by reference).

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- 10.3 Severance Award Agreement of John H. Alexander, dated December 30, 2008 (previously filed by the registrant on January 6, 2008 as Exhibit 10.1 to the registrant's Current Report on Form 8-K, and incorporated herein by reference).
- 10.4 Severance Award Agreement of John H. Alexander, dated June 4, 2009 (previously filed by the registrant on March 30, 2011 as Exhibit 10.4 to the registrant's Annual Report on Form 10-K, and incorporated herein by reference).
- 10.5 Severance Award Agreement of John H. Alexander, dated September 21, 2010 (previously filed by the registrant on November 12, 2010 as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q, and incorporated herein by reference).
- 10.6 Settlement Agreement and General Release of All Claims, dated as of September 30, 2013, between Pyramid Oil Company and John H. Alexander (previously filed by the registrant on October 4, 2013 as Exhibit 10.1 to the registrant's Current Report on Form 8-K, and incorporated herein by reference).
- 10.7 Trust Agreement, dated as of October 1, 2013, between Pyramid Oil Company and Gilbert Ansolabehere, as trustee (previously filed by the registrant on October 4, 2013 as Exhibit 10.2 to the registrant's Current Report on Form 8-K, and incorporated herein by reference).
- 10.8 Consulting Agreement, dated as of October 1, 2013, between Pyramid Oil Company and John H. Alexander (previously filed by the registrant on October 4, 2013 as Exhibit 10.3 to the registrant's Current Report on Form 8-K, and incorporated herein by reference).
- 10.9 Indemnity Agreement, dated as of September 30, 2013, between Pyramid Oil Company and John H. Alexander (previously filed by the registrant on October 4, 2013 as Exhibit 10.4 to the registrant's Current Report on Form 8-K, and incorporated herein by reference).
- 10.10 Indemnity Agreement, dated as of January 2014, between Pyramid Oil Company and Gary L. Ronning (previously filed by the registrant on March 31, 2014 as Exhibit 10.10 to the registrant's Annual Report on Form 10-K, and incorporated herein by reference).
- 10.11 Indemnity Agreement, dated as of January 2014, between Pyramid Oil Company and Michael D. Herman (previously filed by the registrant on March 31, 2014 as Exhibit 10.11 to the registrant's Annual Report on Form 10-K, and incorporated herein by reference).
- 10.12 Indemnity Agreement, dated as of January 2014, between Pyramid Oil Company and Rick D. Kasch (previously filed by the registrant on March 31, 2014 as Exhibit 10.12 to the registrant's Annual Report on Form 10-K, and incorporated herein by reference).
- 10.13 2006 Equity Incentive Plan of Pyramid Oil Company (previously filed by the registrant on July 21, 2011 as Exhibit 4.3 to the registrant's Registration Statement on Form S-8, and incorporated herein by reference)
- 23.1 Consent of SingerLewak LLP.
- 23.2 Consent of MHA Petroleum Consultants, LLC (previously filed by the registrant on March 31, 2014 as Exhibit 23.2 to the registrant's Annual Report on Form 10-K, and incorporated herein by reference).





- 31.1 Certification of Chief Executive Officer Pursuant to 15 U.S.C. Section 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of Chief Financial Officer pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Report dated February 12, 2014 of MHA Petroleum Consultants, LLC, independent petroleum engineers (incorporated by reference to Exhibit 99.1 to registrant's Annual Report on Form 10-K filed on March 31, 2014).

101.0 The following financial information from the Annual Report on Form 10-K of Pyramid Oil Company for the year ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (1) Balance Sheets as of December 31, 2013 and December 31, 2012; (2) Statements of Operations for the years ended December 31, 2013, 2012 and 2011; (3) Statements of Shareholders' Equity for the years ended December 31, 2013, 2012 and 2011; (4) Statements of Cash Flows for the years ended December 31, 2013, 2012 and 2011; and (5) Notes to Financial Statements (incorporated by reference to Exhibit 101 to registrant's Annual Report on Form 10-K filed on March 31, 2014)

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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

June 13, 2014 By: /s/ MICHAEL D. HERMAN

Name: Michael D. Herman

Title: Interim Chief Executive Officer and President and Chairman of the Board of Directors