

Edgar Filing: PYRAMID OIL CO - Form 10KSB

PYRAMID OIL CO
Form 10KSB
March 29, 2001

1

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

/X/ Annual Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934 (Fee Required)

For the fiscal year ended December 31, 2000

/ / 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 0-5525

PYRAMID OIL COMPANY
(Exact name of registrant as specified in its charter)

CALIFORNIA
(State or other jurisdiction of
incorporation or organization)

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

2008 - 21st. Street, P. O. Box 832
Bakersfield, California
(Address of principal executive offices)

93302
(Zip Code)

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

Securities registered pursuant to Section 12 (b) of the Exchange Act: NONE

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

Common Stock Without Par Value
(Title of Class)

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

2

State the registrant's revenues for its most recent fiscal year: \$2,023,805

The aggregate market value on March 16, 2001, of Common shares held by
non-affiliates was approximately \$973,000 based on the average closing bid and
asked prices of the registrant's Common shares on such date, as quoted by the
National Quotation Bureau.

Edgar Filing: PYRAMID OIL CO - Form 10KSB

At March 16, 2001, there were 2,494,430 Common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2001 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year are incorporated by reference into Part III.

Transitional Small Business Disclosure Format (check one):

Yes No X

3

PYRAMID OIL COMPANY

2000 FORM 10-KSB ANNUAL REPORT

Table of Contents

| | Page |
|---|------|
| PART I | |
| Item 1. Description of Business | 4 |
| Item 2. Description of Property | 9 |
| Item 3. Legal Proceedings | 12 |
| Item 4. Submission of Matters to a Vote of Security Holders. | 12 |
| PART II | |
| Item 5. Market for Common Equity and Related Stockholder Matters. | 13 |
| Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations . . . | 14 |
| Item 7. Financial Statements | 20 |
| Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure . . . | 47 |
| PART III | |
| Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act | 47 |
| Item 10. Executive Compensation | 47 |
| Item 11. Security Ownership of Certain Beneficial Owners and Management. | 47 |
| Item 12. Certain Relationships and Related Transactions | 48 |
| PART IV | |
| Item 13. Exhibits and Reports on Form 8-K | 49 |

Safe Harbor Statement under the Private Securities
Litigation Reform Act of 1995

Except for the historical information contained herein, the matters discussed in this Annual Report are forward-looking statements which involve risks and uncertainties, including but not limited to economic, competitive, political, regulatory and governmental factors affecting the Company's revenues, operations, markets and prices, properties and other factors discussed in the Company's various filings with the Securities and Exchange Commission.

PART I

ITEM 1 - DESCRIPTION OF BUSINESS

(a) GENERAL BUSINESS DESCRIPTION

Pyramid Oil Company is a California corporation that has been in the oil and gas business continuously, since it was incorporated on October 9, 1909. Pyramid Oil Company, hereinafter referred to as "Pyramid" or the "Company," is engaged in the business of exploration, development and production of crude oil and natural gas.

Pyramid acquires interests in land and producing properties through acquisition and lease on which it drills and/or operates oil or gas wells in efforts to discover and/or to produce oil and gas. Crude oil and natural gas produced from these properties are sold to various refineries and pipeline companies. The majority of all oil and gas properties that Pyramid owns and operates is for its own account. Pyramid also participates in specific joint ventures with others in the development of oil and gas properties. Pyramid's interests in these properties will vary depending on the availability of said interests and their locations.

The Company's executive offices are located at 2008 21st Street, Bakersfield, California, 93301, telephone (661) 325-1000, facsimile (661) 325-0100.

(b) DESCRIPTION OF BUSINESS - OIL AND GAS OPERATIONS

Exploration and Development

Pyramid operates in a highly competitive industry wherein many companies, from large multinational companies to small independent producers, are competing for a finite amount of oil and gas resources. The Company seeks out properties to explore for oil and gas by drilling and also seeks out producing oil and gas properties that can be purchased and operated.

Management believes that under the right economic conditions, several of the producing properties that the Company owns could have further developmental potential. Certain oil properties currently owned and operated by the Company may be receptive to enhanced oil recovery procedures when economic conditions improve.

Edgar Filing: PYRAMID OIL CO - Form 10KSB

Oil and Gas Production Operations

Pyramid owns and operates 28 oil and gas leases (properties) located within Kern and Santa Barbara Counties in the State of California. All of these properties are capable of producing oil or natural gas, although not all of these properties are considered profitable under certain economic conditions. During 2000, the Company operated 21 leases within California, with total annual gross oil production exceeding 500 barrels per lease. Production operations primarily consist of the daily pumping of oil from a well(s) into tanks, maintaining the production facilities both at the well and tank settings, preparing and shipping the crude oil to buyers. Daily operations differ from one property to another, depending on the number of wells, the depth of the wells, the gravity of the oil produced and the location of the property. All of Pyramid's oil production is classified as primary recovery production at this time; although certain properties may be conducive to secondary recovery operations in the future, depending on the prevailing price of oil.

Primary recovery of oil and gas is by means of natural flow(s) or artificial lift of oil and gas from a single well bore. Natural gas and petroleum fluids enter the well bore by means of reservoir pressure or gravity; fluids and gases are moved to the surface by natural pressure or by means of artificial lift. In secondary recovery operations, liquids or gases are injected into the reservoirs for the purpose of augmenting reservoir energy or increasing reservoir temperatures. Secondary recovery operations, usually, but not always, are done after the primary-recovery phase has passed.

The Company employs field level personnel (i.e., pumpers, rig crews, roustabouts and equipment operators) that perform basic daily activities associated with producing oil and gas. Daily operations include inspections of surface facilities and equipment, gauging, reporting and shipping oil, and routine maintenance and repair activities on wells, production facilities and equipment. The Company owns and maintains various pieces of equipment necessary for employees to perform repair and maintenance tasks on Company properties. Such equipment consists of service rigs, mobile pumps, vacuum trucks, hot oil truck, backhoe, trucks and trailers.

Occasionally, the Company drills new wells or redrills existing wells on properties owned by the Company in an attempt to increase oil and gas production. In the last five years, the Company has utilized the services of outside drilling contractors for drilling new wells and redrilling existing wells. Maintenance and repairs of existing wells to maintain or increase oil and gas production are carried out by Company personnel on a continuing basis. Most maintenance and repair work is performed with Company rigs.

6

Economic factors associated with the price of oil and gas and the productive output of wells determine the number of active wells the Company operates. Under certain economic conditions, the Company has the potential to operate approximately 125 wells, and of these, approximately 66 were in daily operation during 2000. Operations continue to be reduced on specific properties that are currently generating a marginal gross profit in an effort to hold the properties until economic conditions warrant full scale operations. The Company also owns other oil and gas interests outside of California that it does not operate. These interests are located in Wyoming and New York.

Marketing of Crude Oil and Natural Gas

The Company sells its crude oil to Kern Oil & Refining and Tosco Refining Company, accounting for approximately 41.4% and 52.9%, respectively, of Pyramid's crude oil and gas sales in 2000. 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. Natural gas is sold to companies in the area of operations. Market demand for Pyramid's production is subject to various influences and can never be assured, especially in an era of changing prices. The base values for crude oil the Company sells is set by major oil companies in response to area and market strengths and international influences. Types and qualities of crude oil vary substantially in base values posted by crude oil buyers in various areas of the country. Pyramid's crude oil sales are not seasonal, but uniform throughout the year; however, there are some seasonal influences that may affect natural gas sales from the interests owned in the State of New York.

(C) RISKS, COMPETITION AND INDUSTRY CONDITIONS

The profitability of the Company's operations depends primarily on the production of oil and gas in commercially profitable quantities. Oil and gas properties often fail to provide a return sufficient to repay the substantial sums of money required for their acquisition, exploration and development. The acquisition, exploration and development of oil and gas properties is a highly competitive business. Many entities with which the Company competes have significantly greater financial and staff resources. Such competitive disadvantage could materially and adversely affect the Company's ability to acquire new properties or develop existing properties.

The oil and gas industry, in general, has been adversely affected by several factors beyond the Company's control, including unstable oil and gas prices, uncertainty regarding the effect of pricing agreements and production quotas and allocations established by the Organization of Petroleum Exporting Countries, political instability in the Middle East and the status of ever-changing federal and state legislation and regulation.

7

Given the uncertainty of international and domestic political actions and their impact on the energy markets, it is difficult, if not impossible, to predict the price or market situation for any oil or gas which is currently owned or which could be developed by the Company. Depressed oil and gas prices or significant curtailment in the Company's oil and gas production from its better properties would have a material adverse effect on the Company's operations.

(d) REGULATIONS

The Company's business is affected by an abundance of governmental laws and regulations, including energy, environmental, conservation, tax and other laws and regulations relating to the petroleum industry. Changes in any of these laws and regulations could have a material and adverse effect on the Company's business and financial stability. In view of the many uncertainties with respect to current laws and regulations, including their applicability to the Company, the Company cannot predict the overall effect of such laws and regulations on future operations.

Edgar Filing: PYRAMID OIL CO - Form 10KSB

TAXATION

The operations of the Company, as is the case in the petroleum industry generally, are significantly affected by federal tax laws. Federal, as well as state, tax laws have many provisions applicable to corporations which could affect the future tax liability of the Company.

ENVIRONMENTAL

The Company's activities are subject to existing federal and state laws and regulations governing environmental quality and pollution control. These laws may require the acquisition of permits relating to certain ongoing operations, for drilling, emissions, waste water disposal and other air and water quality controls. In view of the uncertainty and unpredictability of environmental statutes and regulations, the Company cannot ensure that such laws and regulations will not materially and adversely affect the business of the Company. The Company does not anticipate any material effect on its capital expenditures or earnings as the result of governmental regulations, enacted or proposed, concerning environmental protection or the discharge of material into the environment. The Company is actively pursuing an ongoing policy of upgrading and restoring older properties to comply with current and proposed environmental regulations.

8

Late in the fourth quarter of 1998, the Company was notified by the United States Environmental Protection Agency (EPA) that the Company was identified as a "de minimis" contributor to the Casmalia Disposal Site in Santa Barbara County, California. The EPA claimed that all parties who contributed to the disposal site were potentially liable for a share of the clean up costs.

After extensive examination of the EPA's documentation, upon which the EPA based their claims, the Company determined that all of the materials sent to the Casmalia disposal site, by the Company, between 1980 and 1983 were found to be non-toxic, non-hazardous materials, specifically exempt under Federal EPA statutes (RCRA Subtitle C Regulations and CERCLA, Section 101(14), 42 U.S.C. Sec 9601(14)). EPA manifests identified over 97% of the materials sent by the Company to this site as being oil field waste water.

In December 1999, the Company formally responded to the EPA, by denying all of the allegations and providing factual evidence in support of the Company's position. Currently, the EPA's position is that it does not consider parties which only sent petroleum wastes to the site liable. Therefore, management does not believe that the Company is, or will be, liable for any clean up costs associated with the EPA's remediation of the Casmalia Disposal Site.

(e) Commitments and Contingencies

The Company is liable for future dismantlement and abandonment costs associated with its oil and gas properties. These costs include future site restoration, post closure and other environmental exit costs. The costs of future dismantlement and abandonment have not been determined. Management believes that these costs will not have a material adverse effect upon its financial position or results of operations.

In 1996, the Company filed a lawsuit in Kern County Superior Court, against Mr. Russell R. Simonson, alleging a breach of a contractual agreement. The lawsuit went to trial in 1997 and the trial court ruled that the Defendant

Edgar Filing: PYRAMID OIL CO - Form 10KSB

twice breached terms of an agreement, and the court awarded the Company damages, interest and attorney's fees. The Defendant appealed the trial court's decision and the matter was reviewed by the California Appeals Court. In November 2000, the Appeals Court again ruled in favor of the Company, upholding the original award of damages, interest and attorney's fees. On March 5, 2001, the Company recorded a gain and received payment from the Defendant in the amount of \$395,708, concluding this matter.

The Company is subject to potential litigation within the normal course of business. The resolution in any reporting period of such litigation could have a material impact on Pyramid's financial position or results of operations for that period. However, in management's opinion, it is unlikely that the resolution of any such litigation will have a material adverse effect upon the financial position or results of operations of the Company.

9

(f) OTHER

The Company employed twelve full-time people as of December 31, 2000.

The Company had no material research and development costs for the three years ended December 31, 2000.

All of the Company's revenues during 2000 were derived from domestic sources.

ITEM 2 - DESCRIPTION OF PROPERTY

(a) DESCRIPTION OF PROPERTIES

The principal assets of the Company consist of proven and unproven oil and gas properties, oil and gas production related equipment and developed and undeveloped real estate holdings. There are also well servicing and drilling equipment, truck and automotive, office and other equipment. The Company's oil and gas properties are located exclusively in the continental United States, in California, Wyoming and New York.

Developed oil and gas properties are those on which sufficient wells have been drilled to economically recover the estimated reserves calculated for the property. Undeveloped properties do not presently have sufficient wells to recover the estimated reserves. The Company had no significant proved undeveloped properties at December 31, 2000, 1999 and 1998.

(b) OIL AND GAS PROPERTIES

The Company's estimated future net recoverable oil and gas reserves from proved developed properties were assembled by System Technology Associates, Inc., independent petroleum engineers, and are as follows:

| | Crude Oil (BBLS) | Natural Gas (MCF) |
|-----------------|---------------------|----------------------|
| | ----- | ----- |
| January 1, 2001 | 341,000 | 72,000 |
| 2000 | 361,000 | 65,000 |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | |
|------|---------|---------|
| 1999 | 384,000 | 127,000 |
| 1998 | 435,000 | 145,000 |
| 1997 | 499,000 | 278,000 |

10

The Company's estimated future net recoverable oil and gas reserves, noted in the table above, have not been filed with any other Federal authority or agency since January 1, 2000.

Using year-end oil and gas prices and lease operating expenses, the estimated value of future net revenues to be derived from Pyramid's proved developed oil and gas reserves, discounted at 10%, were \$2,311,000 at December 31, 2000, \$2,718,000 at December 31, 1999, \$1,001,000 at December 31, 1998, \$1,688,000 at December 31, 1997, and \$3,958,000 at December 31, 1996.

Pyramid participates in the drilling of developmental wells, no single one of which would cause a significant change in the net reserve figure.

Pyramid's net oil and gas production after royalty and other working interests for the past five years ending December 31, were as follows.

| | 2000 ---- | 1999 ---- | 1998 ---- | 1997 ---- | 1996 ---- |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| Crude oil (Bbls) | 71,000 | 84,000 | 85,000 | 91,000 | 101,000 |
| Natural gas (MCF) | 9,000 | 24,000 | 36,000 | 35,000 | 48,000 |

Pyramid's average sales prices per barrel or per MCF of crude oil and natural gas, respectively, and production costs per equivalent barrel (gas production is converted to equivalent barrels at the rate of 6 MCF per barrel, representing the estimated relative energy content of gas to oil) for the past five years ending December 31, were as follows:

| | 2000 ---- | 1999 ---- | 1998 ---- | 1997 ---- | 1996 ---- |
|------------------|------------------|------------------|------------------|------------------|------------------|
| Sales price: | | | | | |
| Crude oil | \$26.16 ===== | \$15.49 ===== | \$10.73 ===== | \$17.07 ===== | \$18.80 ===== |
| Natural gas | \$ 3.14 ===== | \$ 1.82 ===== | \$ 1.64 ===== | \$ 1.99 ===== | \$ 1.35 ===== |
| Production costs | \$13.70 ===== | \$ 8.70 ===== | \$ 8.60 ===== | \$ 9.90 ===== | \$ 9.60 ===== |

The average selling price of Pyramid's crude oil at December 31, 2000, was approximately \$23.00 per barrel and the average selling price of Pyramid's gas at December 31, 2000, was approximately \$6.14 per MCF.

11

As of December 31, 2000, Pyramid had the following gross and net position in

Edgar Filing: PYRAMID OIL CO - Form 10KSB

wells and proved acres:

| WELLS | | PROVED ACRES | |
|-----------|---------|--------------|---------|
| Gross (1) | Net (1) | Gross (2) | Net (2) |
| 149 | 125 | 22,217 | 6,489 |
| === | === | ===== | ===== |

- (1) "Gross wells" represents the total number of wells in which the Company has a working interest. "Net wells" represents the number of gross wells multiplied by the percentage of the working interests therein held by the Company.
- (2) "Gross acreage" represents all acres in which the Company has a working interest. "Net acres" represents the aggregate of the working interests of the Company in the gross acres.

During the year ended December 31, 1997, Pyramid participated in the drilling of 1 well. No wells were drilled in 2000, 1999, 1998 and 1996. All of these wells were drilled in California and completed as producing wells.

"Unproven" oil and gas properties are those on which the presence of commercial quantities of reserves of crude oil or natural gas has not been established.

"Undeveloped" acreage exists on those oil and gas properties where economically recoverable reserves are estimated to exist in proved reservoirs from wells to be drilled in the future.

As of December 31, 2000, Pyramid held positions in unproven acreage in the following locations:

| | ACRES | |
|--------------------------------------|--------|-------|
| | Gross | Net |
| New York | | |
| Mount Morris and Livingston Counties | 34,800 | 9,788 |
| | ===== | ===== |

12

(c) REAL PROPERTY OWNED

Pyramid owned the following real property as of December 31, 2000, all located in California.

| | |
|-----------------|-----------|
| County of Kern | |
| Mullaney yard | 20 acres |
| Grazing land | 160 acres |
| Miller property | 112 acres |
| Ranton property | 80 acres |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

City of Bakersfield

3 lots

Located on the three lots of real property in the city of Bakersfield is the Company's executive offices. This property was acquired by the Company in 1986. The office building located on this property is a one story structure with approximately 4,200 square feet in good condition.

ITEM 3 - LEGAL PROCEEDINGS

Pyramid is not party to any proceedings or actions which management believes might have a material effect upon its financial position or results of operations.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2000.

13

PART II

ITEM 5 - MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) PRICE RANGE OF COMMON SHARES

The common stock of Pyramid is traded on the over-the-counter market. The following are high and low "bid" quotations for each quarter of 2000 and 1999, and reflect inter-dealer prices without retail markup, markdown or commission and may not necessarily represent actual transactions.

| | High Bid ---- | Low Bid ----- |
|----------------|---------------------|---------------------|
| 2000 | | |
| First Quarter | \$1.0000 | \$0.3125 |
| Second Quarter | 0.7500 | 0.2813 |
| Third Quarter | 0.9375 | 0.6250 |
| Fourth Quarter | 0.9375 | 0.6875 |
| 1999 | | |
| First Quarter | 0.1250 | 0.1250 |
| Second Quarter | 0.1250 | 0.1250 |
| Third Quarter | 0.1250 | 0.1250 |
| Fourth Quarter | 0.6250 | 0.1250 |

(b) APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

Title of Class

Edgar Filing: PYRAMID OIL CO - Form 10KSB

Common Shares, without par value

Approximate Number of Holders of Record of
the Outstanding Common Shares as of
December 31, 2000

722

The Company has paid no dividends on its common shares for the past five years and does not anticipate paying any dividends in the foreseeable future. Dividends on the common shares, if any, will be dependent upon the Company's earnings, financial conditions and other relevant factors as determined by the Board of Directors.

14

ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

IMPACT OF CHANGING PRICES

Average prices increased by approximately \$10.85 per equivalent crude oil and gas barrel sold during 2000 as compared with average prices for 1999. In 2000 there were 100 separate crude oil price changes, as compared with 64 price changes in 1999. The difference between the highest and lowest posted prices in 2000 was \$13.65 per barrel. By comparison, this same differential in 1999 and 1998 was \$15.50 and \$6.00 per barrel, respectively. Continuing uncertainty in crude oil prices has made it impractical for the Company to make any commitments to further develop its oil and gas properties. Crude oil prices must stabilize for a long-term period, at economic levels, before resources would be available to expand the Company's oil and gas reserves.

LIQUIDITY AND CAPITAL RESOURCES

Cash increased by \$41,952 as of December 31, 2000 when compared to December 31, 1999. Operating activities in 2000 provided cash of \$620,028. Capital spending of \$175,530, purchase of short-term investments of \$500,000 and principal payments on the Company's long-term debt totaling \$50,296 used cash in 2000. This was offset by proceeds from sale of property and equipment of \$62,750 and issuance of long-term debt of \$85,000. The components of the changes in cash for 2000 are more fully described in the Statements of Cash Flows included in Item 7 of this Form 10-KSB. Adequate funds were available to carry out all necessary oil and gas operations and to maintain its equipment. A \$100,000 line of credit, unused at December 31, 2000, provided additional liquidity during 2000. Management believes the Company could also secure funds, if necessary, from other outside sources to finance acquisitions or other capital projects.

Management continues to examine various alternatives for increasing capital resources including, among other things, participation with industry and/or private partners and specific rework of existing properties to enhance production and expansion of its sales of crude oil and natural gas in California. If necessary, Pyramid could sell certain nonessential assets to raise capital for the benefit of these programs.

Edgar Filing: PYRAMID OIL CO - Form 10KSB

The Company has not generated sufficient cash flows to enable it to further develop its oil and gas properties and to risk exploratory drilling costs in attempts to expand its oil and gas reserves. No wells were drilled in 2000, 1999 or 1998. The Company completed a redrill of an existing well in the second quarter of 1998.

15

The Company's crude oil reserves declined for the years ended December 31, 2000 and 1999, due primarily to production of existing reserves. The Company's crude oil reserves decreased for the year ended December 31, 1998 due primarily to lower crude oil prices at year end.

The Company's business plan, implemented to deal with the unstable crude oil market, has been to concentrate its efforts and resources on maintaining oil and gas production on existing properties and deferring certain developmental and exploration activities until crude oil prices increase. This has enabled the Company to preserve its position on certain developmental properties during the periods of low oil prices and to conserve its capital.

Certain properties that the Company owns have become uneconomic and have been shut-in. When these properties are not operated, any reserves that could be assigned to these properties are not included in the year-end engineering report of total Company reserves. Another major factor that directly affects the Company's future reserve base is the price of crude oil at December 31 of any given year. The year-end price of oil and gas has a significant impact on the estimated future net recoverable oil and gas reserves from proved developed properties. At certain depressed price levels, some of the Company's oil and gas properties are not economical to operate and thus its year-end engineering reserve reports do not assign any oil and gas reserves to these properties. Conversely, if year-end prices should increase to a certain level, the reserves on these leases would be economic to produce and would increase the Company's reserves.

During 1998, the Company entered into a joint venture project, with several other oil and gas companies, to explore for and develop potential natural gas reserves in the Solano County area of California. This project is employing 3-D seismic technology and exploratory drilling, in hopes of finding and developing natural gas reserves on approximately 3,200 acres of leased ground. The Company's position is that of a non-operator.

Drilling operations on the first well began early in the first quarter of 2000. This well encountered substantial mechanical problems prior to reaching its intended depth and was abandoned due to these problems. The Company participated in the drilling of a second well on this lease in the fourth quarter of 2000. This well was abandoned due to insufficient gas reserves. The Company has not made any decisions about participating in any future proposed exploration wells on this project. The Company expended approximately \$18,000 for its share of costs on the first well during 1999. The Company expended an additional \$15,000 on the first well during 2000. The Company expended approximately \$18,000 for its share of costs on the second well during 2000.

The Company's business plan incorporates the concept that when crude oil prices increase and stabilize at a profitable level, renewed developmental and exploratory drilling activities will escalate accordingly. The plan also projects that the Company would have sufficient cash flows from operations to enable it to develop its existing oil and gas properties and the ability to

16

acquire additional producing properties and/or exploratory prospects, thereby,

Edgar Filing: PYRAMID OIL CO - Form 10KSB

replacing and/or increasing its present oil and gas reserves.

FORWARD-LOOKING INFORMATION

Looking forward into 2001, crude oil prices have increased by \$3.00 per barrel as of March 23, 2001, compared to prices at December 31, 2000. There have been fifteen separate price changes since December 31, 2000. The Company is unable to predict any future price changes that would impact the remainder of 2001.

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. 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 2001, by 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 be burdened with additional costs for various state and local fees and permits under new environmental programs, the sum of which were not material during 2000. 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.

17

ANALYSIS OF SIGNIFICANT CHANGES IN RESULTS OF OPERATIONS

Results of Operations for the Fiscal Year Ended December 31, 2000
Compared to the Fiscal Year Ended December 31, 1999

REVENUES

Oil and gas sales increased by 55% for the year ended December 31, 2000, when compared with the same period for 1999. Oil and gas sales increased by 64% due to higher average prices for 2000. The average price of the Company's oil and gas increased by approximately \$10.85 per equivalent barrel for 2000 when compared to 1999. The increase in revenues due to favorable prices was offset by a 9% reduction in production for 2000. Production for 2000 decreased by approximately twenty-one barrels per day when compared with production in 1999.

OPERATING EXPENSES

Edgar Filing: PYRAMID OIL CO - Form 10KSB

Operating expenses increased by 31% for the year ended December 31, 2000 when compared with the same period of 1999. The cost to produce an equivalent barrel of crude oil increased by approximately \$5.00 per barrel for 2000 when compared to 1999. Approximately 15% of the increase in operating expenses is attributable to two of the Company's oil and gas properties that were shut-in for most of 1999. These properties were returned to production due to the high oil prices in 2000. Also, major maintenance work was done on two oil wells that increased operating expenses by approximately 13% for 2000.

GENERAL AND ADMINISTRATIVE

General and administrative expenses increased by 23% for the year ended December 31, 2000 when compared to the same period for 1999. Professional services were higher by 12% for 2000 due primarily to higher costs for legal services. Legal services were higher by 9% due to an increase in the level of legal activity for 2000 related to an ongoing lawsuit (see Note 6 of Notes to Financial Statements, Commitments and Contingencies).

DEPLETION, DEPRECIATION, AMORTIZATION AND VALUATION ALLOWANCE

The provision for depletion, depreciation and amortization decreased by 23% for the year ended December 31, 2000, when compared with the same period for 1999. The decrease is due primarily to a decline in the depletion rate for oil and gas properties.

18

OTHER INCOME

Other income increased by approximately \$71,000 for the year ended December 31, 2000. The increase in other income is due primarily to gain on the sales of fixed assets during 2000. No fixed assets were sold during 1999.

Results of Operations for the Fiscal Year Ended December 31, 1999
Compared to the Fiscal Year Ended December 31, 1998

REVENUES

Oil and gas sales increased by 38% for the year ended December 31, 1999, when compared with the same period for 1998. Oil and gas sales increased by 43% due to higher average prices for 1999. The average price of the Company's oil and gas increased by approximately \$4.80 per equivalent barrel for 1999 when compared to 1998. The increase in revenues due to favorable prices was offset by a 5% reduction in production for 1999. Production for 1999 decreased by approximately thirteen barrels per day when compared with production in 1998.

OPERATING EXPENSES

Edgar Filing: PYRAMID OIL CO - Form 10KSB

Operating expenses decreased by 3% for the year ended December 31, 1999 when compared with the same period of 1998. The cost to produce an equivalent barrel of crude oil decreased by approximately twenty-five cents per barrel for 1999 when compared to 1998.

GENERAL AND ADMINISTRATIVE

General and administrative expenses decreased by 10% for the year ended December 31, 1999 when compared to the same period for 1998. Outside professional services were lower by 8% for 1999. Legal services were lower by 9% due to a reduction in the level of legal activity for 1999.

DEPLETION, DEPRECIATION, AMORTIZATION AND VALUATION ALLOWANCE

The provision for depletion, depreciation and amortization decreased by 60% for the year ended December 31, 1999, when compared with the same period for 1998. The Company recorded an increase in valuation allowances of \$270,000 in the fourth quarter of 1998 due to an impairment in the value of certain oil and gas properties (see Note 1 of Notes to Financial Statements, Significant

19

Accounting Policies, Costs Incurred in Oil and Gas Producing Activities). No valuation allowances were recorded in 1999. The provision for depletion of oil and gas properties also decreased in 1999 due to the decrease in the net carrying value of oil and gas properties in 1998.

Recent Accounting Developments

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). The statement requires the recognition of all derivatives as either assets or liabilities in the balance sheet and the measurement of those instruments at fair value. The accounting for changes in the fair value of a derivative depends on the planned use of the derivative and the resulting designation. The adoption of SFAS 133 in the fourth quarter of 2000 did not have a significant impact on the Company's financial position, results of operations or cash flows.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101). SAB 101 provides guidance for revenue recognition under certain circumstances. The adoption of SAB 101 in 2000 did not have a significant impact on the Company's financial position, results of operations or cash flows.

20

ITEM 7- FINANCIAL STATEMENTS

PYRAMID OIL COMPANY

INDEX TO FINANCIAL STATEMENTS

Edgar Filing: PYRAMID OIL CO - Form 10KSB

DECEMBER 31, 2000

| | Page |
|---|-------|
| REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS. | 21 |
| FINANCIAL STATEMENTS: | |
| Balance sheets - December 31, 2000 and 1999 | 22-23 |
| Statements of operations - years ended | |
| December 31, 2000, 1999 and 1998 | 24 |
| Statements of shareholders' equity - years ended | |
| December 31, 2000, 1999 and 1998 | 25 |
| Statements of cash flows - years | |
| ended December 31, 2000, 1999 and 1998 | 26-27 |
| Notes to financial statements | 28 |

21

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of
Pyramid Oil Company:

We have audited the accompanying balance sheets of Pyramid Oil Company (a California corporation) as of December 31, 2000 and 1999, and the related statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. 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 auditing standards generally accepted in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Los Angeles, California
March 8, 2001

22

FINANCIAL STATEMENTS
PYRAMID OIL COMPANY

Edgar Filing: PYRAMID OIL CO - Form 10KSB

BALANCE SHEETS

ASSETS

| | December 31, | |
|---|--------------|--------------|
| | 2000 | 1999 |
| | ----- | ----- |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 151,727 | \$ 109,775 |
| Short-term investments | 700,000 | 200,000 |
| Trade accounts receivable (net of reserve for doubtful accounts of \$4,000 in 2000 and 1999) | 212,714 | 184,867 |
| Crude oil inventory | 56,156 | 35,153 |
| Prepaid expenses | 84,230 | 67,449 |
| Deferred income taxes | 22,012 | 75,650 |
| | ----- | ----- |
| Total current assets | 1,226,839 | 672,894 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT, at cost: | | |
| Oil and gas properties and equipment (successful efforts method) | 10,343,773 | 10,367,907 |
| Drilling and operating equipment | 3,118,778 | 3,179,652 |
| Land, buildings and improvements | 921,767 | 921,767 |
| Automotive, office and other property and equipment | 1,067,625 | 1,055,857 |
| | ----- | ----- |
| | 15,451,943 | 15,525,183 |
| Less - accumulated depletion, depreciation, amortization and valuation allowances | (13,846,912) | (13,872,078) |
| | ----- | ----- |
| | 1,605,031 | 1,653,105 |
| | ----- | ----- |
| | \$ 2,831,870 | \$ 2,325,999 |
| | ===== | ===== |

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

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | December 31, | |
|--|--------------|--------------|
| | 2000 | 1999 |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 66,362 | \$ 44,621 |
| Accrued professional fees | 18,750 | 24,000 |
| Accrued taxes, other than income taxes | 22,645 | 20,567 |
| Accrued payroll and related costs | 36,040 | 30,985 |
| Accrued royalties payable | 82,621 | 74,082 |
| Accrued insurance | 29,864 | 21,613 |
| Current maturities of long-term debt | 27,500 | 17,604 |
| Total current liabilities | 283,782 | 233,472 |
| LONG-TERM DEBT, net of current maturities | 29,080 | 4,272 |
| DEFERRED INCOME AND OTHER TAXES | 22,012 | 118,121 |
| COMMITMENTS AND CONTINGENCIES (Note 6) | | |
| SHAREHOLDERS' EQUITY: | | |
| Common stock, no par value - Authorized - 10,000,000 shares Issued and outstanding - 2,494,430 shares | 1,071,610 | 1,071,610 |
| Retained earnings | 1,425,386 | 898,524 |
| | 2,496,996 | 1,970,134 |
| | \$ 2,831,870 | \$ 2,325,999 |

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

24

PYRAMID OIL COMPANY
STATEMENTS OF OPERATIONS

| | Year ended December 31, | | |
|------------------------------|-------------------------|--------------|------------|
| | 2000 | 1999 | 1998 |
| REVENUES: | \$ 2,023,805 | \$ 1,309,136 | \$ 951,015 |
| COSTS AND EXPENSES: | | | |
| Operating expenses | 997,550 | 760,744 | 780,259 |
| Exploration costs | 35,423 | 27,976 | -- |
| General and administrative | 368,332 | 299,245 | 332,513 |
| Taxes, other than income and | | | |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | | |
|---|------------|--------------|---------------|
| payroll taxes | 45,759 | 51,744 | 59,743 |
| Provision for depletion, depreciation, amortization and valuation allowance | 184,036 | 240,017 | 607,067 |
| Other costs and expenses | 13,593 | 11,093 | 16,082 |
| | ----- | ----- | ----- |
| | 1,644,693 | 1,390,819 | 1,795,664 |
| | ----- | ----- | ----- |
| OPERATING INCOME (LOSS) | 379,112 | (81,683) | (844,649) |
| | ----- | ----- | ----- |
| OTHER INCOME (EXPENSE): | | | |
| Interest income | 24,538 | 11,104 | 30,192 |
| Gain on sales of property and equipment | 58,605 | -- | -- |
| Other income | 28,696 | 29,465 | 21,594 |
| Interest expense | (5,330) | (6,824) | (7,696) |
| | ----- | ----- | ----- |
| | 106,509 | 33,745 | 44,090 |
| | ----- | ----- | ----- |
| INCOME (LOSS) BEFORE INCOME TAX (BENEFIT) PROVISION | 485,621 | (47,938) | (800,559) |
| Income tax (benefit) provision | (41,241) | 1,125 | 1,125 |
| | ----- | ----- | ----- |
| NET INCOME (LOSS) | \$ 526,862 | \$ (49,063) | \$ (801,684) |
| | ===== | ===== | ===== |
| BASIC INCOME (LOSS) PER COMMON SHARE | \$.21 | \$ (.02) | \$ (.32) |
| | ===== | ===== | ===== |
| DILUTED INCOME (LOSS) PER COMMON SHARE | \$.21 | \$ (.02) | \$ (.32) |
| | ===== | ===== | ===== |
| Weighted average number of common shares outstanding | 2,494,430 | 2,494,430 | 2,494,430 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

25

PYRAMID OIL COMPANY

STATEMENTS OF SHAREHOLDERS' EQUITY

| | Common Shares Issued and Outstanding | Common Stock | Retained Earnings |
|-----------------------------|--|-----------------|----------------------|
| | ----- | ----- | ----- |
| Balances, December 31, 1997 | 2,494,430 | \$1,071,610 | \$1,749,271 |
| Net loss | -- | -- | (801,684) |
| | ----- | ----- | ----- |
| Balances, December 31, 1998 | 2,494,430 | 1,071,610 | 947,587 |
| Net loss | -- | -- | (49,063) |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | | |
|-----------------------------|-----------|-------------|-------------|
| Balances, December 31, 1999 | 2,494,430 | 1,071,610 | 898,524 |
| Net income | -- | -- | 526,862 |
| Balances, December 31, 2000 | 2,494,430 | \$1,071,610 | \$1,425,386 |

The accompanying notes are an integral part of these statements.

26

PYRAMID OIL COMPANY
STATEMENTS OF CASH FLOWS

| | Year ended December 31, | | |
|--|-------------------------|-------------|-------------|
| | 2000 | 1999 | 1998 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income (loss) | \$ 526,862 | \$(49,063) | \$(801,684) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Provision for depletion, depreciation, amortization and valuation allowance | 184,036 | 240,017 | 607,067 |
| Exploration costs | 35,423 | 27,976 | -- |
| Gain on sale of property and equipment | (58,605) | -- | - |
| Income tax benefit | (42,471) | -- | -- |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in trade accounts receivable | (27,847) | (107,552) | 76,506 |
| (Increase) decrease in crude oil inventories | (21,003) | 3,218 | 22,823 |
| (Increase) decrease in prepaid expenses | (16,781) | 13,679 | 12,459 |
| Increase (decrease) in accounts payable and accrued liabilities | 40,414 | 25,661 | (58,927) |
| Net cash provided by (used in) operating activities | 620,028 | 153,936 | (141,756) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures | (175,530) | (41,605) | (214,824) |
| Proceeds from sale of property and equipment | 62,750 | -- | |
| Net change in short-term investments | (500,000) | 100,000 | (300,000) |
| Net cash (used in) provided by investing activities | (612,780) | 58,395 | (514,824) |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

The accompanying notes are an integral part of these statements.

27

PYRAMID OIL COMPANY
STATEMENTS OF CASH FLOWS
(CONTINUED)

| | Year ended December 31, | | |
|--|-------------------------|------------|-----------|
| | 2000 | 1999 | 1998 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Principal payments on line of credit | (48,000) | (181,650) | (62,596) |
| Proceeds from line of credit | 48,000 | 81,650 | 162,596 |
| Principal payments on long-term debt | (50,296) | (20,873) | (26,097) |
| Proceeds from issuance of long-term debt | 85,000 | - | -- |
| Net cash provided by (used in) financing activities | 34,704 | (120,873) | 73,903 |
| Net increase (decrease) in cash and cash equivalents | 41,952 | 91,458 | (582,677) |
| Cash and cash equivalents at beginning of year | 109,775 | 18,317 | 600,994 |
| Cash and cash equivalents at end of year | \$ 151,727 | \$ 109,775 | \$ 18,317 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | |
| Cash paid during the year for interest | \$ 5,330 | \$ 6,824 | \$ 7,696 |
| Cash paid during the year for income taxes | \$ 1,230 | \$ 1,125 | \$ 1,125 |

The accompanying notes are an integral part of these statements.

28

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2000

Edgar Filing: PYRAMID OIL CO - Form 10KSB

1. Significant Accounting Policies

Nature of Operations

Pyramid Oil Company (the Company), a California Corporation, has been in the oil and gas business continuously 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 and New York that it does not operate. The Company grants short-term credit to its customers and generally receives payment within 30 days.

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

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.

29

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000

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 the Statement of Financial Accounting Standards No. 19, as amended, issued by the Financial Accounting Standards Board.

The Company initially capitalizes expenditures for oil and gas property

Edgar Filing: PYRAMID OIL CO - Form 10KSB

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 the Financial Accounting Standards Board Statement of Financial Accounting Standards No. 121, "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 of \$270,000 in the fourth quarter of 1998 under these guidelines. This impairment is reflected as additional depletion, depreciation, amortization and valuation allowance in the accompanying statement of operations.

30

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000

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 2000, 1999 and 1998 were \$1.49, \$1.94 and \$5.78, 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

Edgar Filing: PYRAMID OIL CO - Form 10KSB

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.

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.

31

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000

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.

Concentration of Credit Risk

The Company sells its crude oil to Kern Oil & Refining and Tosco Refining Company, accounting for approximately 41.4%, and 52.9%, respectively, of Pyramid's crude oil and gas sales in 2000. 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.

Reclassifications

Reclassifications have been made to the financial statements for 1999 to

Edgar Filing: PYRAMID OIL CO - Form 10KSB

conform to the 2000 presentation.

32

PYRAMID OIL COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

2. Long-Term Debt and Line of Credit

Long-term debt at December 31, 2000 and 1999, is summarized as follows:

| | December 31, | |
|--|--------------|-----------|
| | 2000 | 1999 |
| Note payable to a bank, secured by a deed of trust on the corporate office, payable in monthly installments of \$1,467 principal, with interest at the prime rate (8.5% at December 31, 1999) plus 1.25%, final payment December 2000. | \$ -- | \$ 21,876 |
| Note payable to a bank, secured by equipment purchased with the proceeds of the loan, payable in monthly installments of \$992 principal and interest, interest at 8.75%, final payment in 2002. | 20,899 | -- |
| Note payable to a bank, secured by equipment purchased with the proceeds of the loan, payable in monthly installments of \$969 principal and interest, interest at 10%, final payment in 2003. | 22,282 | -- |
| Note payable to a bank, secured by equipment purchased with the proceeds of the loan, payable in monthly installments of \$692 principal and interest, interest at 10%, final payment in 2002. | 13,399 | -- |
| | ----- | ----- |
| | 56,580 | 21,876 |
| Less - current maturities | (27,500) | (17,604) |
| | ----- | ----- |
| | \$ 29,080 | \$ 4,272 |
| | ===== | ===== |

33

PYRAMID OIL COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

At December 31, 2000 approximately \$114,000 of gross property and equipment was pledged as collateral to secure approximately \$57,000 principal amount of long-term debt.

Edgar Filing: PYRAMID OIL CO - Form 10KSB

Maturities of long-term debt are as follows:

| | |
|-------------------------------|-----------|
| Year ending December 31, 2001 | \$ 27,500 |
| 2002 | 25,900 |
| 2003 | 3,180 |
| | ----- |
| | \$ 56,580 |
| | ===== |

At December 31, 2000, the Company had an unsecured line of credit with a bank, under which the Company may borrow up to \$100,000 through May 31, 2001. Interest on any borrowing is accrued at the bank's index rate plus 0.50 percentage points. The bank's index rate was 9.5% at December 31, 2000.

3. Income Taxes

Income tax (benefit) provision consists of the following:

| | Year Ended December 31, | | |
|--------------------------------|-------------------------|----------|----------|
| | 2000 | 1999 | 1998 |
| | ----- | ----- | ----- |
| Federal income taxes: | | | |
| Current | \$ 84,168 | \$ -- | \$ -- |
| Utilization of NOL's | (84,168) | -- | -- |
| Deferred | (42,471) | -- | -- |
| | ----- | ----- | ----- |
| | (42,471) | -- | -- |
| | ----- | ----- | ----- |
| State income taxes: | | | |
| Current | 8,437 | 1,125 | 1,125 |
| Utilization of NOL's | (7,207) | -- | -- |
| Deferred | -- | -- | -- |
| | ----- | ----- | ----- |
| | 1,230 | 1,125 | 1,125 |
| | ----- | ----- | ----- |
| Income tax (benefit) provision | \$ (41,241) | \$ 1,125 | \$ 1,125 |
| | ===== | ===== | ===== |

34

PYRAMID OIL COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2000

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,

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | 2000 | 1999 | 1998 |
|--------------------------------------|--------------|-------------|-------------|
| Federal income tax expense | | | |
| (benefit) at statutory rate | \$ 165,111 | \$(16,299) | \$(180,390) |
| Net operating loss carryover | (28,617) | 20,658 | 183,591 |
| Statutory depletion | (86,571) | -- | -- |
| Section 196(a) restoration of basis | (39,765) | (6,256) | -- |
| Valuation allowance | 19,895 | -- | -- |
| Expiration of investment tax credits | (79,492) | -- | -- |
| Other | 8,198 | 3,022 | (2,076) |
| Income tax (benefit) provision | \$ (41,241) | \$ 1,125 | \$ 1,125 |

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

| | December 31, | | |
|----------------------------|--------------|-------------|-------------|
| | 2000 | 1999 | 1998 |
| Current deferred taxes: | | | |
| Gross assets | \$ 22,012 | \$ 75,650 | \$ 73,350 |
| Gross liabilities | -- | -- | -- |
| | 22,012 | 75,650 | 73,350 |
| Noncurrent deferred taxes: | | | |
| Gross assets | 3,022,856 | 3,193,122 | 3,121,533 |
| Gross liabilities | (56,992) | (343,262) | (435,430) |
| Valuation allowance | (2,987,876) | (2,967,981) | (2,801,924) |
| | (22,012) | (118,121) | (115,821) |
| | \$ -- | \$(42,471) | \$(42,471) |

35

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000

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

| | December 31, | | |
|---------------------|--------------|----------|----------|
| | 2000 | 1999 | 1998 |
| Accounts receivable | \$ 1,600 | \$ 1,600 | \$ 1,600 |
| Inventory | -- | 55,200 | 55,200 |
| Net operating loss | | | |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | | |
|---------------------------|-------------|--------------|--------------|
| carry forwards | 1,383,202 | 1,418,131 | 1,394,984 |
| Investment tax credits | 27,219 | 162,556 | 162,556 |
| Statutory depletion | | | |
| carryover | 1,612,435 | 1,612,435 | 1,563,993 |
| Accrued liabilities | 20,412 | 18,850 | 16,550 |
| | ----- | ----- | ----- |
| Total deferred tax assets | 3,044,868 | 3,268,772 | 3,194,883 |
| Property and equipment | (56,992) | (343,262) | (435,430) |
| Valuation allowance | (2,987,876) | (2,967,981) | (2,801,924) |
| | ----- | ----- | ----- |
| | \$ -- | \$ (42,471) | \$ (42,471) |
| | ===== | ===== | ===== |

At December 31, 2000, a valuation allowance has been provided against a significant portion of the deferred tax assets generated by net operating loss carryforwards, investment tax credits and the statutory depletion carryover due to the uncertainty of their future utilization.

The Company has federal income tax net operating loss carry forwards of approximately \$3,935,000, which expire, to the extent not used, starting in 2001. For California franchise tax purposes, as of December 31, 2000, the Company has unused net operating loss carryforwards of approximately \$489,000, a portion of which expire each year starting in 2001.

At December 31, 2000, the Company has, for federal income tax purposes, a statutory depletion carryover of approximately \$4,742,000, which currently has no expiration date.

As of December 31, 2000, the Company has an investment tax credit carryforward of approximately \$27,000 available to reduce future taxes payable for financial reporting and federal income tax purposes. Approximately \$117,000 and \$18,000 of these credits expired in 2000 and 1999, respectively. The remaining \$27,000 will expire in 2001 to the extent not used. Upon expiration, the Company can claim a current deduction on their federal tax return.

36

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000

4. 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 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 \$124,000, \$81,000 and \$69,000 in 2000, 1999 and 1998, respectively.

5. Fourth Quarter Results (Unaudited)

During the fourth quarter of 2000, 1999 and 1998, the Company adjusted the provision for depletion, depreciation and amortization to reflect the adjustments made to the Company's oil and gas reserves by independent consultants. The effect of these adjustments was to increase net income by

Edgar Filing: PYRAMID OIL CO - Form 10KSB

approximately \$24,000, \$42,000 and \$54,000 in 2000, 1999 and 1998, respectively. The Company recorded an increase in valuation allowances of \$270,000 in the fourth quarter of 1998 due to an impairment in the value of certain oil and gas properties (see Note 1 of Notes to Financial Statements, Significant Accounting Policies, Costs Incurred in Oil and Gas Producing Activities).

6. Commitments and Contingencies

The Company is liable for future dismantlement and abandonment costs associated with its oil and gas properties. These costs include future site restoration, post closure and other environmental exit costs. The costs of future dismantlement and abandonment have not been determined. Management believes that these costs will not have a material adverse effect upon its financial position or results of operations.

The Company is subject to certain 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 financial position of the Company, although the resolution in any reporting period of such litigation could have a material impact on Pyramid's results of operations for that period.

37

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000

During 1998, the Company entered into a joint venture project, with several other oil and gas companies, to explore for and develop potential natural gas reserves in the Solano County area of California. This project is employing 3-D seismic technology and exploratory drilling, in hopes of finding and developing natural gas reserves on approximately 3,200 acres of leased ground. The Company's position is that of a non-operator.

Drilling operations on the first well began early in the first quarter of 2000. This well encountered substantial mechanical problems prior to reaching its intended depth and was abandoned due to these problems. The Company participated in the drilling of a second well on this lease in the fourth quarter of 2000. This well was abandoned due to insufficient gas reserves. The Company has not made any decisions about participating in any future proposed exploration wells on this project. The Company expended approximately \$18,000 for its share of costs on the first well during 1999. The Company expended an additional \$15,000 on the first well during 2000. The Company expended approximately \$18,000 for its share of costs on the second well during 2000. These costs are recorded in Exploration Cost on the Statements of Operations.

Late in the fourth quarter of 1998, the Company was notified by the United States Environmental Protection Agency (EPA) that the Company was identified as a "de minimis" contributor to the Casmalia Disposal Site in Santa Barbara County, California. The EPA claimed that all parties who contributed to the disposal site were potentially liable for a share of the cleanup costs.

After extensive examination of the EPA's documentation, upon which the EPA based their claims, the Company determined that all of the materials sent to the Casmalia disposal site, by the Company, between 1980 and 1983 were found to be non-hazardous materials, specifically exempt under Federal and State statutes, specifically CERCLA, Section 101(14), 42 U.S.C. Sec 9601(14). EPA manifests identified over 97% of the materials sent by the Company to this

Edgar Filing: PYRAMID OIL CO - Form 10KSB

site as being PRODUCED waste oilfield water. The remaining 3% was composed of water, crude oil and sand, from down-hole workover operations.

In December 1999, the Company formally responded to the EPA, by denying all of the allegations and providing factual evidence in support of the Company's position. Currently, the EPA's position is that it does not consider parties that only sent petroleum wastes to the site liable. Therefore, management does not believe that the Company is, or will be, liable for any cleanup costs associated with the EPA's remediation of the Casmalia Disposal Site.

In April 2000, the Company was contacted by a law firm representing the "Casmalia Steering Committee" requesting that the Company enter into a tolling agreement to extend the statute of limitations associated with the Casmalia Disposal Site. (The Steering Committee is a group of 54 public and private entities, who compose the largest waste contributors to the Casmalia site and under a 1997 Consent Decree with the United States, is committed to pay for

38

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2000

and/or perform certain cleanup activities at the Casmalia site.) The Steering Committee proposed an 18-month extension of the statute of limitations that were due to expire on June 27, 2000, in order to provide the Steering Committee with additional time in which to sue the Company for alleged cleanup contributions. Since the Company thoroughly investigated its position concerning the issue of liability associated with the cleanup costs at the Casmalia Disposal Site before replying to the EPA, (as discussed above) the Company declined to enter into the Steering Committee's proposed tolling agreement.

In July, the Company informally became aware that the Steering Committee filed a Federal lawsuit on June 26, 2000, against approximately 450 parties involved in the Casmalia site, including the Company. This suit is seeking contributions for response costs and damages incurred and to be incurred at the Casmalia Disposal Site. Through its legal counsel, the Company has contacted the Steering Committee and has requested production of any factual proof, supporting the claims and allegations made in the Steering Committee's legal action. Subsequent to these events, the Company was dismissed from this lawsuit by the Steering Committee.

7. Subsequent Event

In 1996, the Company filed a lawsuit in Kern County Superior Court, against Mr. Russell R. Simonson, alleging a breach of a contractual agreement. The lawsuit went to trial in 1997 and the trial court ruled that the Defendant twice breached terms of an agreement, and the court awarded the Company damages, interest and attorney's fees. The Defendant appealed the trial court's decision and the matter was reviewed by the California Appeals Court. In November 2000, the Appeals Court again ruled in favor of the Company, upholding the original award of damages, interest and attorney's fees. On March 5, 2001, the Company recorded a gain and received payment from the Defendant in the amount of \$395,708, concluding this matter.

39

PYRAMID OIL COMPANY
SUPPLEMENTAL INFORMATION (UNAUDITED)

Edgar Filing: PYRAMID OIL CO - Form 10KSB

OIL AND GAS PRODUCING ACTIVITIES DECEMBER 31, 2000

Statement of Financial Accounting Standards No. 19 (SFAS No. 19), "Financial Accounting and Reporting by Oil and Gas Producing Companies", as amended, 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, 2000, 1999 and 1998 were as follows:

| | 2000 | 1999 | 1998 |
|--|--------------|--------------|--------------|
| | ----- | ----- | ----- |
| Proved properties | \$10,165,200 | \$10,189,100 | \$10,197,000 |
| Unproved properties being amortized | 178,600 | 178,600 | 178,600 |
| Unproved properties not being amortized | -- | -- | -- |
| Accumulated depletion, depreciation, amortization and valuation allowances | (9,887,300) | (9,802,700) | (9,632,600) |
| | ----- | ----- | ----- |
| | \$ 456,500 | \$ 565,000 | \$ 743,000 |
| | ===== | ===== | ===== |

40

PYRAMID OIL COMPANY SUPPLEMENTAL INFORMATION (UNAUDITED) DECEMBER 31, 2000

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

| | 2000 | | 1999 | | 1998 | |
|--|---------|--------|---------|--------|---------|--------|
| | Oil | Gas | Oil | Gas | Oil | Gas |
| | (MBbls) | (MMCF) | (MBbls) | (MMCF) | (MBbls) | (MMCF) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Proved reserves: | | | | | | |
| Beginning of year | 361 | 65 | 384 | 127 | 462 | 169 |
| Revisions of previous estimates | 51 | 16 | 61 | (38) | 2 | (6) |
| Extensions, discoveries and other additions | -- | -- | -- | -- | 5 | -- |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | | | | | |
|----------------------------|-------|-------|-------|-------|-------|-------|
| Production | (71) | (9) | (84) | (24) | (85) | (36) |
| | ---- | ---- | ---- | ---- | ---- | ---- |
| End of year | 341 | 72 | 361 | 65 | 384 | 127 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Proved developed reserves: | | | | | | |
| Beginning of year | 361 | 65 | 384 | 127 | 435 | 145 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| End of year | 341 | 72 | 361 | 65 | 384 | 127 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

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 resulted from analysis of new information, as well as from additional production experience or from a change in economic factors.

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.

41

PYRAMID OIL COMPANY
 SUPPLEMENTAL INFORMATION (UNAUDITED)
 DECEMBER 31, 2000

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

| | December 31, | | |
|---|--------------|-------------|-------------|
| | 2000 | 1999 | 1998 |
| | ----- | ----- | ----- |
| Proved developed reserves (Present value before income taxes) | \$2,311,000 | \$2,718,000 | \$1,001,000 |
| | ===== | ===== | ===== |

SFAS No. 69, "Disclosures About Oil and Gas Producing Activities", 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, SFAS No. 69 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, 2000, 1999 and 1998 were as follows:

| | 2000 | 1999 | 1998 |
|--|-------|-------|-------|
| | ----- | ----- | ----- |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | | |
|----------------------------|--------|--------|-----------|
| Property acquisition costs | \$ -- | \$ -- | \$ 14,000 |
| Exploration costs | 35,000 | 28,000 | -- |
| Development costs | -- | -- | 201,000 |

42

PYRAMID OIL COMPANY
SUPPLEMENTAL INFORMATION (UNAUDITED)
DECEMBER 31, 2000

The results of operations for oil and gas producing activities for the years ended December 31, 2000, 1999 and 1998 were as follows:

| | 2000 | 1999 | 1998 |
|---|--------------|--------------|---------------|
| | ----- | ----- | ----- |
| Sales | \$ 2,024,000 | \$ 1,309,000 | \$ 951,000 |
| Production costs | 1,031,000 | 800,600 | 826,800 |
| Exploration costs | 35,000 | 28,000 | -- |
| Depletion, depreciation, and amortization | 109,000 | 170,200 | 523,100 |
| | ----- | ----- | ----- |
| | 849,000 | 310,200 | (398,900) |
| Income tax (benefit) provision | (41,200) | 1,200 | 1,200 |
| | ----- | ----- | ----- |
| Results of operations from production activities | \$ 890,200 | \$ 309,000 | \$ (400,100) |
| | ===== | ===== | ===== |

The standardized measure of discounted estimated future net cash flows relating to proved oil and gas reserves for the years ended December 31, 2000, 1999 and 1998 were as follows:

| | 2000 | 1999 | 1998 |
|---|--------------|--------------|--------------|
| | ----- | ----- | ----- |
| Future cash inflows | \$ 7,407,000 | \$10,401,000 | \$ 3,262,000 |
| Future development and production costs | 3,848,000 | 6,906,000 | 1,973,000 |
| Future income tax expense | 12,000 | 12,000 | 12,000 |
| | ----- | ----- | ----- |
| Future net cash flow | 3,547,000 | 3,483,000 | 1,277,000 |
| 10% annual discount | 1,244,000 | 775,000 | 286,000 |
| | ----- | ----- | ----- |
| Standardized measure of discounted future net cash flow | \$ 2,303,000 | \$ 2,708,000 | \$ 991,000 |
| | ===== | ===== | ===== |

43

PYRAMID OIL COMPANY
SUPPLEMENTAL INFORMATION (UNAUDITED)
DECEMBER 31, 2000

Edgar Filing: PYRAMID OIL CO - Form 10KSB

The principal changes in the standardized measure of discounted future net cash flows during the years ended December 31, 2000, 1999 and 1998 were as follows:

| | 2000 | 1999 | 1998 |
|--|---------------|--------------|---------------|
| | ----- | ----- | ----- |
| Extensions | \$ -- | \$ -- | \$ 11,000 |
| Revisions of previous estimates | | | |
| Price changes | 373,000 | 1,739,000 | (948,000) |
| Quantity estimate | 423,000 | 403,000 | 2,000 |
| Change in production rates, timing and Other | (480,000) | (17,000) | (56,000) |
| Development costs incurred | -- | -- | 181,000 |
| Changes in estimated future development costs | -- | -- | 19,000 |
| Sales of oil and gas, net of production costs | (993,000) | (508,000) | (124,000) |
| Accretion of discount | 272,000 | 100,000 | 174,000 |
| | ----- | ----- | ----- |
| | (405,000) | 1,717,000 | (741,000) |
| Net change in income taxes | -- | -- | -- |
| | ----- | ----- | ----- |
| Net (decrease) increase | \$ (405,000) | \$ 1,717,000 | \$ (741,000) |
| | ===== | ===== | ===== |

44

PYRAMID OIL COMPANY
SUPPLEMENTAL INFORMATION (UNAUDITED)
DECEMBER 31, 2000

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 Securities and Exchange Commission. 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

Edgar Filing: PYRAMID OIL CO - Form 10KSB

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 decrease of \$741,000 in the Company's standardized measure of future net cash flows for the year ended December 31, 1998 is due primarily to revisions of previous estimates due to price changes. The changes in crude oil prices at the end of each year has a significant impact on the valuation of the Company's reserves and discounted future net cash flows. Lower crude oil prices at the end of 1998 reduced the discounted future net cash flows by approximately \$948,000.

The increase in the standardized measure of discounted future net cash flows at December 31, 1999 of \$1,717,000 is due primarily to higher crude oil prices at year end. The decrease in the standardized measure of discounted future net cash flows at December 31, 2000 of \$405,000 is due primarily to current year production and sales of crude oil and natural gas.

45

PYRAMID OIL COMPANY
SUPPLEMENTAL INFORMATION (UNAUDITED)
QUARTERLY RESULTS

| | 2000 | 1999 |
|----------------|--------------|--------------|
| | ----- | ----- |
| REVENUES: | | |
| Quarter Ended: | | |
| March 31 | \$ 455,058 | \$ 213,349 |
| June 30 | 482,280 | 312,762 |
| September 30 | 561,860 | 403,579 |
| December 31 | 524,607 | 379,446 |
| | ----- | ----- |
| | \$ 2,023,805 | \$ 1,309,136 |
| | ===== | ===== |

| | | |
|--------------------|------------|-------------|
| NET INCOME (LOSS): | | |
| Quarter Ended: | | |
| March 31 | \$ 84,803 | \$(92,081) |
| June 30 | 101,072 | (41,361) |
| September 30 | 236,063 | 56,345 |
| December 31 (a) | 104,924 | 28,034 |
| | ----- | ----- |
| | \$ 526,862 | \$(49,063) |
| | ===== | ===== |

| | | |
|---------------------------------|--------|----------|
| INCOME (LOSS) PER COMMON SHARE: | | |
| Quarter Ended: | | |
| March 31 | \$.03 | \$ (.04) |
| June 30 | .04 | (.02) |
| September 30 | .09 | .02 |
| December 31 (a) | .05 | .02 |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | |
|--------|----------|
| ----- | ----- |
| \$.21 | \$ (.02) |
| ===== | ===== |

(a) Adjustments to depletion, depreciation, amortization and valuation allowances made by the Company are recorded in the fourth quarter amounts (see Note 5 of Notes to Financial Statements included in Item 7 of this Form 10-KSB). The adjustments were required due to changes in estimates of oil and gas reserves by independent consultants.

46

PYRAMID OIL COMPANY
CORPORATE INFORMATION

Board of Directors....J. Ben Hathaway, President, Pyramid Oil Company
John H. Alexander, Vice President, Pyramid Oil Company
John E. Turco, Private Investor
Thomas W. Ladd, Independent Oil Producer and Geologist
Gary L. Ronning, Independent Oil Producer and Geologist

Officers.....J. Ben Hathaway, President and Chairman of the Board
John H. Alexander, Vice President
Lee G. Christianson, Secretary-Treasurer

Accountants and
Business Advisors.....Arthur Andersen LLP - Los Angeles, California

Transfer Agent
and Registrar.....U.S. Stock Transfer Corp.
1745 Gardena Avenue, Suite 200
Glendale, California 91204

Corporate Offices.....2008 21st Street
Bakersfield, California 93302

District Offices.....Bakersfield, California

Legal Counsel.....Troy & Gould - Los Angeles, California
Ganong Law Office - Bakersfield, California

Investor
Information.....Availability of Form 10-KSB: The Annual Report of
Pyramid Oil Company on Form 10-KSB, 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 Over-The-Counter Bulletin Board market using symbol
PYOL.

47

Edgar Filing: PYRAMID OIL CO - Form 10KSB

ITEM 8 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS

ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 9 - DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The Company hereby incorporates by reference the information to be contained under the section entitled "Directors and Executive Officers" or a similarly entitled section from its definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with its 2001 Annual Meeting of Shareholders.

ITEM 10 - EXECUTIVE COMPENSATION

The Company hereby incorporates by reference the information to be contained under the section entitled "Compensation of Directors and Executive Officers" or a similarly entitled section from its definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with its 2001 Annual Meeting of Shareholders.

ITEM 11 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The Company hereby incorporates by reference the information to be contained under the section entitled "Voting Securities and Principal Holders Thereof" or a similarly entitled section from its definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with its 2001 Annual Meeting of Shareholders.

48

ITEM 12 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information in Note 4 of Notes to Financial Statements included in Item 7 of this Form 10-KSB is incorporated herein by reference.

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 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 \$124,000 in 2000, \$81,000 in 1999 and \$69,000 in 1998.

49

Edgar Filing: PYRAMID OIL CO - Form 10KSB

PART IV

ITEM 13 - EXHIBITS AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

These documents are listed and included in Part II, Item 7 of this report:

Report of Independent Public Accountants
Balance Sheets at December 31, 2000 and 1999.
Statements of Operations for the three years in the period
ended December 31, 2000.
Statements of Shareholders' Equity for the three
years in the period ended December 31, 2000.
Statements of Cash Flows for the three
years in the period ended December 31, 2000.
Notes to Financial Statements.

(a) 3. Exhibit

- 3.1 Registrant's Articles of Incorporation (1)
- 3.2 Registrant's By Laws (1)
- 3.2.1 Registrant's Amendment to the By Laws (2)
- 10.1 Agreement and Plan of Reorganization and Corporate
Separation, dated January 1, 1987. (3)
- 16.1 Letter regarding the change in Registrant's certified
accountant. (4)
- 27 Financial Data schedule

- (1) Incorporated by reference from Exhibits 18-1 and 18-2, respectively, to the Registrant's 1971 Form 10.
- (2) Incorporated by reference from the Registrant's August 25, 1986 Proxy Statement.
- (3) Incorporated by reference from Exhibit 1 to the Registrant's August 25, 1986 Proxy Statement.
- (4) Incorporated by reference from Exhibit 1 to the Registrant's June 4, 1987 Form 8-K.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the fourth quarter of 2000.

50

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

March 28, 2001

By: J. BEN HATHAWAY

Edgar Filing: PYRAMID OIL CO - Form 10KSB

J. Ben Hathaway
Director/President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| | | |
|---------------------|--|----------------|
| J. BEN HATHAWAY | Director/President | March 28, 2001 |
| ----- | | |
| J. Ben Hathaway | | |
| JOHN H. ALEXANDER | Director/Vice President | March 28, 2001 |
| ----- | | |
| John H. Alexander | | |
| THOMAS W. LADD | Director | March 28, 2001 |
| ----- | | |
| Thomas W. Ladd | | |
| GARY L. RONNING | Director | March 28, 2001 |
| ----- | | |
| Gary L. Ronning | | |
| | Director | March 28, 2001 |
| ----- | | |
| John E. Turco | | |
| LEE G. CHRISTIANSON | Corporate Secretary/ Principal Accounting Officer | March 28, 2001 |
| ----- | | |
| Lee G. Christianson | | |