

Edgar Filing: PYRAMID OIL CO - Form 10KSB

PYRAMID OIL CO
Form 10KSB
March 27, 2003

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, 2002

/ / 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 94-0787340
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

2008 - 21st. Street, P. O. Box 832 93302
Bakersfield, California (Zip Code)
(Address of principal executive offices)

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: \$1,616,041

The aggregate market value on March 7, 2003, of voting shares held by

Edgar Filing: PYRAMID OIL CO - Form 10KSB

non-affiliates was approximately \$796,000 based on the average closing sales prices of the registrant's Common Stock on such date.

At March 7, 2003, there were 2,494,430 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2003 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

2002 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 | 13 |
| Item 4. Submission of Matters to a Vote of Security Holders. | 13 |
| 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 | 22 |
| Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure . . . | 51 |
| PART III | |
| Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act | 51 |
| Item 10. Executive Compensation | 51 |
| Item 11. Security Ownership of Certain Beneficial Owners and Management. | 51 |
| Item 12. Certain Relationships and Related Transactions | 51 |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

PART IV

| | | |
|----------|--|----|
| Item 13. | Exhibits and Reports on Form 8-K | 52 |
| Item 14. | Controls and Procedures | 53 |

4

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

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 federal securities laws. Statements made in this Annual Report on Form 10-KSB 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 - DESCRIPTION OF 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 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. Although the Company owns some minor oil and gas interests in New York and Wyoming, all of the Company's operations and major revenue producing properties are in California.

5

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 when economic conditions improve.

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. 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 2002, the Company operated 20 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.

6

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

Edgar Filing: PYRAMID OIL CO - Form 10KSB

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 re-drills 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 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 determine the number of active wells the Company operates. Under certain economic conditions, the Company has the potential to operate approximately 123 wells, and of these, approximately 66 were in daily operation during 2002. 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.

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 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 agreed to participate in the drilling of a third natural gas well in conjunction with the same operator in a new prospect area located in Solano County. In the fourth quarter of 2001, this well commenced drilling. The Company's share of the prospect fee and drilling costs for this new well were approximately \$36,000 during the fourth quarter of 2001. The third well was abandoned in the fourth quarter of 2001 due to inadequate gas reserves. The Company has not received any proposals to participate in a fourth well in this joint venture.

7

During the second quarter of 2001, the Company entered into a new joint venture project with several other independent oil and gas companies, to explore for and develop potential oil reserves in the Gap Mountain area of Nevada. The Company's position is that of a non-operator. During the second quarter of 2001, the Company's share of the prospect fee for this project was approximately \$48,000. During the fourth quarter of 2001, the Company received a full and complete refund of the prospect fee. This prospect was cancelled by the operator after additional structural geology work and analysis.

MARKETING OF CRUDE OIL AND NATURAL GAS

Edgar Filing: PYRAMID OIL CO - Form 10KSB

The Company sells its crude oil to Kern Oil & Refining and ConocoPhillips, accounting for approximately 52.7% and 42.8%, respectively, of Pyramid's crude oil and gas sales in 2002. 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. Kern Oil and ConocoPhillips have been customers of the Company for over ten 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.

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 disadvantages 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.

8

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.

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.

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.

9

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.

OTHER

The Company employed twelve full-time people as of December 31, 2002, four of whom were office or administrative personnel, and the rest of whom were field level personnel. The Company contracts for additional labor services when needed. The Company is not a party to any union or labor contracts.

The Company had no material research and development costs for the three years ended December 31, 2002.

All of the Company's revenues during 2002 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 2 - DESCRIPTION OF PROPERTY

Edgar Filing: PYRAMID OIL CO - Form 10KSB

(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 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, 2002, 2001 and 2000.

10

(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, 2003 | 554,000 | 105,000 |
| 2002 | 323,000 | 37,000 |
| 2001 | 341,000 | 72,000 |
| 2000 | 361,000 | 65,000 |
| 1999 | 384,000 | 127,000 |

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, 2003.

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 \$4,325,000 at December 31, 2002, \$1,250,000 at December 31, 2001, \$2,311,000 at December 31, 2000, \$2,718,000 at December 31, 1999, and \$1,001,000 at December 31, 1998.

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.

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|-------------------|--------|--------|--------|--------|--------|
| | ---- | ---- | ---- | ---- | ---- |
| Crude oil (Bbls) | 66,000 | 77,000 | 71,000 | 84,000 | 85,000 |
| Natural gas (MCF) | 11,000 | 9,000 | 9,000 | 24,000 | 36,000 |

11

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:

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|------------------|---------|---------|---------|---------|---------|
| | ---- | ---- | ---- | ---- | ---- |
| Sales price: | | | | | |
| Crude oil | \$22.86 | \$21.02 | \$26.16 | \$15.49 | \$10.73 |
| | ===== | ===== | ===== | ===== | ===== |
| Natural gas | \$ 3.08 | \$ 4.80 | \$ 3.14 | \$ 1.82 | \$ 1.64 |
| | ===== | ===== | ===== | ===== | ===== |
| Production costs | \$15.30 | \$13.30 | \$13.60 | \$ 8.70 | \$ 8.60 |
| | ===== | ===== | ===== | ===== | ===== |

The average selling price of Pyramid's crude oil at December 31, 2002, was approximately \$27.50 per barrel and the average selling price of Pyramid's gas at December 31, 2002, was approximately \$4.18 per MCF.

As of December 31, 2002, Pyramid had the following gross and net position in wells and proved acres:

| WELLS | | PROVED ACRES | |
|-----------|---------|--------------|---------|
| ----- | | ----- | |
| Gross (1) | Net (1) | Gross (2) | Net (2) |
| ----- | ----- | ----- | ----- |
| 145 | 121 | 22,015 | 6,287 |
| === | === | ===== | ===== |

(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

Edgar Filing: PYRAMID OIL CO - Form 10KSB

working interest. "Net acres" represents the aggregate of the working interests of the Company in the gross acres.

12

No wells were drilled in 2002, 2001, 2000, 1999 and 1998, although the Company did participate as a non-operator in 2001 and 2000 in the drilling of joint-venture 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, 2002, Pyramid held positions in unproven acreage in the following locations:

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

(c) REAL PROPERTY OWNED

Pyramid owned the following real property as of December 31, 2002, all located in California.

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

Edgar Filing: PYRAMID OIL CO - Form 10KSB

13

ITEM 3 - LEGAL PROCEEDINGS

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. 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 2002.

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 OTC Bulletin Board under the symbol "PYOL". The following are high and low sales prices for each quarter of 2002 and 2001, and reflect inter-dealer prices without retail markup, markdown or commission.

| | High ---- | Low ----- |
|----------------------------|--------------|--------------|
| Fiscal Quarter Ending 2002 | | |
| March 31, | \$1.1500 | \$0.6000 |
| June 30, | 1.1500 | 0.8900 |
| September 30, | 1.0100 | 0.6000 |
| December 31, | 0.8500 | 0.5700 |
| Fiscal Quarter Ending 2001 | | |
| March 31, | 1.0000 | 0.6875 |
| June 30, | 1.4000 | 0.8200 |
| September 30, | 1.1500 | 0.9100 |
| December 31, | 1.0100 | 0.6000 |

14

At December 31, 2002, the Company had 409 shareholders of record, and an unknown number of additional holders whose stock is held in "street name".

The Company has paid no dividends on its common shares for the past five years

Edgar Filing: PYRAMID OIL CO - Form 10KSB

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.

The Company did not sell any securities during 2002.

ITEM 6 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

IMPACT OF CHANGING PRICES

Average prices increased by approximately \$1.60 per equivalent crude oil and gas barrel sold during 2002 as compared with average prices for 2001. In 2002 there were 111 separate crude oil price changes, as compared with 81 price changes in 2001. The difference between the highest and lowest posted prices in 2002 was \$14.90 per barrel. By comparison, this same differential in 2001 and 2000 was \$12.50 and \$13.65 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

The Company had cash and cash equivalents of \$502,839 at December 31, 2002 for a decrease of \$111,577 when compared to December 31, 2001. Operating activities in 2002 provided cash of \$61,485. Net capital spending of \$302,102 and principal payments on the Company's long-term debt totaling \$15,409 used cash in 2002. This was offset by proceeds from the issuance of long-term debt of \$144,449. The components of the changes in cash for 2002 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. During 2002, the Company had short-term investments of \$850,000 which provided additional liquidity. Short-term investments consist of certificates of deposit having original maturities of three months or more. A \$100,000 line of credit, unused at December 31, 2002, also provided additional liquidity during 2002.

15

The Company believes that its existing current assets and the amount of cash it anticipates it will generate from current operations will be sufficient to fund the anticipated liquidity and capital resource needs of the Company for the fiscal year ended December 31, 2003. In addition to its current assets, the Company also has a credit facility for \$100,000 available in the event that it needs other resources to fund its liquidity and capital resource needs. Although the Company may increase its capital expenditures during the current fiscal year to enhance its current oil production capacities, it does not anticipate that such expenditures would exceed the amount of liquidity currently available to the Company. The Company's beliefs that its existing assets and the cash expected to be generated from operations will be

Edgar Filing: PYRAMID OIL CO - Form 10KSB

sufficient during the current fiscal year are based on the following:

As of December 31, 2002, the amount of cash, cash equivalents, and other current assets was equal to \$1,786,000 in the aggregate. This amount is equal to approximately all of the operating expenses that the Company incurred during the entire fiscal year ended December 31, 2002.

As of December 31, 2002, the Company had approximately \$1,786,000 in current assets, and only \$384,000 of current liabilities.

As of December 31, 2002, the Company had only \$35,000 of long-term indebtedness (net of current maturities).

The Company is not a party to off-balance sheet arrangements and does not engage in trading activities involving non-exchange traded contracts. In addition, the Company has no financial guarantees, debt or lease agreements or other arrangements that could trigger a requirement for an early payment or that could change the value of the Company's assets. 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, such as idle work-over rigs, to raise capital for the benefit of these programs.

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 the three years ended December 31, 2002. The Company's crude oil reserves, in dollar terms, declined for the years ended December 31, 2001 and 2000, due primarily to production of existing reserves. The Company's crude oil reserves increased for the year ended December 31, 2002, due primarily to higher year end crude oil prices.

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.

16

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.

FORWARD-LOOKING INFORMATION

Looking forward into 2003, crude oil prices have decreased by \$3.00 per barrel

Edgar Filing: PYRAMID OIL CO - Form 10KSB

as of March 25, 2003, compared to prices at December 31, 2002. There have been 52 separate price changes since December 31, 2002. The Company is unable to predict any future price changes that would impact the remainder of 2003.

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 2002, 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 absorb the costs for various state and local fees and permits under new environmental programs, the sum of which were not material during 2002. 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, 2002
Compared to the Fiscal Year Ended December 31, 2001

REVENUES

Oil and gas sales decreased by 4% for the year ended December 31, 2002, when compared with the same period for 2001. Oil and gas sales increased by 7% due to higher average prices for 2002. The average price of the Company's oil and gas increased by approximately \$1.60 per equivalent barrel for 2002 when compared to 2001. The increase in revenues due to higher crude oil prices was offset by an 11% decrease in crude oil production/sales for 2002. Production for 2002 decreased by approximately 8,400 barrels when compared with production in 2001. The decline in production/sales is due primarily to two of the Company's oil producing properties. One property was shut-in during 2002 due to mechanical problems with the economic disposal of produced waste water from this property. This property had been in operation for the first eleven months of 2001. The production/sales from this lease were approximately 4,000 barrels in 2001. Another oil and gas property has seen a decline in production/sales of approximately 3,500 barrels in 2002.

OPERATING EXPENSES

Edgar Filing: PYRAMID OIL CO - Form 10KSB

Operating expenses decreased by approximately 1% for the year ended December 31, 2002, when compared with the same period of 2001. The cost to produce an equivalent barrel of crude oil increased by approximately \$1.50 per barrel for 2002 when compared to 2001. Operating expenses declined by approximately 5.5% due to the shut-in during 2002 of one of the Company's oil producing properties due to mechanical problems with the economic disposal of produced waste water from this property. This property had been in operation for the first eleven months of 2001. Operating parts and supplies decreased by approximately 2% due primarily to the costs of certain down-hole tubular goods purchased in 2001, no similar tubular supplies were purchased in 2002. Labor costs increased by approximately 1% due primarily to an increase in hourly wages that was effective September 1, 2001. Well abandonment costs increased by approximately 1.5% due to the abandonment of two well during 2002, no wells were abandoned in 2001. The cost of chemicals increased by approximately 1.5% for 2002. Insurance costs increased by approximately 1.5% for 2002 due primarily to higher rates for employee health insurance and general liability premiums.

EXPLORATION COSTS

The amounts for 2001 represent the costs for drilling of exploratory gas wells with several other oil and gas companies in a joint venture to explore for and develop natural gas reserves in the Solano County area of California. The joint venture activities are more fully described in the Notes to Financial Statements, No. 6, Commitments and Contingencies in Item 7 of this Form

18

10-KSB. The Company did not participate in the drilling of any gas wells in 2002 with this joint venture. The costs for 2002 represent the Company's share of costs in a new joint venture project to explore for and develop oil wells in the Kern County area of California.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased by approximately 12% for the year ended December 31, 2002, when compared with the same period for 2001. Legal services increased by 11% during 2002 due to activities related to certain transactions contemplated by the Board of Directors for the acquisition of the Company's common stock from its major shareholders.

PROVISION FOR DEPLETION, DEPRECIATION AND AMORTIZATION

The provision for depletion, depreciation and amortization decreased by 7% for the year ended December 31, 2002, when compared with the same period for 2001. Depletion decreased by 10%, which is due to a decrease in the depletion rate and the decline in crude oil production. The depletion rate decreased as a result of the estimated oil and gas reserves increasing. The estimated oil and gas reserves increased due primarily to higher sales prices for oil and gas at December 31, 2002. This was offset by an increase of 3% in the depreciation of fixed assets, primarily trucks that were acquired in the second half of 2001.

OTHER INCOME (EXPENSE)

Interest income decreased by approximately \$21,600 during the year ended December 31, 2002, when compared with the same period for 2001. The decrease in interest income is due primarily to a decline in interest rates.

Edgar Filing: PYRAMID OIL CO - Form 10KSB

During the year ended December 31, 2001, the Company sold certain fixed assets and equipment and its interest in a non-producing oil and gas lease for a gain of approximately \$75,000. These assets had little or no net book value.

The loss on disposal of assets reflects the scrapping of a well servicing rig in the first quarter of 2002 with a net book value of \$10,100.

19

Results of Operations for the Fiscal Year Ended December 31, 2001
Compared to the Fiscal Year Ended December 31, 2000

REVENUES

Oil and gas sales decreased by 17% for the year ended December 31, 2001, when compared with the same period for 2000. Oil and gas sales decreased by 20% due to lower average prices for 2001. The average price of the Company's oil and gas decreased by approximately \$5.00 per equivalent barrel for 2001 when compared to 2000. The decrease in revenues due to unfavorable prices was offset by a 3% increase in crude oil production for 2001. Production for 2001 increased by approximately 2,400 barrels when compared with production in 2000.

OPERATING EXPENSES

Operating expenses increased by approximately 6% for the year ended December 31, 2001 when compared with the same period of 2000. The cost to produce an equivalent barrel of crude oil increased by approximately thirty cents per barrel for 2001 when compared to 2000. Operating parts and supplies increased by approximately 5% due primarily to the costs of certain down-hole tubular goods purchased in 2001, no similar tubular supplies were purchased in 2000. Labor costs increased by approximately 3% due primarily to the addition of one new field employee. Utilities increased by approximately 3% due primarily to increased utility rates. These were offset by decreases in outside services and well abandonment costs of approximately 3% each.

GENERAL AND ADMINISTRATIVE

General and administrative expenses decreased by 2% for the year ended December 31, 2001 when compared to the same period for 2000 due primarily to lower costs for legal services.

PROVISION FOR DEPLETION, DEPRECIATION AND AMORTIZATION

The provision for depletion, depreciation and amortization increased by 1% for the year ended December 31, 2001, when compared with the same period for

Edgar Filing: PYRAMID OIL CO - Form 10KSB

2000. The increase is due primarily to an increase in crude oil production offset by a decline in the depletion rate for oil and gas properties.

OTHER INCOME

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

20

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.

Interest income increased by approximately \$34,000 due primarily to higher levels of short-term investments during 2001. The gain on the sale of fixed assets increased by approximately \$16,000 due primarily to the sale of surplus well servicing equipment.

RECENT ACCOUNTING DEVELOPMENTS

In June 2001, the FASB issued Statements of Financial Accounting Standards No. 141 ("FAS 141") "Business Combinations" and No. 142 ("FAS 142") "Goodwill and Other Intangible Assets". These statements eliminate the pooling of interests method of accounting for business combinations as of June 30, 2001 and eliminate the amortization of goodwill for all fiscal years beginning after December 15, 2001. Goodwill will be accounted for under an impairment-only method after this date. The Company is required to adopt FAS 141 and 142 with respect to existing goodwill on January 1, 2002. The adoption of these Statements did not have any significant impact on the Company's financial position, results of operations or cash flows.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("FAS 143") "Accounting for Asset Retirement Obligations". This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. Asset retirement obligations will be initially measured at fair value. These obligations will be discounted and accretion expense will be recognized using the credit adjusted risk-free interest rate. The Company is required to adopt FAS 143 on January 1, 2003. The Company is assessing the impact FAS 143 will have on its financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("FAS 144") "Accounting for the Impairment or Disposal of Long-Lived Assets". This Statement supercedes previous statements related to impairment. The requirements to allocate goodwill to long-lived assets to be tested for impairment is eliminated. A primary asset approach to determine a cash flow estimation period is established. The Company is required to adopt FAS 144 on January 1, 2002. The adoption of this Statement did not have any significant impact on the Company's financial position, results of operations or cash flows.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 updates,

Edgar Filing: PYRAMID OIL CO - Form 10KSB

clarifies, and simplifies existing accounting pronouncements. This statement rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary

21

item, net of related income tax effect. As a result, the criteria in APB No. 30 will now be used to classify those gains and losses. SFAS No. 64 amended SFAS No. 4 and is no longer necessary as SFAS No. 4 has been rescinded. SFAS No. 44 has been rescinded as it is no longer necessary. SFAS No. 145 amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-lease transactions. This statement also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. This statement is not applicable to the Company.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF Issue 94-3, a liability for an exit cost, as defined, was recognized at the date of an entity's commitment to an exit plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002 with earlier application encouraged. This statement is not applicable to the Company.

In October 2002, the FASB issued SFAS No. 147, "Acquisition of Certain Financial Institutions." SFAS No. 147 annuls the requirement in SFAS No. 72 and Interpretation 9 thereto, to recognize and amortize any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset. This statement requires that those transactions be accounted for in accordance with SFAS No. 141. In addition, this statement amends SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include certain financial institution-related intangibles. This statement is not applicable to the Company.

22

ITEM 7- FINANCIAL STATEMENTS

PYRAMID OIL COMPANY

INDEX TO FINANCIAL STATEMENTS

DECEMBER 31, 2002

| | Page |
|---|-------|
| REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS. | 23-24 |
| FINANCIAL STATEMENTS: | |
| Balance sheets - December 31, 2002 and 2001 | 25-26 |
| Statements of operations - years ended | |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | |
|--|-------|
| December 31, 2002, 2001 and 2000 | 27 |
| Statements of shareholders' equity - years ended | |
| December 31, 2002, 2001 and 2000 | 28 |
| Statements of cash flows - years | |
| ended December 31, 2002, 2001 and 2000 | 29-30 |
| Notes to financial statements | 31 |

23

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of
Pyramid Oil Company

We have audited the accompanying balance sheet of Pyramid Oil Company (a California corporation) as of December 31, 2002, and the related statements of operations, shareholders' equity, and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California
February 21, 2003

24

THIS REPORT IS A COPY OF A PREVIOUSLY ISSUED ARTHUR ANDERSEN REPORT.
THIS REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Edgar Filing: PYRAMID OIL CO - Form 10KSB

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, 2001 and 2000, and the related statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Los Angeles, California
March 1, 2002

25

FINANCIAL STATEMENTS PYRAMID OIL COMPANY

BALANCE SHEETS

ASSETS

| | December 31, | |
|---|--------------|------------|
| | 2002 | 2001 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 502,839 | \$ 614,416 |
| Short-term investments | 850,000 | 850,000 |
| Trade accounts receivable (net of reserve for doubtful accounts of \$4,000 in 2002 and 2001) | 201,777 | 109,993 |
| Interest receivable | 54,689 | 51,488 |
| Crude oil inventory | 50,153 | 47,555 |
| Prepaid expenses | 103,324 | 93,590 |
| Deferred income taxes | 22,911 | 15,490 |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | |
|---|--------------|--------------|
| Total current assets | 1,785,693 | 1,782,532 |
| PROPERTY AND EQUIPMENT, at cost: | | |
| Oil and gas properties and equipment (successful efforts method) | 10,521,514 | 10,293,558 |
| Drilling and operating equipment | 2,793,674 | 2,872,762 |
| Land, buildings and improvements | 936,681 | 936,681 |
| Automotive, office and other property and equipment | 970,314 | 933,090 |
| | 15,222,183 | 15,036,091 |
| Less - accumulated depletion, depreciation, amortization and valuation allowances | (13,570,579) | (13,497,392) |
| | 1,651,604 | 1,538,699 |
| | \$ 3,437,297 | \$ 3,321,231 |

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

26

PYRAMID OIL COMPANY

BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

| | December 31, | |
|---|--------------|-----------|
| | 2002 | 2001 |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 44,065 | \$ 54,057 |
| Accrued professional fees | 24,633 | 15,500 |
| Accrued taxes, other than income taxes | 21,925 | 30,717 |
| Accrued payroll and related costs | 31,060 | 36,351 |
| Accrued royalties payable | 76,360 | 59,548 |
| Accrued insurance | 46,222 | 40,689 |
| Interest payable | 5,514 | -- |
| Loan payable to related party | 36,166 | -- |
| Current maturities of long-term debt | 97,652 | 15,409 |
| Total current liabilities | 383,597 | 252,271 |
| LONG-TERM DEBT, net of current maturities | 35,076 | 24,445 |
| DEFERRED INCOME TAXES | 22,911 | 15,490 |
| COMMITMENTS AND CONTINGENCIES (Note 6) | | |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

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 | 1,924,103 | 1,957,415 |
| | ----- | ----- |
| | 2,995,713 | 3,029,025 |
| | ----- | ----- |
| | \$ 3,437,297 | \$ 3,321,231 |
| | ===== | ===== |

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

27

PYRAMID OIL COMPANY
STATEMENTS OF OPERATIONS

| | Year ended December 31, | | |
|--------------------------------|-------------------------|--------------|--------------|
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |
| REVENUES: | \$ 1,616,041 | \$ 1,680,074 | \$ 2,023,805 |
| | ----- | ----- | ----- |
| COSTS AND EXPENSES: | | | |
| Operating expenses | 1,046,690 | 1,053,583 | 991,232 |
| Exploration costs | 7,007 | 43,527 | 35,423 |
| General and administrative | 403,603 | 359,854 | 368,332 |
| Taxes, other than income and | | | |
| payroll taxes | 55,531 | 59,695 | 52,077 |
| Provision for depletion, | | | |
| depreciation and amortization | 172,390 | 185,660 | 184,036 |
| Other costs and expenses | 16,488 | 16,156 | 13,593 |
| | ----- | ----- | ----- |
| | 1,701,709 | 1,718,475 | 1,644,693 |
| | ----- | ----- | ----- |
| OPERATING (LOSS) INCOME | (85,668) | (38,401) | 379,112 |
| | ----- | ----- | ----- |
| OTHER INCOME (EXPENSE): | | | |
| Interest income | 36,935 | 58,520 | 24,538 |
| Gain on settlement | -- | 395,708 | -- |
| Gain on sales of property | | | |
| and equipment | 300 | 74,860 | 58,605 |
| Loss on disposal of assets | (10,100) | -- | -- |
| Other income | 31,912 | 45,561 | 28,696 |
| Interest expense | (5,566) | (3,194) | (5,330) |
| | ----- | ----- | ----- |
| | 53,481 | 571,455 | 106,509 |
| | ----- | ----- | ----- |
| (LOSS) INCOME BEFORE INCOME | | | |
| TAX PROVISION (BENEFIT) | (32,187) | 533,054 | 485,621 |
| Income tax provision (benefit) | 1,125 | 1,025 | (41,241) |
| | ----- | ----- | ----- |
| NET (LOSS) INCOME | \$ (33,312) | \$ 532,029 | \$ 526,862 |
| | ===== | ===== | ===== |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | | | | | |
|---|----|-----------|----|-----------|----|-----------|
| BASIC (LOSS) INCOME PER COMMON SHARE | \$ | (.01) | \$ | .21 | \$ | .21 |
| | | ===== | | ===== | | ===== |
| DILUTED (LOSS) INCOME PER COMMON SHARE | \$ | (.01) | \$ | .21 | \$ | .21 |
| | | ===== | | ===== | | ===== |
| 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.

28

PYRAMID OIL COMPANY
STATEMENTS OF SHAREHOLDERS' EQUITY

| | Common Shares Issued and Outstanding | Common Stock | Retained Earnings |
|-----------------------------|--|-----------------|----------------------|
| | ----- | ----- | ----- |
| 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 |
| Net income | -- | -- | 532,029 |
| | ----- | ----- | ----- |
| Balances, December 31, 2001 | 2,494,430 | 1,071,610 | 1,957,415 |
| Net loss | -- | -- | (33,312) |
| | ----- | ----- | ----- |
| Balances, December 31, 2002 | 2,494,430 | \$1,071,610 | \$1,924,103 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

29

PYRAMID OIL COMPANY
STATEMENTS OF CASH FLOWS

| Year ended December 31, | | |
|-------------------------|-------|-------|
| 2002 | 2001 | 2000 |
| ----- | ----- | ----- |

CASH FLOWS FROM OPERATING ACTIVITIES:

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | | |
|--|-------------|------------|------------|
| Net (loss) income | \$(33,312) | \$ 532,029 | \$ 526,862 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Provision for depletion, depreciation and amortization | 172,390 | 185,660 | 184,036 |
| Exploration costs | 7,007 | 43,527 | 35,423 |
| Gain on sale of property and equipment | (300) | (74,860) | (58,605) |
| Loss on disposal of fixed assets | 10,100 | -- | -- |
| Deferred income tax benefit | -- | -- | (42,471) |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in trade accounts receivable | (94,985) | 51,233 | (27,847) |
| (Increase) decrease in crude oil inventories | (2,598) | 8,601 | (21,003) |
| Increase in prepaid expenses | (9,734) | (9,360) | (16,781) |
| Increase (decrease) in accounts payable and accrued liabilities | 12,917 | (19,420) | 40,414 |
| | ----- | ----- | ----- |
| Net cash provided by operating activities | 61,485 | 717,410 | 620,028 |
| | ----- | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures | (302,402) | (202,595) | (175,530) |
| Proceeds from sale of property and equipment | 300 | 114,600 | 62,750 |
| Net change in short-term investments | -- | (600,000) | (50,000) |
| | ----- | ----- | ----- |
| Net cash used in investing activities | (302,102) | (687,995) | (162,780) |
| | ----- | ----- | ----- |

The accompanying notes are an integral part of these statements.

30

PYRAMID OIL COMPANY

STATEMENTS OF CASH FLOWS
(CONTINUED)

| | Year ended December 31, | | |
|---------------------------------------|-------------------------|-------|-----------|
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Principal payments on line of credit | -- | -- | (48,000) |
| Proceeds from line of credit | -- | -- | 48,000 |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | | |
|---|------------|------------|------------|
| Principal payments on long-term debt | (15,409) | (71,727) | (50,296) |
| Proceeds from issuance of long-term debt | 144,449 | 55,001 | 85,000 |
| | ----- | ----- | ----- |
| Net cash provided by (used in) financing activities | 129,040 | (16,726) | 34,704 |
| | ----- | ----- | ----- |
| Net (decrease) increase in cash and cash equivalents | (111,577) | 12,689 | 491,952 |
| Cash and cash equivalents at beginning of year | 614,416 | 601,727 | 109,775 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of year | \$ 502,839 | \$ 614,416 | \$ 601,727 |
| | ===== | ===== | ===== |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | |
| Cash paid during the year for interest | \$ -- | \$ 3,194 | \$ 5,330 |
| | ===== | ===== | ===== |
| Cash paid during the year for income taxes | \$ 1,125 | \$ 1,025 | \$ 1,230 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

31

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002

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 27 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 accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses

Edgar Filing: PYRAMID OIL CO - Form 10KSB

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.

INVESTMENTS

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

INVENTORY

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

32

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2002

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 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

Edgar Filing: PYRAMID OIL CO - Form 10KSB

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. There were no material impairment reserves recorded in the three years ended December 31, 2002.

33

PYRAMID OIL COMPANY NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2002

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 2002, 2001 and 2000 were \$1.21, \$1.30 and \$1.49, respectively.

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

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.

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2002

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 ConocoPhillips, accounting for approximately 52.7%, and 42.8%, respectively, of Pyramid's crude oil and gas sales in 2002. While revenue from these customers is significant, and the loss of any one could have an adverse effect on the Company, it is management's opinion that the oil and gas it produces could be sold to other crude oil purchasers, refineries or pipeline companies. Trade receivables were approximately 53.1% and 39.3% attributable to Kern Oil and Refining and ConocoPhillips respectively at December 31, 2002. Trade receivables were approximately 42.6% and 48.0% attributable to Kern Oil and Refining and Tosco Refining respectively at December 31, 2001.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued Statements of Financial Accounting Standards No. 141 ("FAS 141") "Business Combinations" and No. 142 ("FAS 142") "Goodwill and Other Intangible Assets". These statements eliminate the pooling of interests method of accounting for business combinations as of June 30, 2001 and eliminate the amortization of goodwill for all fiscal years beginning after December 15, 2001. Goodwill will be accounted for under an impairment-only method after this date. The Company is required to adopt FAS 141 and 142 with respect to existing goodwill on January 1, 2002. The adoption of these Statements did not have any significant impact on the Company's financial position, results of operations or cash flows.

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2002

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("FAS 143") "Accounting for Asset Retirement Obligations". This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. Asset retirement obligations will be initially measured at fair value. These obligations will be discounted and accretion expense will be recognized using the credit adjusted risk-free interest rate. The Company is required to adopt FAS 143 on January 1, 2003. The Company is assessing the impact FAS 143 will have on its financial statements.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("FAS 144") "Accounting for the Impairment or Disposal of Long-Lived Assets". This Statement supercedes previous statements related to impairment. The requirements to allocate goodwill to long-lived assets to be tested for impairment is eliminated. A primary asset approach to determine a cash flow estimation period is established. The Company is required to adopt FAS 144 on January 1, 2002. The adoption of this Statement did not have any significant impact on the Company's financial position, results of operations or cash flows.

In April 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 updates, clarifies, and simplifies existing accounting pronouncements. This statement rescinds SFAS No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB No. 30 will now be used to classify those gains and losses. SFAS No. 64 amended SFAS No. 4 and is no longer necessary as SFAS No. 4 has been rescinded. SFAS No. 44 has been rescinded as it is no longer necessary. SFAS No. 145 amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-lease transactions. This statement also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. This statement is not applicable to the Company.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF Issue 94-3, a liability for an exit cost, as defined, was recognized at the date of an entity's commitment to an exit plan. The provisions of this

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2002

Edgar Filing: PYRAMID OIL CO - Form 10KSB

statement are effective for exit or disposal activities that are initiated after December 31, 2002 with earlier application encouraged. This statement is not applicable to the Company.

In October 2002, the FASB issued SFAS No. 147, "Acquisition of Certain Financial Institutions." SFAS No. 147 annuls the requirement in SFAS No. 72 and Interpretation 9 thereto, to recognize and amortize any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset. This statement requires that those transactions be accounted for in accordance with SFAS No. 141. In addition, this statement amends SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," to include certain financial institution-related intangibles. This statement is not applicable to the Company.

RECLASSIFICATIONS

Reclassifications have been made to the financial statements for 2000 to conform to the 2001 presentation.

37

PYRAMID OIL COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2002

2. LONG-TERM DEBT AND LINE OF CREDIT

Long-term debt at December 31, 2002 and 2001, is summarized as follows:

| | December 31, | |
|--|--------------|--------|
| | 2002 | 2001 |
| | ----- | ----- |
| Note payable to GMAC, secured by equipment purchased with the proceeds of the loan, payable in monthly installments of \$999 principal only, zero interest charges, final payment in 2005. | \$ 35,947 | \$ -- |
| Note payable to GMAC, secured by equipment purchased with the proceeds of the loan, payable in monthly installments of \$1,111 principal only, zero interest charges, final payment in 2004. | 24,445 | 37,779 |
| Notes payable to three individuals (a) unsecured, principal and accrued interest due April 11, 2003, interest at 7%. | 108,502 | -- |
| 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 8.75%, | | |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | |
|---------------------------|-----------|-----------|
| final payment in 2002. | -- | 2,075 |
| | ----- | ----- |
| | 168,894 | 39,854 |
| Less - current maturities | (133,818) | (15,409) |
| | ----- | ----- |
| | \$ 35,076 | \$ 24,445 |
| | ===== | ===== |

(a) Mr. John H. Alexander, an officer and director of the Company, is one of the payee individuals. Mr. Alexander's share of the notes payable is \$36,166. See Note 4, Related-Party Transaction of Notes to Financial Statements for additional information.

38

PYRAMID OIL COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2002

At December 31, 2002 approximately \$84,000 of gross property and equipment was pledged as collateral to secure approximately \$60,400 principal amount of long-term debt.

Maturities of long-term debt are as follows:

| | |
|-------------------------------|-----------|
| Year ending December 31, 2003 | \$133,818 |
| 2004 | 23,094 |
| 2005 | 11,982 |
| | ----- |
| | \$168,894 |
| | ===== |

At December 31, 2002, the Company had an unsecured line of credit with a bank, under which the Company may borrow up to \$100,000 through May 31, 2003. Interest on any borrowing is accrued at the bank's index rate plus 0.50 percentage points. The bank's index rate was 4.25% at December 31, 2002.

3. INCOME TAXES

Income tax provision (benefit) consists of the following:

| | Year Ended December 31, | | |
|-----------------------|-------------------------|------------|-----------|
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |
| Federal income taxes: | | | |
| Current | \$(17,332) | \$ 110,704 | \$ 84,168 |
| Utilization of NOL's | 17,332 | (110,704) | (84,168) |
| Deferred | -- | -- | (42,471) |
| | ----- | ----- | ----- |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | | |
|--------------------------------|----------|----------|-------------|
| | -- | -- | (42,471) |
| | ----- | ----- | ----- |
| State income taxes: | | | |
| Current | (25,962) | 25,912 | 8,437 |
| Utilization of NOL's | 27,087 | (24,887) | (7,207) |
| Deferred | -- | -- | -- |
| | ----- | ----- | ----- |
| | 1,125 | 1,025 | 1,230 |
| | ----- | ----- | ----- |
| Income tax provision (benefit) | \$ 1,125 | \$ 1,025 | \$ (41,241) |
| | ===== | ===== | ===== |

39

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2002

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, | | |
|--------------------------------------|-------------------------|------------|--------------|
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |
| Federal income tax expense | | | |
| (benefit) at statutory rate | \$(10,944) | \$ 181,238 | \$ 165,111 |
| Net operating loss carryover | 10,944 | (110,704) | (28,617) |
| Statutory depletion | -- | (55,273) | (86,571) |
| Section 196(a) restoration of basis | -- | (9,256) | (39,765) |
| Valuation allowance | -- | -- | 19,895 |
| Expiration of investment tax credits | -- | -- | (79,492) |
| Other | 1,125 | (4,980) | 8,198 |
| | ----- | ----- | ----- |
| Income tax provision (benefit) | \$ 1,125 | \$ 1,025 | \$ (41,241) |
| | ===== | ===== | ===== |

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

| | December 31, | | |
|----------------------------|--------------|-------------|-------------|
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |
| Current deferred taxes: | | | |
| Gross assets | \$ 22,911 | \$ 15,490 | \$ 22,012 |
| Gross liabilities | -- | -- | -- |
| | ----- | ----- | ----- |
| | 22,911 | 15,490 | 22,012 |
| | ----- | ----- | ----- |
| Noncurrent deferred taxes: | | | |
| Gross assets | 2,357,135 | 2,432,954 | 3,022,856 |
| Gross liabilities | (60,839) | (53,548) | (56,992) |
| Valuation allowance | (2,319,207) | (2,394,896) | (2,987,876) |
| | ----- | ----- | ----- |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | |
|-----------|-----------|-----------|
| (22,911) | (15,490) | (22,012) |
| ----- | ----- | ----- |
| \$ -- | \$ -- | \$ -- |
| ===== | ===== | ===== |

40

PYRAMID OIL COMPANY
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2002

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

| | December 31, | | |
|-----------------------------------|--------------|-------------|-------------|
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |
| Accounts receivable | \$ 1,600 | \$ 1,600 | \$ 1,600 |
| Net operating loss carry forwards | 683,750 | 820,519 | 1,383,202 |
| Investment tax credits | -- | -- | 27,219 |
| Statutory depletion carryover | 1,673,385 | 1,612,435 | 1,612,435 |
| Accrued liabilities | 21,311 | 13,890 | 20,412 |
| | ----- | ----- | ----- |
| Total deferred tax assets | 2,380,046 | 2,448,444 | 3,044,868 |
| Property and equipment | (60,839) | (53,548) | (56,992) |
| Valuation allowance | (2,319,207) | (2,394,896) | (2,987,876) |
| | ----- | ----- | ----- |
| | \$ -- | \$ -- | \$ -- |
| | ===== | ===== | ===== |

At December 31, 2002, a valuation allowance has been provided against a significant portion of the deferred tax assets generated by net operating loss carryforwards 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 \$1,906,000, which expire, to the extent not used, starting in 2002 through 2022. For California franchise tax purposes, as of December 31, 2002 the Company has unused net operating loss carryforwards of approximately \$385,000, a portion of which expire each year starting in 2004.

At December 31, 2002, the Company has, for federal income tax purposes, a statutory depletion carryover of approximately \$4,922,000, which currently has no expiration date.

As of December 31, 2002, the Company has no investment tax credit carryforward available to reduce future taxes payable for financial reporting and federal income tax purposes. Approximately \$27,000 and \$117,000 of these credits expired in 2001 and 2000, respectively. Upon expiration, the Company has claimed a current deduction on their federal tax return.

41

PYRAMID OIL COMPANY

Edgar Filing: PYRAMID OIL CO - Form 10KSB

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2002

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 \$100,000, \$98,000 and \$124,000 in 2002, 2001 and 2000, respectively.

Effective April 1, 2002, the Company acquired the remaining working interest in the above referenced oil and gas lease in the Carneros Creek field and working interests in two other leases in the same area from the investor group noted above. The investor group acquired these working interests from the Company's former joint venture partner in these three oil and gas leases as the result of a court ordered settlement agreement concluding litigation between the investor group and the joint venture partner. The investor group sold the working interests to the Company for \$217,000. Mr. John H. Alexander, Vice President of the Company, owns a thirty-three percent interest in the investor group. The Company had notes payable to the investor group in the amount of \$108,502 at the end of December 31, 2002.

5. FOURTH QUARTER RESULTS (UNAUDITED)

During the fourth quarter of 2000, 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 approximately \$24,000 in 2000.

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.

42

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2002

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

Edgar Filing: PYRAMID OIL CO - Form 10KSB

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 expended approximately \$18,000 for its share of costs on the first well during 1999, and expended an additional \$15,000 during 2000. The Company expended approximately \$18,000 for its share of costs on the second well during 2000. These costs are recorded in Costs and Expenses on the Statements of Operations.

The Company agreed to participate in the drilling of a third natural gas well in conjunction with the same operator in a new prospect area located in Solano County. In the fourth quarter of 2001, this well commenced drilling. The Company's share of the prospect fee and drilling costs for this new well were approximately \$36,000 during the fourth quarter of 2001. The third well was abandoned in the fourth quarter of 2001 due to inadequate gas reserves. The costs for the third well, abandoned in the fourth quarter of 2001, are recorded in Costs and Expenses on the Statements of Operations. The Company has not received any proposals to participate in a fourth well in this joint venture.

During the second quarter of 2001, the Company entered into a new joint venture project with several other independent oil and gas companies, to explore for and develop potential oil reserves in the Gap Mountain area of Nevada. The Company's position is that of a non-operator. During the second quarter of 2001, the Company's share of the prospect fee for this project was approximately \$48,000. During the fourth quarter of 2001, the Company received a full and complete refund of the prospect fee. This prospect was cancelled by the operator after additional structural geology work and analysis. Approximately \$42,000 recorded as Exploration Costs in the nine months ended September 30, 2001 was reversed in the fourth quarter as the Company was reimbursed for these costs due to the abandonment of an exploration project.

The Company has entered into various employment agreements with key executive employees. In the event the key executives are dismissed, the Company would incur approximately \$1,042,000 in costs.

43

PYRAMID OIL COMPANY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2002

7. OTHER INCOME

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

Edgar Filing: PYRAMID OIL CO - Form 10KSB

Defendant in the amount of \$395,708, concluding this matter.

8. DEFINED CONTRIBUTION PLAN

The Company has a defined contribution plan (Simple IRA) available to all employees meeting certain service requirements. Employees may contribute up to a maximum of \$6,000 of their compensation to the plan. The Company will make a contribution to the plan in an amount equal to the employees contributions up to 3% of their salaries. Contributions of \$10,587, \$10,324 and \$6,357 were made during the years ended December 31, 2002, 2001 and 2000, respectively.

44

PYRAMID OIL COMPANY
 SUPPLEMENTAL INFORMATION (UNAUDITED)
 OIL AND GAS PRODUCING ACTIVITIES
 DECEMBER 31, 2002

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, 2002, 2001 and 2000 were as follows:

| | 2002 ----- | 2001 ----- | 2000 ----- |
|--|---------------|---------------|---------------|
| Proved properties | \$10,343,000 | \$10,115,000 | \$10,165,200 |
| Unproved properties being amortized | 178,600 | 178,600 | 178,600 |
| Unproved properties not being amortized | -- | -- | -- |
| Accumulated depletion, depreciation, amortization and valuation allowances | (10,009,200) | (9,926,300) | (9,887,300) |
| | ----- | ----- | ----- |
| | \$ 512,400 | \$ 367,300 | \$ 456,500 |
| | ===== | ===== | ===== |

45

PYRAMID OIL COMPANY
 SUPPLEMENTAL INFORMATION (UNAUDITED)
 DECEMBER 31, 2002

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

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | 2002 | | 2001 | | 2000 | |
|---|----------------|---------------|----------------|---------------|----------------|---------------|
| | Oil (MBbls) | Gas (MMCF) | Oil (MBbls) | Gas (MMCF) | Oil (MBbls) | Gas (MMCF) |
| Proved reserves: | | | | | | |
| Beginning of year | 323 | 37 | 341 | 72 | 361 | 65 |
| Revisions of previous estimates | 297 | 79 | 59 | (26) | 51 | 16 |
| Extensions, discoveries and other additions | -- | -- | -- | -- | -- | -- |
| Production | (66) | (11) | (77) | (9) | (71) | (9) |
| End of year | 554 | 105 | 323 | 37 | 341 | 72 |
| Proved developed reserves: | | | | | | |
| Beginning of year | 323 | 37 | 341 | 72 | 361 | 65 |
| End of year | 554 | 105 | 323 | 37 | 341 | 72 |

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.

46

PYRAMID OIL COMPANY
 SUPPLEMENTAL INFORMATION (UNAUDITED)
 DECEMBER 31, 2002

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

| | December 31, | | |
|---------------------------|--------------|------|------|
| | 2002 | 2001 | 2000 |
| Proved developed reserves | | | |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | | | |
|--|----------------------|----------------------|----------------------|
| (Present value before income taxes) | \$4,325,000 ===== | \$1,250,000 ===== | \$2,311,000 ===== |
|--|----------------------|----------------------|----------------------|

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, 2002, 2001 and 2000 were as follows:

| | 2002 ----- | 2001 ----- | 2000 ----- |
|----------------------------|---------------|---------------|---------------|
| Property acquisition costs | \$228,000 | \$ 7,000 | \$ -- |
| Exploration costs | 7,000 | 44,000 | 35,000 |
| Development costs | -- | 12,000 | -- |

47

PYRAMID OIL COMPANY
SUPPLEMENTAL INFORMATION (UNAUDITED)
DECEMBER 31, 2002

The results of operations for oil and gas producing activities for the years ended December 31, 2002, 2001 and 2000 were as follows:

| | 2002 ----- | 2001 ----- | 2000 ----- |
|---|------------------|------------------|----------------------|
| Sales | \$ 1,616,000 | \$ 1,680,000 | \$ 2,024,000 |
| Production costs | 1,095,000 | 1,107,000 | 1,031,000 |
| Exploration costs | 7,000 | 44,000 | 35,000 |
| Depletion, depreciation, and amortization | 83,000 | 102,000 | 109,000 |
| | ----- | ----- | ----- |
| Income tax (benefit) provision | 431,000 1,200 | 427,000 1,200 | 849,000 (41,200) |
| | ----- | ----- | ----- |
| Results of operations from production activities | \$ 429,800 | \$ 425,800 | \$ 890,200 |

Edgar Filing: PYRAMID OIL CO - Form 10KSB

=====

The standardized measure of discounted estimated future net cash flows relating to proved oil and gas reserves for the years ended December 31, 2002, 2001 and 2000 were as follows:

| | 2002 | 2001 | 2000 |
|---|--------------|--------------|--------------|
| | ----- | ----- | ----- |
| Future cash inflows | \$16,490,000 | \$ 5,529,000 | \$ 7,407,000 |
| Future development and production costs | 9,166,000 | 3,538,000 | 3,848,000 |
| Future income tax expense | 12,000 | 12,000 | 12,000 |
| | ----- | ----- | ----- |
| Future net cash flow | 7,312,000 | 1,979,000 | 3,547,000 |
| 10% annual discount | 2,994,000 | 736,000 | 1,244,000 |
| Standardized measure of discounted future net cash flow | \$ 4,318,000 | \$ 1,243,000 | \$ 2,303,000 |
| | ===== | ===== | ===== |

48

PYRAMID OIL COMPANY
SUPPLEMENTAL INFORMATION (UNAUDITED)
DECEMBER 31, 2002

The principal changes in the standardized measure of discounted future net cash flows during the years ended December 31, 2002, 2001 and 2000 were as follows:

| | 2002 | 2001 | 2000 |
|--|--------------|----------------|---------------|
| | ----- | ----- | ----- |
| Extensions | \$ -- | \$ -- | \$ -- |
| Revisions of previous estimates | | | |
| Price changes | 1,588,000 | (871,000) | 373,000 |
| Quantity estimate | 2,494,000 | 216,000 | 423,000 |
| Change in production rates, timing and Other | (611,000) | (63,000) | (480,000) |
| Development costs incurred | -- | 12,000 | -- |
| Changes in estimated future development costs | -- | (12,000) | -- |
| Sales of oil and gas, net of production costs | (521,000) | (573,000) | (993,000) |
| Accretion of discount | 125,000 | 231,000 | 272,000 |
| | ----- | ----- | ----- |
| | 3,075,000 | (1,060,000) | (405,000) |
| Net change in income taxes | -- | -- | -- |
| | ----- | ----- | ----- |
| Net (decrease) increase | \$ 3,075,000 | \$ (1,060,000) | \$ (405,000) |

=====

49

PYRAMID OIL COMPANY
SUPPLEMENTAL INFORMATION (UNAUDITED)
DECEMBER 31, 2002

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 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 increase in the standardized measure of discounted future net cash flows at December 31, 2002, of \$3,717,000 is due primarily to higher crude oil prices at year end. 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. Higher crude oil prices at the end of 2002 increased the discounted future net cash flows by approximately \$2,494,000 due to revisions of previous quantity estimates and by \$1,588,000 due to price changes.

The decrease of \$1,060,000 in the Company's standardized measure of future net cash flows for the year ended December 31, 2001 is due primarily to revisions of previous estimates due to price changes. Lower crude oil prices at the end of 2001 reduced the discounted future net cash flows by approximately \$871,000. 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.

50

PYRAMID OIL COMPANY
SUPPLEMENTAL INFORMATION (UNAUDITED)
QUARTERLY RESULTS

Edgar Filing: PYRAMID OIL CO - Form 10KSB

| | 2002 ----- | 2001 ----- |
|---------------------------------|---------------|---------------|
| REVENUES: | | |
| Quarter Ended: | | |
| March 31 | \$ 283,678 | \$ 446,678 |
| June 30 | 427,087 | 485,258 |
| September 30 | 439,354 | 445,698 |
| December 31 | 465,922 | 302,440 |
| | ----- | ----- |
| | \$ 1,616,041 | \$ 1,680,074 |
| | ===== | ===== |
| NET INCOME (LOSS): | | |
| Quarter Ended: | | |
| March 31 | \$ (73,858) | \$ 446,382 |
| June 30 | (24,982) | 84,209 |
| September 30 | 15,980 | 105,772 |
| December 31 (a), (b) | 49,548 | (104,334) |
| | ----- | ----- |
| | \$ (33,312) | \$ 532,029 |
| | ===== | ===== |
| INCOME (LOSS) PER COMMON SHARE: | | |
| Quarter Ended: | | |
| March 31 | \$ (.03) | \$.18 |
| June 30 | (.01) | .03 |
| September 30 | .01 | .04 |
| December 31 (a), (b) | .02 | (.04) |
| | ----- | ----- |
| | \$ (.01) | \$.21 |
| | ===== | ===== |

(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.

(b) Approximately \$42,000 recorded as Exploration Costs in the nine months ended September 30, 2001 was reversed in the fourth quarter as the Company was reimbursed for these costs due to the abandonment of an exploration project.

51

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;

Edgar Filing: PYRAMID OIL CO - Form 10KSB

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 2003 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 2003 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 2003 Annual Meeting of Shareholders.

ITEM 12 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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 \$100,000 in 2002, \$98,000 in 2001 and \$124,000 in 2000.

52

Effective April 1, 2002, the Company acquired the remaining working interest in the above referenced oil and gas lease in the Carneros Creek field and working interests in two other leases in the same area from the investor group noted above. The investor group acquired these working interests from the Company's former joint venture partner in these three oil and gas leases as the result of a court ordered settlement agreement concluding litigation between the investor group and the joint venture partner. The investor group sold the working interests to the Company for \$217,000. Mr. John H. Alexander, Vice President of the Company, owns a thirty-three percent interest in the investor group. The Company had notes payable to the investor group in the amount of \$108,502 at the end of December 31, 2002.

PART IV

ITEM 13 - EXHIBITS AND REPORTS ON FORM 8-K

Edgar Filing: PYRAMID OIL CO - Form 10KSB

(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, 2002 and 2001.
Statements of Operations for the three years in the period
ended December 31, 2002.
Statements of Shareholders' Equity for the three
years in the period ended December 31, 2002.
Statements of Cash Flows for the three
years in the period ended December 31, 2002.
Notes to Financial Statements.

(a) 3. EXHIBITS

- 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 Employment Agreement of J. Ben Hathaway, dated August 1, 2001 (3)
- 10.2 Employment Agreement of John H. Alexander, dated August 1, 2001 (3)
- 10.3 Employment Agreement of John H. Alexander, dated February 21, 2002 (4)
- 10.4 Employment Agreement of Benny Hathaway, Jr. dated February 21, 2002 (4)
- 99 Letter to Securities and Exchange Commission regarding Arthur Andersen's representations (4)

53

- 99.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

- (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 Exhibits 10.1 and 10.2 to the Registrants June 30, 2001 Form 10-QSB.
- (4) Incorporated by reference from Exhibits 10.3, 10.4 and 99 to the Registrants December 31, 2001 Form 10-KSB.

(b) REPORTS ON FORM 8-K

The Company filed a Form 8-K on July 31, 2002 to report a change in

Edgar Filing: PYRAMID OIL CO - Form 10KSB

it's certifying accountants. On May 29, 2002, Arthur Andersen LLP resigned as the independent public accountants of Pyramid Oil Company (the "Company"). Arthur Andersen LLP has performed the audit of the Company's financial statements from 1987 through December 31, 2001. Arthur Andersen LLP also performed a review of the Company's Form 10-QSB for the quarter ended March 31, 2002. Singer Lewak Greenbaum & Goldstein, LLP, were approved as its new independent accountants at it's September 12, 2002 Annual Meeting of Shareholders.

ITEM 14. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our filings 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. Our chief executive officer and chief financial officer have evaluated our disclosure controls and procedures within 90 days prior to the filing of this annual report of Form 10-KSB and have determined that such disclosure controls and procedures are effective.

There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation including any corrective actions with regard to significant deficiencies and material weaknesses.

54

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, 2003

By: J. BEN HATHAWAY

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, 2003

J. Ben Hathaway

JOHN H. ALEXANDER Director/Vice President March 28, 2003

John H. Alexander

THOMAS W. LADD Director March 28, 2003

Edgar Filing: PYRAMID OIL CO - Form 10KSB

Thomas W. Ladd

GARY L. RONNING

Director

March 28, 2003

Gary L. Ronning

Director

March 28, 2003

John E. Turco

LEE G. CHRISTIANSON

Corporate Secretary/

March 28, 2003

Lee G. Christianson

Principal Accounting Officer

PAGE