

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR QUARTER ENDING JUNE 30, 2001

COMMISSION FILE NUMBER 0-6247

ARABIAN AMERICAN DEVELOPMENT COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE	75-1256622
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
10830 NORTH CENTRAL EXPRESSWAY, SUITE 175	75231
DALLAS, TEXAS	(Zip code)
(Address of principal executive offices)	

Registrant's telephone number, including area code: (214) 692-7872

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

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 the Registrant's Common Stock (par value \$0.10 per share),
outstanding at June 30, 2001: 22,788,994.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

<Table>
<Caption>

	JUNE 30, 2001 (UNAUDITED)	DECEMBER 31, 2000
	----- <C>	----- <C>
<S>		
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 319,612	\$ 158,977
Trade Receivables	4,848,510	5,239,769
Inventories	1,136,892	960,494
	-----	-----
Total Current Assets	6,305,014	6,359,240
REFINERY PLANT, PIPELINE AND EQUIPMENT	17,317,028	17,248,891
Less: Accumulated Depreciation	(6,261,522)	(5,570,930)
	-----	-----

Net Plant, Pipeline and Equipment	11,055,506	11,677,961
AL MASANE PROJECT	35,466,446	35,304,240
OTHER INTERESTS IN SAUDI ARABIA	2,431,248	2,431,248
MINERAL PROPERTIES IN THE UNITED STATES	1,278,768	1,282,142
OTHER ASSETS	444,288	543,864
	-----	-----
TOTAL ASSETS	\$ 56,981,270	\$ 57,598,695
	=====	=====
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable-Trade	\$ 5,445,397	\$ 5,306,121
Accrued Liabilities	1,541,265	1,259,272
Accrued Liabilities in Saudi Arabia	1,062,375	1,062,375
Notes Payable	12,093,780	11,923,780
Current Portion of Long-Term Debt	8,049,609	8,060,981
	-----	-----
Total Current Liabilities	28,192,426	27,612,529
ACCRUED LIABILITIES IN SAUDI ARABIA	870,443	841,489
DEFERRED REVENUE	114,185	131,401
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	900,575	999,011
STOCKHOLDERS' EQUITY		
COMMON STOCK-authorized 40,000,000 shares of \$.10 par value; issued and outstanding, 22,488,994 shares in 2001 and 2000	2,248,899	2,248,899
ADDITIONAL PAID-IN CAPITAL	36,523,606	36,523,606
ACCUMULATED DEFICIT	(11,868,864)	(10,758,240)
	-----	-----
Total Stockholders' Equity	26,903,641	28,014,265
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 56,981,270	\$ 57,598,695
	=====	=====

</Table>

See notes to consolidated financial statements.

-1-

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

<Table>

<Caption>

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2001	JUNE 30, 2000	JUNE 30, 2001	JUNE 30, 2000
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
REVENUES				
Refined Product Sales	\$ 7,941,893	\$ 10,396,641	\$ 15,237,715	\$ 20,447,446
Processing Fees	898,785	503,118	1,963,486	1,021,063
	-----	-----	-----	-----
	8,840,678	10,899,759	17,201,201	21,468,509
OPERATING COSTS AND EXPENSES				
Cost of Refined Product				
Sales and Processing	7,506,002	9,922,723	15,458,110	19,825,853
General and Administrative	846,867	876,397	1,547,651	1,653,379
Depreciation	345,525	242,582	691,508	462,464
	-----	-----	-----	-----
	8,698,394	11,041,702	17,697,269	21,941,696
	-----	-----	-----	-----
OPERATING INCOME (LOSS)	142,284	(141,943)	(496,068)	(473,187)
OTHER INCOME (EXPENSE)				
Interest Income	12,092	45,328	23,738	66,320
Interest Expense	(403,463)	(261,830)	(754,805)	(466,354)

Minority Interest	55,765	42,779	98,436	58,165
Foreign Exchange Transaction Loss	(79,852)	--	(75,002)	--
Miscellaneous Income (Expense)	65,676	(4,374)	93,077	18,408
	<u>(349,782)</u>	<u>(178,097)</u>	<u>(614,556)</u>	<u>(323,461)</u>
NET LOSS	\$ (207,498)	\$ (320,040)	\$ (1,110,624)	\$ (796,648)
NET LOSS PER COMMON SHARE:				
Basic	\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.04)
Diluted	\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.04)
WEIGHTED AVERAGE NUMBER OF COMMON EQUIVALENT SHARES OUTSTANDING:				
Basic	22,788,994	22,788,994	22,788,994	22,557,071
Diluted	22,788,994	22,788,994	22,788,994	22,557,071

</Table>

See notes to consolidated financial statements.

-2-

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2001

<Table>
<Caption>

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
	SHARES	AMOUNT			
<S> JANUARY 1, 2001	<C> 22,488,994	<C> \$2,248,899	<C> \$36,523,606	<C> \$ (10,758,240)	<C> \$28,014,265
Net Loss	--	--	--	(1,110,624)	(1,110,624)
JUNE 30, 2001	22,488,994	\$2,248,899	\$36,523,606	\$ (11,868,864)	\$26,903,641

</Table>

See notes to consolidated financial statements.

-3-

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<Table>
<Caption>

	SIX MONTHS ENDED	
	JUNE 30, 2001	JUNE 30, 2000
<S> OPERATING ACTIVITIES	<C>	<C>
Net Loss	\$ (1,110,624)	\$ (796,648)

Adjustments for Non-Cash Transactions		
Depreciation	691,508	462,464
Decrease in Deferred Revenue	(17,216)	(17,217)
Effects of Changes in Operating Assets and Liabilities		
Decrease (Increase) in Trade Receivables	391,259	(357,802)
Increase in Inventories	(176,398)	(448,500)
Decrease (Increase) in Other Assets	99,576	(54,967)
Increase in Accounts Payable and Accrued Liabilities	421,270	1,406,473
Increase in Accrued Liabilities in Saudi Arabia	28,954	18,123
Other	(99,352)	(15,275)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	228,977	196,651
	-----	-----
INVESTING ACTIVITIES		
Proceeds from Sale of Short-Term Investments	--	20,597
Purchase of Business (Net of Cash Acquired)	--	(2,279,665)
Additions to Al Masane Project	(162,206)	(228,400)
Additions to Refinery Plant, Pipeline and Equipment	(68,137)	(2,425,052)
Reduction in Mineral Properties in the United States	3,374	18,999
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(226,969)	(4,893,521)
	-----	-----
FINANCING ACTIVITIES		
Additions to Notes Payable and Long-Term Obligations	280,107	2,901,948
Reduction of Notes Payable and Long-Term Obligations	(121,480)	(361,415)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES	158,627	2,540,533
	-----	-----
NET INCREASE (DECREASE) IN CASH	160,635	(2,156,337)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	158,977	3,934,313
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 319,612	\$ 1,777,976
	=====	=====

</Table>

See notes to consolidated financial statements.

-4-

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The consolidated financial statements reflect all adjustments (consisting only of normal and recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of Arabian American Development Company and Subsidiaries' financial position and operating results for the interim period. Interim period results are not necessarily indicative of the results for the calendar year. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information and the Company's December 31, 2000 Annual Report on Form 10-K.

These financial statements include the accounts of Arabian American Development Company (the "Company") and its wholly-owned subsidiaries, American Shield Refining Company (the "Refining Company") and American Shield Coal Company (the "Coal Company"). The Refining Company owns all of the capital stock of Texas Oil and Chemical Company II, Inc. ("TOCCO"). TOCCO owns all of the capital stock of South Hampton Refining Company ("South Hampton") and South Hampton owns all of the capital stock of Gulf State Pipe Line Company, Inc. ("Gulf State"). TOCCO also owns 92% of the capital stock of Productos Quimicos Coin, S.A. de C.V. ("Coin"), a specialty petrochemical products refining company located near Veracruz, Mexico, which was purchased on January 25, 2000 for \$2.5 million. The Company also owns approximately 51% of the capital stock of Pioche-Ely Valley Mines, Inc. ("Pioche"), which owns mining properties in Nevada. The Refining Company and its subsidiaries

constitute the Company's Specialty Petrochemicals or Refining Segment. The Coal Company, Pioche and the Company's mineral properties in Saudi Arabia constitute its Mining Segment.

2. INVENTORIES

Inventories include the following:

<Table>
<Caption>

	JUNE 30, 2001	DECEMBER 31, 2000
	-----	-----
<S>	<C>	<C>
Refined products	\$ 1,136,892	\$ 960,494
	=====	=====

</Table>

Inventories are recorded at the lower of cost, determined on the last-in, first-out method (LIFO), or market. At June 30, 2001, current cost was approximately the same as LIFO value. At December 31, 2000, current cost exceeded LIFO value by approximately \$178,000.

3. NET INCOME (LOSS) PER COMMON SHARE

The following table (in thousands, except per share amounts) sets forth the computation of basic and diluted net income (loss) per share for the three and six months ended June 30, 2001 and 2000, respectively.

<Table>
<Caption>

	Three Months Ended June 30,		Six Months Ended June 30,	
	-----	-----	-----	-----
	2001	2000	2001	2000
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Net Loss	\$ (207)	\$ (320)	\$ (1,112)	\$ (797)
	=====	=====	=====	=====
Weighted average shares outstanding - basic and diluted	22,789	22,789	22,789	22,557
	=====	=====	=====	=====
Net Loss per share:				
Basic	\$ (.01)	\$ (.01)	\$ (.05)	\$ (.04)
	=====	=====	=====	=====
Diluted	\$ (.01)	\$ (.01)	\$ (.05)	\$ (.04)
	=====	=====	=====	=====

</Table>

In the three and six months ended June 30, 2001 and 2000, options for 872,000 shares and 1,570,000 shares, respectively, were excluded from diluted shares outstanding because their effect was antidilutive.

-5-

4. SEGMENT INFORMATION

As discussed in Note 1, the Company has two business segments. The Company measures segment profit or loss as operating income (loss), which represents income (loss) before interest, miscellaneous income and minority interest. Information on the segments is as follows:

<Table>
<Caption>

Three Months ended June 30, 2001	Refining	Mining	Total
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Revenue from external customers	8,840,678	\$ --	\$ 8,840,678
Depreciation	344,943	582	345,525
Operating income (loss)	180,169	(37,885)	142,284
	=====	=====	=====
Total assets	\$ 17,765,898	\$ 39,215,373	\$ 56,981,270

</Table>

<Table>
<Caption>

Three Months ended June 30, 2000	Refining	Mining	Total
----------------------------------	----------	--------	-------

<S>	<C>	<C>	<C>
Revenue from external customers	\$ 10,899,759	\$ --	\$ 10,899,759
Depreciation	242,015	567	242,582
Operating loss	(104,365)	(37,578)	(141,943)
Total assets	\$ 20,617,007	\$ 40,007,352	\$ 60,684,359

</Table>

<Table>
<Caption>

	Refining	Mining	Total
Six Months ended June 30, 2001			
<S>	<C>	<C>	<C>
Revenue from external customers	\$ 17,201,201	\$ --	\$ 17,201,201
Depreciation	690,344	1,164	691,508
Operating loss	(405,111)	(90,957)	(496,068)

</Table>

<Table>

<Caption>

	Refining	Mining	Total
Six Months ended June 30, 2000			
<S>	<C>	<C>	<C>
Revenue from external customers	\$ 21,468,509	\$ --	\$ 21,468,509
Depreciation	461,330	1,134	462,464
Operating loss	(386,307)	(86,880)	(473,187)

</Table>

Information regarding foreign operations for the three and six months ended June 30, 2001 and 2000 follows (in thousands). Revenues are attributed to countries based upon the origination of the transaction.

<Table>

<Caption>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
Revenues				
United States	\$ 8,734	\$ 8,384	\$ 16,582	\$ 17,399
Mexico	107	2,516	619	4,070
Saudi Arabia	--	--	--	--
	\$ 8,841	\$ 10,900	\$ 17,201	\$ 21,469
Long-lived Assets				
United States	\$ 6,897	\$ 7,691		
Mexico	5,438	5,758		
Saudi Arabia	37,897	37,281		
	\$ 50,232	\$ 50,730		

</Table>

5. LEGAL PROCEEDINGS

South Hampton, together with several other companies, is a defendant in five lawsuits filed in Jefferson County and Orange County, Texas filed in the period from December 1997 to December 2000 by former employees of the southeast Texas plants of the Goodyear Tire & Rubber Company, Dupont, Atlantic Richfield and South Hampton. In each of these suits, the plaintiff claims illnesses and diseases resulting from alleged exposure to chemicals, including benzene, butadiene and/or isoprene, during their employment. The plaintiffs claim the defendant companies engaged in the business of manufacturing, selling and/or distributing these chemicals in a manner which subjected each and all of them to liability for unspecified actual and punitive damages. One of the lawsuits brought in Jefferson County, Texas has been settled, with South Hampton contributing \$10,000 toward such settlement. South Hampton intends to vigorously defend itself against the remaining lawsuits.

In August 1997, the Texas Natural Resource Conservation Commission ("TNRCC") notified South Hampton that it had violated various rules and procedures. It

proposed administrative penalties totaling \$709,408 and recommended that South Hampton undertake certain actions necessary to bring the operations at its refinery into compliance. The violations generally relate to various air and water quality issues. Appropriate modifications have been made by South Hampton where it appeared there were legitimate concerns. South Hampton feels the penalty is greatly overstated and intends to vigorously defend itself against it. A preliminary hearing was held in November 1997, but no further action has been taken. On February 2, 2000, the TNRCC amended its pending administrative action against South Hampton to add allegations dating through May 21, 1998 of 35 regulatory violations relating to air quality control and industrial solid waste requirements. The TNRCC proposes that administrative penalties be increased to approximately \$765,000 and that certain corrective action be taken. South Hampton intends to vigorously defend itself against these additional allegations, the proposed penalties and proposed corrective actions.

In May 1991, the Company filed a complaint with the U.S. Department of Justice ("DOJ") against Hunt Oil Company of Dallas, Texas ("Hunt"). The Company's complaint alleged various violations of the Foreign Corrupt Practices Act ("FCPA") by Hunt, at the Company's detriment, in obtaining its 1981 Petroleum Production Sharing Agreement ("PSA") in Yemen. The DOJ requested additional documentation regarding the Company's allegations in 1995 that the Company provided in early 1996. In late 1996, the DOJ advised the Company that the documents presented did not provide sufficient evidence of any criminal activity and that the DOJ did not intend to pursue the investigation. In December 1996, after providing the DOJ with additional legal analyses, the Company's representatives were told that the DOJ would take a more aggressive stance if additional legal evidence was presented to the DOJ. In an effort to comply with the DOJ's request, in 1997 the Company requested certain documents from the Central Intelligence Agency ("CIA") under the Freedom of Information Act ("FOIA"). The Company believes the requested documents may contain the evidentiary information that the DOJ needs to properly and sufficiently evaluate the Company's complaint against Hunt. The CIA refused to either confirm or deny the existence of the requested information. After exhausting its administrative appeals, the Company filed suit against the CIA in early 1998 in the U.S. District Court for the Northern District of Texas seeking a judicial determination of the Company's FOIA request. The Company argued that the FOIA specifically prohibits any agency from using Executive Order 12958, relating to classification of documents, and the FOIA to conceal criminal activity, in this instance Hunt's violation of the FCPA. Following a February 1999 hearing, the Court rejected the Company's arguments and issued a summary judgment in favor of the CIA. The Company filed an appeal with the U.S. Court of Appeals for the Fifth Circuit, which on January 28, 2000 rejected the Company's appeal. The Company believes that this could be a landmark case. As a consequence, on April 22, 2000, it filed a writ of certiorari with the United States Supreme Court in which the Company argued that the District and Appellate Courts erred in their judgments. The Company has requested the Supreme Court to issue its ruling that the matter be remanded to the trial court with instructions that the CIA review its own documents to determine if any information requested by the Company should not have been classified but handed over to the Company for use in the pursuit of its case with the DOJ against Hunt for conspiracy and violation of the FCPA. On July 1, 2000, the Supreme Court assigned Cause No. 00-17 to the Company's Petition. On October 2, 2000, the Supreme Court denied the Company's Petition without giving any opinion. The Company has requested and will continue to request additional documents from both the CIA and DOJ under appropriate provisions of the FOIA and may seek judicial review in the event its requests are denied. In the event the Company is able to provide the DOJ with appropriate legal evidence and the DOJ prevails in any FCPA action against Hunt regarding the PSA, the Company would then institute an appropriate action against Hunt in accordance with the provisions of the Victim Restitution Act. Based on the advice of its counsel, the Company believes that it would be entitled to restitution of monies lost as a result of the wrongdoing by Hunt, if Hunt is convicted under the FCPA. The Company further believes, based on such advice, that the amount of restitution could include all of the profits received by Hunt from its Yemen operations and also could include proceeds from the sale of a portion of Hunt's interest in the PSA. However, there can be no assurance that the DOJ will pursue or obtain a conviction of Hunt regarding the PSA under the FCPA and no assurance that the Company would receive or be entitled to receive any restitution as a result of any such conviction. The cost to the Company of these pursuits is minimal.

6. LONG-TERM DEBT

South Hampton entered into a \$3.25 million credit agreement in September 1999 with Southwest Bank of Texas, N.A., located in Houston, Texas. The original agreement expired on May 31, 2001. An amended agreement was entered into on May 31, 2001 which extended the due date to July 31, 2001. The debt was not paid on July 31, 2001 and an extension of the agreement is currently

being negotiated. At June 30, 2001, the Company was not in compliance with certain covenants contained in the loan agreement, therefore this debt has been classified as a current liability in the financial statements. In connection with the acquisition of the common stock of Coin, South Hampton and Gulf State entered into the \$3.5 million credit agreement in December 1999 with Heller Financial Leasing, Inc. The credit agreement is secured by a pledge of all of the capital stock of South Hampton and Gulf State, a first lien on all of South Hampton's and Gulf State's present and future machinery and equipment and a ground lease relating to South Hampton's real property, and is guaranteed by the Company, the Refining Company and TOCCO. An amended promissory note dated April 1, 2001 was signed that requires an interest only payment on April 1, 2001, two consecutive monthly installment payments of \$25,000 each commencing on May 1, 2001, and the remaining principal and interest payable in thirty-one (31) consecutive monthly installments commencing July 1, 2001. At June 30, 2001, the Company was not in compliance with certain covenants contained in the loan agreement, therefore this debt has been classified as a current liability in the financial statements.

-7-

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

GENERAL

Statements in Part 1, Item 2 as well as elsewhere in, or incorporated by reference in, this Quarterly Report on Form 10-Q regarding the Company's financial position, business strategy and plans and objectives of the Company's management for future operations and other statements that are not historical facts, are "forward-looking statements" as that term is defined under applicable Federal securities laws. In some case, "forward-looking statements" can be identified by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "contemplates," "proposes," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms and other comparable terminology. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such statements. Such risks, uncertainties and factors include, but are not limited to, general economic conditions domestically and internationally; insufficient cash flows from operating activities; difficulties in obtaining financing; outstanding debt and other financial and legal obligations; competition; industry cycles; feedstock, specialty petrochemical product and mineral prices; feedstock availability; technological developments; regulatory changes; environmental matters; foreign government instability; foreign legal and political concepts; and foreign currency fluctuations, as well as other risks detailed in the Company's filings with the U.S. Securities and Exchange Commission, including this Quarterly Report on Form 10-Q, all of which are difficult to predict and many of which are beyond the Company's control.

LIQUIDITY AND CAPITAL RESOURCES

The Company operates in two business segments, specialty petrochemicals (which is composed of the entities owned by the Refining Company) and mining. Its corporate overhead needs are minimal. A discussion of each segment's liquidity and capital resources follows.

SPECIALTY PETROCHEMICALS SEGMENT. Historically, this segment has contributed substantially all of the Company's internally generated cash flows from operating activities and its primary sources of revenue are the specialty products refineries owned and operated by South Hampton near Silsbee, Texas and by Coin in Mexico. However, significant increases in the prices of feedstock and natural gas resulted in a loss from operations in 2000 of \$2.8 million which, in turn, resulted in violations of certain loan agreement covenants and a lack of liquidity. These prices have declined in 2001 allowing a return to positive cash flows in February. Feedstock prices, in particular, have declined so that operating margins are returning to sustainable levels. Sales are currently sustainable and there has been little downturn in demand. Management expects adequate margins throughout the remainder of 2001, although there can be no assurance of this effect, and has taken steps, beginning in July 2001, to protect the operations from extreme fluctuations in natural gas prices over the next 12 months. A return to normal profitability is expected in the third quarter, although there is no assurance that this will occur.

MINING SEGMENT. This segment is in the development stage. Its most significant asset is the Al Masane mining project in Saudi Arabia, which is a net user of the Company's available cash and capital resources. In order to commercially develop the Al Masane project, the Company entered into a joint

venture arrangement with Al Mashreq Company for Mining Investments ("Al Mashreq"), a Saudi limited liability company owned by Saudi Arabian investors (including certain of the Company's shareholders). The partners formed The Arabian Shield Company for Mining Industries Ltd., a Saudi limited liability company ("Arabian Mining"),

-8-

which was officially registered and licensed in August 1998 to conduct business in Saudi Arabia and authorized to mine and process minerals from the Al Masane lease area. Arabian Mining received conditional approval for a \$38.1 million interest-free loan from the Saudi Industrial Development Fund ("SIDF"), and deposited \$26 million of equity capital into its bank account.

Due to the severe decline in the open market prices for the minerals to be produced by the Al Masane project and the financial crisis affecting Eastern Asia in 1998, SIDF and other potential lenders required additional guarantees and other financing conditions, which were unacceptable to the Company and Al Mashreq. As a consequence, Al Mashreq withdrew from the joint venture and all equity capital was returned. By letter dated May 11, 1999, the Company informed the Ministry of Petroleum and Mineral Resources that the joint venture was dissolved and that implementation of the project would be delayed until open market prices for the minerals to be produced by the Al Masane project improve to the average price levels experienced during the period from 1988 through 1997. At that time, the Company will attempt to locate a joint venture partner, form a joint venture and, together with the joint venture partner, attempt to obtain acceptable financing to commercially develop the project. There can be no assurances that the Company will be able to locate a joint venture partner, form a joint venture or obtain financing from SIDF or any other sources. Financing plans for the above are currently being studied. In the meantime, the Company intends to maintain the Al Masane mining lease through the payment of the annual advance surface rental, the implementation of a drilling program to attempt to increase proven and probable reserves and to attempt to improve the metallurgical recovery rates beyond those stated in the feasibility study, which may improve the commercial viability of the project at lower metal prices than those assumed in the feasibility study.

On June 22, 1999, the Company submitted a formal application for a five-year exclusive mineral exploration license for the Greater Al Masane Area of approximately 2,850 square kilometers, which surrounds the Al Masane mining lease area and includes the Wadi Qatan and Jebel Harr. The Company previously worked the Greater Al Masane Area after obtaining written authorization from the Saudi Ministry of Petroleum and Mineral Resources, and has expended over \$3 million in exploration work. Geophysical and geochemical work and diamond core drilling on the Greater Al Masane area has revealed mineralization similar to that discovered at Al Masane. If the Saudi Arabian government does not issue the exploration license, the Company believes that it will be entitled to a refund of the monies expended, since the Company was authorized by the Saudi Arabian government to carry out exploration work in this area while waiting for the exploration license to be issued.

The Company's mineral interests in the United States include its ownership interests in the Coal Company and Pioche. The Coal Company's sole remaining asset is its net operating loss carryforward of approximately \$5.9 million at December 31, 2000 and its future, if any, is uncertain. Pioche has been inactive for many years. Its properties include 48 patented and 80 unpatented claims totaling approximately 3,500 acres in Lincoln County, Nevada. There are prospects and mines on these claims that previously produced silver, gold, lead, zinc and copper.

Management also is addressing two other significant financing issues within this segment. These issues are the \$11.0 million note payable due the Saudi Arabian government and accrued salaries and termination benefits of approximately \$1,062,000 due employees working in Saudi Arabia (this amount does not include any amounts due the Company's President and Chief Executive Officer who also primarily works in Saudi Arabia and is owed approximately \$870,000). Regarding the note payable, this loan was originally due in ten annual installments beginning in 1984. The Company has not made any repayments nor has it received any payment demands or other communications regarding the note payable from the Saudi government. By memorandum to the King of Saudi Arabia in 1986, the Saudi Ministers of Finance and Petroleum recommended that the \$11.0 million note be incorporated into a loan from SIDF to finance 50% of the cost of the Al Masane project, repayment of the total amount of which would be made through a mutually agreed upon repayment schedule from the Company's share of the operating cash flows generated by the project. The Company remains active in Saudi Arabia and received the Al Masane mining lease at a time when it had not made any of the agreed upon repayment installments. Based on its experience to date, management believes that as long as the Company diligently attempts to explore and develop the Al Masane project no repayment demand will be made. The

Company has communicated to the Saudi government that its delay in repaying the note is a direct result of the government's lengthy delay in granting the Al Masane lease and has requested formal negotiations to restructure this obligation. Based on its interpretation of the Al Masane mining lease and other documents, management believes the government is likely to agree to link repayment of this note to the Company's share of the operating cash flows generated by the commercial development of the Al Masane project and to a long-term installment repayment schedule. In the event the Saudi government were to demand immediate repayment of this obligation, which management considers unlikely, the Company would be unable to pay the entire amount due. If a satisfactory rescheduling agreement could not be reached, and there are no assurances that one could be, the Company believes it could obtain the necessary resources to meet the rescheduled installment payments by making certain changes at the Refining Company.

-9-

With respect to the accrued salaries and termination benefits due employees working in Saudi Arabia, the Company plans to continue employing these individuals until it is able to generate sufficient excess funds to begin payment of this liability. Management will then begin the process of gradually releasing certain employees and paying its obligations as they are released from the Company's employment. The salary and social security benefits for these employees currently total approximately \$108,000 per year.

At this time, the Company has no definitive plans for the development of its domestic mining assets. It periodically receives proposals from outside parties who are interested in possibly developing or using certain assets. Management will continue to review these proposals as they are received, but at this time does not anticipate making any significant domestic mining capital expenditures or receiving any significant proceeds from the sale or use of these assets.

If the Company seeks additional outside financing, there is no assurance that sufficient funds could be obtained. It is also possible that the terms of any additional financing that the Company would be able to obtain would be unfavorable to the Company and its existing shareholders.

RESULTS OF OPERATIONS

SPECIALTY PETROCHEMICALS SEGMENT. In the quarter ended June 30, 2001, total revenues decreased approximately \$2,059,000 (\$1,490,000 attributable to Coin) or 19%, while the cost of sales (excluding depreciation) decreased approximately \$2,417,000 (\$1,455,000 attributable to Coin) or 24% from the same period in 2000. Consequently, the total gross profit margin in the second quarter of 2001 increased approximately \$358,000 or 27% compared to the same period in 2000. This includes Coin's gross profit margin, which decreased approximately \$35,000. In the six months ended June 30, 2001, total revenues decreased approximately \$4,267,000 (\$2,609,000 attributable to Coin) or 20%, while the cost of sales (excluding depreciation) decreased approximately \$4,368,000 (\$2,475,000 attributable to Coin) or 22% from 2000. Consequently, the total gross profit margin in 2001 decreased approximately \$101,000 or 6%. The primary factor, which has adversely affected the operating results in the last year, was the dramatic rise in the cost of feedstock. Beginning in late 1999 and continuing into the first month of 2001, feedstock costs rose in conjunction with the large increase in crude oil prices worldwide. These costs increased from \$.33 per gallon in the first quarter of 1999 to over \$.95 per gallon in the fourth quarter of 2000, an increase of 188%. The prices peaked in December 2000 and January 2001, and in February they dropped back into the \$.70 per gallon range. They remained at this level for the balance of the first quarter of 2001 and decreased to the \$.55 per gallon range in the second quarter of 2001. The cost of natural gas, which is the single largest expense other than feedstock costs, also rose in 2000 due to the increases in worldwide prices. In the second quarter of 1999, the Company was paying \$1.70 per MMBTU for fuel gas, which increased to \$4.50 per MMBTU by the end of the second quarter of 2000. The gas market prices have currently dropped to about \$4.00 per MMBTU after reaching a peak of \$9.94 per MMBTU in January 2001, and are expected to remain strong for the remainder of this year.

To avoid a repeat of the rapid rise in feedstock costs that occurred in the winter of 2000, the Company has hedged approximately 50% of its needs for the next six months. The hedge is not designed to totally lock in feed costs but is designed to slow any significant price changes so that corresponding changes in product prices have time to take effect. Management has also hedged 50% of its natural gas needs until April 2002 to avoid the rapid and unrecoverable expense that was experienced last winter. The fixed price of one half the supply is \$4.25 with the remainder floating on the spot market. If the market opportunity is available a larger percentage may be fixed. The hedging programs began in July and August 2001 and will be continued and modified as necessary to help stabilize performance in the future.

Toll processing fee income increased approximately \$396,000 and \$942,000 in

the second quarter and the first six months of 2001, respectively over the same prior year periods, which has helped to offset the feedstock cost increases. This part of the business has steadily increased and has contributed in large part to offset reductions in earnings and cash flow. The increase in these fees is primarily due to the addition of a new unit in May 1999 and an additional unit in July 2000. The Company currently has toll processing contracts with four different entities. While some of the contracts are being renewed on a year-to-year basis, the outlook on all the contracts is that they will be longer-term operations.

Administrative expenses in the second quarter and the first six months of 2001 for this segment were lower than in the same prior year periods by approximately \$30,000 and \$110,000, respectively due primarily to management's efforts to reduce all possible costs. Sales of the Company's prime products remain stable and expanded marketing efforts have kept the Silsbee refinery at near capacity since the second quarter of 1997.

-10-

The Mexico refinery has been shut down since August 2000, due to the increased feedstock and natural gas costs, with cash flow coming only from brokerage sales. The market for its products remains weak and under priced and the Company is exploring a change in its product mix to better match the current demand. The market share in Mexico has been maintained with production from the Silsbee refinery. The marketing capability has been upgraded with the addition of experienced petrochemical sales personnel, which is expected to result in moving more products to Central and South America. The plant economics are being evaluated and it is expected that the plant will be restarted in the third quarter of 2001.

MINING SEGMENT AND GENERAL CORPORATE EXPENSES. None of the Company's other operations generate significant operating or other revenues. The minority interest amount represents the Pioche and Coin minority stockholders' share of the losses from the Pioche and Coin operations. Pioche losses are primarily attributable to the costs of maintaining the Nevada mining properties.

The Company periodically reviews and evaluates its mineral exploration and development projects as well as its other mineral properties and related assets. The recoverability of the Company's carrying values of its development properties are assessed by comparing the carrying values to estimated future net cash flows from each property. In 2000, for purposes of estimating future cash flows, the price assumptions used by its mining consultant were taken from the projections of a major international metal's company. These latest price assumptions are averages over the projected life of the Al Masane mine and are \$1.05 per pound for copper, \$.60 per pound for zinc, \$400 per ounce for gold, and \$6.00 per ounce for silver. For its other mineral properties and related assets, carrying values were compared to estimated net realizable values on market comparables. Using these price assumptions, there were no asset impairments.

The Company assesses the carrying values of its assets on an ongoing basis. Factors which may affect carrying values include, but are not limited to, mineral prices, capital cost estimates, the estimated operating costs of any mines and related processing, ore grade and related metallurgical characteristics, the design of any mines and the timing of any mineral production. There are no assurances that, the Company will not be required to take a material write-down of its mineral properties.

-11-

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

SHAREHOLDER PROPOSALS

Any proposal by a shareholder of the Company intended to be presented at the 2002 annual meeting of shareholders, which is tentatively scheduled sometime in May 2002, must be received by the Company at its principal executive office no later than December 3, 2001 for inclusion in the Company's Proxy Statement and form of proxy. Any such proposal must also comply with the other requirements of the proxy solicitation rules of the Securities and Exchange Commission. The Company intends to exercise discretionary voting authority granted under any proxy, which is executed and returned to the Company on any matter that may properly come before the 2002 annual meeting of shareholders, unless written

notice of the matter is delivered to the Company at its principal executive office no later than February 15, 2002.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

10 (a) - Agreement dated as of April 1, 2001 between South Hampton Refining Co., Gulf State Pipe Line Company and Heller Financial Leasing, Inc. together with Amended and Restated Promissory Note.

10 (b) - Second Amendment to Loan Agreement dated as of May 31, 2001 between South Hampton Refining Company and Southwest Bank of Texas, N.A., together with related Promissory Note.

(b) REPORTS ON FORM 8-K

No Reports on Form 8-K were filed during the quarter ended June 30, 2001.

SIGNATURES

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

DATE: August 8, 2001

ARABIAN AMERICAN DEVELOPMENT COMPANY

(Registrant)

/s/ J. A. CRICHTON

J. A. Crichton, Chairman of the
Board of Directors

/s/ DREW WILSON, JR.

Drew Wilson, Jr. Secretary/Treasurer

-12-

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----
<S>	<C>
10(a) -	Agreement dated as of April 1, 2001 between South Hampton Refining Co., Gulf State Pipe Line Company and Heller Financial Leasing, Inc. together with Amended and Restated Promissory Note.
10(b) -	Second Amendment to Loan Agreement dated as of May 31, 2001 between South Hampton Refining Company and Southwest Bank of Texas, N.A., together with related Promissory Note.

AGREEMENT

This Agreement ("Agreement") is made and entered into as of the 1st day of April, 2001 by and between South Hampton Refining Co., a Texas corporation, Gulf State Pipe Line Company, Inc., a Texas corporation ("Borrowers") and Heller Financial Leasing, Inc., a Delaware corporation, ("Heller").

WHEREAS, Heller and Borrowers are parties to that certain Loan and Security Agreement dated December 30, 1999, and all amendments thereto ("Loan Agreement"), which is secured by that certain Promissory Note, dated December 30, 1999 (the "Note"), in the original principal amount of Three Million Five Hundred Thousand and 00/100 Dollars (\$3,500,000.00); and

WHEREAS, on or about December 1, 2000, Borrowers failed to make their monthly installment payment to Heller under the Note, which constituted an Event of Default pursuant to Section 7 of the Loan Agreement;

WHEREAS, on or about January 19, 2001, Heller agreed to suspend Borrowers principal payments only for the months of December 2000, January, February and March of 2001 until April 1, 2001;

WHEREAS, the Borrowers have requested an adjustment in the principal payments; and

WHEREAS, the parties hereto desire to amend the Note;

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in the Loan Agreement and this Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. Capitalized terms used in this Agreement, unless otherwise defined herein, shall have the meaning ascribed to such term in the Loan Agreement.

2. Amendments. Heller hereby agrees to amend and restate the Note to reflect the change in the principal payments.

3. Conditions. The effectiveness of this Agreement is subject to the following conditions precedent (unless specifically waived in writing by Heller):

(a) There shall have occurred no material adverse change in the business, operations, financial condition, profits or prospects of Borrowers or in the Collateral;

(b) Borrowers shall have executed and delivered such other documents and instruments as Heller may require;

(c) All proceedings taken in connection with the transactions contemplated by this Agreement and all documents, instruments and other legal matters incident thereto shall be satisfactory to Heller and its legal counsel;

(d) No Default or Event of Default under the Loan Agreement as amended hereby shall have occurred and be continuing; and

4. Fee. Borrowers agree to pay Heller an amendment fee in the amount of \$15,000.00, which shall be payable in three (3) consecutive monthly installments, in the amount of \$5,000.00, beginning on May 1, 2001.

5. Corporate Action. The execution, delivery, and performance of this Agreement has been duly authorized by all requisite corporate action on the part of Borrowers and this Agreement has been duly executed and delivered by Borrowers.

6. Severability. Any provision of this Agreement held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Agreement and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

7. References. Any reference to the Loan Agreement contained in any notice, request, certificate, or other document executed concurrently with or after the execution and delivery of this Agreement shall be deemed to include this Agreement unless the context shall otherwise require.

8. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original, but all of which taken together shall be one and the same instrument.

9. Ratification. The terms and provisions set forth in this Agreement shall modify and supersede all inconsistent terms and provisions of the Loan Agreement and, except as expressly modified and superseded by this Agreement, the terms and provisions of the Loan Agreement are ratified and confirmed and shall continue in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed under seal and delivered by their respective duly authorized officers on the date first written above.

HELLER FINANCIAL LEASING, INC.

By: /s/ RONALD E. LIS

Name: Ronald E. Lis

Its: Vice President

SOUTH HAMPTON REFINING, CO.

By: /s/ NICK CARTER

Name: Nick Carter

Its: President

GULF STATE PIPE LINE COMPANY, INC.

By: /s/ NICK CARTER

Name: Nick Carter

Its: President

CONSENT AND REAFFIRMATION

The undersigned Guarantors of the Indebtedness of Borrowers at any time owing to Heller hereby (i) acknowledge receipt of a copy of the foregoing Agreement; (ii) consent to Borrowers' execution and delivery thereof; (iii) agree to be bound thereby; and (iv) affirm that nothing contained therein shall modify in any respect whatsoever their guaranty of the obligations and reaffirms that such guaranty is and shall remain in full force and effect. Although Guarantors have been informed of the matters set forth herein and have acknowledged and agreed

to same, Guarantors understand that Heller has no obligation to inform Guarantors of such matters in the future or to seek Guarantors' acknowledgment or agreement to future amendments or waivers, and nothing herein shall create such a duty.

IN WITNESS WHEREOF, the undersigned have executed this Consent and Reaffirmation on and as of the date of such Agreement.

TEXAS OIL AND CHEMICAL CO. II, INC.

By: /s/ NICK CARTER

Name: NICK CARTER

Its: President

ARABIAN SHIELD DEVELOPMENT COMPANY

By: /s/ HATEM EL-KHALIDI

Name: HATEM EL-KHALIDI

Its: President & CEO

AMERICAN SHIELD REFINING COMPANY

By: /s/ HATEM EL-KHALIDI

Name: HATEM EL-KHALIDI

Its: President

3

Loan No.: 192-0280-001

AMENDED AND RESTATED

PROMISSORY NOTE

\$1,627,036.28

April 1, 2001

FOR VALUE RECEIVED, SOUTH HAMPTON REFINING CO., a Texas corporation and GULF STATE PIPE LINE COMPANY, INC., a Texas corporation (collectively, "Maker"), promises to pay to the order of HELLER FINANCIAL LEASING, INC., a Delaware corporation (together with any holder of this Note, "Payee"), at its office located at 500 West Monroe Street, Chicago, Illinois 60661, or at such other place as Payee may from time to time designate, the principal sum of One Million Six Hundred Twenty Seven Thousand Thirty Six and 00/100 (\$1,627,036.28), together with interest thereon at a fixed rate equal to 10.55% per annum. Maker shall make an interest only payment on April 1, 2001. Twenty Five Thousand and 00/100 Dollars (\$25,000.00) plus interest shall be payable in two (2) consecutive monthly installments commencing on May 1, 2001, and principal and interest shall be payable in thirty-one (31) consecutive monthly installments commencing July 1, 2001, and continuing on the same day of each consecutive calendar month thereafter until this Note is fully paid, each such installment in the amount of Fifty Eight Thousand Three Hundred and Forty and 96/100 (\$58,340.96); provided, however, that in any and all events the final

installment payment hereunder shall be in the amount of the entire then outstanding principal balance hereunder, plus all accrued and unpaid interest, charges and other amounts owing hereunder or under the Security Agreement (defined below). All payments shall be applied first to interest and then to principal. Interest shall be computed on the basis of a 360 day year comprised of 30-day months.

It is the intent of the parties to comply strictly with applicable usury laws. Notwithstanding anything herein to the contrary, in no event shall interest contracted for, taken, charged, reserved or received hereunder ever exceed the highest non-usurious interest permitted under applicable law and if any such excess interest is taken, received or collected, then such excess shall be deemed the result of a mathematical error and shall be applied as a reduction of principal and any remainder refunded to the Maker.

This Note is secured by the collateral described in the Loan and Security Agreement dated December 30, 1999, between Maker and Payee (the "Security Agreement;" and together with all related documents and instruments, the "Loan Documents") to which reference is made for a statement of the nature and extent of protection and security afforded, certain rights of Payee and certain rights and obligations of Maker.

Upon 45 days prior written notice to Payee, Maker may prepay in whole, but not in part, the then entire unpaid principal balance of this Note, together with all accrued and unpaid interest thereon to the date of such prepayment, provided that in addition to such prepayment, Maker shall pay (i) any and all other sums then due under any of the Loan Documents, plus (ii) the Prepayment Fee (defined below), plus (iii) the Breakage Fee (defined below). As used herein the term "Prepayment Fee" means a sum equal to 1% of the principal balance prepaid for each full or partial 12 month period by which the date of the prepayment precedes the scheduled due date of the final installment of principal hereunder. As used herein, the term "Breakage Fee" shall mean the amount, if any, by which (A) the present value, in the aggregate, of the then remaining installments of principal and interest due hereunder, absent the prepayment, using a discount rate equal to the yield to maturity as of the date two days prior to the date of the prepayment on United States Treasury securities with a final maturity approximately equal to the remaining term hereof, absent the prepayment, as published in The Wall Street Journal, exceeds (B) the then outstanding principal balance hereunder, absent the prepayment. The Prepayment Fee and the Breakage Fee represent liquidated damages to Payee for the loss of its bargain and not penalties. The Prepayment Fee and The Breakage Fee shall also be due upon the acceleration of the maturity date hereof following the occurrence of any Event of Default (as defined in the Security Agreement).

Time is of the essence hereof. If payment of any installment or any other sum due under this Note or the Loan Documents is not paid when due, Maker agrees to pay a late charge equal to the lesser of (i) five cents per dollar on, and in addition to, the amount of each such payment, or (ii) the maximum amount Payee is permitted to charge by law. In the event of the occurrence of an Event of Default (as defined in the Security Agreement), then the entire unpaid principal balance hereof with accrued and unpaid interest thereon, together with all other sums payable under this Note or the Loan Documents, shall, at the option of Payee and without notice or demand, become immediately due and payable, such accelerated balance bearing interest until paid at the rate of 5.00% per annum above the then otherwise applicable interest rate hereunder.

Maker and all endorsers, guarantors or any others who may at any time become liable for the payment hereof hereby consent to any and all extensions of time, renewals, waivers and modifications of, and substitutions or release of security or of any party primarily or secondarily liable on, or with respect to, this Note or any of the Loan Documents or any of the terms and provisions thereof that may be made, granted or consented to by Payee, and agree that suit may be brought and maintained against any one or more of them, at the election of Payee, without joinder of the others as parties thereto, and that Payee shall not be required to first foreclose, proceed against, or exhaust any security herefor, in order to enforce payment of this Note by any one or more of them. Maker and all endorsers, guarantors or any others who may at any time become liable for the payment hereof hereby severally waive presentment, demand for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, and all other notices in connection with this Note, filing of suit and diligence in collecting this Note or enforcing any of the security herefor, and, without limiting any provision of any of the Loan Documents, agree to pay, if permitted by law, all expenses incurred in collection, including reasonable attorneys'

fees, and hereby waive all benefits of valuation, appraisal and exemption laws.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS AND DECISIONS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. AT PAYEE'S

ELECTION AND WITHOUT LIMITING PAYEE'S RIGHT TO COMMENCE AN ACTION IN ANY OTHER JURISDICTION, MAKER HEREBY SUBMITS TO THE EXCLUSIVE JURISDICTION AND VENUE OF ANY COURT (FEDERAL, STATE OR LOCAL) HAVING SITUS WITHIN THE STATE OF ILLINOIS, EXPRESSLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO SERVICE BY CERTIFIED MAIL, POSTAGE PREPAID, DIRECTED TO THE LAST KNOWN ADDRESS OF MAKER, WHICH SERVICE SHALL BE DEEMED COMPLETED WITHIN TEN DAYS AFTER THE DATE OF MAILING THEREOF.

MAKER HEREBY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS NOTE. THIS WAIVER IS INFORMED AND FREELY MADE. MAKER ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT TO ENTER INTO A BUSINESS RELATIONSHIP, THAT PAYEE HAS ALREADY RELIED ON THE WAIVER IN MAKING THE LOAN EVIDENCED BY THIS NOTE, AND THAT PAYEE WILL CONTINUE TO RELY ON THE WAIVER IN ITS RELATED FUTURE DEALINGS. MAKER FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

WITNESS/ATTEST SOUTH HAMPTON REFINING CO., a Texas corporation

/s/ CONNIE COOK

By: /s/ NICK CARTER

Name: Nick Carter

WITNESS/ATTEST

Title: President

/s/ CONNIE COOK

GULF STATE PIPE LINE COMPANY, INC.,
a Texas corporation

By: /s/ NICK CARTER

Name: Nick Carter

Title: President

SECOND AMENDMENT TO LOAN AGREEMENT

THIS SECOND AMENDMENT TO LOAN AGREEMENT (this "Amendment"), dated as of May 31, 2001, is between SOUTH HAMPTON REFINING CO., a Texas corporation ("Borrower"), and SOUTHWEST BANK OF TEXAS, N.A., a national banking association ("Lender").

RECITALS:

A. Borrower and Lender entered into that certain Loan Agreement dated as of September 30, 1999, as amended by First Amendment to Loan Agreement dated as of June 20, 2000 (the "Agreement").

B. Pursuant to the Agreement, Texas Oil & Chemical Co. II, Inc., a Texas corporation ("Guarantor") executed that certain Guaranty Agreement dated as of June 20, 2000 (the "Guaranty") pursuant to which Guarantor guaranteed to Lender the payment and performance of the Obligations (as defined in the Agreement).

C. Borrower and Lender now desire to amend the Agreement as herein set forth.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I.

Definitions

Section 1.1. Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the meanings given to such terms in the Agreement, as amended hereby.

ARTICLE II.

Amendments

Section 2.1. Amendment to Certain Definitions. Effective as of date hereof, the definition of each of the following terms contained in Section 1.1 of the Agreement is amended to read in its respective entirety as follows:

"Termination Date" means 11:00 a.m., Houston, Texas time on July 31, 2001, or such earlier date on which the Commitment terminates as provided in this Agreement.

Section 2.2. Amendment to Exhibits. Effective as of the date hereof, Exhibit "A" (Note) to the Agreement is amended to conform in its entirety to Annex "A" to this Amendment.

ARTICLE III.

Conditions Precedent

Section 3.1. Conditions. The effectiveness of this Amendment is subject to the receipt by Lender of the following in form and substance satisfactory to Lender:

(a) Resolutions-Borrower. Resolutions of the Board of Directors of Borrower certified by its Secretary or an Assistant Secretary which authorize the execution, delivery and performance by Borrower of this Amendment and the other Loan Documents to which Borrower is or is to be a party hereunder.

(b) Incumbency Certificate-Borrower. A certificate of incumbency certified by the Secretary or an Assistant Secretary of

Borrower certifying the names and signatures of the officers of Borrower authorized to sign this Amendment and each of the other Loan Documents to which Borrower is or is to be a party hereunder.

(c) Certificates of Existence and Good Standing. Certificates of the appropriate governmental officials regarding the existence and good standing of Borrower in the state of Texas.

(d) Note. The Note executed by Borrower.

(e) Additional Information. Such additional documents, instruments and information as Lender may request.

Section 3.2. Additional Conditions. The effectiveness of this Amendment is also subject to the satisfaction of the additional conditions precedent that (a) the representations and warranties contained herein and in all other Loan Documents, as amended hereby, shall be true and correct as of the date hereof as if made on the date hereof, (b) all proceedings, corporate or otherwise, taken in connection with the transactions contemplated by this Amendment and all documents, instruments and other legal matters incident thereto shall be satisfactory to Lender, and (c) no Event of Default shall have occurred and be continuing and

-2-

no event or condition shall have occurred that with the giving of notice or lapse of time or both would be an Event of Default.

ARTICLE IV.

Ratifications, Representations, and Warranties

Section 4.1. Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement are ratified and confirmed and shall continue in full force and effect. Borrower and Lender agree that the Agreement as amended hereby shall continue to be the legal, valid and binding obligation of such Persons enforceable against such Persons in accordance with its terms.

Section 4.2. Representations, Warranties and Agreements. Borrower hereby represents and warrants to Lender that (a) the execution, delivery, and performance of this Amendment and any and all other Loan Documents executed or delivered in connection herewith have been authorized by all requisite action on the part of Borrower and will not violate the articles of incorporation or bylaws of Borrower, (b) the representations and warranties contained in the Agreement as amended hereby, and all other Loan Documents are true and correct on and as of the date hereof as though made on and as of the date hereof, (c) no Event of Default has occurred and is continuing and no event or condition has occurred that with the giving of notice or lapse of time or both would be an Event of Default, (d) Borrower is in full compliance with all covenants and agreements contained in the Agreement as amended hereby, (e) Borrower is indebted to Lender pursuant to the terms of the Note, as the same may have been renewed, modified, extended and rearranged, including, without limitation, renewals, modifications and extensions made pursuant to this Amendment, (f) the liens, security interests, encumbrances and assignments created and evidenced by the Loan Documents are, respectively, valid and subsisting liens, security interests, encumbrances and assignments and secure the Note as the same may have been renewed, modified or rearranged, including, without limitation, renewals, modifications and extensions made pursuant to this Amendment, and (g) Borrower has no claims, credits, offsets, defenses or counterclaims arising from the Loan Documents or Lender's performance under the Loan Documents.

-3-

ARTICLE V.

Miscellaneous

Section 5.1. Survival of Representations and Warranties. All representations and warranties made in this Amendment or any other Loan Documents including any Loan Document furnished in connection with this Amendment shall fully survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely on them.

Section 5.2. Reference to Agreement. Each of the Loan Documents, including the Agreement and any and all other agreements, documents, or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Agreement, as amended hereby, are hereby amended so that any reference in such Loan Documents to the Agreement shall mean a reference to the Agreement, as amended hereby.

Section 5.3. Expenses of Lender. As provided in the Agreement, Borrower agrees to pay on demand all costs and expenses incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other documents and instruments executed pursuant hereto and any and all amendments, modifications and supplements thereto, including, without limitation, the costs and fees of Lender's legal counsel, and all costs and expenses incurred by Lender in connection with the enforcement or preservation of any rights under the Agreement, as amended hereby, or any other Loan Document, including, without limitation, the costs and fees of Lender's legal counsel.

Section 5.4. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

SECTION 5.5. APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN HOUSTON, HARRIS COUNTY, TEXAS AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

Section 5.6. Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns, except Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender.

-4-

Section 5.7. Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

Section 5.8. Effect of Waiver. No consent or waiver, express or implied, by Lender to or for any breach of or deviation from any covenant, condition or duty by Borrower shall be deemed a consent or waiver to or of any other breach of the same or any other covenant, condition or duty.

Section 5.9. Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 5.10. Document Imaging. Borrower and Guarantor, as applicable, understands and agrees that (i) Lender's document retention policy involves the imaging of executed loan documents and the destruction of the paper originals, and (ii) Borrower or Guarantor, as applicable, waives any right that it may have to claim that the imaged copies of the loan documents are not originals.

Section 5.11. ENTIRE AGREEMENT. THIS AMENDMENT AND ALL OTHER INSTRUMENTS, DOCUMENTS, AND AGREEMENTS EXECUTED AND DELIVERED IN CONNECTION WITH THIS AMENDMENT EMBODY THE FINAL, ENTIRE AGREEMENT AMONG THE PARTIES HERETO WITH RESPECT TO THE SUBJECT MATTER HEREOF AND THEREOF AND SUPERSEDE ANY AND ALL PRIOR COMMITMENTS, AGREEMENTS, REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THIS AMENDMENT AND THE OTHER INSTRUMENTS, DOCUMENTS AND AGREEMENTS EXECUTED AND DELIVERED IN CONNECTION WITH THIS AMENDMENT, AND MAY NOT BE CONTRADICTED OR VARIED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OR DISCUSSIONS OF THE PARTIES HERETO. THERE ARE NO ORAL

Executed as of the date first written above.

BORROWER:

SOUTH HAMPTON REFINING CO.

By: /s/ NICK CARTER

Nick Carter
President

LENDER:

SOUTHWEST BANK OF TEXAS, N.A.

By: /s/ A. STEPHEN KENNEDY

A. Stephen Kennedy
Vice President

The undersigned Guarantor hereby consents and agrees to this Amendment and agrees that the Guaranty Agreement executed by such person shall remain in full force and effect and shall continue to be the legal, valid and binding obligations of such Guarantor, enforceable against such Guarantor in accordance with its terms and shall evidence such Guarantor's guaranty of the Note as renewed and extended from time to time, including, without limitation, the renewal and extension evidenced by the Note in substantially the form of Annex "A" attached hereto.

TEXAS OIL & CHEMICAL CO. II, INC.

By: /s/ NICK CARTER

Nick Carter
President

LIST OF ANNEXES

<Table>
<Caption>

Annex	Document
-----	-----
<S>	<C>
A	Note

</Table>

ANNEX "A"

Note
PROMISSORY NOTE

\$3,250,000.00

Houston, Texas

May 31, 2001

FOR VALUE RECEIVED, the undersigned, SOUTH HAMPTON REFINING CO., a Texas corporation ("Maker"), hereby promises to pay to the order of SOUTHWEST BANK OF TEXAS, N.A., a national banking association ("Payee"), at its offices at Five Post Oak Park, 4400 Post Oak Parkway, Houston, Harris County, Texas, or such other address as may be designated by Payee, in lawful money of the United States of America, the principal sum of THREE MILLION TWO HUNDRED FIFTY THOUSAND AND NO/100 DOLLARS (\$3,250,000.00), or so much thereof as may be advanced and outstanding hereunder, together with interest on the outstanding principal balance from day to day remaining, at a varying rate per annum which shall from day to day be equal to the lesser of (a) the Maximum Rate (hereinafter defined)

or (b) the Prime Rate (hereinafter defined) of Payee in effect from day to day plus one-half of one percent (.50%), and each change in the rate of interest charged hereunder shall become effective, without notice to Maker, on the effective date of each change in the Prime Rate or the Maximum Rate, as the case may be; provided, however, if at any time the rate of interest specified in clause (b) preceding shall exceed the Maximum Rate, thereby causing the interest rate hereon to be limited to the Maximum Rate, then any subsequent reduction in the Prime Rate shall not reduce the rate of interest hereon below the Maximum Rate until the total amount of interest accrued hereon equals the amount of interest which would have accrued hereon if the rate specified in clause (b) preceding had at all times been in effect.

Principal of and interest on this Note shall be due and payable as follows:

(a) Accrued and unpaid interest on this Note shall be payable monthly, on the first (1st) day of each month commencing on June 1, 2001 and upon the maturity of this Note, however such maturity may be brought about; and

(b) All outstanding principal of this Note and all accrued interest thereon shall be due and payable on July 31, 2001.

Principal of this Note shall be subject to mandatory prepayment at the times described in the Agreement (hereinafter defined). If an Event of Default (hereinafter defined) has occurred and is existing, the principal hereof and any past due interest hereon shall bear interest at the Default Rate (hereinafter defined).

Interest on the indebtedness evidenced by this Note shall be computed on the basis of a year of 360 days and the actual number of days elapsed (including the first day but excluding the last day) unless such calculation would result in a usurious rate in which case interest shall be calculated on the basis of a year of 365 or 366 days, as the case may be.

As used in this Note, the following terms shall have the respective meanings indicated below:

"Agreement" means that certain Loan Agreement dated as of September 30, 1999 between Maker and Payee, as amended by First Amendment to Loan Agreement dated as of June 20, 2000 and Second Amendment to Loan Agreement dated as of May 31, 2001, as amended and as the same may be further amended or modified from time to time.

"Default Rate" means the lesser of (a) the sum of the Prime Rate plus five percent (5.0%), or (b) the Maximum Rate.

"Event of Default" shall have the meaning given to such term in the Agreement.

"Maximum Rate" means the maximum rate of nonusurious interest permitted from day to day by applicable law, including Chapter 303 of the Texas Finance Code (the "Code") (and as the same may be incorporated by reference in other Texas statutes). To the extent that Chapter 303 of the Code is relevant to any holder of this Note for the purposes of determining the Maximum Rate, each such holder elects to determine such applicable legal rate pursuant to the "weekly ceiling," from time to time in effect, as referred to and defined in Chapter 303 of the Code; subject, however, to the limitations on such applicable ceiling referred to and defined in the Code, and further subject to any right such holder may have subsequently, under applicable law, to change the method of determining the Maximum Rate.

"Prime Rate" shall mean that variable rate of interest per annum established by Payee from time to time as its prime rate which shall vary from time to time. Such rate is set by Payee as a general reference rate of interest, taking into account such factors as Payee may deem appropriate, it being understood that many of Payee's commercial or other loans are priced in relation to such rate, that it is not necessarily the lowest or best rate charged to any customer and that Payee may make various commercial or other loans at rates of interest having no relationship to such rate.

This Note (a) is the Note provided for in the Agreement and (b) is secured as provided in the Agreement. Maker may prepay the principal of this Note upon the terms and conditions specified in the Agreement. Maker may borrow, repay, and reborrow hereunder upon the terms and conditions specified in the Agreement.

Notwithstanding anything to the contrary contained herein, no provisions of this Note shall require the payment or permit the collection of interest in excess of the Maximum Rate. If any excess of interest in such respect is herein provided for, or shall be adjudicated to be so provided, in this Note or otherwise in connection with this loan transaction, the provisions of this paragraph shall govern and prevail, and neither Maker nor the sureties, guarantors,

-2-

successors or assigns of Maker shall be obligated to pay the excess amount of such interest, or any other excess sum paid for the use, forbearance or detention of sums loaned pursuant hereto. If for any reason interest in excess of the Maximum Rate shall be deemed charged, required or permitted by any court of competent jurisdiction, any such excess shall be applied as a payment and reduction of the principal of indebtedness evidenced by this Note; and, if the principal amount hereof has been paid in full, any remaining excess shall forthwith be paid to Maker. In determining whether or not the interest paid or payable exceeds the Maximum Rate, Maker and Payee shall, to the extent permitted by applicable law, (a) characterize any non-principal payment as an expense, fee, or premium rather than as interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the entire contemplated term of the indebtedness evidenced by this Note so that the interest for the entire term does not exceed the Maximum Rate.

If default occurs in the payment of principal or interest under this Note, or upon the occurrence of any other Event of Default, as such term is defined in the Agreement, the holder hereof may, at its option, (a) declare the entire unpaid principal of and accrued interest on this Note immediately due and payable without notice, demand or presentment, all of which are hereby waived, and upon such declaration, the same shall become and shall be immediately due and payable, (b) foreclose or otherwise enforce all liens or security interests securing payment hereof, or any part hereof, (c) offset against this Note any sum or sums owed by the holder hereof to Maker and (d) take any and all other actions available to Payee under this Note, the Agreement, the Loan Documents (as such term is defined in the Agreement) at law, in equity or otherwise. Failure of the holder hereof to exercise any of the foregoing options shall not constitute a waiver of the right to exercise the same upon the occurrence of a subsequent Event of Default.

If the holder hereof expends any effort in any attempt to enforce payment of all or any part or installment of any sum due the holder hereunder, or if this Note is placed in the hands of an attorney for collection, or if it is collected through any legal proceedings, Maker agrees to pay all costs, expenses, and fees incurred by the holder, including all reasonable attorneys' fees.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. THIS NOTE IS PERFORMABLE IN HARRIS COUNTY, TEXAS.

Maker and each surety, guarantor, endorser, and other party ever liable for payment of any sums of money payable on this Note jointly and severally waive notice, presentment, demand for payment, protest, notice of protest and non-payment or dishonor, notice of acceleration, notice of intent to accelerate, notice of intent to demand, diligence in collecting, grace, and all other formalities of any kind, and consent to all extensions without notice for any period or periods of time and partial payments, before or after maturity, and any impairment of any collateral securing this Note, all without prejudice to the holder. The holder shall similarly have the right to deal in any way, at any time, with one or more of the foregoing

-3-

parties without notice to any other party, and to grant any such party any extensions of time for payment of any of said indebtedness, or to release or substitute part or all of the collateral securing this Note, or to grant any other indulgences or forbearances whatsoever, without notice to any other party and without in any way affecting the personal liability of any party hereunder.

This Note is in renewal and extension of, but not in discharge or novation of, that certain promissory note in the original principal amount of \$3,250,000.00, dated June 20, 2000, executed by Maker and payable to the order of Payee, which was executed in renewal and increase of, but not in discharge or novation of, that certain promissory note in the original principal amount of \$2,250,000.00, dated September 30, 1999, executed by Maker and payable to the order of Payee.

SOUTH HAMPTON REFINING CO.

By: /s/ NICK CARTER

Nick Carter
President