PYRAMID OIL CO
Form 10-Q
May 14, 2010

1

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2010

OR

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

Commission File Number 0-5525

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

CALIFORNIA	94-0787340
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2008 - 21ST. STREET,
BAKERSFIELD, CALIFORNIA 93301
(Address of principal executive offices) (Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]

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

2

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

(Class)	(Outstanding at May 14,2010)
COMMON STOCK WITHOUT PAR VALUE	4,677,728

3

PYRAMID OIL COMPANY

FORM 10-Q
March 31, 2010

Table of Contents

	Page
PART I	
Item 1. Financial Statements	
Balance Sheets - March 31, 2010 and December 31, 2009	4
Condensed Statements of Operations - Three months ended March 31, 2010 and 2009	6

Condensed - Statements of Cash Flows - Three months ended March 31, 2010 and 2009 8

Notes to Financial Statements 10

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 17

Item 3. Quantitative and Qualitative Disclosures About Market Risk 20

Item 4. Controls and Procedures 21

PART II

Item 1. Legal Proceedings 22

Item 1A. Risk Factors 22

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 22

Item 3. Defaults Upon Senior Securities 22

Item 4. Removed and Reserved 22

Item 5. Other Information 22

Item 6. Exhibits 22

4

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PYRAMID OIL COMPANY
BALANCE SHEETS
ASSETS

	March 31, 2010 (Unaudited)	December 31, 2009 (Audited)
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,083,551	$ 1,438,825
Short-term investments	3,348,487	3,344,061
Trade accounts receivable	585,980	375,954
Income taxes receivable	104,281	124,281
Crude oil inventory	89,177	62,760
Deferred income taxes	196,200	196,200
Prepaid expenses and other assets	141,837	169,595
TOTAL CURRENT ASSETS	5,549,513	5,711,676
PROPERTY AND EQUIPMENT, at cost		
Oil and gas properties and equipment (successful efforts method)	16,596,418	16,085,228
Capitalized asset retirement costs	389,463	382,550
Drilling and operating equipment	2,109,993	2,109,993
Land, buildings and improvements	1,066,571	1,065,371
Automotive, office and other		

property and equipment	1,164,035	1,160,617
	21,326,480	20,803,759
Less: accumulated depletion, depreciation, amortization and valuation allowance	(17,296,047)	(17,125,834)
TOTAL PROPERTY AND EQUIPMENT	4,030,433	3,677,925
OTHER ASSETS		
Deposits	250,000	250,000
Deferred income taxes	446,850	485,400
Other assets	17,013	17,013
TOTAL ASSETS	$10,293,809	$10,142,014

The Accompanying Notes are an Integral Part of These Financial Statements.

5

PYRAMID OIL COMPANY
BALANCE SHEETS
LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31 2010 (Unaudited)	December 31, 2009 (Audited)
CURRENT LIABILITIES:		
Accounts payable	$ 49,029	$ 88,170
Accrued professional fees	108,739	138,381
Accrued taxes, other than income taxes	62,310	62,310
Accrued payroll and related costs	65,108	51,606
Accrued royalties payable	197,955	159,933
Accrued insurance	36,326	54,947
Current maturities of long-term debt	14,518	20,640
TOTAL CURRENT LIABILITIES	533,985	575,987
LIABILITY FOR ASSET RETIREMENT OBLIGATION	1,206,451	1,193,324
TOTAL LIABILITIES	1,740,436	1,769,311
COMMITMENTS (note 5)		
STOCKHOLDERS' EQUITY:		
Preferred stock - no par value; 10,000,000 authorized shares; no shares issued or outstanding	--	--
Common stock - no par value; 50,000,000 authorized shares; 4,677,728 shares issued and outstanding	1,515,945	1,515,945
Retained earnings	7,037,428	6,856,758
TOTAL STOCKHOLDERS' EQUITY	8,553,373	8,372,703
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$10,293,809	$10,142,014

The Accompanying Notes are an Integral Part of These Financial Statements.

6

PYRAMID OIL COMPANY
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended March 31,	
	2010	2009
REVENUES	$1,001,739	$ 594,045
COSTS AND EXPENSES:		
Operating expenses	339,920	351,350
General and administrative	207,367	225,304
Taxes, other than income and payroll taxes	27,820	48,298
Provision for depletion, depreciation and amortization	149,387	158,314
Valuation allowances	25,141	--
Accretion expense	6,213	5,866
Other costs and expenses	17,240	24,171
	773,088	813,303
OPERATING INCOME (LOSS)	228,651	(219,258)
OTHER INCOME (EXPENSE):		
Interest income	7,953	26,475
Other income	2,797	3,600
Interest expense	(181)	(415)
	10,569	29,660
INCOME (LOSS) BEFORE INCOME TAX PROVISION (BENEFIT)	239,220	(189,598)
Income tax provision (benefit)		
Current	20,000	(103,383)
Deferred	38,550	103,000
	58,550	(383)
NET INCOME (LOSS)	$ 180,670	$(189,215)

The Accompanying Notes are an Integral Part of These Financial Statements.

7

PYRAMID OIL COMPANY

STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended March 31,	
	2010	2009
EARNINGS PER COMMON SHARE		
Basic Income (Loss) Per Common Share	$ 0.04	$(0.04)
Diluted Income (Loss) Per Common Share	$ 0.04	$(0.04)
Weighted average number of common shares outstanding	4,677,728	4,677,728
Diluted average number of common shares outstanding	4,686,018	4,677,728

The Accompanying Notes are an Integral Part of These Financial Statements.

8

PYRAMID OIL COMPANY
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended March 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 180,670	$(189,215)

Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Provision for depletion, depreciation and amortization	149,387	158,314
Valuation allowances	25,141	--
Accretion expense	6,213	5,866
Loss on retirement of fixed assets	803	--
Deferred taxes	38,550	103,000
Changes in assets and liabilities:		
Increase in trade accounts, interest and income taxes receivable	(190,426)	(111,384)
(Increase) decrease in crude oil inventories	(26,417)	12,194
Decrease in prepaid expenses	27,658	28,489
(Decrease) in accounts payable and accrued liabilities	(35,880)	(225,516)
Net cash provided by (used in) operating activities	175,699	(218,252)

The Accompanying Notes are an Integral Part of These Financial Statements.

9

PYRAMID OIL COMPANY
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended March 31, 2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	$(520,925)	$ (89,584)
Purchase of short-term investments	--	(500,000)
Increase in short-term investments	(4,426)	(20,170)
Net cash used in investing activities	(525,351)	(609,754)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(6,122)	(5,888)
Loans to employees	(600)	(500)
Principal payments from loans to employees	1,100	200
Net cash used in financing activities	(5,622)	(6,188)

Net decrease in cash	(355,274)	(834,194)
Cash at beginning of period	1,438,825	1,793,563
Cash at end of period	$1,083,551	$ 959,369
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the three months for interest	$ 181	$ 415
Cash paid during the three months for income taxes	$ --	$ 161,987

The Accompanying Notes are an Integral Part of These Financial Statements.

10

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2010
(UNAUDITED)

1. Summary of Significant Accounting Policies

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

A summary of the Company's significant accounting policies is contained in its December 31, 2009 Form 10-K which is incorporated herein by reference. The financial data presented herein should be read in conjunction with the Company's December 31, 2009 financial statements and notes thereto, contained in the Company's Form 10-K.

In the opinion of the Company, the unaudited financial statements, contained herein, include all adjustments necessary to present fairly the Company's financial position as of March 31, 2010 and the results of its operations and its cash flows for the three month periods ended March 31, 2010 and 2009. The results of operations for any interim period are not necessarily indicative of the results to be expected for a full year.

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

likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

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

11

Earnings (Loss) Per Share

Basic earnings (loss) per common share is computed by dividing the net income (loss) applicable to common stock by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per common share is calculated in the same manner, but also considers the impact to net income (loss) and common shares for the potential dilution from our 25,000 outstanding stock warrants.

2. Impact of Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This guidance amends the disclosure requirements related to recurring and nonrecurring fair value measurements and requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for the reporting period beginning January 1, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for the reporting period beginning January 1, 2011. Other than requiring additional disclosures, adoption of this new guidance has not and is not expected to have a significant impact on our consolidated financial statements. The Company's adoption of this updated guidance was not significant to our consolidated financial statements.

In February 2010, the FASB issued updated guidance related to subsequent events. As a result of this updated guidance, public filers must still evaluate subsequent events through the issuance date of their financial statements, however, they are not required to disclose the date in which subsequent events were evaluated in their financial statements disclosures. This amended guidance became effective upon its issuance on February 24, 2010 at which time the Company adopted this updated guidance.

3. Dividends

No cash dividends were paid during the three months ended March 31, 2010 and 2009.

12

4. Income Taxes

The Company adopted FASB ASC 740, Income Taxes (formerly FASB Interpretation 48, Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109) (Topic 740) on January 1, 2007. As a result of the implementation of FASB ASC 740, the company made a comprehensive review of its portfolio of tax positions in accordance with recognition standards established by FASB ASC 740. As a result of the implementation of FASB ASC 740, the Company recognized no material adjustments to liabilities or stockholders equity.

The Company files income tax returns in the U.S. federal jurisdiction, California and New York states. With few exceptions, the Company is no longer subject to U.S. federal tax examination for the years before 2006. State jurisdictions that remain subject to examination range from 2005 to 2009. The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months.

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

5. Commitments

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

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

13

The Company has been notified by the United States Environmental Protection Agency (EPA) of a final settlement offer to settle its potential liability as a generator of waste containing hazardous substances that was disposed of at a waste disposal site in Santa Barbara County. The Company has responded to the EPA by indicating that the waste contained petroleum products that fall within the exception to the definition of hazardous substances for petroleum-related substances of the pertinent EPA regulations. Management has concluded

that under both Federal and State regulations no reasonable basis exists for any valid claim against the Company. As such, the likelihood of any adverse settlement is deemed remote.

6. Income Tax Provision

The Company recognized an income tax provision of $58,550 for the first quarter of 2010 compared to an income tax benefit of $383 for the same period in 2009. Income tax benefits were realized by the Company in the first quarter of 2009, due primarily to net operating loss carrybacks.

Income tax provision for the first quarter of 2010 was calculated as follows:

	Federal	State	Total
Current tax provision	$ 17,000	$ 3,000	$ 20,000
Deferred tax provision	29,950	8,600	38,550
	$ 46,950	$ 11,600	$ 58,550

Deferred income taxes are recognized using the asset and liability method by applying income tax rates to cumulative temporary differences based on when and how they are expected to affect the tax returns. Deferred tax assets and liabilities are adjusted for income tax rate changes. Deferred income tax assets have been offset by a valuation allowance of $1,766,000 as of March 31, 2010. Management reviews deferred income taxes regularly throughout the year, and accordingly makes any necessary adjustments to properly reflect the valuation allowance based upon current financial trends and projected results.

7. Severance Award Agreements

On June 4, 2009, the Company and John Alexander entered into a Severance Award Agreement pursuant to which the Company awarded Mr. Alexander a supplemental payment in connection with his future severance of employment with the Company and recorded an increase to stockholders' equity of $209,935. Pursuant to the Severance Award Agreement and following the termination of Mr.

Alexander's employment, he will be entitled to receive (at the Company's option) 25,000 shares of the Company's common stock or the then-fair market value of the shares. As of June 30, 2009, the Company intends to deliver the Company's common shares for the Severance Award; therefore, in accordance with FASB ASC Topic 718, Compensation-Stock Compensation, management has classified the share-based compensation as stockholders' equity at June 30, 2009.

On December 30, 2008, the Company and John Alexander entered into a Severance Award Agreement pursuant to which the Company awarded Mr. Alexander a supplemental payment in connection with his future severance of employment with the Company and recorded an increase to stockholders' equity of $100,000. Pursuant to the Severance Award Agreement and following the termination of Mr. Alexander's employment, he will be entitled to receive (at the Company's option) 25,000 shares of the Company's common stock or the then-fair market value of the shares. As of December 31, 2008, the Company intends to deliver the Company's common shares for the Severance Award; therefore, in accordance with FASB ASC Topic 718, Compensation-Stock Compensation, management has classified the share-based compensation as stockholders' equity at December 31, 2008.

8. Incentive and Retention Plan

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

9. Related-party Transaction

Effective January 1, 1990, John H. Alexander, an officer and director of the Company participated with a group of investors that acquired the mineral and fee interest on one of the Company's oil and gas leases (Santa Fe Energy lease) in the Carneros Creek field after the Company declined to participate. The thirty-three percent interest owned by Mr. Alexander represents a minority interest in the investor group. Royalties on oil and gas production from this property paid to the investor group approximated $52,000 during the first quarter of 2010 and $36,000 during the first quarter of 2009.

15

10. Warrants Issued

The Company issued warrants to purchase common shares of the Company as compensation for consulting services. The value of warrants issued for compensation is accounted for as a non-cash expense to the Company at the fair value of the warrants issued. The Company values the warrants at fair value as calculated by using the Black-Scholes option-pricing model.

The following table summarizes the warrant activity for the nine months ended March 31, 2010:

(Unaudited)	Number of Warrants	Weighted-Average Exercise Price
Outstanding, December 31, 2009	25,000	$3.20
Granted	--	--
Exercised	--	--
Cancelled	--	--
Outstanding, March 31, 2010	25,000	$3.20

The following summarizes the warrants issued, outstanding and exercisable as of March 31, 2010:

Grant Date	November, 2008
Strike Price	$3.20
Expiration Date	November, 2010
Warrants Remaining	25,000
Proceeds if Exercised	$80,000

Call Feature	None

11. Fair Value

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

Level 1 - Observable inputs such as quoted prices in active markets; this included the Company's short-term investments.

16

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

Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions. Included in this category is the Company's determination of the value of its asset retirement obligation liability. The obligation has increased $13,127 during the three months ended March 31, 2010 as a result of normal accretion expense and the drilling of a new well in the first quarter of 2010.

The carrying amount of our cash and equivalents, accounts receivable, accrued current liabilities, accounts payable and long term debt reported in the condensed consolidated balance sheets approximates fair value because of the short maturity of those instruments.

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

Note 13. Subsequent Events

During the second quarter of 2010, the Company commenced drilling of a horizontal well on one of its Mountain View properties in Kern County, California. The well was drilled to its objective but did not encounter adequate hydrocarbons to warrant completion of the well. At March 31, 2010, the Company recorded a valuation allowance of $25,141 for certain costs that had been incurred prior to the drilling of this well. The Company is projecting that an additional valuation allowance of approximately $830,000 will be required in the second quarter of 2010 to reflect the costs incurred

for the drilling of this well.

PAGE

Note 14. Assets Retirement Obligations

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

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

Balance at December 31, 2009	$1,193,324
Incurred during the period	--
Additions for new wells	6,942
Accretion expense	6,185
Balance at March 31, 2010	$1,206,451

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

FORWARD LOOKING INFORMATION

Looking forward into the balance of fiscal 2010, crude oil prices have decreased by $8.15 per barrel.

During the first quarter, the Company commenced a program of increased drilling activity on its Kern County, California leases. The first well in the program was successfully drilled in January on the Company's Anderson property in the Carneros Creek field. This well was drilled to approximately 3,300 feet, logged and completed, and is now producing at a rate of approximately 25 barrels per day. A second prospect, a horizontal well drilled during April in the Company's Mountain View field, did not encounter hydrocarbons at levels sufficient to justify completion. The well did, however, provide new geologic information about the Mountain View field, where the Company currently operates approximately 30 wells. During the third

PAGE

fiscal quarter the Company intends to commence drilling an additional Kern

County prospect, which will either be a new well or a re-drilling of an existing well.

During the first quarter, the original well in the Company's Texas natural gas joint venture was horizontally re-drilled into the Eagle Ford formation with a 4,500-foot lateral leg. The well was stimulated with a multi-stage hydraulic frac, and testing showed oil production in the range of 100-barrels per day. In late April, drilling operations were begun on a second Eagle Ford formation horizontal well on the joint venture's farmout property. Results from this well will be provided after completion and testing.

Management continues to seek and evaluate opportunities within the energy sector to enhance the value of the Company. Pyramid's growth during the balance of 2010 will be highly dependant on the level of success the Company has in its operations and capital investments, including the outcome of wells that have not yet been drilled. The Company's capital investment program may be modified during the year due to exploration and development successes or failures, market conditions and other variables. The production and sales of oil and gas involves many complex processes that are subject to numerous uncertainties, including reservoir risk, mechanical failures, human error and market conditions.

The Company has positioned itself, over the past several years, to withstand various types of economic uncertainties, with a program of consolidating operations on certain producing properties and concentrating on properties that provide the major revenue sources. The drilling of a new well and several limited work-overs of certain wells have allowed the Company to maintain its crude oil reserves for the last three years. The Company expects to maintain its reserve base in 2010 by drilling new wells and routine maintenance of its existing wells.

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

The Company continues to absorb the costs for various state and local fees and permits under new environmental programs, the sum of which were not material during 2009 and the first quarter of 2010. The Company retains outside consultants to assist the Company in maintaining compliance with these regulations. The Company is actively pursuing an ongoing policy of upgrading and restoring older properties to comply with current and proposed environmental regulations. The costs of upgrading and restoring older properties to comply with environmental regulations have not been determined. Management believes that these costs will not have a material adverse effect upon its financial position or results of operations.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Portions of the Quarterly Report, including Management's Discussion and Analysis, contain forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results and performance in future periods to be materially different from any future results or performance suggested in forward-looking statements in this release. Such forward-looking statements speak only as of the date of this report and the Company expressly disclaims any obligation to update or revise any forward-looking statements found herein to reflect any changes in Company expectations or results or any change in events. Factors that could cause

results to differ materially include, but are not limited to: the timing and extent of changes in commodity prices of oil, gas and electricity, environmental risk, drilling and operational costs, uncertainties about estimates of reserves and government regulations.

ANALYSIS OF SIGNIFICANT CHANGES IN RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2010
COMPARED TO THE QUARTER ENDED MARCH 31, 2009

REVENUES

The increase in revenues of $407,694 is due primarily to higher average prices for the first quarter of 2010. Oil and gas revenues increased by 69% for the three months ended March 31, 2010 when compared with the same period for 2009. Oil and gas revenues increased by 82% due to higher average crude oil prices for the first quarter of 2010. The average price of the Company's oil and gas for the first quarter of 2010 increased by approximately $36.73 per equivalent barrel when compared to the same period of 2009. Revenues decreased by approximately 13% due to lower crude oil production/sales. The Company's net revenue share of crude oil production decreased by approximately 2,000 barrels for the first three months of 2010. The decrease in crude oil production is primarily the result of the decline in production on the Company's Anderson lease.

OPERATING EXPENSES

Operating expenses decreased by $11,430 for the first quarter of 2010. Operating expenses decreased by 3% for the first quarter of 2010. The cost to produce an equivalent barrel of crude oil during the first quarter of 2010 was approximately $25.64 per barrel, an increase of approximately $2.68 per barrel when compared with production costs for the first quarter of 2009. The decrease in lease operating expenses is caused by many factors. These include lower costs for labor, contract operations and inventory change. This was offset by higher costs for waste water disposal, parts and supplies, production equipment repair and maintenance, equipment fuel and equipment rental costs.

20

Labor costs decreased by approximately $21,000 due to the capitalization of labor associated with the drilling of the Anderson No. 10 well in the first quarter of 2010. Contract operations decreased by approximately $9,500 due to lower activity for the Texas gas prospect. Inventory change decreased by approximately $39,000 as compared with the same period of 2009. Inventory values were higher at March 31, 2010 as compared with the same period in 2009. Waste water disposal increased by approximately $17,500 due to higher costs at the Company's Delaney Tunnell lease. Parts and supplies increased by approximately $16,500 due to an increase in maintenance activities. Production equipment repair and maintenance increased by approximately $11,500 due to an increase in maintenance activities. Equipment fuel increased by approximately $5,000 due to higher overall maintenance activities and higher prices for gasoline and diesel during the first quarter of 2010. Equipment rental costs increase by approximately $5,000 due primarily to maintenance activities on the Company's Mullaney lease.

GENERAL AND ADMINISTRATIVE

General and administrative expenses decreased by $17,937. Accounting services decreased by approximately $30,000. This was offset by an increase in salaries of approximately $6,500.

PROVISION FOR DEPLETION, DEPRECIATION AND AMORTIZATION

The provision for depletion, depreciation and amortization decreased by $8,927 for the first quarter of 2010, when compared with the same period for 2009. The decrease is due primarily to a decrease in depletion of the Companies oil and gas properties. The decrease in depletion is due primarily to a decrease in crude oil production for the first quarter of 2010.

VALUATION ALLOWANCES

The valuation allowance of $25,141 at March 31, 2010, reflects the write-down of certain costs related to a horizontal well that was drilled in the second quarter of 2010 that did not encounter adequate hydrocarbons to warrant completion of the well. See Note 13 for additional information.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable

21

Item 4. Controls and Procedures

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

There was no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

22

PART II - OTHER INFORMATION

Item 1. - Legal Proceedings

None

Item 1A. - Risk Factors

See the risk factors that are included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

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

None

Item 3. - Defaults Upon Senior Securities

None

Item 4. - Removed and Reserved

Item 5. - Other Information

None

Item 6. - Exhibits

a. Exhibits

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

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

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

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

23

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PYRAMID OIL COMPANY
(registrant)

Dated: May 14, 2010

JOHN H. ALEXANDER

John H. Alexander
President

Dated: May 14, 2010

LEE G. CHRISTIANSON

Lee G. Christianson
Chief Financial Officer