

PYRAMID OIL CO
Form 10-K
March 30, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

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

For the transition period from _____ to _____

Commission File Number 001-32989

PYRAMID OIL COMPANY

(Exact Name of registrant as specified in its charter)

CALIFORNIA
(State of other jurisdiction of
incorporation or organization)

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

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

93302
(Zip Code)

Registrant's telephone number:

(661) 325-1000

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

Common Stock NYSE AMEX
(Title of each class) (Name of each exchange on which registered)

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

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

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

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

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

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

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

Large accelerated filer Accelerated Filer
Non-accelerated filer Smaller reporting company

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

The aggregate market value on June 30, 2011, (the last business day of the registrant's most recently completed second fiscal quarter) of the voting shares held by non-affiliates was approximately \$12,482,000 based on the closing sales price of the registrant's Common Stock on such date.

At March 30, 2012, there were 4,683,853 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2012 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.

PYRAMID OIL COMPANY

2011 FORM 10-K ANNUAL REPORT

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CAUTIONARY STATEMENT FOR PURPOSES OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND OTHER FEDERAL SECURITIES LAWS

Pyramid Oil Company is including the following discussion to inform existing and potential security holders generally of some of the risks and uncertainties that can affect the Company and to take advantage of the "safe harbor" protection for forward-looking statements afforded under the federal securities laws. Statements made in this Annual Report on Form 10-K may be forward-looking statements. In addition, from time to time, the Company may otherwise make forward-looking statements to inform existing and potential security holders about the Company. These statements may include projections and estimates concerning the timing and success of specific projects and the Company's future (1) income, (2) oil and gas production, (3) oil and gas reserves and reserve replacement and (4) capital spending. Forward-looking statements are generally accompanied by words such as "estimate," "project," "predict," "believe," "expect," "anticipate," "plan," "goal" or other words that convey the uncertainty of future events or outcomes. In addition, except for the historical information contained in this report, the matters discussed in this report are forward-looking statements. These statements by their nature are subject to certain risks, uncertainties and assumptions and will be influenced by various factors. Should any of the assumptions underlying a forward-looking statement prove incorrect, actual results could vary materially.

PART I

Item 1 - Business

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 crude oil or natural 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 other companies 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. Although the Company owns some minor oil and gas interests in New York, Texas and Wyoming, all of the Company's operations and major revenue producing properties are in California.

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

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 under certain economic conditions.

Oil and Gas Production Operations.

Pyramid owns and operates 27 oil and gas leases (properties) located within Kern and Santa Barbara Counties in the State of California. Nine of these properties were not operated during 2011. All of these properties were shut-down before January 1, 2011. No other properties were shut-down during 2011. Most of these properties are capable of producing oil or natural gas, although not all of these properties are considered profitable under certain economic conditions. There are no proved reserves attributed to these properties at December 31, 2011. All of the shut-down properties had been written-down in prior periods.

During 2011, the Company operated 18 leases within California, 16 of these leases had total annual gross oil production exceeding 1,000 barrels per lease. Production activities 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 flow; fluids and gases are moved to the surface by natural pressure or by means of artificial lift (pumping). 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 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 various 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 re-drills existing wells on properties owned by the Company in an attempt to increase the daily oil and gas production. In the last five years, the Company has utilized the services of outside drilling contractors for drilling new wells and re-drilling 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.

Economic factors associated with the price of oil and gas and the productive output of wells determines the number of active wells the Company operates. Under certain economic conditions, the Company has the potential to operate approximately 122 wells, and of these, approximately 53 were in operation during 2011. The Company also owns other oil and gas interests outside of California that it does not operate. These interests are located in Wyoming, Texas and New York.

Marketing of Crude Oil and Natural Gas.

The Company sells its crude oil to ConocoPhillips and Kern Oil & Refining, accounting for approximately 50% and 47%, respectively, of the Company's crude oil and gas sales in 2011. 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. ConocoPhillips, and its predecessors, and Kern Oil have been customers of the Company for over twenty years. Natural gas is sold to companies in the area of operations. The Company sells its oil pursuant to short-term contracts. Accordingly, the amount of oil the Company sells is dependent upon market demand. 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.

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 disadvantages could materially and adversely affect the Company's ability to acquire new properties or develop existing properties.

Regulations

The Company's business is affected by numerous 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.

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 currently 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.

Commitments and Contingencies

The Company is liable for future dismantlement and abandonment costs associated with its oil and gas properties. These costs include down-hole plugging and abandonment of wells, future site restoration, post closure and other environmental exit costs. The costs of future dismantlement and abandonment have been accrued and recorded in the financial statements. See Note 10 of Notes to Financial Statements included in Item 8 of this Form 10-K.

Other

The Company employed twelve full-time and two part-time people as of December 31, 2011. Three full-time and two part-time people were office or administrative personnel, and the rest were field personnel. The Company contracts for additional labor services when needed. The Company is not a party to any union contract.

The Company had no material research and development costs for the three years ended December 31, 2011.

All of the Company's revenues during 2011 were derived from domestic sources.

The Company does not have any patents or trademarks, and it does not believe that its business or operations are dependent upon owning any patents or trademarks.

Item 1A - Risk Factors

In addition to other information in this annual report, the following risk factors should be carefully considered in evaluating the Company's business because such factors may have a significant impact on the Company's business, operating results, liquidity and financial condition. As a result of the risk factors set forth below, actual results could differ materially from those projected in any forward-looking statements. Additional risks and uncertainties not presently known to us, or that we currently consider to be immaterial, may also impact the Company's business, operating results, liquidity and financial condition. If any such risks occur, the Company's business, operating results, liquidity and financial condition could be materially affected in an adverse manner. Under such circumstances, the trading price of the Company's securities could decline, and you may lose all or part of your investment in the Company.

Risks Relating to the Company's Business and the Oil and Gas Industry

The company's future performance is dependent upon the company's ability to continue to identify, acquire and develop additional oil and gas properties, the failure of which could result in under use of capital and losses.

The Company's future performance depends upon the Company's ability to continue to identify, acquire and develop additional oil and gas reserves that are economically recoverable. The Company's success will depend upon the Company's ability to continue to acquire working and revenue interests in properties upon which oil and gas reserves are ultimately discovered in commercial quantities, and the Company's ability to develop additional prospects that contain proven oil and gas reserves to the point of production. The successful acquisition and development of oil and gas properties requires an assessment of recoverable reserves, future oil and gas prices and operating costs, potential environmental and other liabilities, and other factors. Such assessments are necessarily inexact and their accuracy inherently uncertain. In addition, no assurance can be given that the Company's future exploitation and development activities will result in the discovery of additional reserves.

The company has a very small management team and the loss of any member of the company's team may prevent us from implementing the company's business plan in a timely manner.

The Company currently has two executive officers and a small number of full time employees and consultants upon whom the Company's success largely depends. We do not maintain key person life insurance policies on the Company's executive officers or consultants, the loss of whom could seriously harm the Company's business, financial condition and results of operations. In such an event, we may not be able to recruit personnel to replace the Company's executive officers or consultants in a timely manner, or at all, or on acceptable terms.

The oil and gas industry is highly competitive, and the company may not have sufficient resources to compete effectively.

The oil and gas industry is highly competitive. The Company competes with oil and natural gas companies and other individual producers and operators, many of which have substantially greater financial and other resources than the Company. The Company's larger competitors, by reason of their size and relative financial strength, can more easily access capital markets than the Company can and may enjoy a competitive advantage in the recruitment of qualified personnel. Competitors may be able to absorb the burden of any changes in laws and regulations in the jurisdictions in which the Company does business and handle longer periods of reduced prices for oil and gas more easily than we can. The Company's competitors may be able to pay more for oil and gas leases and properties and may be able to define, evaluate, bid for and purchase a greater number of leases and properties than the Company can. Further, these companies may enjoy technological advantages and may be able to implement new technologies more rapidly than the Company can. The Company's ability to acquire additional properties in the future will depend upon the Company's ability to conduct efficient operations, evaluate and select suitable properties, implement advanced technologies and consummate transactions in a highly competitive environment.

The company's exploration, development and production activities are subject to certain environmental regulations which may affect the company's costs of operations.

In general, the Company's exploration and production activities are subject to certain federal, state and local laws and regulations relating to environmental quality and pollution control. Such laws and regulations increase the costs of these activities and may prevent or delay the commencement or continuance of a given operation. Specifically, the Company is subject to legislation regarding emissions into the environment, water discharges and storage and disposition of hazardous wastes. However, such laws and regulations are frequently changed and any such changes may have material adverse effects on the Company's activities. The Company is unable to predict the ultimate cost of compliance with such laws and regulations. Generally, environmental requirements do not appear to affect the Company any differently or to any greater or lesser extent than other companies in the industry. To date the Company has not been required to spend any material amounts on compliance with environmental regulations. However, the Company may be required to do so in future and this may affect the Company's ability to expand or maintain the

Company's operations.

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Any change to government regulation/administrative practices may have a negative impact on the company's ability to operate and the company's profitability.

The business of oil and gas exploration and development is subject to substantial regulation under federal, state, local and foreign laws relating to the exploration for, and the development, upgrading, marketing, pricing, taxation, and transportation of oil and gas and related products and other matters. Amendments to current laws and regulations governing operations and activities of oil and gas exploration and development operations could have a material adverse impact on the Company's business. In addition, there can be no assurance that income tax laws, royalty regulations and government incentive programs related to the Company's oil and gas properties and the oil and gas industry generally, will not be changed in a manner which may adversely affect the Company's progress and cause delays, inability to explore and develop or abandonment of these interests.

Permits, leases, licenses, and approvals are required from a variety of regulatory authorities at various stages of exploration and development. There can be no assurance that the various government permits, leases, licenses and approvals sought will be granted in respect of the Company's activities or, if granted, will not be cancelled or will be renewed upon expiry. There is no assurance that such permits, leases, licenses, and approvals will not contain terms and provisions which may adversely affect the Company's exploration and development activities.

The company is required to replace, maintain or expand the company's oil and gas reserves in order to prevent the company's future reserves and production from declining, which would adversely affect future cash flows and income.

In general, production from oil and gas properties declines over time as reserves are depleted, with the rate of decline depending on reservoir characteristics. The Company's future oil and gas production is highly dependent upon the Company's ability to economically find, develop, acquire and maintain reserves in commercial quantities.

To the extent cash flow from operations is reduced, either by a decrease in prevailing prices for oil and gas or an increase in finding and development costs, and external sources of capital become limited or unavailable, the Company's ability to make the necessary capital investment to maintain or expand the Company's asset base of oil and gas reserves would be impaired. Even with sufficient available capital, the Company's future exploration and development activities may not result in additional proved reserves, and we might not be able to drill productive wells at acceptable costs.

The oil and gas exploration and production industry is historically a cyclical industry and market fluctuations in the prices of oil and gas could adversely affect the company's business.

Prices for oil and gas tend to fluctuate significantly in response to factors beyond the Company's control. These factors include:

- weather conditions in the United States and where the Company's property interests are located;

- economic conditions, including demand for petroleum-based products, in the United States and the rest of the world;

- actions by OPEC, the Organization of Petroleum Exporting Countries; political instability in the Middle East and other major oil and gas producing regions;

- governmental regulations;

- domestic tax policy;

- the price of foreign imports of oil and gas;

- the cost of exploring for, producing and delivering oil and gas;
- the discovery rate of new oil and gas reserves;
- the rate of decline of existing and new oil and gas reserves;
- available pipeline and other oil and gas transportation capacity;
- the ability of oil and gas companies to raise capital;
- the overall supply and demand for oil and gas; and
- the availability of alternate fuel sources.

Changes in commodity prices may significantly affect the Company's capital resources, liquidity and expected operating results. Price changes will directly affect revenues and can indirectly impact expected production by changing the amount of funds available to reinvest in exploration and development activities. Reductions in oil and gas prices not only reduce revenues and profits, but could also reduce the quantities of reserves that are commercially recoverable. Significant declines in prices could result in non-cash charges to earnings due to impairment.

Changes in commodity prices may also significantly affect the Company's ability to estimate the value of producing properties for acquisition and divestiture and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on the value of the properties. Price volatility also makes it difficult to budget for and project the return on acquisitions and the development and exploitation of projects. We expect that commodity prices will continue to fluctuate significantly in the future.

Exploratory and developmental drilling and production operations involves many risks that are outside the company's control and which may result in a material adverse effect on the company's business, financial condition or results of operations.

The business of exploring for, developing and producing oil and gas involves a substantial risk of investment loss. Drilling and operating oil and gas wells involves the risk that the wells may be unproductive or that, although productive, the wells may not produce oil or gas in economic quantities. Other hazards, such as unusual or unexpected geological formations, pressures, fires, blowouts, power outages, gas leakage, loss of circulation of drilling fluids or other conditions may substantially delay or prevent completion of any well. Adverse weather conditions can also

hinder drilling operations. A productive well may become uneconomic if water or other deleterious substances are encountered that impair or prevent the production of oil or gas from the well. In addition, production from any well may be unmarketable if it is impregnated with water or other deleterious substances. There can be no assurance that oil and gas will be economically produced from all properties in which the Company has interests.

At times the company participates in joint ventures wherein the company is dependant upon the efforts of various third parties that the company does not control and, as a result, the company may not be able to control the timing of development efforts, associated costs, or the rate of production of reserves (if any).

The success of the Company's business interests in certain joint ventures, where the Company owns less than a majority interest depends upon the efforts of various third parties that the Company does not control. As a result, the Company may have limited ability to exercise influence over certain joint venture decisions, operations or costs in certain joint venture activities. The Company's dependence on the operator and, where applicable, other working interest owners for these projects and the Company's limited ability to influence operations and associated costs could prevent the Company from realizing targeted returns on capital in drilling or acquisition activities. The success and timing of development and exploitation activities on joint venture properties operated by others depend upon a number of factors that will be largely outside of the Company's control, including:

- the timing and amount of capital expenditures;
- the operator's expertise and financial resources;
- approval of other participants in drilling wells;
- selection of technology;
- the rate of production of the reserves; and

the availability of suitable drilling rigs, drilling equipment, production and transportation infrastructure, and qualified operating personnel.

The Company relies upon various consultants and service companies to provide us with technical assistance and services. The Company relies upon the services of geologists, geophysicists, chemists, engineers and other scientists to explore and analyze oil and gas prospects to determine a method in which the oil and gas prospects may be developed in a cost-effective manner. Although the Company's management has relationships with a number of third-party service providers, we cannot assure you that we will be able to continue to rely on such consultants or services in the future.

Risks Related to the Company's Common Stock

The value of the company's common stock may be adversely affected by market volatility.

The trading price of the Company's common stock fluctuates and may be influenced by many factors, including:

- The Company's operating and financial performance and prospects;
- The depth and liquidity of the market for the Company's common stock;
- Investor perception of the Company and the industry and markets in which the Company operates;
 - The Company's inclusion in, or removal from, any equity market indices;
 - Changes in earnings estimates or buy/sell recommendations by analysts; and
 - General financial, domestic, international, economic and other market conditions.

The company's ability to raise capital in the future may be limited, and the Company's failure to raise capital when needed could prevent the company from executing its growth strategy.

The timing and amount of the Company's working capital and capital expenditure requirements may vary significantly depending on many factors, including future oil and gas prices and the amount of the Company's future oil and gas production.

If the Company's capital resources are not sufficient to satisfy its liquidity needs, the Company may seek to sell additional equity or obtain additional debt financing. The sale of additional equity would result in dilution to the Company's shareholders. Additional debt would result in increased expenses and could result in covenants that would restrict the Company's operations. In addition, the Company may not be able to obtain additional financing, if required, in amounts or on terms acceptable to the Company, or at all.

The company's by-laws do not contain anti-takeover provisions and thus the company's management and directors may change if there is a take-over of the company.

We do not currently have a shareholder rights plan or any anti-takeover provisions in the Company's by-laws. Without any anti-takeover provisions, there is no deterrent for a take-over of the Company. If there is a take-over of the Company, the Company's management and directors may change.

Item 1B - Unresolved Staff Comments

None

Item 2 - Properties

(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. The Company's oil and gas properties are

located exclusively in the continental United States, in California, Wyoming, Texas and New York.

The general business description and the description of the Company's oil and natural gas operations are described on page 4 under Item 1. Business. Information required by Subpart 1200 of Regulation S-K (Disclosure by Registrants Engaged in Oil and Gas Producing Activities) is also contained in Item 1. and in Item 8. Financial Statements and Supplementary Data, Supplemental Information - Oil and Gas Producing Activities on pages 52 to 56. The preceding information is incorporated by reference into this Item 2.

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 proved undeveloped reserves of 44,700, 77,700, 96,000, and 9,500 at December 31, 2011, 2010, 2009 and 2008, respectively. The Company had no significant proved undeveloped properties at December 31, 2007.

The Company had proved undeveloped reserves of 44,700 barrels of crude oil at December 31, 2011. These reserves are attributable to two wells that the Company plans to drill in 2012. The Company projects that it will cost approximately \$1,281,000 to drill and complete these wells in 2012. One of these wells the Santa Fe #20 well, was drilled and completed in the first quarter of 2012.

The Company had proved undeveloped reserves of 77,700 barrels of crude oil at December 31, 2010. These reserves are attributable to three wells that the Company plans to drill in 2011. The Company projected that it would cost approximately \$1,596,000 to drill and complete these wells in 2011. One of these wells the Pike 1-H, a horizontal well, was spudded in March of 2011. The Company is drilling this well in conjunction with a joint-venture partner. The Company is the operator of the joint venture.

The Company had proved undeveloped reserves of 96,000 barrels of crude oil at December 31, 2009. These reserves are attributable to three wells that the Company planned to drill in 2010. The Company projected that it would cost approximately \$1,550,000 to drill and complete these wells in 2010. Two of these wells were drilled in 2010. The Anderson No. 10 well was drilled in the first quarter of 2010 at a cost of \$481,000. This well was completed and placed into production in the first quarter of 2010 and is currently under production. The second well was drilled in the second quarter of 2010. The CLI No. 4-H, was not completed due to the absence of hydrocarbons and was abandoned as a dry-hole. The cost to drill this well was \$867,000. A valuation allowance of \$867,000 was recorded in the first and second quarter against the costs of this well.

The Company had proved undeveloped reserves of 9,500 barrels of gas (which represents the crude oil equivalent of 57,000 MCF's, 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) at December 31, 2008. This represents the reserves attributable to a well that was drilled in 2008 on the properties of the Texas natural gas joint venture. Additional work costing approximately \$86,000 was expended to develop these reserves in 2009. The results of this effort in 2009 did not generate the anticipated results. A valuation allowance has been recorded against the full capitalized costs of this well.

The Company had proved undeveloped reserves of 79,600 barrels of crude oil at December 31, 2007. These reserves are attributable to two wells that the Company planned to drill in 2008. The Company drilled one of these wells, a development well, in 2008 on the Santa Fe lease. This well was completed and placed on production in 2008. The production results from this well were non-economic and the well was shut-in during 2008. The costs to drill and complete this well were approximately \$645,000. A valuation allowance was recorded in 2008 against the costs of this well. The other well that was forecast to be drilled in 2008 was not drilled. The Company reduced its capital budget in 2008 due to lower crude oil sales prices that were experienced during 2008. The reserves for this well were not carried forward into 2009 reserves.

The Company has no material amounts of proved undeveloped reserves that have remained undeveloped for five years or more after disclosure as proved undeveloped reserves.

(b) Oil and Gas Properties

The Company's estimated future net recoverable oil and gas reserves from proved reserves, both developed and undeveloped properties were assembled by MHA Petroleum Consultants, LLC, independent petroleum engineers, and are as follows:

Crude	Natural
Oil	Gas

	(Bbls)	(MCF)
December 31, 2011	546,000	42,000
2010	538,000	44,000
2009	506,000	81,000
2008	471,000	155,000
2007	806,000	331,000

The Company's estimated future net recoverable oil and gas reserves, noted in the above table, have not been filed with any other Federal authority or agency since January 1, 2011.

Using the 12 month average of the first-of-the-month oil and gas prices and 12 month average of 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 \$18,439,000 at December 31, 2011, \$13,068,000 at December 31, 2010, \$9,158,000 at December 31, 2009, \$4,106,000 at December 31, 2008, and \$27,414,000 at December 31, 2007.

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

In December 2008, the SEC issued its final rule, Modernization of Oil and Gas Reporting, which is effective for reporting 2009 reserve information. In January 2010, the FASB issued its authoritative guidance on extractive activities for oil and gas to align its requirements with the SEC's final rule. We adopted the guidance as of December 31, 2009 in conjunction with our year-end reserve report as a change in accounting principle. Under the SEC's final rule, prior period reserves were not restated.

Internal Controls over Reserve Estimation

Our proved reserve information as of December 31, 2011 included in this Annual Report on Form 10-K was estimated by our independent petroleum consultant, MHA Petroleum Consultants, LLC, in accordance with generally accepted petroleum engineering and evaluation principles and definitions and guidelines established by the SEC. For the company's estimation procedures, credentials and statement of independence, see the MHA Petroleum Consultants, LLC, report filed herein on Exhibit 99.1. The technical persons responsible for preparing the reserves estimates presented herein meet the requirements regarding qualifications, independence, objectivity and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. MHA Petroleum Consultants, LLC, and their predecessors have been preparing the Company's reserve information for over twenty years and thus, are very familiar with the Company's operations and their oil and gas properties.

John H. Alexander, President and Lee Christianson, CFO, provide company data (such as well ownership interests, oil and gas prices, production volumes and well operating costs) to MHA Petroleum Consultants, LLC, and are the primary Company employees responsible for reviewing MHA Petroleum Consultants, LLC, use of our data and MHA Petroleum Consultants, LLC, estimation of our reserves. Mr. Alexander and an employee who is a petroleum engineer provide MHA Petroleum Consultants, LLC, with technical data (such as well logs, geological information and well histories). Mr. Alexander and Mr. Christianson have been with the Company for over twenty years. Mr. Alexander has over forty years experience in the oil and gas exploration and production industry.

John Alexander and Lee Christianson review the preliminary MHA Petroleum Consultants, LLC, reserve estimates and the financial inputs in the estimates. Mr. Christianson, CFO, calculates the disclosed changes in reserve estimates and the disclosed changes in the Standardized Measure relating to proved oil and gas reserves. Mr. Christianson has over thirty years experience in oil and gas accounting.

Our company codes of business conduct and ethics are general internal controls for preventing and detecting errors or fraud by our employees responsible for the reserve estimation procedures and disclosure in our filings with the SEC.

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

	2011	2010	2009	2008	2007
Crude oil (Bbls)	55,000	60,000	57,000	65,000	67,000
Natural gas (MCF)	9,000	9,000	5,000	5,000	5,000

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:

	2011	2010	2009	2008	2007
Sales price:					
Crude oil	\$104.78	\$77.10	\$57.16	\$93.47	\$67.83
Natural gas	\$3.87	\$4.37	\$4.02	\$7.94	\$7.16
Production costs	\$33.00	\$26.60	\$24.20	\$27.20	\$24.00

The average selling price of the Company's crude oil at December 31, 2011, was approximately \$106.69 per barrel and the average selling price of the Company's natural gas at December 31, 2011, was approximately \$3.28 per MCF.

As of December 31, 2011, Pyramid had the following gross and net position in wells and proved acres:

	WELLS		PROVED ACRES	
	Gross	Net (1)	Gross (2)	Net (2)
Oil	127	126	9,141	1,762
Natural Gas	22	7	12,246	4082
	149	133	21,387	5,844

"Gross wells" represent the total number of wells in which the Company has a working interest. "Net wells" (1) represent 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" represent the aggregate of the working interests of the Company in the gross acres.

The company drilled two wells in 2011, the Pike 1-H well and the Jacoby-Potter Unit #1 well. Both of these wells were drilled jointly with different partners on each well. Both of these wells were drilled in the first quarter of 2011. The Company is the operator of the Pike 1-H well. The Company's share of the costs of drilling the Pike well was \$897,000. This well was written down by \$673,000 during 2011 because the production from the well was lower than projected. The write-down was based on the Company's share of projected future net cash flows for the well. The Jacoby-Potter well was drilled by the joint venture in Texas. The Company participated as one of the non-operators in the drilling of this well. The Company's share of the costs for drilling this well were \$54,000. This well was abandoned as a dry-hole. The Company recorded a valuation allowance of \$54,000 during 2011 for this well.

The Company drilled two new wells in 2010, the Anderson No.10 well and the CLI No. 4-H. The Anderson No. 10 well was drilled in the first quarter of 2010 and completed as a producing well. The CLI No. 4-H was drilled in the second quarter of 2010 and was abandoned as a dry-hole. The Company recorded a valuation allowance of \$867,468 during the second quarter of 2010 to offset the costs of drilling and abandoning this well. The Company also redrilled two existing wells during the four