

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 SEPTEMBER 30, 2002

COMMISSION FILE NUMBER 0-6247

ARABIAN AMERICAN DEVELOPMENT COMPANY
(Exact name of registrant as specified in its charter)DELAWARE
(State or other jurisdiction of
incorporation or organization) 75-1256622
(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.
NONEIndicate 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 September 30, 2002: 22,731,994.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
-----<Table>
<Caption>

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
	-----	-----
	(UNAUDITED)	
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 157,224	\$ 199,529
Trade Receivables	4,899,781	4,437,562
Inventories	913,547	723,313
Derivative Financial Instruments	433,125	--
	-----	-----
Total Current Assets	6,403,677	5,360,404
REFINERY PLANT, PIPELINE AND EQUIPMENT	18,135,973	17,704,363
Less: Accumulated Depreciation	(7,980,022)	(6,945,934)
	-----	-----
Net Plant, Pipeline and Equipment	10,155,951	10,758,429
AL MASANE PROJECT	35,762,916	35,498,808
OTHER INTERESTS IN SAUDI ARABIA	2,431,248	2,431,248
MINERAL PROPERTIES IN THE UNITED STATES	1,211,324	1,210,969
OTHER ASSETS	425,812	487,825
	-----	-----
TOTAL ASSETS	\$ 56,390,928	\$ 55,747,683
	=====	=====

LIABILITIES
CURRENT LIABILITIES

Accounts Payable-Trade	\$ 4,087,410	\$ 5,197,981
Accrued Liabilities	2,860,675	2,913,145
Accrued Liabilities in Saudi Arabia	2,474,514	2,308,774
Notes Payable	11,743,780	11,743,780
Current Portion of Long-Term Debt	7,037,469	7,598,768
Total Current Liabilities	28,203,848	29,762,448
DEFERRED REVENUE	175,267	120,872
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	846,009	853,362
STOCKHOLDERS' EQUITY		
COMMON STOCK-authorized 40,000,000 shares of \$.10 par value; issued and outstanding, 22,431,994 shares in 2002 and 2001	2,243,199	2,243,199
ADDITIONAL PAID-IN CAPITAL	36,512,206	36,512,206
ACCUMULATED DEFICIT	(12,022,726)	(13,238,514)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	433,125	(505,890)
Total Stockholders' Equity	27,165,804	25,011,001
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 56,390,928	\$ 55,747,683

</Table>

See notes to consolidated financial statements.

-1-

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

<Table>
<Caption>

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2002	2001	2002	2001
			(Restated, see Note 8)	
<S>	<C>	<C>	<C>	<C>
REVENUES				
Refined Product Sales	\$ 8,701,738	\$ 6,769,237	\$ 24,655,518	\$ 22,006,952
Processing Fees	1,143,885	707,489	3,119,415	2,670,975
	9,845,623	7,476,726	27,774,933	24,677,927
OPERATING COSTS AND EXPENSES				
Cost of Refined Product				
Sales and Processing	7,915,765	6,539,332	22,511,197	21,997,442
General and Administrative	1,210,064	953,467	2,904,310	2,501,118
Depreciation	356,792	346,381	1,054,463	1,037,889
	9,482,621	7,839,180	26,469,970	25,536,449
OPERATING INCOME (LOSS)	363,002	(362,454)	1,304,963	(858,522)
OTHER INCOME (EXPENSE)				
Interest Income	8,863	10,572	28,829	34,310
Interest Expense	(281,614)	(253,266)	(821,188)	(1,008,071)
Minority Interest	3,790	45,583	7,354	144,019
Foreign Exchange Transaction Gain	215,212	107,487	570,854	32,485
Miscellaneous Income	33,886	43,691	124,976	136,768
	(19,863)	(45,933)	(89,175)	(660,489)
NET INCOME (LOSS)	\$ 343,139	\$ (408,387)	\$ 1,215,788	\$ (1,519,011)
NET INCOME (LOSS) PER COMMON SHARE:				
Basic	\$ 0.02	\$ (0.02)	\$ 0.05	\$ (0.07)
Diluted	\$ 0.02	\$ (0.02)	\$ 0.05	\$ (0.07)
WEIGHTED AVERAGE NUMBER OF COMMON EQUIVALENT SHARES OUTSTANDING:				
Basic	22,731,994	22,765,451	22,731,994	22,781,146
Diluted	23,243,274	22,765,451	23,243,274	22,781,146

</Table>

See notes to consolidated financial statements.

-2-

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002

<Table>
<Caption>

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
	SHARES	AMOUNT				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
JANUARY 1, 2002	22,431,994	\$ 2,243,199	\$ 36,512,206	\$ (13,238,514)	\$ (505,890)	\$ 25,011,001
Comprehensive Income						
Net Income	--	--	--	1,215,788	--	1,215,788
Fair Value Adjustments of Derivatives	--	--	--	--	546,315	546,315
Reclassification Adjustments for Realized Gains	--	--	--	--	392,700	392,700
Comprehensive Income						2,154,803
SEPTEMBER 30, 2002	22,431,994	\$ 2,243,199	\$ 36,512,206	\$ (12,022,726)	\$ 433,125	\$ 27,165,804

</Table>

See notes to consolidated financial statements.

-3-

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<Table>
<Caption>

	NINE MONTHS ENDED SEPTEMBER 30	
	2002	2001
<S>	<C>	<C>
OPERATING ACTIVITIES		
Net Income (Loss)	\$ 1,215,788	\$ (1,519,011)
Adjustments for Non-Cash Transactions		
Depreciation	1,054,463	1,037,889
Abandoned Mining Claims	--	67,560
Increase in Deferred Revenue	54,395	393
Effects of Changes in Operating Assets and Liabilities		
Decrease (Increase) in Trade Receivables	(462,219)	703,236
Decrease (Increase) in Inventories	(190,234)	50,710
Decrease in Other Assets	62,013	77,180
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(657,151)	317,681
Increase in Accrued Liabilities in Saudi Arabia	48,407	61,099
Other	(27,728)	(149,058)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,097,734	647,679
INVESTING ACTIVITIES		
Additions to Al Masane Project	(146,775)	(271,610)
Additions to Refinery Plant, Pipeline and Equipment	(431,610)	(199,014)
(Additions to) Reduction in Mineral Properties in the United States	(355)	3,602
NET CASH USED IN INVESTING ACTIVITIES	(578,740)	(467,022)
FINANCING ACTIVITIES		
Additions to Notes Payable and Long-Term Obligations	206,003	229,270
Reduction of Notes Payable and Long-Term Obligations	(767,302)	(257,268)
NET CASH USED IN FINANCING ACTIVITIES	(561,299)	(27,998)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(42,305)	152,659
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	199,529	158,977
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 157,224	\$ 311,636

See notes to consolidated financial statements.

-4-

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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 in the Company's December 31, 2001 Annual Report on Form 10-K.

These financial statements include the accounts of Arabian American Development Company (the "Company") and its wholly-owned subsidiary, American Shield Refining Company (the "Refining Company"), which 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 a Nevada mining company, Pioche-Ely Valley Mines, Inc. ("Pioche"), which does not conduct any substantial business activity. The Refining Company and its subsidiaries constitute the Company's Specialty Petrochemicals or Refining Segment. Pioche and the Company's mineral properties in Saudi Arabia constitute its Mining Segment.

2. INVENTORIES

Inventories include the following:

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
	-----	-----
Refined products	\$ 913,547	\$ 723,313

Inventories are recorded at the lower of cost, determined on the last-in, first-out method (LIFO), or market. At September 30, 2002, current cost exceeded LIFO value by approximately \$153,000. At December 31, 2001, LIFO inventory approximated current cost.

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 nine months ended September 30, 2002 and 2001, respectively.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2002	2001	2002	2001
	-----	-----	-----	-----
Net income (loss) - basic	\$ 343	\$ (408)	\$ 1,216	\$ (1,519)
Add interest on convertible debt	5	0	15	0
Net income (loss) - diluted	\$ 348	\$ (408)	\$ 1,231	\$ (1,519)
	=====	=====	=====	=====
Weighted average shares outstanding - basic	22,732	22,765	22,732	22,781
Dilutive effect of convertible debt	511	0	511	0
Weighted average shares outstanding - diluted	23,243	22,765	23,243	22,781

	=====	=====	=====	=====
Net income (loss) per share - basic and diluted	\$.02	\$ (.02)	.05	\$ (.07)
	=====	=====	=====	=====

</Table>

-5-

In the three and nine months ended September 30, 2002 and 2001, options for 810,000 shares and 872,000 shares, respectively, were excluded from diluted shares outstanding because their effect was antidilutive.

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, minority interest, miscellaneous income and foreign exchange transaction gain or loss. Information on the segments is as follows:

<Table>			
<Caption>			
THREE MONTHS ENDED SEPTEMBER 30, 2002	REFINING	MINING	TOTAL

<S>	<C>	<C>	<C>
Revenue from external customers	\$ 9,845,623	\$ --	\$ 9,845,623
Depreciation	356,225	567	356,792
Operating income (loss)	590,869	(227,867)	363,002
Total assets	\$ 16,950,730	\$ 39,440,198	\$ 56,390,928
</Table>			

</Table>

<Table>			
<Caption>			
THREE MONTHS ENDED SEPTEMBER 30, 2001	REFINING	MINING	TOTAL
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Revenue from external customers	\$ 7,476,726	\$ --	\$ 7,476,726
Depreciation	345,799	582	346,381
Operating loss	(239,182)	(123,272)	(362,454)
Total assets	\$ 17,036,026	\$ 39,250,815	\$ 56,286,841
</Table>			

</Table>

<Table>			
<Caption>			
NINE MONTHS ENDED SEPTEMBER 30, 2002	REFINING	MINING	TOTAL

<S>	<C>	<C>	<C>
Revenue from external customers	\$ 27,774,933	\$ --	\$ 27,774,933
Depreciation	1,052,762	1,701	1,054,463
Operating income (loss)	1,634,433	(329,470)	1,304,963
</Table>			

</Table>

<Table>			
<Caption>			
NINE MONTHS ENDED SEPTEMBER 30, 2001	REFINING	MINING	TOTAL

<S>	<C>	<C>	<C>
Revenue from external customers	\$ 24,677,927	\$ --	\$ 24,677,927
Depreciation	1,036,143	1,746	1,037,889
Operating loss	(644,293)	(214,229)	(858,522)
</Table>			

</Table>

Information regarding foreign operations for the three and nine months ended September 30, 2002 and 2001 follows (in thousands). Revenues are attributed to countries based upon the origination of the transaction.

<Table> <Caption>					
	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,		
	2002	2001	2002	2001	

<S>	<C>	<C>	<C>	<C>	
REVENUES					
United States	\$ 9,054	\$ 7,172	\$ 25,699	\$ 23,754	
Mexico	792	305	2,076	924	
Saudi Arabia	--	--	--	--	
	-----	-----	-----	-----	
	\$ 9,846	\$ 7,477	\$ 27,775	\$ 24,678	
	=====	=====	=====	=====	
LONG-LIVED ASSETS					
United States	\$ 6,398	\$ 6,705			
Mexico	4,969	5,350			
Saudi Arabia	38,194	38,007			
	-----	-----			
	\$ 49,561	\$ 50,062			
	=====	=====			

</Table>

-6-

5. LEGAL PROCEEDINGS

At September 30, 2002 South Hampton, together with several other companies, was a defendant in five lawsuits filed in the period from December 1999 through October 2002 by former employees or outside workers of South Hampton. The suits primarily claim illness and disease resulting from alleged exposure to chemicals, including benzene, butadiene and/or isoprene, during their employment or work at the refinery. The plaintiffs claim that the companies engaged in the business of manufacturing, selling and/or distributing these chemicals in a manner which subjected them to liability for unspecified actual and punitive damages. A previous lawsuit was settled in October 2001, with South Hampton contributing \$10,000 toward the settlement. Two other previous lawsuits were settled in 2002. One in January 2002 resulted in South Hampton agreeing to pay a total of \$60,000 in quarterly payments by the end of the year and, in the other, South Hampton settled for \$100,000 to be paid over one year in four quarterly payments. There have been three new lawsuits filed in 2002 which contain claims similar to the other suits. South Hampton intends to vigorously defend itself against these 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 its refinery operations 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.

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 actions be taken. On December 13, 2001, the TNRCC notified South Hampton that it found several violations of TNRCC rules during a record review in October 2001 and proposed that the administrative penalties be increased another \$59,000. South Hampton settled this particular claim in April 2002 for approximately \$5,900. South Hampton believes the original penalty and the additional allegations are greatly overstated and intends to vigorously defend itself against these additional allegations, the proposed penalties and proposed corrective actions.

6. LONG-TERM DEBT

South Hampton entered into a \$2.25 million revolving credit agreement with a bank in September 1999 that is collateralized by a first security interest in certain of its assets. Interest at the bank's prime rate plus .5% is payable monthly. An amended agreement was entered into on June 30, 2000, which increased the total amount to \$3.25 million. A second amended agreement was entered into on May 31, 2001 which extended the due date from May 31, 2001 to July 31, 2001. The debt was not paid on July 31, 2001. A third amended agreement was entered into on July 31, 2001, which extended the due date to October 31, 2001. The debt was not paid on October 31, 2001. A fourth amended agreement was entered into on October 31, 2001, which extended the due date to December 31, 2001. The debt was not paid on December 31, 2001. A fifth amended agreement was entered into on December 31, 2001, which extended the due date to April 30, 2002. The debt was not paid on April 30, 2002. A sixth amended agreement was entered into on April 30, 2002, which extended the due date to August 31, 2002. The debt was not paid on August 31, 2002. A seventh amended agreement was entered into on August 31, 2002, which extended the due date to December 31, 2002. At September 30, 2002, South Hampton was not in compliance with the covenant relating to distributions to the parent company, and therefore, the debt is classified as current 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 loan agreement with a commercial lending company in December 1999 that is collateralized by a first security interest in all of its assets, except those dedicated to the bank mentioned in the preceding paragraph. Interest is at 10.55% per annum. A new agreement dated April 1, 2001 provides for principal and interest payments in the amount of \$58,340 on a monthly basis beginning July 1, 2001 and continuing until January 2004. At September 30, 2002, South Hampton was not in compliance with certain covenants contained in the loan agreement; therefore this debt is classified as current in the financial statements.

-7-

Coin has two loans payable to banks in Mexico, which are collateralized by all of the assets of Coin. The first loan is payable in monthly payments through 2004, while the second loan is payable in quarterly payments through 2007. The first loan bears interest at 5% and the second loan bears interest at the LIBOR rate plus seven points (LIBOR was 1.82% at September 30, 2002).

At September 30, 2002, Coin was in default of the loan covenants as a result of not having made its monthly and quarterly payments and has therefore classified the loans as current in the financial statements. Unpaid interest and penalty interest of \$1,667,064 has been accrued and is included in accrued liabilities.

By not being in compliance with the loan agreement covenants, the creditors have the right to declare the debt to be immediately due and payable. If this were to occur, the Company would currently be unable to pay the entire

amounts due.

7. NATURAL GASOLINE SWAP AGREEMENTS

Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities. SFAS No. 133 requires all derivative financial instruments to be recorded on the balance sheet at fair value. Changes in fair value are recognized either in earnings or equity, depending on the nature of the underlying exposure being hedged and the effectiveness of the hedge. As required, the Company adopted SFAS No. 133 on January 1, 2001. All of the Company's derivatives are designated as cash flow hedges. Therefore, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income (loss) and are recognized in the statement of operations when the hedged item affects income. Ineffective portions of changes in the fair value of cash flow hedges are immediately recognized in earnings. Effectiveness of hedges is determined by their success in offsetting the variability of cash flows associated with the hedged item. Hedge ineffectiveness had no effect on the results of operation for the three and nine month periods ended September 30, 2002.

In July 2001, October 2001 and February 2002, the Company entered into swap agreements to limit the effect of significant fluctuations in natural gasoline prices. The first two agreements expired in January and July 2002. The third agreement expires in December 2002. The Company's primary source of feedstock is natural gasoline. The effect of these agreements is to limit the Company's exposure by fixing the natural gasoline price of approximately 25,000 barrels (1,050,000 gallons) of feedstock per month over the term of the agreements. This amount of material approximates 50% of the Company's average monthly feedstock requirements. The agreements had no cost to the Company. During the nine months ended September 30, 2002, the Company recognized a gain of \$392,700 attributable to the difference between the actual natural gasoline prices and the fixed prices under the swap agreements. At September 30, 2002, the agreements had a total positive fair value of approximately \$433,000.

8. RESTATEMENT

During the third quarter of 2002, the Company became aware that refined product sales of \$210,109 in the first quarter of 2002 for the Mexico refinery had not been recorded at March 31, 2002 or June 30, 2002, which, therefore, resulted in an understatement of revenues and net income in the Company's financial statements at March 31, 2002 and June 30, 2002. The Statement of Operations for the nine months ended September 30, 2002 reflects the corrected amounts.

The three and six months ended March 31 and June 30, 2002 have been restated as followed:

<Table>

<Caption>

	THREE MONTHS ENDED MARCH 31, 2002		SIX MONTHS ENDED JUNE 30, 2002	
	AS ORIGINALLY REPORTED	AS RESTATEMENT	AS ORIGINALLY REPORTED	AS RESTATEMENT
<S>	<C>	<C>	<C>	<C>
REVENUES	\$ 8,640,576	\$ 8,850,685	\$ 17,719,201	\$ 17,929,310
NET INCOME	\$ 202,989	\$ 413,098	\$ 652,150	\$ 862,259
NET INCOME PER COMMON SHARE:				
Basic	\$ 0.01	\$ 0.02	\$ 0.03	\$ 0.04
Diluted	\$ 0.01	\$ 0.02	\$ 0.03	\$ 0.04

</Table>

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. Significant increases in the prices of feedstock and natural gas resulted in a loss from operations in 2000 of \$2.8 million and in 2001 of \$199,629, which, in turn, resulted in violations of certain loan agreement covenants and a lack of liquidity. Beginning in February 2001, the decline of feedstock and natural gas prices returned the Refining Company to a positive cash flow, which it attained for the remainder of 2001 and the first nine months of 2002. Management took steps, beginning in July 2001, to protect the operations from extreme fluctuations in the price of its feedstock purchases by hedging approximately 50% of its needs through December 2002. In addition, the purchase price of natural gas, which is used as fuel gas, has been fixed by agreement for the period from July 2001 through February 2003.

As mentioned in Note 6, South Hampton and Coin were not in compliance with certain covenants contained in their loan agreements at September 30, 2002, and therefore, the creditors have the right to declare the debt to be immediately due and payable. If this were to occur, the Company would currently be unable to pay the entire amount due.

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. Implementation of the project has been delayed until the open market prices for the minerals to be produced by the mine improve. 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 is no assurance that a joint venture partner can be located, a joint venture formed or, if it is formed, that the joint venture would be able to obtain acceptable financing for the project. 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 September 30, 2002, unpaid annual rental payments total approximately \$425,000.

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

-9-

the Wadi Qatan and Jebel Harr areas. The Company previously worked in 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. The application for the new exploration license is still pending and is expected to be acted upon after the new Saudi Arabian Mining Code is issued, which is expected before the end of 2002. 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 interest in the United States is represented by its ownership interest in Pioche, which has been inactive for many years. Its properties include 48 patented and 5 unpatented claims totaling approximately 1,500 acres in Lincoln County, Nevada. There are prospects and mines on these claims that previously produced silver, gold, lead, zinc and copper. There is also a 300-ton-a-day processing mill on property owned by Pioche. The mill is not currently in use and a significant expenditure would be required in order to put the mill into continuous operation, if commercial mining is to be conducted on the property.

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 \$1,260,000 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 \$1,097,000). 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 was to demand immediate repayment of this obligation, which management considers unlikely, the Company would be unable to pay the entire amount due.

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 September 30, 2002, total refined product sales increased approximately \$1,933,000 or 29%, while the cost of sales (excluding depreciation) increased approximately \$1,376,000 or 21% from the same period in 2001. Coin's sales increased approximately \$487,000 or 160%, while its cost of sales increased approximately \$261,000 or 77%. Consequently, the total gross profit margin on sales in the third quarter of 2002 increased

-10-

approximately \$557,000 or 242% compared to the same period in 2001. This includes Coin's gross profit margin for this quarter of approximately \$190,000, an increase of approximately \$226,000 from the same quarter in 2001. Contrary to most other companies in the petrochemical and refining industries, the refining operation in Silsbee had positive net income and cash flow for the third quarter of 2002. Sales remained steady, although some slowing of volume took place, which was not a dramatic decline and mostly occurred toward the end of the quarter. Sales early in the quarter were strong enough that the quarter as a whole showed a 2% increase in volume. Net income for this segment (including Coin) in the third quarter rose by 13% to approximately \$585,000 from the approximately \$520,000 as recorded in the second quarter of 2002.

In the nine months ended September 30, 2002, total refined product sales increased approximately \$2,649,000 or 12%, while the cost of sales (excluding depreciation) increased approximately \$514,000 or 2% from the same period in 2001. Coin's sales increased approximately \$1,152,000 or 125%, while its cost of sales increased approximately \$575,000 or 53%. Consequently, the total gross profit margin on product sales in the first nine months of 2002 increased approximately \$2,135,000 compared to the same period in 2001. This includes Coin's gross profit margin for the nine months of approximately \$422,000, an increase of approximately \$577,000 or 372% from the same period in 2001.

The Company attributes much of the increase in earnings to the healthy toll processing business it has developed over the last five years. The units, which were constructed in 1997, 1998, and 1999 to provide specific toll processing capabilities to contracted customers, have begun to develop into steady operations running at or near capacity most of the time. Typically when toll processing customers request services from outside parties such as South Hampton, there are several reasons. One is that they don't wish to invest the capital to build the facility in their own location either for capital cost or for operating cost reasons. The second common situation is that the process produces products which will be entering a new (for the customer) market and they need the flexibility to run low production rates for a period of time while the market is developed and then be able to raise production as demand increases. The Company builds into its proposals sufficient flexibility to allow these needs to be met in the most economical fashion. And in accordance with the agreements, as the volume increases, so does the income to the Company. The

refining and petrochemical industry in general is a volume oriented business with more volume resulting in lower unit costs. The toll processing customers have been successful in increasing the markets for their products and consequently the Company is beginning to enjoy the results of their efforts. Feedstock prices and fuel gas prices are currently such that, should the Company not have invested heavily in the toll processing business in the last five years, the operating results, while positive, would be more in line with the conditions of a year ago.

Natural gas is the Company's single largest manufacturing cost and dramatic price changes in this fuel cost, as occurred in late 2000 and early 2001, can have a dramatic effect on the economics of the operation. Since September 2001, the Company has entered into purchase contracts for approximately 90% of its normal monthly requirements for natural gas. Since the cost of fuel gas so directly and immediately affects the cost of the refined product, it is felt that a predictable price is more important than taking the risk of a moving market. Natural gas prices have become so volatile that simply having a stable supply and price is an acceptable goal. These prices fell from \$4.73 in the third quarter of 2001 to \$3.34 for the same period of 2002.

Toll processing fee income, which is earned when the Company manufactures products on a fee basis for others, remained stable for the third quarter and the first nine months of 2002 at approximately \$1,144,000 and \$3,119,000, respectively as compared to approximately \$707,000 and \$2,671,000, respectively in the same prior year periods. The foreign exchange transaction gain in the third quarter and first nine months of 2002 of approximately \$215,000 and \$571,000, respectively was primarily a result of a change in the exchange rate of the Mexican peso in relation to the U.S. dollar. Administrative expenses for this segment were higher by \$257,000 in the third quarter of 2002 and \$403,000 in the first nine months of 2002 than in the same prior year periods. This increase includes a lawsuit settlement amount of \$100,000 accrued in September.

To prevent the fluctuations in the market from affecting the profitability of the refining operation to such a degree as was seen in the 2000 or early 2001 time frame, the Company in 2001 put a hedging program in place for its feedstock purchases. The policy of the Company has been to keep approximately 50% of its normal feedstock requirements covered by a future hedge for a six to nine month period. Management considers that this time frame allows the Company adequate time to respond if the market price of feedstock rises significantly and stays at the higher levels for several months. The program is not designed to play the market to attempt to pay the lowest possible price for feedstock but to insure against any sudden and extreme price fluctuations. It is a safeguard against sudden high spikes in the cost of feedstock rather than a profit center in itself and is designed to be an insurance program versus a profit center or speculative program.

-11-

The Mexico refinery has continued to make progress in correcting its difficulties in the aftermath of the difficult economic times in that country. It has continued to make progress in both sales volumes and in cash flow results since restarting production in late 2001. Expenses are under control and new opportunities are being pursued with both the domestic market and in the South American markets. As its operating and financial problems are solved, the facility will provide strategic benefit in three different areas. It will enable the Company to be the premier producer of solvents within Mexico, it will enable the refining operation to be competitive in the growing South American markets, and it can be a secondary supplier to the needs of the U.S. based operations if growth and demand outstrip the domestic capacity.

The outlook for the refining operations for the fourth quarter of 2002 remains good. Sales volumes remain steady and are predicted to remain so through the end of the year. Many in the industry are predicting increased growth and activity in early 2003. Stability in petroleum markets and in the natural gas market, is important to the economy in general and to the petrochemical industry in particular. With stable feedstock prices and reasonable natural gas costs, the Company believes that operations for the remainder of 2002 and early 2003 will be profitable and consistent.

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 assesses the carrying values of its assets on an ongoing basis. Factors which may affect the carrying values of the mining properties 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. Prices currently used to assess the recoverability of the Al Masane project costs, based on production to begin no sooner than 2004, are \$1.04 per pound for copper, \$.60 per pound for zinc. Copper and zinc comprise in excess of 80% of the expected value of production. Using these price assumptions, there were no asset impairments at September 30, 2002. There are no assurances that, particularly in the event of a prolonged period of depressed mineral prices, the Company will not be required to take a material write-down of its mineral properties in the future.

ITEM 4. CONTROLS AND PROCEDURES.

Within the 90 days prior to the filing date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chairman of the Board, President and Chief Executive Officer and Executive Vice President/Chief

Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, the Chairman of the Board, President and Chief Executive Officer and Executive Vice President/Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings. There have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls subsequent to the date the Company carried out its evaluation.

-12-

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

NONE

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

NONE

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

NONE

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

NONE

ITEM 5. OTHER INFORMATION

SHAREHOLDER PROPOSALS

Any proposal by a shareholder of the Company intended to be presented at the 2003 annual meeting of shareholders, which is tentatively scheduled sometime in May 2003, must be received by the Company at its principal executive office no later than January 31, 2003 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 2003 annual meeting of shareholders, unless written notice of the matter is delivered to the Company at its principal executive office no later than January 31, 2003.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

10 (a) - Seventh Amendment to Loan Agreement dated as of August 31, 2002 between South Hampton Refining Company and Southwest Bank of Texas, N.A., together with related Promissory Note.

99.1 - Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 - Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) REPORTS ON FORM 8-K

No Reports on Form 8-K were filed during the quarter ended September 30, 2002.

-13-

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: November 6, 2002

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

-14-

CERTIFICATION

I, Hatem El-Khalidi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arabian American Development Company;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 6, 2002

/s/ HATEM EL-KHALIDI

Hatem El-Khalidi
Chief Executive Officer

-15-

CERTIFICATION

I, Drew Wilson, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arabian American

Development Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 6, 2002

/s/ Drew Wilson, Jr.

Drew Wilson, Jr.
Chief Financial Officer

-16-
EXHIBIT INDEX

<Table> <Caption> EXHIBIT	
NUMBER	DESCRIPTION

<S>	<C>
10(a)	- Seventh Amendment to Loan Agreement dated as of August 31, 2002 between South Hampton Refining Company and Southwest Bank of Texas, N.A., together with related Promissory Note.
99.1	- Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	- Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
</Table>	

SEVENTH AMENDMENT TO LOAN AGREEMENT

THIS SEVENTH AMENDMENT TO LOAN AGREEMENT (this "Amendment"), dated as of August 31, 2002, 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, Second Amendment to Loan Agreement dated as of May 31, 2001, Third Amendment to Loan Agreement dated as of July 31, 2001, Fourth Amendment to Loan Agreement dated as of October 31, 2001, Fifth Amendment to Loan Agreement dated as of December 31, 2001 and Sixth Amendment to Loan Agreement dated as of April 30, 2002 (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. The definition of the term "Termination Date" contained in Section 1.1 of the Agreement is amended to read in its entirety as follows:

"Termination Date" means 11:00 a.m., Houston, Texas time on December 31, 2002, or such earlier date on which the Commitment terminates as provided in this Agreement.

Section 2.2. Amendment to Exhibits. 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) Certificate - Borrower. A certificate of the Secretary or another officer of Borrower acceptable to Lender certifying (i) resolutions of the board of directors of Borrower 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 and (ii) the names 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 together with specimen signatures of such officers.

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

(c) Note. The Note executed by Borrower.

(d) 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

-2-

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 or Unmatured Event of Default shall have occurred and be continuing.

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 or Unmatured Event of Default has occurred and is continuing, (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. 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 AGREEMENTS AMONG THE PARTIES HERETO.

Executed as of the date first written above.

BORROWER:

SOUTH HAMPTON REFINING CO.

BY: /s/ NICK CARTER

NICK CARTER
President

-5-

LENDER:

SOUTHWEST BANK OF TEXAS, N.A.

BY: /s/ A. STEPHEN KENNEDY

A. Stephen Kennedy
Senior 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

-6-

LIST OF ANNEXES

<Table>
<Caption>

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

</Table>

-7-

ANNEX "A"

Note

PROMISSORY NOTE

\$3,250,000.00

Houston, Texas

August 31, 2002

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 September 1, 2002 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 December 31, 2002.

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, Second Amendment to Loan Agreement dated as of May 31, 2001, Third Amendment to Loan Agreement dated as of July 31, 2001, Fourth Amendment to Loan Agreement dated as of October 31, 2001, Fifth Amendment to Loan Agreement dated as of December 31, 2001, Sixth Amendment to Loan Agreement dated as of

April 30, 2002 and Seventh Amendment to Loan Agreement dated as of August 31, 2002, 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.

-2-

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, 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.

-3-

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 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 April 30, 2002, executed by Maker and payable to the order of Payee, which was executed 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 December 31, 2001, executed by Maker and payable to the order of Payee, which was executed 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 October 31, 2001, executed by Maker and payable to the order of Payee, which was executed 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 July 31, 2001, executed by Maker and payable to the order of Payee, which was executed 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 May 31, 2001, executed by Maker and payable to the order of Payee, which was executed 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

-4-

SOUTH HAMPTON REFINING CO.

OFFICER'S CERTIFICATE

I, the undersigned, hereby certify that I am the duly elected, qualified, and acting Assistant Secretary of SOUTH HAMPTON REFINING CO., a Texas corporation (the "Corporation"), and that I am authorized to execute and deliver this certificate, and I do hereby further certify as follows:

1. Resolutions. The following resolutions have been duly adopted at a meeting (duly convened where a quorum of directors was present) of, or by the unanimous written consent of, the Board of Directors of the Corporation, and such resolutions have not been amended or revoked, and are now in full force and effect:

"WHEREAS, the Corporation and Southwest Bank of Texas, N.A. (the "Lender") have entered in that certain Loan Agreement dated September 30, 1999, as amended by First Amendment to Loan Agreement dated June 20, 2000, Second Amendment to Loan Agreement dated May 31, 2001, Third Amendment to Loan Agreement dated July 31, 2001, Fourth Amendment to Loan Agreement dated October 31, 2001, Fifth Amendment to Loan Agreement dated December 31, 2001 and Sixth Amendment to Loan Agreement dated April 30, 2002 (collectively, the "Loan Agreement")."

"RESOLVED, that the renewal and extension of the revolving credit indebtedness of the Corporation to the Lender created pursuant to the Loan Agreement to be evidenced by a promissory note in the principal amount of \$3,250,000.00 (the "Note") executed by the Corporation and payable to the order of the Lender, is hereby approved; and further

"RESOLVED, that the form and content of that certain Seventh Amendment to Loan Agreement (the "Amendment") to be entered into by the Corporation and the Lender in the form of drafts exhibited to each director, with such changes as are hereinafter authorized, are hereby approved; and further

"RESOLVED, that the form and content of the Note and all other documents to be executed in connection with the Amendment (collectively, the "Loan Documents"), as exhibited to each director and with such changes as are hereinafter authorized, are hereby approved; and further

"RESOLVED, that the President or any Vice President of the Corporation is hereby authorized, on behalf of the Corporation, to execute the Amendment and the Loan Documents and deliver the same to Lender in substantially the form approved by these resolutions, with such amendments or changes thereto as the officer so acting

may approve, such approval to be conclusively evidenced by such person's execution and delivery of the same; and further

"RESOLVED, that the President or any Vice President of the Corporation is hereby authorized, on behalf of the Corporation, to execute such other instruments and documents, and to take such other actions as the officer so acting deems necessary or desirable to effectuate the transactions contemplated by these resolutions; and further

"RESOLVED, that the Secretary or any Assistant Secretary of

the Corporation is hereby authorized, on behalf of the Corporation, to certify and attest any documents which such person may deem necessary or appropriate to consummate the transactions contemplated by these resolutions; provided that such attestation shall not be required for the validity of any such documents; and further

"RESOLVED, that any and all actions taken by any of the officers or representatives of the Corporation, for and on behalf and in the name of the Corporation, with Lender prior to the adoption of these resolutions, including, without limitation, the negotiation of the Amendment and the Loan Documents, are hereby ratified, confirmed, are approved in all respects for all purposes; and further

"RESOLVED, that the powers and authorizations contained herein shall continue in full force and effect until written notice of revocation has been given to, and received by, the Lender."

2. Incumbency. The following named persons are duly elected or appointed, acting, and qualified officers of the Corporation holding at the date hereof the offices set forth opposite their respective names, and the signatures appearing opposite their respective names are their genuine signatures:

NAME ----	TITLE -----	SPECIMEN SIGNATURE -----
<S> Nick Carter	<C> President	<C> /s/ NICK CARTER -----
Connie Cook	Assistant Secretary	/s/ CONNIE COOK -----

3. Articles of Incorporation. The Articles of Incorporation of the Corporation have not been amended (except as reflected in any attachments hereto) or revoked since September 30, 1999, and remain in full force and effect in the form delivered to the Lender.

4. By-Laws. The By-Laws of the Corporation have not been amended (except as reflected in any attachments hereto) or revoked since September 30, 1999, and remain in full force and effect in the form delivered to the Lender.

-2-

IN WITNESS WHEREOF, I have duly executed this certificate as of September 30th, 2002.

/s/ CONNIE COOK

Assistant Secretary

I, Nick Carter, President of the Corporation, do hereby certify that Connie Cook is the duly elected and qualified Assistant Secretary of the Corporation and the signature appearing opposite such person's name is such person's genuine signature.

DATED: As of September 30, 2002.

/s/ NICK CARTER

President

-3-

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Arabian American Development Company (the "Company") on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hatem El-Khalidi, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C.78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ HATEM EL-KHALIDI

Hatem El-Khalidi
Chief Executive Officer

November 6, 2002

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Arabian American Development Company (the "Company") on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Drew Wilson, Jr., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DREW WILSON, JR.

- -----

Drew Wilson, Jr.
Chief Financial Officer

November 6, 2002