FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
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FILER

EVANS SYSTEMS INC
CIK:**904901**| IRS No.: **741613155** | State of Incorp.:**TX** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **000-21956** | Film No.: **1697193**
SIC: **5171** Petroleum bulk stations & terminals

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As Filed with the Securities and Exchange Commission on August 3, 2001

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

FORM 10-Q

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarter ended June 30, 2001

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

Commission File Number: 000-21956

EVANS SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Texas	74-1613155
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer (Identification number)

1625 Highway 60, Bay City, Texas 77414 (979) 245-2424
(Address including zip code and telephone number, including area code, of registrant's principal executive offices)

JERRIEL L. EVANS, SR., PRESIDENT
Mailing Address: P.O. Box 2480, Bay City, Texas 77414-2480 (979) 245-2424
Physical Address: 1625 Highway 60, Bay City, Texas 77414 (979) 245-2424
(Name, address, including zip code, and telephone number, including area code, of agent for service)

NONE
(Former name, former address and former fiscal year, if changed since last report)

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 [_]

Number of shares of common stock of registrant outstanding exclusive of Treasury shares or shares held by subsidiaries of the registrant at August 1, 2001 were 6,659,831.

EVANS SYSTEMS, INC.

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PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

EVANS SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)
(in thousands)

<TABLE>
<CAPTION>

	June 30, 2001	September 30, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 636	$ 725
Trade receivables, net of allowance for doubtful accounts of $142,000 and $285,000, respectively	952	2,536
Inventory	1,364	2,717
Prepaid expenses and other current assets	194	170
Total current assets	3,146	6,148
Property and equipment, net	9,921	13,409
Investment in marketable securities	-	1,016
Other assets	90	136
Total assets	$ 13,157	$ 20,709
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,190	$ 7,575
Current portion of long-term debt	4,981	9,910
Current portion of obligations under capital leases	799	744
Accrued interest	1,273	1,072
Total current liabilities	11,243	19,301
Long-term debt, net of current portion	647	630

Obligations under capital leases, net of current portion	-	86
Total liabilities	11,890	20,017
Stockholders' equity:		
Common stock, $.01 par value, 15,000,000 shares authorized, 6,659,831 and 5,542,331 shares issued and outstanding, respectively	67	55
Additional paid-in capital	17,061	16,850
Accumulated deficit	(15,427)	(16,131)
Unrealized gain on marketable securities	-	352
Treasury stock, 72,589 shares, at cost	(434)	(434)
Total stockholders' equity	1,267	692
Total liabilities and stockholders' equity	$ 13,157	$ 20,709

</TABLE>

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

EVANS SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENT OF INCOME
AND COMPREHENSIVE INCOME
(UNAUDITED)
(In thousands, except per share amounts)

<TABLE>
<CAPTION>

<S>	Three Months Ended June 30, 2001 <C>	2000 <C>
Revenues:		
Motor fuel sales	$ 8,201	$ 18,135
Other sales and services	1,203	2,948
Total revenues	9,404	21,083
Cost of sales		
Motor fuel	7,553	17,317
Other sales and services	779	1,815
Total cost of sales	8,332	19,132
Gross profit	1,072	1,951
Operating expenses:		
Employment expenses	660	1,157
Other operating expenses	227	609
General & administrative expenses	310	515
Depreciation and amortization	238	331
Total operating expenses	1,435	2,612
Operating loss	(363)	(661)
Other income (expense)		
Gain (loss) on sale of assets	38	(16)
Interest expense, net	(110)	(365)
Other, net	30	4
Total other income (expense)	(42)	(377)
Income (loss) before income taxes	(405)	(1,038)
Provision for income taxes	-	3

Income (loss) from continuing operations	(405)	(1,041)
Discontinued operations:		
Gain on disposal of ChemWay, net of taxes of $0	-	-
Loss from discontinued operations of Evans Oil of Louisiana to May 17, 2001 (Note C)	(197)	(173)
Gain on disposal of Evans Oil of Louisiana, net of taxes of $0	87	-
Total discontinued operations	(110)	(173)
Net income (loss)	(515)	(1,214)
Unrealized gain (loss) on marketable securities	-	(79)
Comprehensive income (loss)	$ (515)	$ (1,293)
Basic and diluted earnings (loss) per share:		
Continuing operations	$ (.06)	$ (.26)
Discontinued operations	(.02)	(.04)
Earnings (loss) per common share	$ (.08)	$ (.30)

</TABLE>

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

EVANS SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENT OF INCOME
AND COMPREHENSIVE INCOME
(UNAUDITED)
(In thousands, except per share amounts)

<TABLE>
<CAPTION>

	Nine Months Ended June 30,	
	2001	2000
<S>	<C>	<C>
Revenues:		
Motor fuel sales	$ 27,743	$ 50,783
Other sales and services	5,175	8,905
Total revenues	32,918	59,688
Cost of sales		
Motor fuel	25,164	48,105
Other sales and services	3,502	5,245
Total cost of sales	28,666	53,350
Gross profit	4,252	6,338
Operating expenses:		
Employment expenses	2,713	3,735
Other operating expenses	1,044	2,088
General & administrative expenses	1,181	1,618
Depreciation and amortization	805	1,008
Total operating expenses	5,743	8,449
Operating loss	(1,491)	(2,111)
Other income (expense)		
Gain on exchange of marketable securities for Certain ChemWay assets (Note E)	2,396	-
Gain (loss) on sale of assets	917	(30)
Interest expense, net	(533)	(1,262)
Other, net	25	20

Total other income (expense)	2,805	(1,272)
Income (loss) before income taxes	1,314	(3,383)
Provision for income taxes	-	7
Income (loss) from continuing operations	1,314	(3,390)
Discontinued operations:		
Gain on disposal of ChemWay, net of taxes of $0	-	266
Loss from discontinued operations of Evans Oil of Louisiana to May 17, 2001 (Note C)	(697)	(472)
Gain on disposal of Evans Oil of Louisiana, net of taxes of $0	87	-
Total discontinued operations	(610)	(206)
Net income (loss)	704	(3,596)
Unrealized gain (loss) on marketable securities	(866)	117
Comprehensive income (loss)	$ (162)	$ (3,479)
Basic and diluted earnings (loss) per common share:		
Continuing operations	$ .22	$ (.84)
Discontinued operations	(.10)	(.05)
Earnings (loss) per common share	$ .12	$ (.89)

</TABLE>

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

EVANS SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
(In thousands)

<TABLE>
<CAPTION>

	Nine Months Ended June 30,	
	2001	2000
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	$ 704	$ (3,596)
Adjustments:		
Depreciation and amortization	870	1,103
Loss (gain) on sale of fixed assets	(917)	30
Gain on exchange of marketable securities for certain assets of ChemWay (Note E)	(2,396)	-
Gain on disposal of discontinued operations	(87)	(266)
Stock option compensation expense	-	247
Changes in working capital:		
Current assets	2,959	245
Current liabilities	(3,184)	1,477
Total adjustments	(2,755)	2,836
Net cash provided (used) by operating activities	(2,051)	(760)
Cash flows from investing activities:		
Capital expenditures	(119)	(467)
Proceeds from sale of property and equipment	6,801	219
Other, net	-	140
Net cash provided (used) by investing activities	6,682	(108)

Cash flows from financing activities:		
Net proceeds from stock issuance	223	-
Repayment on notes payable, net	(4,979)	(780)
Proceeds of additional bank debt	36	1,000
Net cash provided (used) by financing activities	(4,720)	220
Net increase (decrease) in cash	(89)	(648)
Cash and cash equivalents, beginning of period	725	992
Cash and cash equivalents, end of period	$ 636	$ 344
Supplemental disclosure of noncash transactions:		
Exchange of stock for certain assets (Note E)		
Assets acquired in exchange	$ 3,567	$ -
Debt assumed in exchange	(507)	-
Cost of stock in exchange	(664)	-
Noncash gain on exchange	$ 2,396	$ -

</TABLE>

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

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Evans Systems, Inc. and its subsidiaries (collectively referred to as the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. It is recommended that these interim condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company`s Annual Report on Form 10-K for the year ended September 30, 2000. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the annual report on Form 10-K. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended June 30, 2001 are not necessarily indicative of the results which may be expected for any other interim periods or for the year ending September 30, 2001. Certain prior period amounts have been reclassified for comparative purposes.

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

NOTE B - LONG-TERM DEBT

In December 2000, the Company and its primary lender reached an agreement (the Agreement) whereby the total debt due to this bank at December 31, 2000 of approximately $8,970,700 plus accrued interest and penalties of $1,113,600 would be restructured to terms that call for the payment of $7.5 million on or before June 15, 2001 in full satisfaction of all amounts due to this bank. Under the terms of the Agreement, sales of Company assets, including the sales of Evans Oil of Louisiana, certain Texas C-stores and sales of certain Texas Petroleum Marketing Supply contracts, will be used to pay the $7.5 million. The Agreement further states that should the June 15, 2001 deadline not be met, $8.5 million will be due on or before August 15, 2001. The Agreement also provides that should the August 15, 2001 deadline not be met, all outstanding principal, accrued interest and penalties due to this lender will become due. As of June 30, 2001, total debt due to this bank was approximately $4,747,000 plus accrued interest and penalties of $1,181,000. However, as the Company has no assurance that it can fulfill the terms of the Agreement by the specified deadlines and in accordance with SFAS No. 5, Accounting for Contingencies, the Company has not reflected the modified terms in the accompanying condensed consolidated financial statements and has not recorded any potential gain on the Agreement.

The Company assumed the outstanding debt of $506,860 on a warehouse building received by the Stipulated Judgment and Deed in Lieu of Foreclosure (Note E). The note bears interest at 9% for 15 years and call for monthly principal and interest payments of $7,103. The note is secured by the warehouse building.

On May 16, 2001, the Company accepted a commitment from Advisco Capital Corp. (ACC) to make available to the Company an $8.8 million secured term loan and secured revolving credit facility (the Financing). The Financing would bear a interest rate of 1.25%, payable monthly for a term of two years, with an option to renew for an additional 1 year. Proceeds of the Financing will be used to settle remaining amounts owed to the Company's primary lender under the Agreement (Note B), purchase of capital assets and inventory, and provide additional working capital. Funding of the loan, is subject to the

completion and satisfaction, to ACC's approval, of certain requirements and covenants of the Financing. Those requirements and covenants include, but are not limited to, the submission of a Business Plan by the Company, evidence of compliance with all government agencies having jurisdiction, and submission of a workout plan with the Company's unsecured creditors, requiring such unsecured creditors to agree to have their claims paid in accordance with terms and conditions satisfactory to ACC and forbear from taking any action against the Company provided their obligations are paid as agreed. Accordingly, the Company has no assurance that the Financing will be closed. On July 25, 2001 ACC extended the commitment letter's expiration to September 10, 2001 to allow sufficient time to receive the required appraisal reports, settlement agreements and other remaining documents.

Management is currently holding talks with several potential lending institutions to replace its existing bank debt with new financing to meet the terms of the Agreement. Management believes that the sales of certain assets of the Company as well as the effects of potential new financing could provide sufficient cash to meet the terms of the Agreement as well as provide additional working capital.

However, there can be no assurance that such agreements or new financing will be realized or successful.

NOTE C-DISCONTINUED OPERATIONS

On May 17, 2001, the Company closed on the sale of substantially all the assets and inventory of Evans Oil of Louisiana (EOLA) for total cash, net of closing costs, of $1,078,000 and discontinued its Louisiana operations. The assets and inventory sold had a net book value of approximately $723,000 and $268,000, respectively, on May 17, 2001. The Company recorded a net gain on the sale of discontinued operations of approximately $87,000. The proceeds of the sale were used to reduce outstanding debt. The results of operations of EOLA have been classified as discontinued operations and prior periods have been restated. The Company has not allocated interest expense or general corporate overhead to discontinued operations. Summary operating results for the three and nine months ended June 30, 2001 and 2000 are as follows (in thousands):

<TABLE>
<CAPTION>

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2001*	2000	2001*	2000

<S>	<C>	<C>	<C>	<C>
Revenues	$ 898	$ 3,795	$ 4,707	$ 10,352
Income (loss) from operations	$ (197)	$ (173)	$ (697)	$ (472)
Gain on sale of discontinued operations	$ 87	$ -	$ 87	$ -

</TABLE>

* Through May 17, 2001
The otherwise tax liability from this transaction is offset by net operating loss carryforwards of the Company generated from previous years losses. Accordingly, no provision has been recorded as of June 30, 2001.

NOTE D-AGREEMENTS TO SALE CERTAIN ASSETS

During the first quarter of 2001, the Company closed on the sale of some of its Citgo, Texaco (Motiva) and Diamond Shamrock dealer and consignment accounts. Net proceeds from the sale of the Citgo, Texaco and Diamond Shamrock dealer and consignment accounts approximated $194,000, $642,000 and $450,000, respectively, which were used for working capital and to reduce the Company's outstanding

debt. The Company recorded a net gain on the sales of approximately $587,000, inclusive of a $159,000 net gain on the sales of the distribution contracts. The net book value of the assets sold approximated $699,000, which consisted primarily of store equipment and fuel dispensing equipment and tanks at the respective dealer and consignment locations.

During February 2001, the Company closed on the sale of its Phillips 66 dealer and consignment accounts. Net proceeds from the sale of the Phillips 66 dealer and consignment accounts approximated $556,000, which was used for working capital and to reduce the Company's outstanding debt. The Company recorded a net gain on the sale of approximately $238,000, inclusive of a $75,000 gain on the sale of the distribution contract. The net book value of the assets sold approximated $318,000, which consisted primarily of store equipment and fuel dispensing equipment and tanks at the dealer and consignment locations.

During the second quarter of 2001, the Company closed on the sale of three independent dealer and consignment accounts. Net proceeds from the sale of the independent dealer and consignment accounts approximated $178,000, which was used for working capital and to reduce the Company's outstanding debt. The Company recorded a net gain on the sale of approximately $8,000. The net book value of the assets sold approximated $170,000, which consisted primarily of store equipment and fuel dispensing equipment and tanks at the dealer and consignment locations.

During the second quarter of 2001, the Company also closed on the sale of six company operated stores for total net proceeds of approximately $2,574,000, which were used for working capital and to reduce the Company's outstanding debt. The Company recorded a net gain on the sale of approximately $201,000. The net book value of the assets sold approximated $2,373,000, inclusive of $225,000 in fuel and retail inventory.

During the third quarter of 2001, the Company closed on the sale of one company operated store and one store previously leased to others for total proceeds, net of closing costs, of approximately $1,063,000, which was used for working capital and to reduce the Company's outstanding debt. The Company recorded a net gain on the sales of approximately $22,000 during the third quarter of 2001. The net book value of the assets sold approximated $1,041,000, inclusive of $76,000 in fuel and retail inventory.

The following summarizes the Company's various sales of assets during the nine months ended June 30, 2001 (in thousands):

<TABLE>

<S> <C> <C>

Net proceeds:		
Citgo, Texaco and Diamond Shamrock accounts	$ 1,286	
Phillip 66 accounts	556	
Other independent dealer accounts	178	
Sale of company operated stores and equipment	3,637	
Other	66	
Total net proceeds		$ 5,723
Net book value of assets sold:		
Citgo, Texaco and Diamond Shamrock accounts	$ 699	
Phillip 66 accounts	318	
Other independent dealer accounts	170	
Sale of company operated stores and equipment	3,414	
Other	205	
Total net book value of assets sold		4,806
Net gain on sale of assets for the nine months ended June 30, 2001		$ 917

</TABLE>

NOTE E- INVESTMENT IN MARKETABLE SECURITIES

On December 4, 2000, the Company entered into a Stipulated Judgment (the Judgment) against Affiliated Resources Corporation (Affiliated) and ChemWay, Inc. pertaining to the Company's sale of ChemWay to Affiliated in December 1998. The Judgment granted by the 130th Judicial District Court of Texas was for $6 million, arising from Affiliated's failure to fund the put right at $4.00 per share of the 1,500,000 shares of Affiliated common stock the Company had received as consideration for the sale. As stipulated in the Judgment, the Company received a Deed in Lieu of Foreclosure for certain assets and properties of ChemWay, Inc. as the sole payment for the $6 million judgment. The ChemWay assets and properties received had an appraised value at the date of the judgment of approximately $3,567,000 and the Company's investment in Affiliated common stock was $150,000, based on 2,500,000 shares at $0.06 per share. Accordingly, the Company recorded an unrealized loss through December 4, 2000 of $866,000, resulting from the decline in Affiliated common stock per share price of $0.406 at September 30, 2000 to $0.06 at December 4, 2000. The unrealized loss recorded during the first quarter of 2001 resulted in a cumulative unrealized loss of $514,000, which, in accordance with SFAS 130, "Reporting Comprehensive Income", has been reclassified to gain on sale of marketable securities as a "reclassification adjustment for gains recognized in net income". The following summarizes the gain on exchange of marketable securities for certain assets for the quarter ended December 31, 2000:

Fair market value of ChemWay assets received:		
Buildings and improvements	$1,475,000	
Machinery and equipment	2,029,000	
Furniture and fixtures	37,000	
Vehicles	26,000	
Total fair market value of assets received		$3,567,000
Less debt assumed on ChemWay assets		(507,000)
Less cost basis in securities given up:		
Investment in marketable securities	$150,000	
Reclassification adjustment of unrealized loss on marketable securities	514,000	
Cost basis of marketable securities		(664,000)
Gain recognized on exchange of marketable securities for certain assets		$2,396,000

The otherwise tax liability from this transaction is offset by net operating and capital loss carryforwards of the Company generated from previous years losses. Accordingly, no provision has been recorded.

Management is presently evaluating strategic alternatives relating to the assets received by the Stipulated Judgment and Deed in Lieu of Foreclosure.

NOTE F - SEASONAL NATURE OF BUSINESS

The motor fuel products market customarily experiences decreased margins in the fall and winter months followed by increased demand during spring and summer when construction, travel, and recreational activities increase.

NOTE G - BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE

Basic and diluted earnings (loss) per share for the three and nine months ending June 30, 2001 were computed using 6,659,831 and 5,951,672 weighted average common shares outstanding, respectively. Basic and diluted earnings (loss) per share for the three and nine months ending June 30, 2000 were

computed using 4,032,340 weighted average common shares outstanding. Stock options and warrants were not included in the computation of diluted income (loss) per common share for the three and nine months ended June 30, 2001 and 2000 since they would have resulted in an antidilutive effect on loss from continuing operations.

NOTE H - COMMON STOCK

On March 22, 2001, the Board of Directors of the Company granted the Chief Executive Officer (CEO) and Chairman of the Board 1,117,500 shares of the Company's common stock in line with the terms of an Employment Agreement dated October 1, 1998. Of the 1,117,500 shares granted, 800,000 shares were granted as payment of accrued commissions due the CEO of approximately $160,000. The remaining 317,500 shares were granted as payment of accrued deferred salaries due the CEO of approximately $63,500. All shares were granted at an effective price per share of $.20. The Company recorded additional paid-in capital of $211,000. The closing price of the Company's stock on March 22, 2001 was $.156 per share.

On March 22, 2001, the Board of Directors of the Company approved a new Employment Agreement for the CEO and Chairman of the Board. As stipulated in the Employment Agreement, the Board of Directors granted a 5 year stock option to the CEO for 500,000 shares of common stock, with 200,000 shares vesting immediately at the market value of the stock ($.156 per share at March 22, 2001) and the remaining 300,000 shares vested in equal monthly amounts of the Company's common stock over the three year term of the Employment Agreement. The option granted is a nonqualifying option and is not covered by the current stock option plan.

NOTE I - CONTINGENT LIABILITIES

The Company is subject to litigation, primarily as a result of customer claims, in the ordinary conduct of its operations. As of June 30, 2001, the Company had no knowledge of any legal proceedings that, by themselves, or in the aggregate, could be expected to have a material adverse effect on the Company.

NOTE J - MANAGEMENT PLANS

During the fourth quarter of 2000, the Company implemented a strategy to reduce outstanding debt by the selling of certain identified assets aligned along brand representation in an effort to concentrate on fewer brands, which management believes have the most profit potential. As a phase of this strategy, management implemented a 22% staff reduction in early October 2000. During the first quarter of 2001, the Company closed on the sale of some of its Citgo, Texaco (Motiva) and Diamond Shamrock dealer and consignment accounts (Note D). During the second and third quarters of 2001, the Company closed on the sale of its Phillips 66 dealer and consignment accounts as well as several company operated store (Note D). Proceeds from those sales were used to reduce outstanding debts and provide working capital. Management plans to continue its Chevron, Texaco and Exxon branded company operated stores and dealer locations.

The Company is also evaluating a strategic partnership that would allow the Company to reinstitute a supply of petroleum products to its terminal facility. Management believes that should the strategic partnership be successful, the terminal can return to operations by the end of fiscal year 2001.

The Company has determined, based upon review of the Company's historical operating performance, that it is unlikely that the Company's revenues will increase in the foreseeable future in an amount sufficient to offset its operating expenses without continued downsizing and a capital infusion. In order to continue as a going concern, management believes the Company must continue to sell its assets and

obtain a capital infusion of either equity or debt in amounts sufficient to reduce its current outstanding debts and provide additional working capital. There can be no assurance that management's plans as described above will be successful.

NOTE K - SEGMENT REPORTING

The Company has four reportable segments as defined by SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information, which include the following: Texas Petroleum Marketing, Texas Convenience Stores, Louisiana Petroleum Marketing and Convenience Store Operations (Louisiana Operations), and Environmental Remediation Services. The Texas Petroleum Marketing segment sells motor fuels to the public through retail outlets in southeast Texas and supplies the Company's Texas convenience stores with motor fuels. The Texas Convenience Stores feature self-service motor fuels and a variety of food and nonfood merchandise in southeast Texas. The Louisiana Operations sell motor fuels to the public through retail outlets and through convenience stores that feature self-service motor fuels and a variety of food and nonfood merchandise in Louisiana. As described in Note C, the Company discontinued its Louisiana Operations and has reflected such operations as discontinued operations. Prior periods have been restated. The Environmental Remediation Services segment serves the petroleum industry in the southeast Texas market area.

Information concerning the Company's business activities is summarized as follows: (in thousands)

<TABLE>
<CAPTION>

Three Months Ended	Texas Petroleum Marketing	Texas Convenience Stores	Environmental Remediation Services	Other Reconciling Items (1)	Consolidated Total
<S>	<C>	<C>	<C>	<C>	<C>
June 30, 2001-					
Revenues from external Customers:					
Motor fuel sales	$ 6,656	$1,545	$ -	$ -	$ 8,201
Convenience store sales	-	843	-	-	843
Other	52	92	216	-	360
Intersegment revenues	1,391	-	-	(1,391)	-
Total revenues	$ 8,099	$2,480	$ 216	$ (1,391)	$ 9,404
Depreciation and amortization	$ 197	$ 34	$ 5	$ 2	$ 238
Operating income (loss)	$ (52)	$ (106)	$ 9	$ (214)	$ (363)

June 30, 2000-					
Revenues from external Customers:					
Motor fuel sales	$14,079	$4,056	$ -	$ -	$18,135
Convenience store sales	-	2,457	-	-	2,457
Other	244	54	193	-	491
Intersegment revenues	4,596	-	-	(4,596)	-
Total revenues	$18,819	$6,567	$ 193	$ (4,596)	$21,083
Depreciation and amortization	$ 246	$ 67	$ 13	$ 5	$ 331
Operating income (loss)	$ (212)	$ (184)	$ 29	$ (294)	$ (661)

</TABLE>

(1) Consists primarily of corporate overhead expenses.

A reconciliation of the Company's segment operating information to consolidated loss from continuing operations before income taxes is as follows (in thousands):

<TABLE>
<CAPTION>

	Quarter Ended June 30,	
	2001	2000
Total operating loss for reportable segments	$(149)	$(367)
Gain on exchange of marketable securities for certain ChemWay assets	-	-
Gain (loss) on sale of assets	38	(16)
Interest expense, net	(110)	(365)
Unallocated corporate overhead expenses	(214)	(294)
Other, net	30	4
Total consolidated income (loss) from continuing operations before income taxes	$ (405)	$ (1,038)

</TABLE>

<TABLE>
<CAPTION>

Nine Months Ended	Texas Petroleum Marketing	Texas Convenience Stores	Environmental Remediation Services	Other Reconciling Items (1)	Consolidated Total
June 30, 2001-					
Revenues from external Customers:					
Motor fuel sales	$ 21,577	$ 6,166	$ -	$ -	$ 27,743
Convenience store sales	-	3,992	-	-	3,992
Other	212	297	674	-	1,183
Intersegment revenues	5,352	-	-	(5,352)	-
Total revenues	$ 27,141	$ 10,455	$ 674	$ (5,352)	$ 32,918
Depreciation and amortization	$ 650	$ 134	$ 15	$ 6	$ 805
Operating income (loss)	$ 62	$ (624)	$ 13	$ (942)	$ (1,491)
June 30, 2000-					
Revenues from external Customers:					

Motor fuel sales	$ 39,406	$ 11,377	$ -	$ -	$ 50,783
Convenience store sales	-	6,983	-	-	6,983
Other	903	265	754	-	1,922
Intersegment revenues	12,818	-	-	(12,818)	
Total revenues	$ 53,127	$ 18,625	$ 754	$ (12,818)	$ 59,688
Depreciation and amortization	$ 754	$ 201	$ 39	$ 14	$ 1,008
Operating income (loss)	$ (445)	$ (479)	$ 96	$ (1,283)	$ (2,111)

</TABLE>

(1) Consists primarily of unallocated corporate overhead expenses.

A reconciliation of the Company's segment operating information to consolidated loss from continuing operations before income taxes is as follows (in thousands):

	Nine Months Ended June 30, 2001	2000
Total operating loss for reportable segments	$ (549)	$ (828)
Gain on exchange of marketable securities for certain ChemWay assets	2,396	-
Gain (loss) on sale of assets	917	(30)
Interest expense, net	(533)	(1,262)
Unallocated corporate overhead expenses	(942)	(1,283)
Other, net	25	20
Total consolidated income (loss) from continuing operations before income taxes	$ 1,314	$ (3,383)

Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Investors are cautioned that all forward-looking statements involve risks and uncertainty, including without limitation, the ability of the Company to successfully implement its turnaround strategy, changes in costs of raw materials, labor, and employee benefits, as well as general market conditions, competition and pricing. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements included in this Quarterly Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as representation by the Company or any other person that the objectives and plans of the Company will be achieved. In assessing forward-looking statements included herein, readers are urged to carefully read those statements. When used in the Quarterly Report on Form 10-Q, the words "estimate," "anticipate," "expect," "believe," and similar expressions are intended to be forward-looking statements.

RECENT EVENTS

During the third quarter of 2001, the Company closed on the sale of one company operated store and one store previously leased to others for total proceeds, net of closing costs, of approximately $1,063,000, which was used for working capital and to reduce the Company's outstanding debt. The Company recorded a net gain on the sales of approximately $22,000 during the third quarter of 2001.

On May 17, 2001, the Company closed on the sale of substantially all the assets and inventory of Evans Oil of Louisiana (EOLA) for total cash, net of closing costs, of $1,078,000 and discontinued its Louisiana operations. The assets and inventory sold had a net book value of approximately $723,000 and $268,000, respectively, on May 17, 2001. The Company recorded a net gain on the sale of discontinued operations of approximately $87,000. The proceeds of the sale were used to reduce outstanding debt. The results of operations of EOLA have been classified as discontinued operations and prior periods have been restated.

On May 16, 2001, the Company accepted a commitment from Advisco Capital Corp. (ACC) to make available to the Company an $8.8 million secured term loan and secured revolving credit facility (the Financing). The Financing would bear a interest rate of 1.25%, payable monthly for a term of two years, with an option to renew for an additional 1 year. Proceeds of the Financing will be used to settle remaining amounts owed to the Company's primary lender, the purchase of capital assets and inventory, and provide additional working capital. Funding of the loan is subject to the completion and satisfaction, to ACC's approval, of certain requirements and covenants of the Financing. Those requirements and covenants include, but are not limited to, the submission of a Business Plan by the Company, evidence of compliance with all government agencies having jurisdiction, and submission of a workout plan with the Company's unsecured creditors, requiring such unsecured creditors to agree to have their claims paid in accordance with terms and conditions satisfactory to ACC and forbear from taking any action against the Company provided their obligations are paid as agreed. Accordingly, the Company has no assurance that the Financing will be closed. On July 25, 2001 ACC extended the commitment letter's expiration to September 10, 2001 to allow sufficient time to receive the required appraisal reports, settlement agreements and other remaining documents.

Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2001 AND 2000

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the condensed consolidated unaudited financial statements and notes thereto appearing elsewhere in this document.

The following table reflects the operating results of Evans Systems, Inc. ("ESI" or the "Company") business segments for the three months ended June 30, 2001 and 2000. This is the third quarter of ESI's fiscal year which begins on October 1 and ends on September 30.

<TABLE>
<CAPTION>

	Three Months Ended June 30, 2001 (In thousands)	Three Months Ended June 30, 2000 (In thousands)
TEXAS PETROLEUM MARKETING		
Revenue	$ 6,708	$ 14,323
Gross profit	469	763
Operating expenses	521	975
Operating loss	(52)	(212)

TEXAS CONVENIENCE STORES		
Revenue	$ 2,480	$ 6,567
Gross profit	469	1,026
Operating expenses	575	1,211
Operating loss	(106)	(184)
EDCO ENVIRONMENTAL		
Revenue	$ 216	$ 193
Gross profit	134	161
Operating expenses	125	132
Operating income (loss)	9	29
UNALLOCATED GENERAL AND ADMIN EXP	$ (214)	$ (294)
TOTAL CONTINUING OPERATIONS		
Revenue	$ 9,404	$ 21,083
Gross profit	1,072	1,951
Operating expenses	1,435	2,612
Operating loss	(363)	(661)
DISCONTINUED LOUISIANA OPERATIONS		
Revenue	$ 898	$ 3,795
Gross profit	92	378
Operating expenses	289	550
Operating loss	(197)	(173)

</TABLE>

Management's Discussion and Analysis of Financial Condition and Results of Operations

Consolidated revenues decreased $11,679,000 or approximately 55.3% in the quarter ended June 30, 2001, as compared with the quarter ended June 30, 2000. The decrease is primarily attributable to the sale of it's Citgo, Texaco, Diamond Shamrock, and Phillips 66 accounts in the Texas Petroleum Marketing Segment, eight company operated convenience stores in it's Texas Convenience Store Segment, and the sale of it's Louisiana Operations Segment (now classified as Discontiued Operations) all of which were included in the quarter ended June 30, 2000. Fuel sales decreased $9,934,000 or approximately 54.7% while other sales and services declined $1,745,000 or approximately 59.1% in the quarter ended June 30, 2001, as compared with the quarter ended June 30, 2000.

Consolidated gross profit declined $879,000 or approximately 45.0% in the quarter ended June 30, 2001, as compared with the quarter ended June 30, 2000. Gross profit expressed as a percentage of sales, "Gross Margin", increased to approximately 11.3% of sales in the quarter ended June 30, 2001, as compared with approximately 9.2% of sales in the quarter ended June 30, 2000.

Operating expenses declined $1,177,000 or approximately 45.0% in the quarter ended June 30, 2001, as compared with the quarter ended June 30, 2000. The reductions were in employment expenses $497,000, G & A $205,000, depreciation $93,000, and $382,000 in other operating expenses, which includes marketing $38,000, retail $177,000, and transportation $167,000. See segment discussion below.

Operating losses decreased $298,000 in the quarter ended June 30, 2001, as compared with the quarter ended June 30, 2000. Operating losses were $363,000 in the quarter ended June 30, 2001, as compared with $661,000 in the quarter ended June 30, 2000. The decreased loss was attributable to expense reductions.

Net loss decreased to $515,000 in the quarter ended June 30, 2001, as compared with $1,214,000 in the quarter ended June 30, 2000. Net loss includes a loss from Louisiana discontinued operations of $197,000 and a gain on the disposal of Lousiana operations of $87,000 in the quarter ended June 30, 2001 compared to a loss from Lousiana discontinued operations of $173,000 in the quarter ended June 30, 2000.

Comprehensive loss decreased to $515,000 in the quarter ended June 30, 2001, as compared with $1,293,000 in the quarter ended June 30, 2000. The quarter ended June 30, 2000 included a loss on marketable securities of $79,000.

Texas Petroleum Marketing Segment

The Texas Petroleum Marketing segment's revenues are primarily derived from the sale of motor fuels to the public through retail outlets:

A. Gasoline retail facilities with Company-supplied equipment consisting of pumps, lights, canopies and in many cases underground storage tanks, at independently owned convenience stores. Under the terms of the Company's agreements with such independent store operators ("Special Purpose Leases"), the Company receives 40 percent or 50 percent of the gasoline gross profit, depending upon who owns the underground gasoline equipment.

B. Independently owned gasoline stations and convenience stores ("Open Dealers") to which the Company provides major oil company brand names, credit card processing and signs and, without further investment, receives its customary markup on fuel deliveries.

The Texas Petroleum Marketing segment also supplies lubricants to commercial and industrial customers.

Revenues decreased $7,615,000, or approximately 53.1% to $6,708,000 in the quarter ended June 30, 2001, as compared with revenues of $14,323,000 in the quarter ended June 30, 2000. The decrease in revenues is due to the sale of it's Citgo, Texaco, Diamond Shamrock and Phillips 66 accounts in the first and second quarter of the current year. Revenues from these accounts are included in the prior quarter comparison. Average selling price of fuel per gallon increased to $1.65 per gallon in the quarter ended June 30, 2001, as compared with an average selling price of $1.41 per gallon in the quarter ended June 30, 2000. Fuel sales in gallons declined approximately 60.1% to 3,982,000 gallons, as compared with 9,998,000 gallons in the quarter ended June 30, 2000.

Gross profit decreased $294,000 or approximately 38.5% to $469,000 in the quarter ended June 30, 2001, as compared with $763,000 in the quarter ended June 30, 2000. Gross Margin increased to approximately 6.9% of sales in the quarter ended June 30, 2001, as compared with approximately 5.3% of sales in the quarter ended June 30, 2000. Fuel gross profit per gallon increased to approximately $0.111 as compared with $0.070 in the quarters ended June 30, 2001 and 2000, respectively.

Operating expenses in the quarter ended June 30, 2001 declined $454,000 or approximately 46.5% as compared with the quarter ended June 30, 2000. The reductions were in employment expenses $24,000, G & A $156,000, depreciation $49,000, and $225,000 in other operating expenses, which includes marketing $15,000, retail $43,000, and transportation $167,000.

The Texas petroleum marketing segment's operating loss decreased to $52,000 in the quarter ended June 30, 2001, as compared to an operating loss of $212,000 in the quarter ended June 30, 2000. The decreased loss is mainly attributable to a reduction in operating expenses.

Texas Convenience Store Segment

The Company operated 9 stores in the quarter ended June 30, 2001 and 17 in the quarter ended June 30, 2000. The company sold 2 stores during the quarter ended June 30, 2001 one which was an operating store and one which had been leased to others. The number of stores operating at the end of June 30, 2001 decreased 47.0% compared to June 30, 2000.

Total revenues in the quarter ended June 30, 2001 decreased $4,087,000 or approximately 62.2% to $2,480,000, as compared with $6,567,000 in the quarter ended June 30, 2000. The decrease is mainly attributable to the operation of 8 less stores during the period. Fuel revenues decreased $2,511,000 or approximately 61.9% to $1,545,000 in the quarter ended June 30, 2001, as compared with $4,056,000 in the quarter ended June 30, 2000. Fuel sales in gallons declined approximately 63.7% in the current year period. Merchandise sales decreased by $1,614,000 or 65.6% to $843,000 in the quarter ended June 30, 2001 from $2,457,000 in the quarter ended June 30, 2000. Other income, consisting primarily of rental income and commission income, increased approximately $38,000 in the quarter ended June 30, 2001, as compared with the quarter ended June 30, 2000.

Gross profit declined $557,000 or approximately 54.2% to $469,000 as compared with $1,026,000 in the quarter ended June 30, 2000. Gross Margin increased to approximately 18.9% of sales in the quarter ended June 30, 2001, as compared with approximately 15.6% of sales in the quarter ended June 30, 2000. The increase is primarily due to the higher gross profit per gallon on fuel during the quarter ended June 30, 2001. Gross Margin on fuel increased to approximately 12.1% of fuel sales in the quarter ended June 30, 2001 as compared with approximately 7.4% in the quarter ended June 30, 2000. Fuel gross profit per gallon increased to $0.18 per gallon in the quarter ended June 30, 2001 from $0.10 per gallon in the quarter ended June 20, 2000.

Operating expenses decreased $636,000, or approximately 52.5% in the quarter ended June 30, 2001, to $575,000, as compared with $1,211,000 in the quarter ended June 30, 2000. The decrease is due mainly to a $367,000 reduction in employment expenses, $78,000 in G & A, $33,000 in depreciation and amortization, $158,000 reduction in other operating expenses, consisting of $24,000 in marketing and $134,000 in retail.

The Texas Convenience Store segment incurred an operating loss of $106,000 in the quarter ended June 30, 2001, as compared with an operating loss of $184,000 in the quarter ended June 30, 2000. The decreased loss is due to a greater decline in operating expenses than in gross profits.

EDCO Environmental

EDCO Environmental provides environmental assessment and remediation services for the petroleum distribution industry in the southeast Texas market area. Edco's revenues increased $23,000 or approximately 11.9% in the quarter ended June 30, 2001, as compared with the quarter ended June 30, 2000.

Gross profit in the quarter ended June 30, 2001 decreased $27,000, as compared with the quarter ended June 30, 2000. The decrease in gross profit is due to the lower margins during the current year period.

Operating expenses declined $7,000 in the quarter ended June 30, 2001 as compared with the quarter ended June 30, 2000.

EDCO Environmental reported an operating profit of $9,000 in the quarter ended June 30, 2001, as compared with an operating profit of $29,000 in the quarter ended June 30, 2000. The $20,000 decrease is mainly attributable to the lower gross profit realized during the current quarter.

Unallocated General and Administrative Expenses

Unallocated General and Administrative expenses decreased $80,000 or approximately 27.2% in the quarter ended June 30, 2001, as compared with the quarter ended June 30, 2000. The decrease is mainly attributable to the reduction in employment expenses. The prior period included $126,000 in noncash compensation expense, incurred as a result of the vesting of certain employee stock options.

Discontinued - Louisiana Operations

The company sold substantially all of the assets of Evans Oil of Louisiana Inc. on May 17, 2001 and discontinued it's Louisiana operations. The results of the Louisiana operations have been classified as discontinued operations and prior periods have been restated in the accompanying financial statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

NINE MONTHS ENDED JUNE 30, 2001 AND 2000

The following discussion of the Company's financial condition and results of operations should be read in conjunction with the condensed consolidated unaudited financial statements and notes thereto appearing elsewhere in this document.

The following table reflects the operating results of Evans Systems, Inc. ("ESI" or the "Company") business segments for the nine months ended June 30, 2001 and 2000. This is the first nine months of ESI's fiscal year which begins on October 1 and ends on September 30.

<TABLE>
<CAPTION>

<S>	Nine Months Ended June 30, 2001 (In thousands) <C>	Nine Months Ended June 30, 2000 (In thousands) <C>
TEXAS PETROLEUM MARKETING		
Revenue	$ 21,789	$ 40,309
Gross profit	1,995	2,803
Operating expenses	1,933	3,248
Operating income (loss)	62	(445)
TEXAS CONVENIENCE STORES		
Revenue	$ 10,455	$ 18,625
Gross profit	1,873	3,038
Operating expenses	2,497	3,517
Operating loss	(624)	(479)
EDCO ENVIRONMENTAL		
Revenue	$ 674	$ 754
Gross profit	384	497
Operating expenses	371	401
Operating income (loss)	13	96

UNALLOCATED GENERAL AND ADMIN EXP	$ (942)	$ (1,283)
TOTAL CONTINUING OPERATIONS		
Revenue	$ 32,918	$ 59,688
Gross profit	4,252	6,338
Operating expenses	5,743	8,449
Operating loss	(1,491)	(2,111)
DISCONTINUED LOUISIANA OPERATIONS		
Revenue	$ 4,707	$ 10,352
Gross profit	567	1,145
Operating expenses	1,264	1,617
Operating loss	(697)	(472)

</TABLE>

Management's Discussion and Analysis of Financial Condition and Results of Operations

Consolidated revenues decreased $26,770,000 or approximately 44.8% in the nine months ended June 30, 2001, as compared with the nine months ended June 30, 2000. The decrease is primarily attributable to the sale of it's Citgo, Texaco, Diamond Shamrock, and Phillips 66 accounts in the Texas Petroleum Marketing Segment, eight company operated convenience stores in it's Texas Convenience Store Segment, and the sale of it's Louisiana Operations Segment (now classified as Discontiued Operations). Fuel sales decreased $23,040,000 or approximately 45.3% while other sales and services declined $3,730,000 or approximately 41.8% in the nine months ended June 30, 2001, as compared with the nine months ended June 30, 2000. See segment discussions, below.

Consolidated gross profit declined $2,086,000 or approximately 32.9% in the nine months ended June 30, 2001, as compared with the nine months ended June 30, 2000. Gross Margin increased to approximately 12.9% of sales in the nine months ended June 30, 2001, as compared with approximately 10.6% of sales in the nine months ended June 30, 2000.

Operating expenses declined $2,706,000 or approximately 32.0% in the nine months ended June 30, 2001, as compared with the nine months ended June 30, 2000. The reductions were in employment expenses $1,023,000, G & A $437,000, depreciation $202,000, and $104,000 in other operating expenses, which includes marketing $78,000, retail $573,000, and transportation $393,000.

Operating losses decreased $620,000 or approximately 29.3% in the nine months ended June 30, 2001, as compared with the nine months ended June 30, 2000. Operating losses were $1,491,000 in the nine months ended June 30, 2001, as compared with $2,111,000 in the nine months ended June 30, 2000. The decreased loss was attributable to expense reductions.

Income from continuing operations was $1,314,000 in the nine months ended June 30, 2001, as compared with a loss of $3,390,000 in the nine months ended June 30, 2000. Income from continuing operations includes a $2,396,000 gain on the exchange of marketable securities for certain Chem Way assets a gain of $917,000 on the sale of assets and interest expense of $533,000 in the nine months ended June 30, 2001 compared to a $30,000 loss on the sale of assets and interest expense of $1,262,000 in the nine months ended June 30, 2000.

Net income of $704,000 in the nine months ended June 30, 2001 includes a loss from Louisiana discontinued operations of $697,000 and a gain on the disposal of Lousiana operations of $87,000. Net loss of $3,479,000 in the nine months ended June 30, 2000 includes a loss from Lousiana discontinued operations of $472,000 and a $266,000 gain on the disposal of Chem Way.

The Company had a Comprehensive loss of $162,000 for the nine months ended June 30, 2001 as compared to a Comprehensive loss of $3,479,000 for the nine months ended June 30, 2000. The nine months ended June 30, 2001 reflects an unrealized loss on marketable securities of $866,000 compared to an unrealized gain on marketable securities of $117,000 in the nine months ended June 30, 2000.

Texas Petroleum Marketing Segment

Revenues declined $18,520,000, or approximately 45.9% to $21,789,000 in the nine months ended June 30, 2001, as compared with revenues of $40,309,000 in the nine months ended June 30, 2000. The decrease in revenues is due to the sale of it's Citgo, Texaco, Diamond Shamrock and Phillips 66 accounts in the nine months ended June 30, 2001. Revenues from these accounts are included in the nine months ended June 30, 2000. Fuel sales in gallons declined approximately 54.4%, to 13,861,000 gallons, as compared with 30,401,000 gallons in the nine months ended June 30, 2000. Average selling price of fuel per gallon increased to $1.53 per gallon in the nine months ended June 30, 2001, as compared with an average selling price of $1.30 per gallon in the nine months ended June 30, 2000.

Gross profit in the nine months ended June 30, 2001 declined $808,000 or approximately 28.8%, as compared with the nine months ended June 30, 2000. Gross Margin was approximately 9.1% and 7.0% of sales in the nine month periods ended June 30, 2001 and 2000, respectively. Average gross profit per gallon sold increased, to $0.13 per gallon in the nine months ended June 30, 2001, as compared with $0.08 per gallon in the nine months ended June 30, 2000.

Operating expenses in the nine months ended June 30, 2001 declined $1,315,000 or approximately 40.4% as compared with the nine months ended June 30, 2000. The decline is primarily due to expense reductions in employment $145,000, G & A $338,000, depreciation $103,000, and other operating expenses of $729,000 which include marketing $20,000, retail $320,000 and transportation $389,000.

The Texas petroleum marketing segment reported an operating profit of $62,000 in the nine months ended June 30, 2001, as compared to an operating loss of $445,000 in the nine months ended June 30, 2000. The $507,000 turnaround is attributable to reduced operating expenses in excess of the gross profit decline.

Texas Convenience Store Segment

The Company operated 9 stores at the end of June 30, 2001, as compared with 17 stores in the nine months ended June 30, 2000.

Total revenues in the nine months ended June 30, 2001 declined $8,170,000 or approximately 43.8% to $10,455,000, as compared with $18,625,000 in the nine months ended June 30, 2000. The decrease is mainly attributable to the operation of 8 less stores during the period. Fuel sales decreased $5,212,000 or approximately 45.8% to $6,165,000 in the nine months ended June 30, 2001, as compared with $11,377,000 in the nine months ended June 30, 2000. Fuel sales in gallons declined approximately 50.4% in the current year period. Merchandise sales declined $2,990,000 or approximately 42.8% to $3,992,000 in the nine months ended June 30, 2001, as compared with $6,982,000 in the nine months ended June 30, 2000. Other income increased $32,000.

Gross profit declined $1,165,000 or approximately 38.3% to $1,873,000 as compared with $3,038,000 in the nine months ended June 30, 2000. Gross Margin increased to approximately 17.9% of sales in the nine months ended June 30, 2001, as compared with approximately 16.3% of sales in the nine months ended June 30, 2000. Gross Margin on fuel increased to approximately 9.6% of fuel sales in the nine months ended June 30, 2001 as compared with approximately 6.6% in the nine months ended June 30, 2000. Fuel gross profit per gallon increased to approximately $0.14 per gallon in the nine month period ended June 30, 2001 as compared with approximately $0.09 per gallon in the nine months ended June 30, 2000.

Operating expenses in the nine months ended June 30, 2001 declined $1,020,000 or approximately 29.0% as compared with the nine months ended June 30, 2000. The decrease is due mainly to a $598,000 reduction in employment expenses, $42,000 G & A, $67,000 depreciation and amortization, and a $313,000 reduction in other operating expenses, consisting of $56,000 marketing, $253,000 retail, and $4,000 in transportation.

The Texas Convenience Store segment incurred an operating loss of $624,000 in the nine months ended June 30, 2001, as compared with a loss of $479,000 in the nine months ended June 30, 2000. The increased loss is attributable to a loss in gross profit greater than the reduction in operating expenses.

EDCO Environmental

EDCO Environmental provides environmental assessment and remediation services for the petroleum distribution industry in the southeast Texas market area. Edco's revenues declined $80,000 or approximately 10.6% in the nine months ended June 30, 2001, as compared with the nine months ended June 30, 2000.

Gross profit in the nine months ended June 30, 2001 decreased $113,000, as compared with the nine months ended June 30, 2000. The decrease in gross profit is due to lower revenues and margins during the current year period.

Operating expenses declined $30,000 in the nine months ended June 30, 2001, as compared with the nine months ended June 30, 2000.

EDCO Environmental reported an operating profit of $13,000 in the nine months ended June 30, 2001, as compared with an operating profit of $96,000 in the nine months ended June 30, 2000.

Unallocated General and Administrative Expenses

Unallocated General and Administrative expenses decreased $341,000 or approximately 26.5% in the nine months ended June 30, 2001, as compared with the nine months ended June 30, 2000. The current year period includes noncash compensation expense of $182,000, incurred as a result of the granting of stock as payment of compensation to the CEO for commissions and deferred salary owed. The prior year period includes $252,000 in noncash compensation expense, incurred as a result of the vesting of certain employee stock options.

Discontinued - Louisiana Operations

The company sold substantially all of the assets of Evans Oil of Louisiana Inc. on May 17, 2001 and discontinued it's Louisiana operations. The results of the Louisiana operations have been classified as discontinued operations and prior periods have been restated in the accompanying financial statements.

Capital Resources and Liquidity

Cash used by operating activities was $2,051,000 for the nine months ended June 30, 2001, as compared with cash used by operating activities of $760,000 in the nine months ended June 30, 2000. Net cash decreased $89,000 in the nine months ended June 30, 2001 as compared to a $648,000 decrease in the nine months ended June 30, 2000.

Cash and cash equivalents were $636,000 and $344,000 at June 30, 2001 and June 30, 2000, respectively. The Company had a net working capital deficit of $8,097,000, as compared with a deficit of $13,153,000 at September 30, 2000.

In December 2000, the Company and its primary lender reached an agreement in principal whereby the total debt due to this bank of approximately $8,970,700 plus accrued interest and penalties of $1,113,600 would be restructured to terms that call for the payment of $7.5 million on or before June 15, 2001 in full satisfaction of all amounts due to this bank. Under the proposed terms of the agreement, sales of Company assets, including the sales of Evan Oil of Louisiana, certain Texas C-stores and sales of the certain Texas Petroleum Marketing Supply contracts, will be used to pay the $7.5 million. The proposed

agreement further states that should the June 15, 2001 deadline not be met, $8.5 million will be due on or before August 15, 2001. The Agreement also provides that should the August 15, 2001 deadline not be met, all outstanding principal, accrued interest and penalties due to this lender will become due. As of June 30, 2001, total debt due to this bank was approximately $4,747,000 plus accrued interest and penalties of $1,181,000. The Company has paid approximately $4,223,000 to the bank under the agreement since December 2000. However, as the Company has no assurance that it can fulfill the terms of the Agreement by the specified deadlines and in accordance with SFAS No. 5, Accounting for Contingencies, the Company has not reflected the modified terms in the accompanying condensed consolidated financial statements and has not recorded any potential gain on the Agreement.

The Company assumed the outstanding debt of $506,860 on a warehouse building received by the Stipulated Judgment and Deed in Lieu of Foreclosure. The note bears interest at 9% for 15 years and call for monthly principal and interest payments of $7,103. The note is secured by the warehouse building.

On May 16, 2001, the Company accepted a commitment from Advisco Capital Corp. (ACC) to make available to the Company an $8.8 million secured term loan and secured revolving credit facility (the Financing). The Financing would bear a interest rate of 1.25%, payable monthly for a term of two years, with an option to renew for an additional 1 year. Proceeds of the Financing will be used to settle remaining amounts owed to the Company's primary lender, the purchase of capital assets and inventory, and provide additional working capital. Funding of the loan is subject to the completion and satisfaction, to ACC's approval, of certain requirements and covenants of the Financing. Those requirements and covenants include, but are not limited to, the submission of a Business Plan by the Company, evidence of compliance with all government agencies having jurisdiction, and submission of a workout plan with the Company's unsecured creditors, requiring such unsecured creditors to agree to have their claims paid in accordance with terms and conditions satisfactory to ACC and forbear from taking any action against the Company provided their obligations are paid as agreed. Accordingly, the Company has no assurance that the Financing will be closed. On July 25, 2001 ACC extended the commitment letter's expiration to September 10, 2001 to allow sufficient time to receive the required appraisal reports, settlement agreements and other remaining documents.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of June 30, 2001, the Company had no knowledge of any legal proceedings that, by themselves, or in the aggregate, could be expected to have a material adverse effect on the Company.

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

A. EXHIBITS INDEX PAGE

None.

B. REPORTS ON FORM 8-K

None.

SIGNATURE

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

EVANS SYSTEMS, INC.
(REGISTRANT)

Date: 8/02/2001 By: /s/ J.L. Evans, Sr.

J.L. Evans, Sr.
Chairman of the Board and
Chief Executive Officer
And authorized to sign on behalf of the registrant

By: /s/ Charles N. Way

Charles N. Way
Controller
And authorized to sign on behalf of the registrant.