

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 the quarterly period ended **September 30, 2007**

or

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER **0-6247**

ARABIAN AMERICAN DEVELOPMENT COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
organization)

75-1256622

(I.R.S. employer incorporation or
identification no.)

**10830 NORTH CENTRAL EXPRESSWAY, SUITE 175
DALLAS, TEXAS**

(Address of principal executive offices)

75231

(Zip code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated

filer _____

Accelerated filer

Non-accelerated filer **X**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No **X**

Number of shares of the Registrant's Common Stock (par value \$0.10 per share), outstanding at November 9, 2007: 22,901,994.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2007 (unaudited)	DECEMBER 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,909,213	\$ 2,939,022
Trade Receivables, Net of allowance for doubtful accounts of \$35,000 and \$35,000, respectively	12,239,558	8,893,182
Current portion of notes receivable, net of discount and deferred gross profit of \$139,341 and \$200,492, respectively	572,055	605,955
Financial contracts	423,639	--
Financial contract deposits	--	1,500,000
Prepaid expenses and other assets	538,750	576,751
Inventories	2,922,845	3,576,317
Income tax receivable	--	619,598
Total Current Assets	18,606,060	18,710,825
Plant, Pipeline and Equipment	29,399,276	21,643,903
Less: Accumulated Depreciation	(12,148,577)	(11,017,503)
Net Plant, Pipeline and Equipment	17,250,699	10,626,400
Al Masane Project	37,416,719	37,137,022
Other Assets in Saudi Arabia	2,431,248	2,431,248
Mineral Properties in the United States	1,085,209	1,084,711
Notes Receivable, net of discount of \$65,551 and \$172,041, respectively, net of current portion	1,118,655	1,545,714
Other Assets	22,875	54,246
TOTAL ASSETS	\$ 77,931,465	\$ 71,590,166
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 4,313,935	\$ 2,989,203
Accrued interest	60,242	59,857
Financial contracts	--	765,672
Accrued liabilities	2,124,305	1,210,054
Accrued liabilities in Saudi Arabia	1,378,923	1,645,257
Notes payable	11,012,000	11,012,500
Current portion of long-term debt	28,172	488,828
Current portion of other liabilities	621,806	584,349
Total Current Liabilities	19,539,383	18,755,720
Long-Term Debt , net of current portion	3,087,399	5,108,309
Other Liabilities , net of current portion	1,660,686	1,621,105
Deferred Income Taxes	798,604	540,000
Minority Interest in Consolidated Subsidiaries	803,529	817,558
STOCKHOLDERS' EQUITY		
Common Stock -authorized 40,000,000 shares of \$.10 par value; issued and outstanding, 22,601,994 and 22,571,994 shares in 2007 and 2006, respectively		
	2,260,199	2,257,199
Additional Paid-in Capital	37,183,206	37,087,206
Retained Earnings	12,598,459	5,403,069
Total Stockholders' Equity	52,041,864	44,747,474
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 77,931,465	\$ 71,590,166

See notes to consolidated financial statements.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30		SEPTEMBER 30	
	2007	2006	2007	2006
REVENUES				
Petrochemical Product Sales	\$ 26,600,738	\$ 26,253,133	\$ 74,706,740	\$ 72,635,032
Processing Fees	<u>1,437,684</u>	<u>1,288,351</u>	<u>4,135,064</u>	<u>3,305,099</u>
	28,038,422	27,541,484	78,841,804	75,940,131
OPERATING COSTS AND EXPENSES				
Cost of Petrochemical Product				
Sales and Processing	<u>25,597,105</u>	<u>24,763,985</u>	<u>61,969,234</u>	<u>61,158,976</u>
GROSS PROFIT	2,441,317	2,777,499	16,872,570	14,781,155
GENERAL AND ADMINISTRATIVE EXPENSES				
General and Administrative	1,613,612	1,522,286	5,509,742	4,289,185
Depreciation	<u>268,180</u>	<u>230,391</u>	<u>772,096</u>	<u>637,589</u>
	<u>1,881,792</u>	<u>1,752,677</u>	<u>6,281,838</u>	<u>4,926,774</u>
OPERATING INCOME	559,525	1,024,822	10,590,732	9,854,381
OTHER INCOME (EXPENSE)				
Interest Income	70,253	72,592	219,296	171,918
Interest Expense	(10,037)	(92,973)	(115,742)	(632,804)
Minority Interest	3,680	3,184	14,029	6,791
Miscellaneous Income (Expense)	<u>(22,621)</u>	<u>(192,174)</u>	<u>(3,356)</u>	<u>(104,404)</u>
	<u>41,275</u>	<u>(209,371)</u>	<u>114,227</u>	<u>(558,499)</u>
INCOME BEFORE INCOME TAXES	600,800	815,451	10,704,959	9,295,882
INCOME TAXES	<u>219,200</u>	<u>300,849</u>	<u>3,509,569</u>	<u>3,432,267</u>
NET INCOME	<u>\$ 381,600</u>	<u>\$ 514,602</u>	<u>\$ 7,195,390</u>	<u>\$ 5,863,615</u>
Basic Earnings per Common Share				
Net Income	\$ 0.017	\$ 0.023	\$ 0.314	\$ 0.257
Basic Weighted Average Number of Common Shares Outstanding				
	<u>22,901,994</u>	<u>22,808,954</u>	<u>22,893,194</u>	<u>22,782,092</u>
Diluted Earnings per Common Share				
Net Income	\$ 0.016	\$ 0.022	\$ 0.309	\$ 0.255
Diluted Weighted Average Number of Common Shares Outstanding				
	<u>23,299,289</u>	<u>23,073,902</u>	<u>23,274,093</u>	<u>22,967,626</u>

See notes to consolidated financial statements.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007

	ADDITIONAL				
	COMMON STOCK		PAID-IN	RETAINED	
	SHARES	AMOUNT	CAPITAL	EARNINGS	TOTAL
DECEMBER 31, 2006	22,571,994	\$ 2,257,199	\$ 37,087,206	\$ 5,403,069	\$ 44,747,474
Common Stock					
Issued to Employees	30,000	3,000	96,000	--	99,000
Net Income	--	--	-	7,195,390	7,195,390
SEPTEMBER 30, 2007	<u>22,601,994</u>	<u>\$ 2,260,199</u>	<u>\$ 37,183,206</u>	<u>\$ 12,598,459</u>	<u>\$ 52,041,864</u>

See notes to consolidated financial statements.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	NINE MONTHS ENDED	
	SEPTEMBER 30,	
	2007	2006
OPERATING ACTIVITIES		
Net Income	\$ 7,195,390	\$ 5,863,615
Adjustments to Reconcile Net Income		
To Net Cash Provided by Operating Activities:		
Depreciation	772,096	637,589
Accretion of notes receivable discounts	(115,501)	(135,340)
Accretion of unrealized gross profit	(52,138)	(49,415)
Unrealized Gain on Financial Contracts	(1,189,311)	2,336,036
Stock Compensation	99,000	589,000
Deferred Income Taxes	258,604	(297,000)
Postretirement Obligation	589,455	--
Minority interest	(14,029)	(6,790)
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Trade Receivables	(3,346,376)	2,290,021
Decrease in Notes Receivable	628,598	604,165
Decrease in Income Tax Receivable	619,598	--
Decrease in Inventories	653,472	795,345
Decrease in Other Assets	34,070	281,214
(Increase) Decrease in Financial Contract Deposits	1,500,000	(2,300,000)
Decrease in Prepaid Expenses	35,302	91,724
Increase (Decrease) in Accounts Payable and		
Accrued Liabilities	2,091,028	(589,415)
Increase in Accrued Interest	385	7,063
Decrease in Accrued Liabilities in Saudi Arabia	(266,334)	(787,363)
Net Cash Provided by Operating Activities	9,493,309	9,330,449
INVESTING ACTIVITIES		
Additions to Al Masane Project	(279,697)	(281,033)
Additions to Plant, Pipeline and Equipment	(7,760,857)	(2,743,179)
(Additions)Reductions to Mineral Properties in the U.S.	(498)	413
Net Cash Used in Investing Activities	(8,041,052)	(3,023,799)
FINANCING ACTIVITIES		
Additions to Long-Term Debt	--	4,558,726
Repayment of Long-Term Debt	(2,481,566)	(8,776,340)
Repayment of Note to Stockholders	(500)	(13,333)
Net Cash Used in Financing Activities	(2,482,066)	(4,230,947)
NET INCREASE (DECREASE) IN CASH	(1,029,809)	2,075,703
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,939,022	1,738,558
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,909,213	\$ 3,814,261
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 225,890	\$ 625,740
Cash payments for taxes	\$ 2,800,000	\$ 3,882,398
Supplemental disclosure of non-cash items:		
Notes Receivable issued for capital expansion	\$ --	\$ 857,508
Capital expansion amortized to depreciation expense	\$ 364,462	\$ 308,447

See notes to consolidated financial statements.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements, but, in our opinion, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of consolidated financial position, consolidated results of operations, and consolidated cash flows at the dates and for the periods presented have been included. Interim period results are not necessarily indicative of the results for the calendar year. When reading the financial information contained in this quarterly report, reference should be made to the financial statements and footnotes contained in Arabian American Development Company's Form 10-K for the year ended December 31, 2006.

These financial statements include the accounts of Arabian American Development Company (the "Company") and its wholly-owned subsidiary, American Shield Refining Company (the "Petrochemical Company" or "ASRC"), 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 Resources, Inc., formerly known as South Hampton Refining Co. ("South Hampton"). South Hampton owns all of the capital stock of Gulf State Pipe Line Company, Inc. ("Gulf State"). The Company also owns approximately 55% of the capital stock of a Nevada mining company, Pioche-Ely Valley Mines, Inc. ("Pioche"), which does not conduct any substantial business activity. The Petrochemical Company and its subsidiaries constitute the Company's Specialty Petrochemicals Segment. Pioche and the Company's mineral properties in Saudi Arabia constitute its Mining Segment.

2. RECENT ACCOUNTING PRONOUNCEMENTS

FASB Statement No. 157

In September 2006 the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measures. SFAS 157 is effective for fiscal years beginning after November 15, 2007, with early adoption encouraged. The provisions of SFAS 157 are to be applied on a prospective basis, with the exception of certain financial instruments for which retrospective application is required. The Company is currently evaluating the impact adoption of SFAS 157 may have on the financial statements.

FASB Statement No. 159

In February 2007 the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS 159 are elective, however, the amendment of SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities", applies to all entities with available for sale or trading securities. SFAS 159 is elective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company is currently evaluating the impact adoption may have on the financial statements.

3. INVENTORIES

Inventories include the following:

	September 30, 2007	December 31, 2006
Raw material	\$ 1,913,273	\$ 2,577,555
Petrochemical products	1,009,572	998,762
Total inventory	<u>\$ 2,922,845</u>	<u>\$ 3,576,317</u>

Inventories are recorded at the lower of cost, determined on the last-in, first-out method (LIFO), or market. At September 30, 2007, and December 31, 2006, current cost exceeded LIFO value by approximately \$1,416,000 and \$445,000, respectively.

4. PLANT, PIPELINE AND EQUIPMENT

Plant, Pipeline and Equipment includes Construction in Progress of approximately \$4.1 million and \$0.5 million at September 30, 2007 and 2006, respectively. Interest capitalized for the nine months ended September 30, 2007 and 2006 was \$110,534 and \$0, respectively.

5. NET INCOME PER COMMON SHARE

The following table (in thousands, except per share amounts) sets forth the computation of basic and diluted net income per share for the three and nine months ended September 30, 2007 and 2006, respectively.

Three Months Ended September 30, 2007				Three Months Ended September 30, 2006			
	Income	Shares	Per Share Amount		Income	Shares	Per Share Amount
Basic Net Income per Share:							
Net Income	\$ 382	22,902	\$ 0.02	\$ 515	22,809	\$ 0.02	
Dilutive stock options outstanding		<u>397</u>			<u>265</u>		
Diluted Net Income per Share:							
Net Income	<u>\$ 382</u>	<u>23,299</u>	<u>\$ 0.02</u>	<u>\$ 515</u>	<u>23,074</u>	<u>\$ 0.02</u>	

Nine Months Ended September 30, 2007				Nine Months Ended September 30, 2006			
	Income	Shares	Per Share Amount		Income	Shares	Per Share Amount
Basic Net Income per Share:							
Net Income	\$ 7,195	22,893	\$ 0.31	\$ 5,864	22,782	\$ 0.26	
Dilutive stock options outstanding		<u>381</u>			<u>186</u>		
Diluted Net Income per Share:							
Net Income	<u>\$ 7,195</u>	<u>23,274</u>	<u>\$ 0.31</u>	<u>\$ 5,864</u>	<u>22,968</u>	<u>\$ 0.26</u>	

At September 30, 2007, and 2006, 500,000 potential common stock shares were issuable upon the exercise of options.

6. 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, and miscellaneous income. Information on the segments is as follows:

Three Months ended September 30, 2007	Petrochemical	Mining	Total
Revenue from external customers	\$ 28,038,422	\$ --	\$ 28,038,422
Depreciation	268,102	78	268,180
Operating income (loss)	771,752	(212,227)	559,525
Total assets	\$ 36,771,041	\$ 41,160,424	\$ 77,931,465

Three Months ended September 30, 2006

Revenue from external customers	\$ 27,541,484	\$ --	\$ 27,541,484
Depreciation	230,312	79	230,391
Operating income (loss)	1,160,760	(135,938)	1,024,822
Total assets	\$ 29,615,506	\$ 40,690,951	\$ 70,306,457

Nine Months ended September 30, 2007

Revenue from external customers	\$ 78,841,804	\$ --	\$ 78,841,804
Depreciation	771,861	235	772,096
Operating income (loss)	12,116,920	(1,526,188)	10,590,732

Nine Months ended September 30, 2006

Revenue from external customers	\$ 75,940,131	\$ --	\$ 75,940,131
Depreciation	637,421	168	637,589
Operating income (loss)	10,445,345	(590,964)	9,854,381

Information regarding foreign operations for the three and nine months ended September 30, 2007 and 2006 follows (in thousands). Revenues are attributed to countries based upon the origination of the transaction.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Revenues				
United States	\$ 28,038	\$ 27,541	\$ 78,842	\$ 75,940
Saudi Arabia	--	-	--	--
	<u>\$ 28,038</u>	<u>\$ 27,541</u>	<u>\$ 78,842</u>	<u>\$ 75,940</u>
Long-lived Assets				
United States	\$ 18,336	\$ 11,082		
Saudi Arabia	39,848	39,516		
	<u>\$ 58,184</u>	<u>\$ 50,598</u>		

7. LEGAL PROCEEDINGS

In August 1997, the Executive Director of the Texas Commission on Environmental Quality (TCEQ) filed a preliminary report and petition with TCEQ alleging that South Hampton violated various TCEQ rules, TCEQ permits issued to South Hampton, a TCEQ order issued to South Hampton, the Texas Water Code, the Texas Clean Air Act and the Texas Solid Waste Disposal Act. The Company is currently in negotiations with the TCEQ to resolve the proposed penalty. The Company had previously revised and/or corrected the administrative and mechanical items in question. The matter is expected to be resolved by year end.

On August 13, 2007, a lawsuit was filed against the Company and approximately 45 other defendants alleging the plaintiff was exposed to benzene which was the legal cause of his illness. The Company has no known relationship with the plaintiff and intends to vigorously defend itself in the proceedings. The Company's insurance carriers are currently providing legal defense of the suit. The resolution of this lawsuit is not expected to have a material affect on the Company's financial condition.

8. LIABILITIES AND LONG-TERM DEBT

In September 2007, South Hampton signed a credit agreement with Bank of America for a \$10.0 million term loan secured by plant, property, and equipment. The interest rate on the loan varies according to several options and may be based upon LIBOR or a base rate plus a markup. The agreement expires October 31, 2018. The proceeds of the credit line will be used to fund the facility expansion. At September 30, 2007, no draws had been made on the loan.

In May 2006, South Hampton signed a credit agreement with Bank of America for a \$12.0 million working capital line of credit secured by Accounts Receivable and Inventory. The agreement expires October 31, 2008. The proceeds of the credit line were used to pay the outstanding balance of \$1.8 million borrowed from the Catalyst Fund in 2005 for expansion of the tolling facilities at the petrochemical plant, the credit line with Amegy Bank, and for feedstock acquisition as necessary. The credit agreement contains a sub-limit of \$3.0 million available to be used in support of the hedging program. At September 30, 2007, approximately \$3.1 million was outstanding and \$8.9 million was unused.

A contract was signed on June 1, 2004, between South Hampton and a supplier for the purchase of 65,000 barrels per month of natural gasoline on open account for the period from June 1, 2004 through May 31, 2006 and year to year thereafter with thirty (30) days written notice of termination by either party. The supplier is currently the sole provider of the facility's feedstock supply although other sources are available. On June 1, 2005, the contract was extended to May 31, 2008. The account was originally secured by a lien on plant assets. The lien was removed in December 2006, and the account was placed on open status.

During the first nine months of 2006, \$730,000 of the liability to the Company's President and Chief Executive Officer was paid. In the first nine months of 2007 approximately \$326,000 of the liability to its President and Chief Executive Officer was paid, resulting in a balance of approximately \$335,000 which remains due and owing as of September 30, 2007. Approximately \$306,000 of that amount relates to termination benefits due according to Saudi law upon Mr. El-Khalidi's separation from the Company.

9. DERIVATIVE INSTRUMENTS

Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 138 and 149, establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative instrument's gains and losses to offset related results on the hedged item in the income statement, to the extent effective, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting treatment.

On January 30, 1992, the Board of Directors of TOCCO adopted a resolution authorizing the establishment of a commodities trading account to take advantage of opportunities to lower the cost of feedstock and natural gas for its subsidiary, South Hampton, through the use of short term commodity swap and option contracts. The policy adopted by the Board specifically prohibits the use of the account for speculative transactions. The operating guidelines adopted by management generally limit exposures to 50% of the monthly feedstock volumes of the facility for up to six months forward and up to 100% of the natural gas requirements. The derivative

agreements are not designated as hedges per SFAS 133, as amended. TOCCO had option and swap contracts outstanding as of September 30, 2007, covering various natural gas price movement scenarios through March of 2008 and covering from 50% to 100% of the natural gas requirements for each month. As of the same date, TOCCO had committed to financial swap contracts for up to 50% of its required monthly feed stock volume with settlement dates through December of 2007. For the nine months ended September 30, 2007 and 2006, the net realized gain/(loss) from the derivative agreements was approximately \$2,520,000 and \$1,192,000, respectively. There was an unrealized gain for the nine months ended September 30, 2007 and 2006 of approximately \$1,189,000 and \$2,336,000, respectively. The realized and unrealized gains are recorded in Cost of Petrochemical Product Sales and Processing for the periods ended September 30, 2007 and 2006. The fair value of the derivative asset at September 30, 2007 totaled \$423,639 and the fair value of the derivative liability at December 31, 2006 totaled \$765,672. Unexpired premiums (discounts) for derivatives were \$60,000 and \$(75,600) at September 30, 2007 and December 31, 2006, respectively.

10. SHARE-BASED COMPENSATION

Common Stock

In March 2007, the Company issued 30,000 shares of its common stock to certain employees and executives of the Company for services rendered. In January 2006, the Company issued 40,000 shares of its common stock to certain employees and executives of the Company for services rendered. In August 2006, the Company issued 100,000 shares of its common stock to an independent director of the Company as recognition for many years of service. The Company valued the common stock issued to employees and executives based on the fair value of its common stock on the date of grant. Compensation expense recognized in connection with these issuances was \$99,000 and \$360,000 for the nine months ended September 30, 2007 and 2006, respectively.

Stock Options

A summary of the status of our stock option awards is presented below:

	Number of Stock Options	Weighted Average Exercise Price per Share
Outstanding at January 1, 2007	500,000	\$ 1.20
Granted	--	
Exercised	--	
Forfeited	--	
Outstanding at September 30, 2007	<u>500,000</u>	\$ 1.20
Exercisable at September 30, 2007	<u>500,000</u>	\$ 1.20

Outstanding options of 400,000 at January 1, 2007 have an indefinite life. The remaining outstanding 100,000 options have a remaining contractual life of 23 months.

11. INCOME TAXES

The Company files an income tax return in the U.S. federal jurisdiction and Texas. Tax returns for the years 2004 through 2006 remain open for examination in various tax jurisdictions in which it operates.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109, Accounting for Income Taxes" ("FIN 48"), on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007, and at September 30, 2007, there were no unrecognized tax benefits. Interest and penalties related to uncertain tax positions will be recognized in income tax expense. As of September 30, 2007, no interest related to uncertain tax positions had been accrued.

12. POST RETIREMENT OBLIGATIONS

In January 2007 a retirement agreement was entered into with Jack Crichton, Chairman of the Board. The agreement provides \$3,000 per month in benefits to Mr. Crichton for five years after his retirement in addition to a lump sum of \$30,000 that was paid upon the signing of the agreement. A liability of approximately \$148,000 was recorded at March 31, 2007 based upon the present value of the \$3,000 payment per month using the Company's borrowing rate of approximately 8%. A current liability of approximately \$148,000 remained outstanding at September 30, 2007 and was included in accrued liabilities.

In February 2007 a retirement agreement was entered into with Hatem El-Khalidi, President of the Company. The agreement provides \$3,000 per month in benefits to Mr. El-Khalidi upon his retirement for the remainder of his life. Additionally, upon his death \$2,000 per month will be paid to his surviving spouse for the remainder of her life. A health insurance benefit will also be provided. A long term liability of approximately \$440,000 based upon an annuity single premium value contract value was outstanding at September 30, 2007, and included in other liabilities.

13. SUBSEQUENT EVENTS

On October 22, 2007 the Company announced that it had received the approval of the Ministry of Commerce and Industry for the formation of the Al-Masane Al-Kobra Mining Company (ALAK). The shareholders were instructed to publish the approval notice in the Official Gazette (the Saudi equivalent to the Federal Register) and to schedule a shareholder meeting during which the Board of Directors will be appointed and organized. The notice was published as instructed, and the shareholders are to meet in late November or early December to formally organize their Board. ALAK will then be approved to do business within the Kingdom. The Company will then apply to the Ministry of Petroleum and Minerals to transfer the mining lease into the name of ALAK. ALAK also expects, upon gaining official legal status, to sign the contracts for the construction of the processing facility.

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 cases, "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.

On July 31, 2006, the Company, which was quoted on the Pink Sheets for the last four years, began trading on the OTC Bulletin Board. The change was pursued by the Company in an effort to expand the availability of information and increase the liquidity of the Company's common stock for the benefit of its shareholders. Assisting the Company in changing its trading venue to the OTC Bulletin Board was Westminster Securities Corp., a full service brokerage firm headquartered in New York.

LIQUIDITY AND CAPITAL RESOURCES

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

SPECIALTY PETROCHEMICALS SEGMENT. Since the acquisition of Texas Oil and Chemical Co. and subsidiaries in 1987, this segment has contributed all of the Company's internally generated cash flows. As petroleum markets have fluctuated the last twenty years, the primary operating subsidiary, South Hampton, has been able to remain competitive by raising prices, cutting costs, shifting focus, or developing new markets as necessary. As a smaller niche player in a capital intensive industry dominated by larger companies, continuing adjustments to the business plan have been necessary to achieve steady profitability and growth. Product demand has continued to be strong during the last several years and these conditions allowed the Petrochemical segment to report significant earnings and adapt to continuing volatility of the markets. A project to double the volume of products available for sale was approved by the Board of Directors on March 20, 2007. Equipment procurement is underway, and the project is anticipated to be operational in the first half of 2008. Financing is being provided by Bank of America on a secured basis. The project will allow the Company to realize the benefits of increasing market demand domestically and internationally, and give it the product availability needed to maintain its present position as North American market leader.

A contract is in place between South Hampton and the supplier for the purchase of 65,000 barrels per month of natural gasoline on open account through May 31, 2008, and year to year thereafter, with thirty days written notice of termination by either party. The contract is based on a normal credit line with no security. The supplier is currently the sole provider of feedstock, although other sources are available in the open market. At September 30, 2007, South Hampton owed the supplier approximately \$1,552,000.

On August 1, 2004, South Hampton entered into a capital lease with Silsbee Trading and Transportation, which is owned by an officer of the Company, for the purchase of a diesel powered man lift. The lease is for five years with title transferring to South Hampton at the end of the term.

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 taken many years to come to fruition due to numerous factors such as insufficient world metal prices, lack of infrastructure nearby, and scarcity of investment capital for mining projects. As the world economy and metal prices have improved over the last several years, investment viability has improved and steps are being taken to take advantage of the very active mining investment climate.

All lease payments were fully paid as of February 27, 2007. The next payment will be due on January 1, 2008.

The Company is presently working with eight Saudi investors to form a closed Saudi joint stock company under the name Al Masane Al Kobra Mining Company (ALAK). The Company's mining lease will be transferred to ALAK. ALAK will then build the mining and treatment facilities and start mining the ore reserves of zinc, copper, silver and gold which the Company has proven to exist with its previous geological work. In addition, any other ore to be discovered and developed during the Company's mining lease period which ends in 2023 will also be developed. In accordance with the mining lease agreement, the lease can be extended for 20 years until 2043. The ore will be treated on site, transforming it into copper, and zinc concentrates, to be sold to zinc and copper refineries, and gold and silver bullion. On June 10, 2006 the Company entered negotiations with four potential Saudi investors and subsequently on August 6, 2006, a Partnership Agreement was signed by the Company and the investors. The agreement was approved by the Board of the Company on August 28, 2006, and draft Articles of Association and bylaws for ALAK were prepared. While final details may change, the basic terms of agreement are as follows: (1) the capitalization of ALAK will be the amount necessary to develop the project, approximately \$120 million, (2) the Company will own 50% of ALAK with the remainder being held by the Saudi investors, (3) the Company will contribute the mining assets and mining lease for a credit of \$30 million and the Saudi investors will contribute \$30 million cash, and (4) the remaining capital will be raised by ALAK by other means which may include application for a loan from the Saudi Industrial Development Fund, loans from private banks, and/or the inclusion of other investors. ALAK will have all powers of administration over the Al Masane mining project. Subsequent to the above agreement, four additional investors have been added to the group, and the cash contribution has been raised to \$60 million, which was deposited in the accounts for ALAK in September and October of 2007. The Company will have directors representing its interests on a board of directors with the Chairman of ALAK chosen from the directors representing the Saudi investors. The original documents are in Arabic, and English translations have been provided to the parties. ALAK is in the process of being established under the rules of the Saudi Ministry of Commerce and Industry. On October 22, 2007 the parties received notice of approval for formation of ALAK and the final steps are being taken to allow ALAK to conduct business within the Kingdom. When the license to do business is issued, ARSD will request that the Ministry of Minerals and Petroleum transfer the lease into the name of ALAK, and contracts will be signed with the primary contractor on the construction of the processing mill. These events are expected to take place in early 2008.

The Company on August 5, 2006, signed a one year Financial And Legal Services Agreement with a Saudi legal firm and a Saudi management consultant in Saudi Arabia to facilitate the: (1) formation of ALAK, (2) transfer of the mining assets and lease into ALAK, and (3) raising of additional capital. The attorney and consultant are to be paid in stock issued by the Company and up to one million shares will be issued in increments as each step is completed. The agreement has been extended on a month to month basis and remains in effect.

Between March 19, 2007, and March 27, 2007, a delegation of nine mining engineers, geologists and an economist from the China National Geological & Mining Corporation (CGM) visited the Company's office and the Al Masane mine site upon the invitation of the Saudi joint venture partners. CGM collected data and information regarding the Al Masane project to determine whether it would submit a bid on construction on a turnkey basis together with NESMA. NESMA is a major Saudi construction company and would be the primary contractor. At the conclusion of the visit a Memorandum of Understanding was signed by a representative of ALAK, the Company, NESMA, and CGM, which stated that CGM would submit a preliminary general layout plan and drawing within ten days and that CGM will submit its final offer for turnkey construction and commissioning based on an updated feasibility study within three months after the invitation to tender offer by the Company is received. The tender offer is being prepared and will be provided to CGM once ALAK is officially formed and obtains its commercial registration from the Ministry of Commerce and Industry.

After initialization, the work plan is estimated to require approximately twenty-two months to complete after which commercial production will begin. On April 20, 2005, the Company signed an agreement with SNC-Lavalin Engineering and Construction Company of Toronto, Canada (SNC-Lavalin), to update the fully bankable feasibility study. The prices of zinc, copper, gold and silver have increased significantly over the last several years, and the updated study with current prices was completed in August of 2005. The study by SNC-Lavalin also updated the estimated capital cost and operating expenses of the project. SNC-Lavalin concluded that capital expenditure of approximately \$115 million is required to bring the mine into production with an additional \$6.7 million for a cyanide leach process for gold recovery. The study was then turned over to a separate and independent consultant for further analysis and review of economic feasibility. The consultant, Molinari and Associates, Inc. of Toronto, Canada, (Molinari) concluded that the study by SNC-Lavalin was conservative and there were many opportunities for cost savings and improvements in the projections as presented.

Metal prices were at record lows worldwide during the early part of the 21st century, and consequently, a large number of mining projects were not economically feasible. Based on recovering metal prices from 2004 through 2006, the project has become economically viable. Using spot prices as of September 28, 2007, or even a ten year average of prices, the project becomes economically very attractive. Mining economics, as with other capital intensive extractive industries such as offshore petroleum exploration, will vary over time as market prices rise and fall with worldwide economic performance.

The following chart illustrates the change from the prices of 2004 and 2006 to current levels:

	Average Price For 2004-2006	Spot Price as of 09/28/07	Percentage Increase
Gold	\$491.60 per ounce	\$743.00 per ounce	51.14%
Silver	\$ 9.03 per ounce	\$ 13.65 per ounce	51.16%
Copper	\$ 1.98 per pound	\$ 3.70 per pound	86.87%
Zinc	\$ 0.85 per pound	\$ 1.40 per pound	64.71%

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 surrounding the Al Masane mining lease area and including 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, geochemical and geological work and diamond core drilling in the Greater Al Masane areas revealed mineralization similar to that discovered at Al Masane. In August 2006, the Ministry notified the Company that its application for a mineral exploration license did not comply with requirements of the new Mining Code adopted in 2004. The Ministry invited the Company to re-apply, taking into consideration the new requirement that each application be limited to 100 square kilometers in area. There is no limit on the number of applications, so the Company intends to re-apply for multiple areas, choosing the areas previously identified as the highest grade locations. Exploration licenses are being prepared and will be submitted in the name of ALAK when commercial registration is obtained from the Saudi Ministry of Commerce and Industry.

Management is also addressing two other significant financing issues within the Mining Segment. These issues include: (1) the \$11 million note payable to the Saudi Arabian government, and (2) accrued salaries and termination benefits of approximately \$1,023,000 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 was owed approximately \$601,000 at December 31, 2006 and \$335,000 as of September 30, 2007).

Regarding the note payable, this loan was originally due in ten annual installments beginning in 1984. The Company has neither made any repayments nor 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 Ministry of Finance and National Economy recommended that the \$11 million note be incorporated into a loan from the Saudi Industrial Development Fund ("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 final resolution of the \$11 million note is undetermined at this time. Management intends to address the issue once ALAK is established and in operation. In the event the Saudi government demands immediate repayment of this obligation, which Management considers unlikely, the Company would have to investigate options available for refinancing the debt.

With respect to accrued salaries and termination benefits due employees working in Saudi Arabia, the Company plans to continue employing these individuals dependent upon the needs of the mining operation until such time as ALAK actually takes over the Al Masane mining project. Management believes it has sufficient resources to manage this severance liability as necessary. In 2007 the President of the Company was paid approximately \$326,000 of the total amount owed and plans are to eliminate the balance by the end of the year.

The Company's mineral interests in the United States consist solely of its holdings in Pioche, which has been inactive for many years. Pioche properties include forty-eight (48) patented and five (5) unpatented claims totaling approximately 1,500 acres in Lincoln County, Nevada. A claim consists of 22.5 acres and by being "patented", the Company actually owns the surface area. "Unpatented" means the Company leases the surface area, and owns the mineral deposits. There are prospects and mines on these claims that previously produced silver, gold, lead, zinc and copper. There is also a 300 ton/day processing mill on property owned by Pioche; however, 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. In August 2004, the Company exercised its option to purchase 720,000 shares of the common stock of Pioche at \$0.20 a share for a total amount of \$144,000. Pioche agreed to accept payment for the stock purchase by the cancellation of \$144,000 of debt it owed to the Company. This purchase increased the Company's ownership interest in Pioche to approximately 55%. The recent high metal prices and positive outlook on the metals

markets have generated a renewed interest in the properties. Inquiries are evaluated as they appear and the Company is investigating the best use of the properties. A recent review of the property indicates the real estate value may preclude the practicality of developing mining operations.

The Company's Management and Board of Directors have many years of experience in the exploration for, and development of, mineral prospects in various parts of the world:

Mr. John Crichton, Chairman Emeritus, has world wide experience as a renowned oil and mineral consultant to major companies. He is the holder of a MSc. Degree in Petroleum Engineering from MIT. Mr. Crichton served on the Board for over 40 years and remains an honorary member;

Mr. Hatem El-Khalidi, who holds a MSc. Degree in Geology from Michigan State University, is also a consultant in oil and mineral exploration. He has served as President and Chief Executive Officer of the Company for many years. Mr. El-Khalidi originally discovered the Al Masane deposits, and development has been under his direct supervision throughout the life of the project. Mr. El-Khalidi's current term expires in 2010;

Mr. Ghazi Sultan, a Saudi citizen, holds a MSc. Degree in Geology from the University of Texas. Mr. Sultan served as the Saudi Deputy Minister of Petroleum and Mineral Resources 1965-1988 and was responsible for the massive expansion of the mineral resources section of the Ministry. Mr. Sultan is a member of the Audit and Compensation Committees of the Company. Mr. Sultan's current term expires in 2010;

Mr. Nicholas Carter, the Company's Secretary and Treasurer, is a graduate of Lamar University with a BBA Degree in Accounting, is a CPA, and has extensive experience in the management of the Company's petrochemical segment. His employment in the petrochemical business predates the acquisition by the Company in 1987. Mr. Carter was first appointed to the Board on April 27, 2006. Mr. Carter's current term expires in 2008;

Mr. Robert E. Kennedy was first appointed to the Board on January 15, 2007 and has extensive experience in the petrochemical industry including serving over 30 years service with Gulf Oil and Chevron Chemical. In 1989, while helping form the International Business Development Group for Chevron Chemical, he was involved in the development of a major installation in Saudi Arabia which came on stream in 1999. Mr. Kennedy is a member of the Company's Audit and Compensation Committees. Mr. Kennedy's current term expires in 2009;

Dr. Ibrahim Al-Moneef was appointed to the Board on April 26, 2007. Dr. Al-Moneef holds a PhD in Business Administration from the University of Indiana. He currently is owner and chief editor of The Manager Monthly Magazine, a Saudi business journal. He has held key positions with companies doing business in the Kingdom, including the Mawarid Group, the Ace Group, and the Saudi Consolidated Electric Company. Dr. Al-Moneef serves on the Audit, Compensation, and Nominating Committees, and his current term expires in 2009.

Mr. Mohammed A. Al-Omair was appointed to the Board on October 23, 2007. Mr. Al-Omair resides in Riyadh, Saudi Arabia and is currently serving as Senior Vice President & Deputy Chief Executive Officer for FAL Holdings Arabia Co. Ltd. He holds a BA Degree in Political Science and a Master of Public Administration from the University of Washington. Mr. Al-Omair served on the Board of ARSD from 1993 until 2005 when he resigned for personal reasons. Mr. Al-Omair is a member of the Audit and Compensation Committees. Mr. Al-Omair's current term expires in 2008;

Mr. Charles W. Goehringer, Jr. was appointed to the Board on October 23, 2007. Mr. Goehringer is an attorney with the law firm of Germer Gertz, LLP in Beaumont, Texas with more than 12 years experience and currently serves as corporate counsel for ARSD. He also worked in industry as an engineer for over 15 years. Mr. Goehringer holds a BS Degree in Mechanical Engineering from Lamar University, a Master of Business Administration from Colorado University, and a Doctor of Jurisprudence from South Texas College of Law. Mr. Goehringer is a member of the Audit and Compensation Committees, and his current term expires in 2008.

Operating Activities

Cash provided by Operating Activities was approximately \$9,493,000 in the first nine months of 2007 compared with approximately \$9,330,000 in the same period of 2006. The primary factors in the increase of approximately \$163,000 were: an increase in trade receivables of approximately \$5,636,000, a decrease in notes receivable of roughly \$24,000, a decrease in income tax receivable of approximately \$620,000, an increase in other assets of about \$247,000, an increase in inventory of \$142,000, an increase in prepaid assets of \$56,000, a decrease in financial contract deposits of \$3,800,000, an increase in accounts payable and accrued liabilities of \$2,680,000, and an increase in accrued liabilities in Saudi Arabia of \$521,000. The Company's net income increased by approximately \$1,332,000 but was offset by non-cash charges including an increase in depreciation of about \$135,000, an unrealized gain on financial contracts of approximately \$3,525,000, a decrease in stock compensation of \$490,000, an increase in deferred income taxes of roughly \$556,000 and an increase in post-retirement obligations of about \$589,000.

Investing Activities

Cash used for investing activities during the first nine months of 2007 was approximately \$8,041,000, representing an increase of approximately \$5,017,000 over the corresponding period of 2006 all of which was additions to Plant, Pipeline and Equipment. Approximately \$4.0 million of this amount relates to the Penhex Expansion project with another \$1.1 million relating to completion of the work on rail and truck handling facilities which were initiated in 2006.

Financing Activities

Cash used for financing activities during the first nine months of 2007 was approximately \$2,482,000 versus approximately \$4,231,000 used in the corresponding period of 2006. The reduction in principal payments on long-term debt in the first nine months of 2007 compared to the same period of 2006 was due to the decrease in the amount of long-term debt carried by the Company. The Company made principal payments on long-term debt during the first nine months of 2007 of \$2,000,000 on the Company's revolving line and approximately \$21,000 on the capital lease, and approximately \$460,000 toward a vendor payable. The Company made principal payments on long-term debt during the first nine months of 2006 of \$441,000 on the Company's revolving line, approximately \$19,000 on the capital lease, \$1,900,000 on a secured note, and approximately \$1,857,000 on a note due to a vendor.

RESULTS OF OPERATIONS

SPECIALTY PETROCHEMICALS SEGMENT. In the quarter ended September 30, 2007, total petrochemical product sales increased by \$348,000 and toll processing fees increased by \$149,000 for a net increase in revenue of \$497,000 or 1.8% compared to the quarter ended September 30, 2006. Sales volume for the same period in 2007 versus 2006 decreased approximately 1.4% indicating steady demand and the maxed out status of the production facilities. During these comparable quarters, the cost of petrochemical sales and processing (excluding depreciation) increased approximately \$833,000 or 3.4% as compared to the third quarter in 2006. Consequently, total gross profit margin on revenue for the third quarter of 2007 decreased approximately \$336,000 or 12.1% as compared to the same period in 2006. The change in gross profit margin for the period was primarily due to the change in the fair value of derivatives for feedstock purchases. The derivatives program as operated by the Company is designed to allow for increased predictability of pricing for natural gas and feedstock over time, which may have positive or negative results during the short term when price fluctuations are significant as they were in the third quarter of 2007. The other factor which may affect margins as the petroleum markets fluctuate in price is 20% of the Company's product which is sold on a formula pricing basis. Depending on how market prices of unleaded gasoline or benzene relate to natural gasoline prices, the margins on this product line may increase or decrease within a short period of time.

The cost of petrochemical product sales and processing and gross profit margin for the three months ended September 30, 2007 and 2006 includes an unrealized (loss)/

gain of approximately (\$2,860,000) and \$222,000 respectively, on the derivative agreements.

For the nine month period ending September 30, 2007, total petrochemical product sales and processing fees increased approximately \$2.9 million or 3.8%, while the cost of petrochemical sales and processing (excluding depreciation) increased approximately \$810,000 or 1.3% over the comparable period in 2006. Consequently, the total gross profit margin on petrochemical product sales and processing during the first nine months of 2007 increased approximately \$2.1 million as compared to the same period in 2006. The cost of petrochemical product sales and processing and gross profit margin for the nine month period ending September 30, 2007 and 2006, includes an estimated unrealized gain of approximately \$1,189,000 and \$2,336,000 respectively, on the derivative agreements.

Growth of the North American markets served has generally been 2% to 3% annually over the past ten to fifteen years. The Company's growth in volume has generally matched that trend over the same time period, although after the March 2005 expansion, the growth rate in sales exceeded the industry wide growth rate. The Company bases its marketing philosophy on high quality, consistent, products and services to the customer and believes this is essential to being successful in the specialty product marketplace. In addition to growth in the North American market, the Company is actively pursuing export opportunities.

Demand remained strong for most products through the first nine months of 2007, and the process ran at 91% of capacity per calendar day, which is close to maximum capacity when time lost for maintenance, weather interruptions, and mechanical failures are considered.

Since 2003, the Company has entered into derivative agreements to dampen sudden price spikes and provide feedstock price protection. Management believes that if the derivative agreements can moderate rate of change in the overall cost of feedstock, product prices can be adjusted sufficiently as needed. Generally, approximately 50% of the Company's monthly feedstock requirements for three to nine months ahead might be covered at any one time. This ratio cushions price increases and allows the Company to experience partial benefit when the price drops. During the first nine months of 2007, natural gasoline derivative agreements had a realized gain of approximately \$2,853,000 and an unrealized gain of approximately \$886,000 for a total positive effect of approximately \$3,739,000. The program is designed to be insurance against unforeseen dramatic price swings rather than a speculative profit center. It operates mostly as a "buy and hold" program.

The price of natural gas (fuel gas), which is the petrochemical operation's largest single operating expense, continued to be high during the first nine months of 2007 as compared to historical levels. The Company has option contracts in place for fuel gas through the first quarter of 2008 in order to minimize the impact of price fluctuations in the market. The Company was also able to pass through price increases as they occurred. During the first nine months of 2007, natural gas derivative agreements had a realized loss of approximately \$333,000 and an unrealized gain of approximately \$167,000. Derivative discounts of \$75,600 expired and \$60,000 of premiums were paid for additional derivatives during the first nine months of 2007.

Toll processing fee revenue for the third quarter of 2007 of approximately \$1,438,000 represents an increase of approximately \$149,000 or 11.6% above the fees for the same period in 2006. The toll processing customers are very active and remain on long-term contracts. While there are some fluctuations in tolling volumes handled, toll processing has developed into a stable business and the Company intends to continue to develop opportunities when available. Toll processing fees are expected to remain steady during the remainder of 2007 and beyond as expanded facilities for a major customer were completed in October 2005. The revised contract with this customer contains a capital repayment feature. The expanded unit began operations on schedule

(considering the hurricane caused delay) and is producing high quality products at volumes requested by the customer. There are shortages in the markets served by this process, and it is expected the expanded unit will run at high rates for the remainder of 2007. A project expanding the capacity of a tolling unit for a different customer was operational August 3, 2006, and is expected to further enhance tolling revenues. Toll processing revenues for the nine months ended September 30, 2007 are 25.1% higher than for the comparable figure of 2006.

While the volume of feedstock purchased is increasing because of expanded capacity, significant price changes in the petroleum markets have also increased the dollar amount of such purchases. The Company has absorbed most of the increased working capital needs through cash flow, and the line of credit is only partially used.

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

The Al Masane mining project requires approximately \$60,000 per month of cash outlay to maintain facilities and advance the development of the project including the lease payment of \$117,300 per year. During the first nine months of 2007, the Company capitalized approximately \$280,000 in development expenditures and recorded approximately \$198,000 as expense. After the Al Masane lease is transferred to ALAK, ongoing maintenance and operation expense will be paid within ALAK, and it is anticipated that expenses required to oversee the Company's investment will continue at a reduced rate.

The Company assesses carrying values of its assets on an ongoing basis. Factors which may affect carrying values of the mining properties include, but are not limited to, mineral prices, capital cost estimates, estimated operating costs of any mines and related processing, ore grade and related metallurgical characteristics, design of any mines and the timing of mineral production. Prices currently used to assess the recoverability of the Al Masane project costs for 2007 are \$3.70 per pound for copper and \$1.40 per pound for zinc for the projected life of the mine. 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, 2007. 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.

The Balance Sheet of the Company includes several noteworthy changes from September 30, 2007 as compared to that published in the Company's Annual Report for December 31, 2006, primarily attributable to the petrochemical segment. Trade receivables increased during the first nine months of 2007 by \$3.346 million to \$12.240 million. The balance at the end of the 2006 was lower due to decreased sales during the last two weeks of December. The receivable balance at September 30, 2007 is considered more normal. The average collection period remains normal for the business. Inventories decreased from December 31, 2006 due to a decrease in the volume of finished product inventory the Company had on hand at the end of the period. The decrease of approximately \$653,000 fell within the normal ebb and flow of the business and carries no significant meaning in Management's opinion. As discussed previously, financial contracts moved from a current liability of approximately \$765,000 to a current asset of approximately \$424,000 due to changes in fair value of contracts on hand at September 30, 2007. The increase in Plant, Pipeline and Equipment of \$7,755,000 is principally due to continued expansion of the truck and rail loading facility in anticipation of the increased process capability, as well as, acquisition of equipment for process capability expansion. The rail facility has not undergone significant improvement for several years and was due to be upgraded for safety and efficiency purposes. The rail loading facility project was completed

during the third quarter of 2007. The process expansion should be complete during the first half of 2008.

General and Administrative costs for the first nine months of 2007 increased approximately \$1,221,000 versus the same period in 2006. A major contributor to the increase is approximately \$589,000 of expense relating to post-retirement agreements signed in January and February of 2007. The remaining difference is due to generally higher labor costs and increased business activity. The Company expects to incur increased expense for the remainder of 2007 due to increased training of additional personnel in anticipation of the expanded production activities in early 2008.

Interest expense for the first nine months of 2007 of approximately \$116,000 represents a decrease of approximately \$517,000 for the same period in 2006. Interest expense decreased in 2007 due to reductions in note payable balances, refinancing at lower interest rates, and the capitalization of interest of approximately \$110,500 for construction in progress.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109, Accounting for Income Taxes" ("Fin 48"), On January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007, and at September 30, 2007, there were no unrecognized tax benefits. Interest and penalties related to uncertain tax positions will be recognized in income tax expense. As of September 30, 2007, no interest related to uncertain tax positions had been accrued.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

There have been no material changes in the Company's exposure to market risk from the disclosure included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Control and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to us, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i)is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii)is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

As reported in Item 9A of our Annual Report on Form 10-K filed April 5, 2007, two control deficiencies were determined to be material weaknesses (as defined in Public Company Accounting Oversight Board Auditing Standard No.2). These items related to accounting for income taxes and timely preparation of financial statements in accordance with GAAP.

In response to the foregoing material weaknesses, the Company has contracted with an independent, outside party to provide additional accounting resources and assist management in preparing accurate and timely financial statements.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

In August 1997, the Executive Director of the Texas Commission on Environmental Quality (TCEQ) filed a preliminary report and petition with TCEQ alleging that South Hampton violated various TCEQ rules, TCEQ permits issued to South Hampton, a TCEQ order issued to South Hampton, the Texas Water Code, the Texas Clean Air Act and the Texas Solid Waste Disposal Act. The Company is currently in negotiations with the TCEQ to resolve the proposed penalty. The Company had previously revised and/or corrected the administrative and mechanical items in question. The matter is expected to be resolved by year end.

On August 13, 2007, a lawsuit was filed against the Company and approximately 45 other defendants alleging the plaintiff was exposed to benzene which was the legal cause of his illness. The Company has no known relationship with the plaintiff and intends to vigorously defend itself in the proceedings. The Company's insurance carriers are currently providing legal defense of the suit. The resolution of this lawsuit is not expected to have a material affect on the Company's financial condition.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

NONE.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

The Company has an \$11 million note payable to the Saudi Arabian government that was originally due in ten annual installments beginning in 1984. The Company has neither made any repayments nor 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 Ministry of Finance and National Economy recommended that the \$11 million note be incorporated into a loan from the Saudi Industrial Development Fund 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 has not in recent times approached the Ministry of Finance to explore the options for the handling of this note and does not intend to do so until ALAK is firmly established and operating. Any continuing guarantees or liability is undetermined at this time. In the event the Saudi government demands immediate repayment of this obligation, which management considers unlikely, the Company would have to investigate options available for refinancing the debt.

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

On June 13, 2007, the Company held its annual meeting of stockholders in Dallas, Texas. Nicholas N. Carter, Robert E. Kennedy, Ibrahim A. Al-Moneef, Hatem El-Khalidi, and Ghazi Sultan were elected to serve as directors of the Company. In addition, the stockholders ratified the selection of Moore Stephens TravisWolff, LLP as the Company's independent registered public accounting firm. Below is a table containing

the number of votes cast for, against or withheld, as well as the number of abstentions, as to each such matter.

		Votes Against or Withheld	Abstentions
	Votes For		
Nicholas N. Carter	15,082,094	64,518	--
Robert E. Kennedy	15,098,851	47,761	--
Ibrahim A. Al-Moneef	15,098,771	47,841	--
Hatem El-Khalidi	15,095,284	51,328	--
Ghazi Sultan	15,098,571	48,041	--
Moore Stephens TravisWolff, LLP	15,003,184	127,028	16,400

ITEM 5. OTHER INFORMATION.

NONE.

ITEM 6. EXHIBITS.

The following documents are filed or incorporated by reference as exhibits to this Report. Exhibits marked with an asterisk (*) are management contracts or a compensatory plan, contract or arrangement.

Exhibit Number	Description
3(i)	- Certificate of Incorporation of the Company as amended through the Certificate of Amendment filed with the Delaware Secretary of State on July 19, 2000 (incorporated by reference to Exhibit 3(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 0-6247)).
3(ii)	- Bylaws of the Company, as amended through March 4, 1998 (incorporated by reference to Exhibit 3(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 0-6247)).
10(a)	- Loan Agreement dated January 24, 1979 between the Company, National Mining Company and the Government of Saudi Arabia (incorporated by reference to Exhibit 10(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 0-6247)).
10(b)	- Mining Lease Agreement effective May 22, 1993 by and between the Ministry of Petroleum and Mineral Resources and the Company (incorporated by reference to Exhibit 10(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 0-6247)).
10(c)	- Equipment Lease Agreement dated November 14, 2003, between Silsbee Trading and Transportation Corp. and South Hampton Refining Company (incorporated by reference to Exhibit 10(o) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 0-6247)).
10(d)	- Addendum to Equipment Lease Agreement dated August 1, 2004, between Silsbee Trading and Transportation Corp. and South Hampton Refining Company (incorporated by reference to Exhibit 10(q) to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (file No. 0-6247)).
10(e)	- Partnership Agreement dated August 6, 2006 between Arabian American Development Company, Thamarat Najran Company, Qasr Al-Ma'adin Corporation, and Durrat Al-Masani' Corporation (incorporated by reference to Exhibit 10(i) to the Company's Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2006 (file No. 0-6247)).
10(f)	- Financial and Legal Service and Advice Agreement dated August 5, 2006 between Arabian American Development Company, Nassir Ali Kadasa, and Dr. Ibrahim AL-Mounif (incorporated by reference to Exhibit 10(j) to the Company's Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2006 (file No. 0-6247)).

10(g)*

- Retirement Awards Program dated January 17, 2007 between Arabian American Development Company and Jack Crichton (incorporated by reference to Exhibit 10(h) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007(filed No. 0-6247)).

10(h)*

- Retirement Awards Program dated February 16, 2007 between Arabian American Development Company and Hatem El-Khalidi (incorporated by reference to Exhibit 10(i) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007(filed No. 0-6247)).

10(i)

- Waiver and Second Amendment to Credit Agreement and First Amendment to Borrower Security Agreement dated September 19, 2007 between South Hampton Resources, Inc. and Bank of America, N.A.

31.1

- Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2

- Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1

- 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.

32.2

- 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.

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 9, 2007

ARABIAN AMERICAN DEVELOPMENT COMPANY
(Registrant)

By: /s/ NICHOLAS CARTER
Nicholas Carter
Treasurer

EXHIBIT 10(i)

**WAIVER AND SECOND AMENDMENT TO CREDIT AGREEMENT AND FIRST AMENDMENT TO BORROWER
SECURITY AGREEMENT**

THIS WAIVER AND SECOND AMENDMENT TO CREDIT AGREEMENT AND FIRST AMENDMENT TO BORROWER SECURITY AGREEMENT (this "**Amendment**") is entered into as of September 19, 2007, between SOUTH HAMPTON RESOURCES, INC., a Texas corporation ("**Borrower**"), and BANK OF AMERICA, N.A., a national banking association ("**Lender**"). Capitalized terms used but not defined in this Amendment have the meaning given them in the Credit Agreement (defined below).

RECITALS

A. Borrower and Lender entered into that certain Credit Agreement dated as of May 25, 2006 (as amended by that certain Waiver and First Amendment to Credit Agreement dated as of December 31, 2006, and as further, restated or supplemented, the "**Credit Agreement**"), under which Lender agreed to provide to Borrower, subject to the terms and conditions contained therein, a revolving credit facility.

B. To secure Borrower's obligations and indebtedness under the Credit Agreement and the other Loan Documents, Borrower executed and delivered that certain Security Agreement dated as of even date with the Credit Agreement covering the collateral identified therein (as amended, restated or otherwise modified from time to time, the "**Borrower Security Agreement**").

C. A certain Default has occurred as a result of TOCCO's failure to comply with the maximum Unfinanced Capital Expenditure covenant for the period ended March 31, 2007 pursuant to **Section 10.3** of the Credit Agreement (the "**Existing Default**").

D. Borrower has requested that Lender waive the Existing Default, make the Term Loan available to Borrower pursuant to **Section 5.2(b)** of the Credit Agreement (before giving effect to this Amendment), and amend the Borrower Security Agreement, and Lender has agreed to waive the Existing Default, make the Term Loan available to Borrower pursuant to **Section 5.2(b)** of the Credit Agreement (before giving effect to this Amendment) and to make other amendments to the Credit Agreement, and amend the Borrower Security Agreement, in each case subject to the terms and conditions of this Amendment.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are acknowledged, the undersigned hereby agree as follows:

1. Waiver of Existing Default. Subject to the conditions set out in this Amendment, Lender hereby (a) waives any violation of, or noncompliance with, any provision of any Loan Document caused solely by the Existing Default, and (b) agrees not to exercise any of its Rights available under the Loan Documents solely as a result of any such violation or noncompliance described in *clause (a)* of this **Section I**. Except as set out in the immediately preceding sentence, Borrower hereby agrees that such waiver does not constitute a waiver of any present or future violation of or noncompliance with any provision of any Loan Document or a waiver of Lender's right to insist upon strict compliance with each term, covenant, condition, and provision of the Loan Documents.

2. Amendments to Credit Agreement. The Credit Agreement is hereby amended as follows:

Recitals:

(a) The Recitals to the Credit Agreement are hereby deleted in their entirety and replaced with the following

“A. Borrower has requested that Lender extend credit to Borrower (i) in the maximum principal amount of \$12,000,000 in the form of a revolving credit facility that includes a \$3,000,000 subfacility for Swap Contracts, and a \$9,000,000 subfacility for the issuance of LCs, and (ii) in the maximum principal amount of up to \$10,000,000 in the form of an advancing term loan facility to finance the Subject Expansion (as defined below).

B. Lender is willing to extend the revolving credit facility, extend the Swap Contract subfacility, extend the letter of credit subfacility, and extend the termloan facility, in each case on the terms and conditions of this Agreement.

Accordingly, Borrower and Lender agree as follows:”

(b) **Section 1.1** of the Credit Agreement is hereby amended to delete the defined terms “Permitted Liens”, “Security Documents”, “Term Committed Amount”, “Term Loan Date”, and “Term Loan Maturity Date”, and replaced them with the defined terms as follows:

“**Permitted Liens** means (a) Liens securing the Obligation, (b) Liens existing on the Closing Date and described on **Schedule 2**, (c) Liens listed on Exhibit B to the Deed of Trust, (d) Liens which secure purchase money Debt and capital lease obligations permitted under *clause (c)* of the definition of Permitted Debt, (e) easements, rights-of-way, encumbrances and other restrictions on the use of real property which do not materially impair the use thereof, (f) Liens for Taxes; *provided that*, (i) no amounts are due and payable and no Lien has been filed or agreed to, or (ii) the validity or amount thereof is being contested in good faith by lawful proceedings diligently conducted, and reserve or other provision required by GAAP has been made, (g) judgments and attachments permitted by **Section 11.4**, (h) pledges or deposits made to secure payment of workers’ compensation, unemployment insurance or other forms of governmental insurance or benefits or to participate in any fund in connection with workers’ compensation, unemployment insurance, pensions or other social security programs, (i) rights of offset or statutory banker’s Lien arising in the ordinary course of business in favor of commercial banks; *provided that*, any such Lien shall only extend to deposits and property in possession of such commercial bank and its Affiliates, (j) good-faith pledges or deposits made in the ordinary course of business to secure (i) performance of bids, tenders, trade contracts (*other than* for the repayment of borrowed money) or leases, (ii) statutory obligations, or (iii) surety or appeal bonds, or indemnity, performance or other similar bonds, which, in the aggregate under this *clause (j)*, do not exceed \$250,000 at any time, and (k) Liens (*other than* for Taxes) imposed by operation of law (including Liens of mechanics, materialmen, warehousemen, carriers and landlords and similar Liens); *provided that*, (i) the validity or amount thereof is being contested in good faith by lawful proceedings diligently conducted, (ii) reserve or other provision required by GAAP has been made, and (iii) within 60 days after the entry hereof, levy and execution thereon have been (and continue to be) stayed or payment thereof is covered in full by insurance (subject to the customary deductible).

Security Documents means all Security Agreements, all Deeds of Trust, all Assignments of Contracts, and all other documents executed in connection therewith to create or perfect a Lien on the Collateral.

Term Committed Amount means the *lesser* of (a) the aggregate amount of all invoices paid with the proceeds of the Term Loan for the Subject Expansion, and (b) \$10,000,000.

Term Loan Date means the effective date of the Second Amendment to this Agreement.

Term Loan Maturity Date means October 31, 2018.”

(c) **Section 1.1** of the Credit Agreement is hereby amended to add the following defined terms in their appropriate alphabetical order as follows:

“**Appraisal** means a written appraisal of the Subject Property prepared on an “as-completed” basis by an independent MAI appraiser reasonably acceptable to Lender and properly certified by the State of Texas in accordance with Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, or, at Lender’s option, by Lender’s “in-house” appraiser. Such Appraisal shall be ordered by Lender directly and shall be in Proper Form.

Assignment of Contracts means the Assignment of Rights under Construction Contracts, Permits, Plans and Contracts executed by Borrower to Lender in connection with this Agreement in Proper Form.

construction and **constructed** means, as applicable, the development, demolition, construction, erection and installation of any Improvements on the Subject Property pertaining to the Subject Expansion.

Construction Contracts means all construction contracts between Borrower and any contractor or subcontractor for the construction of any Improvements to the Subject Property pertaining to the Subject Expansion, contracts between any contractor and any subcontractor, and contracts between any of the foregoing and any other person or entity relating to rendering of services or furnishing of materials in connection with the construction of such Improvements.

Conversion Date is the date the Term Loan converts from a multiple advance loan to a “mini-perm” term loan which is the date that all of the conditions precedent in **Section 5.5** below have been satisfied; *provided, that*, the Conversion Date may not occur after December 1, 2008.

Force Majeure means any event or circumstance, or combination of events or circumstances, that is beyond the control of the party hereto claiming force majeure, which materially and adversely affects the ability of such party to perform its obligations under or pursuant to this Agreement, including, without limitation, (a) any explosions, implosions, fires, conflagrations, accidents, epidemics, contamination, (b) floods, hail, tornadoes, hurricanes, (c) acts of war (whether declared or not declared), blockade or embargo, (d) acts of public enemy, acts of terrorism, riot, public disorder or violent demonstrations, and (e) strikes or failure of supply of materials, labor, fuel, power, equipment, supplies or transportation.

Impositions means all Taxes, including: real estate and personal property ad valorem Taxes; water, gas, sewer, electricity and other utility rates and charges; charges imposed pursuant to any subdivision, planned unit development, or condominium declaration or restrictions; charges for any easement, license, or agreement maintained for the benefit of the Subject Property; and all other Taxes, standby fees, charges, and assessments and any interest, costs, or penalties of any kind with respect to the Subject Property which may be assessed, levied, or imposed upon the Subject Property or the ownership, use, occupancy, or enjoyment thereof.

Improvements means all buildings, structures, open parking areas, amenities, and other improvements and any and all accessions, additions, replacements, substitutions, or alterations thereof or appurtenances thereto, currently or subsequently situated, placed, or constructed upon the Subject Property, or any part thereof.

Insurance Policies means (a) owner's policies of comprehensive general public liability insurance, including worker's compensation insurance if required by law; (b) hazard insurance against all risks of loss, including fire, water damage, or collapse, in an amount not less than the full replacement cost of all Improvements, including the cost of debris removal, with annual agreed amount endorsement (or waiver of co-insurance clause) and which is sufficient at all times to prevent Borrower from becoming a co-insurer; (c) if the Property is in a "Flood Hazard Area," a flood insurance policy, or binder therefor, in an amount equal to the Term Loan Committed Amount, or the maximum amount available under the *Flood Disaster Protection Act of 1973* and regulations issued pursuant thereto, as amended from time to time, whichever is less, in form complying with the "insurance purchase requirement" of such Act; and (d) such other insurance, if any, as Lender may reasonably require, including but not limited to broad form boiler and machinery insurance on all equipment and objects customarily covered thereby if there are pressure fired vehicles within the Subject Property. All Insurance Policies shall (i) be issued and maintained in form, of types and amounts (with co-insurance and deductibles) as is customary in the case of similar businesses, and by companies satisfactory to Lender, (ii) contain a mortgagee clause (without contribution) in favor of Lender with loss proceeds payable to Lender as its interest may appear, (iii) require not less than 30 days prior written notice to Lender of any cancellation or change of coverage, and (iv) provide that no act of the insured or any occupant, and no occupancy or use of the Subject Property for purposes more hazardous than permitted by the terms of the policy, will affect the validity or enforceability of the insurance as respects Lender.

Subject Expansion means, collectively, the development, construction, equipping and installation of certain Improvements on the Subject Property to expand Borrower's penhex manufacturing capacity as disclosed to Lender in connection with Lender's underwriting and credit approval of the Term Loan.

Termination Date means the final date that Loans may be made under the Term Loan, which date shall be the *earlier* of (a) the Conversion Date, and (b) the occurrence of a Default.

Title Company means the title insurance company, reasonably acceptable to Lender, issuing the Title Insurance Policy.

Title Insurance Policy means a mortgagee title insurance policy, as Lender may require, issued in favor of Lender by the Title Company on behalf of the Title Company's underwriter, on a coinsurance or reinsurance basis (with direct access in Texas) if and as required by Lender in an amount equal to one hundred one hundred percent (100%) of the face amount of the Term Note, in such form as may be prescribed by applicable Governmental Requirements and as shall be satisfactory to Lender, certifying that good and indefeasible fee title to the Subject Property is vested in Borrower, and that Lender's Lien on the Subject Property is a first priority lien thereon, subject only to a pending disbursements clause and exceptions acceptable to Lender and required by applicable state title insurance regulations.

(d) **Section 2.1** of the Credit Agreement is hereby deleted in its entirety and replaced with **Section 2.1** as follows:

"2.1 Term Loan. Subject to the terms and conditions of this Agreement, including without limitation, the loan procedures set out in **Section 2.3** below, Lender agrees to lend to Borrower multiple Loans under the Term Loan which Borrower may borrow, and prepay but which may not be re-borrowed under this Agreement (collectively, the "**Term Loan**")."

(e) **Section 2.3** of the Credit Agreement is hereby deleted in its entirety and replaced with **Section 2.3** as follows:

"2.3 Loan Procedures.

(a) Subject to compliance with **Section 5**, Borrower may request a Loan under the Revolving Credit Facility by submitting a Loan Request to Lender. A Loan Request is irrevocable and binding on Borrower. Each Loan Request must be received by Lender no later than 10:00 a.m. on (a) the third Business Day preceding the proposed Loan Date for a LIBOR Loan and (b) the proposed Loan Date for a Base Rate Loan. Loans may be outstanding as either Base Rate Loans or LIBOR Loans. Each Loan under the Revolving Credit Facility is subject to the following conditions:

(i) each Loan must occur on a Business Day and no later than the Business Day immediately preceding the Revolving Credit Termination Date;

(ii) each Loan (unless the remaining amount under *clause (c)* below is less) must be in an amount not *less than* \$100,000 (if a Base Rate Loan) or \$100,000 (if a LIBOR Loan) or a greater integral multiple of \$10,000;

(iii) no Loan may exceed an amount equal to the *lesser* of (a) the excess of the Revolving Committed Amount over the Revolving Credit Exposure and (b) the excess of the Borrowing Base over the Revolving Credit Exposure; and

(iv) after giving effect to any Loan, the aggregate Revolving Credit Exposure may not exceed the Revolving Credit Limit.

(b) Subject to compliance with **Section 5**, Borrower may request a Loan under the Term Loan by submitting a Loan Request to Lender. A Loan Request is irrevocable and binding on Borrower. Each Loan Request must be received by Lender no later than 10:00 a.m. on (a) the third Business Day preceding the proposed Loan Date for a LIBOR Loan and (b) the proposed Loan Date for a Base Rate Loan. Loans may be outstanding as either Base Rate Loans or LIBOR Loans. Each Loan under the Term Loan is subject to the following conditions:

(i) Each Loan under the Term Loan must occur on a Business Day and no later than the Business Day immediately preceding the Conversion Date;

(ii) Each Loan (unless the remaining amount under *clause (d)* below is less) must be in the amount shown on the accompanied invoice submitted for payment with the proceeds of such Loan but in any event no Loan may be for *less than* \$10,000;

(iii) Each Loan Request shall be accompanied by the invoice or invoices submitted for payment therefore, and no Loan under the Term Loan may exceed the aggregate amount of such invoice or invoices;

(iv) No more than one Loan under the Term Loan may be made during a one month period;
and

(v) The Principal Debt may not exceed the Term Loan Committed Amount after giving effect to each Loan under the Term Loan.”

follows: (f) **Section 2.4(c)** of the Credit Agreement is hereby deleted in its entirety and replaced with **Section 2.4(c)** as

“(c) If the Term Principal Debt ever exceeds the Term Loan Committed Amount, then Borrower shall promptly prepay the Term Principal Debt in an amount equal to the excess, together with all accrued and unpaid interest on the principal amount prepaid.”

follows: (g) **Section 3.2** of the Credit Agreement is hereby deleted in its entirety and replaced with **Section 3.2** as

“3.2 Payments

(a) Interest Payments. Accrued and unpaid interest on each Loan in respect of the Principal Debt is due and payable in arrears on the first Business Day of each month beginning with the first Business Day of June 2006, and continuing on the first Business Day of each month thereafter through the Revolving Credit Termination Date.

(b) Principal Payments; Swap Contracts.

(i) On the Conversion Date, the Term Principal Debt shall amortize based on a ten year commercial style amortization method and installments of the Term Principal Debt shall be due and payable on the first Business Day of each January, April, July, and October commencing with the first such date following the Conversion Date.

(ii) The Revolving Principal Debt is due and payable on the Revolving Credit Termination Date.

(iii) The Swap Termination Value (if any) owing by Borrower when such Swap Contract has been closed out or otherwise terminated shall be due and payable in full on the date of such closing out or termination and otherwise in accordance with the terms and conditions of the Swap Contract.”

follows: (h) **Section 3.4** of the Credit Agreement is hereby deleted in its entirety and replaced with **Section 3.4** as

“3.4 Interest and Default Rate.

(a) Except as otherwise provided in this Agreement, Loans under the Revolving Credit Facility shall accrue interest at an annual rate equal to the *lesser* of (i) at Borrower’s option (A) for a Base Rate Loan, the sum of the Base Rate plus the Applicable Margin for Base Rate Loans, or (B) for a LIBOR Loan, the *sum* of LIBOR *plus* the Applicable Margin for LIBOR Loans, and (ii) the Maximum Rate. Each change in the Base Rate, LIBOR, or the Maximum Rate is effective as of the effective date of such change without notice to Borrower or any other Person.

(b) Except as otherwise provided in this Agreement, Loans under the Term Loan shall accrue interest at an annual rate equal to the *lesser* of (i) at Borrower's option (A) for a Base Rate Loan, the sum of the Base Rate plus the Applicable Margin for Base Rate Loans, or (B) for a LIBOR Loan, the *sum* of LIBOR *plus* the Applicable Margin for LIBOR Loans, and (ii) the Maximum Rate. Each change in the Base Rate, LIBOR, or the Maximum Rate is effective as of the effective date of such change without notice to Borrower or any other Person. Notwithstanding anything to the contrary herein, the Applicable Margin for Loans under the Term Loan shall be based on Level III until Lender receives the Compliance Certificate and Current Financials for the period ending September 30, 2007.

(c) To the extent permitted by Law, while a Default exists, the Obligation shall accrue interest at the *lesser* of (i) the Default Rate and (ii) the Maximum Rate, until all past due amounts are paid (whether payment is made before or after entry of a judgment or the Default is otherwise cured or waived). Subject to **Section 3.7**, if a Default exists, Lender may, in its sole discretion, to the extent permitted by Law, add accrued and unpaid interest to the Principal Debt and such amount will accrue interest until paid at the applicable interest rate."

(i) **Section 3.6(a)** of the Credit Agreement is hereby deleted in its entirety and replaced with **Section 3.6(a)** as follows:

"(a) When Borrower requests any LIBOR Loan, Borrower may elect an Interest Period of, at Borrower's option, one, two, three or six months, subject to the following conditions: (i) no Interest Period may extend beyond the Revolving Credit Termination Date (in respect of Loans under the Revolving Credit Facility) or the Term Loan Maturity Date (in respect of Loans under the Term Loan); and (ii) no more than 3 Interest Periods may be in effect at any time under the Revolving Credit Facility and no more than 3 Interest Period may be in effect at any time under the Term Loan."

(j) **Section 5.2** of the Credit Agreement is hereby deleted in its entirety and replaced with **Section 5.2** as follows:

"5.2 Conditions to all Credit Extensions

. Lender will not be obligated to make any Credit Extension unless on the applicable Loan Date or date of such Credit Extension (and after giving effect to the requested Loan, LC, or Swap Contract, as the case may be): (a) Lender has timely received a Loan Request, LC Application, or Swap Contract, as the case may be, (b) all of the representations and warranties of the Companies in the Loan Documents are true and correct in all material respects (except to the extent that the representations and warranties speak to a specific date), (c) Lender has received and continues to maintain evidence of insurance as set out in **Section 8.6** (including certificates and endorsements); (d) no Material Adverse Event exists, (e) no Default or Potential Default exists or will result from such Credit Extension; and (f) in respect of any Loan under the Term Loan, Borrower shall procure and deliver to Lender releases or waivers of mechanic's liens, and invoices, or paid receipts if requesting reimbursements, of each party who has furnished materials or services or performed labor of any kind in connection with the construction of any of the Improvements and, in each case, whose aggregate invoices exceed \$100,000; such lien waivers shall be in Proper Form.

Each Loan Request, LC Application, or Swap Contract delivered to Lender constitutes the representation and warranty by the Companies that the statements in *clauses (b), (c), (d) and (e)* above are true and correct in all material respects.”

(k) A new **Section 5.5** of the Credit Agreement is hereby added to the Credit Agreement in its numerical order as follows:

“5.5 Condition to Conversion to Mini “Perm” Loan

. Lender will have no obligation to convert the Term Loan to a “mini- perm” loan on the Conversion Date unless on or before the Conversion Date the following additional conditions shall have been satisfied, to the extent required by Lender:

(a) Borrower shall have certified to Lender that construction has been completed in a good and workmanlike manner, in compliance in all material respects with applicable requirements of all Governmental Authorities and substantially in accordance with the Plans and Specifications;

(b) To the extent required by applicable Governmental Authorities for the use and occupancy of the Improvements, evidence of code compliance and other applicable permits and releases shall have been issued to Lender in Proper Form with respect to the construction of the Improvements and copies thereof have been furnished to Lender;

(c) Lender shall have received an “as-built” survey in Proper Form showing the location of the Improvements and other matters reasonably requested by Lender;

(d) Lender shall have received a final affidavit from the contractor and full and complete releases of lien from the contractor and each subcontractor of and supplier to the contractor with respect to work performed and/on materials supplied in the construction of the Improvements, all of such documentation to be in Proper Form;

(e) A valid notice of completion shall have been recorded in the real property records of the county where the Subject Property is located;

(f) Lender shall have received a satisfactory endorsement to its Title Insurance Policy; and

(g) A certificate from Borrower to Lender that the statements in *clauses (b), (c), (d) and (e)* of **Section 5.2** above are true and correct.”

(l) **Section 6.1** of the Credit Agreement is hereby deleted in its entirety and replaced with **Section 6.1** as follows:

“6.1 Collateral. The complete payment and performance of the Obligation shall be secured by all of the items and types of property (collectively, the “**Collateral**”) described as collateral in the Security Agreement, and “Mortgaged Property” in the Deed of Trust. Each Company shall execute all applicable Security Documents necessary to grant in favor of Lender a Lien upon all of the Collateral it owns.”

(m) **Section 6.5** of the Credit Agreement is hereby deleted in its entirety and replaced with **Section 6.5** as follows:

“6.5 [Intentionally Omitted.]”

(n) **Section 7.13** of the Credit Agreement is hereby deleted in its entirety and replaced with **Section 7.13** as follows:

“7.13 Purpose of Credit Facilities. Borrower will use the proceeds of the Term Loan as disclosed in writing to Lender and for no other purpose. Borrower will use the proceeds of the Revolving Credit Facility for its working capital and general corporate purposes and to refinance certain Debt as disclosed to Lender. Borrower will use the proceeds of the Term Loan for the Subject Expansion and no other purpose. No part of the proceeds of the Term Loan or the Revolving Credit Facility will be used, directly or indirectly, for a purpose that violates any Law, including the provisions of *Regulation U*.”

(o) New **Sections 7.20** through **7.22** of the Credit Agreement are hereby added to the Credit Agreement in their appropriate numerical order as follows:

“7.20 Permits and Restrictions

. On or before the date construction commences on the Improvements for the Subject Expansion and thereafter, all utility, building, health, and operating permits (if any) required for the construction and operation of the Subject Expansion will have been obtained and will be in effect. There are no deed restrictions which have not been effectively waived which would prohibit, limit, or interfere with Borrower’s use of the Subject Property or Borrower’s operation of the Subject Property, before and after giving effect to the Subject Expansion.

7.21 Sufficient Funds

. Sufficient funds are available to Borrower in addition to proceeds of the Term Loan to pay all costs of the Subject Expansion.

7.22 Other Liens

. Prior to the recordation of the Deed of Trust, no work of any kind (including destruction or removal of any existing improvements, site work, clearing, grading, grubbing, draining or fencing of the Subject Property) has been or will be commenced or performed on the Subject Property relative to the Subject Expansion or any other ongoing construction work thereon, no equipment or material has been or will be delivered to or placed upon the Subject Property for any purpose whatsoever, and no contract (or memorandum or affidavit thereof) for the supplying of labor, materials, or services for the design or construction of the Improvements relative to the Subject Expansion, or the surveying of the Subject Property or Improvements, nor any affidavit or notice of commencement of construction of the Improvements, has been or will be executed or recorded, which could cause a mechanic’s or materialman’s Lien or similar Lien to achieve priority over the Deed of Trust or the rights of Lender thereunder.”

(p) New **Sections 8.14** through **8.19** of the Credit Agreement are hereby added to the Credit Agreement in their appropriate numerical order as follows:

“8.14. Appraisal. From time to time after the Closing Date, Lender may obtain an Appraisal of the Subject Property at Borrower’s sole cost and expense; *provided that*, as long as no Default has occurred, Lender will not obtain at Borrower’s cost and expense, or request Borrower to obtain, an Appraisal more often than annually, unless required more frequently by any Governmental Authority.

8.15 Storage of Materials

. Borrower shall cause all materials supplied for, or intended to be used in, the construction of the Improvements, but not affixed to or incorporated into the Improvements or the Subject Property, to be stored on the Subject Property or at such other location upon notice to Lender in writing prior to storage in such other location, with adequate safeguards, as commercially reasonable, to prevent loss, theft, damage, or commingling with other materials or projects.

8.16 No Liability of Lender

. Lender shall have no liability, obligation, or responsibility whatsoever with respect to the construction of the Improvements except to make Loans under the Term Loan subject to the terms and provisions of this Agreement. Lender shall not be obligated to inspect the Subject Property or the construction of the Improvements, nor be liable for the performance or default of Borrower, the general contractor, or any other party, or for any failure to construct, complete, protect, or insure the Improvements, or for the payment of costs of labor, materials, or services supplied for the construction of the Improvements, or for the performance of any obligation of Borrower whatsoever. Nothing, including without limitation any Loan under the Term Loan or acceptance of any document or instrument, shall be construed as a representation or warranty, express or implied, to any party by Lender.

8.17 No Conditional Sale Contracts, Etc

. No materials, equipment, or fixtures shall be supplied, purchased, or installed for the construction or operation of the Improvements pursuant to security agreements, conditional sale contracts, lease agreements, or other arrangements or understandings whereby a security interest or title is retained by any party or the right is reserved or accrues to any party to remove or repossess any materials, equipment, or fixtures intended to be used in the construction or operation of the Improvements, except in favor of Lender or as otherwise permitted pursuant to *clause (c)* of the definition of “Permitted Liens” in this Agreement.

8.18 Payment of Claims

. Borrower shall promptly pay or cause to be paid when due all costs and expenses incurred in connection with the Subject Property and the construction of the Improvements for the Subject Expansion, and Borrower shall keep the Subject Property free and clear of any Liens other than Liens approved in writing by Lender. Notwithstanding anything to the contrary contained in this Agreement or the Loan Documents, Borrower (a) may contest the validity or amount of any claim of any contractor, consultant, or other person providing labor, materials, or services with respect to the Property, (b) may contest any tax or special assessments levied by any Governmental Authority, and (c) may contest the enforcement of or compliance with any Governmental Requirements, and such contest on the part of Borrower shall not be a Default hereunder and shall not release Lender from its obligations to make Loans under the Term Loan hereunder, *provided that*, during the pendency of any such contest, Borrower shall set aside adequate reserves being established in accordance with GAAP and shall pay any amount adjudged by a court of competent jurisdiction to be due, with all costs, interest, and penalties thereon, before such judgment becomes a lien on the Subject Property.

8.19 Use of Loans Under Term Loan

. Borrower shall promptly disburse all Loans under the Term Loan for payment of costs and expenses incurred for the Subject Expansion, and as most recently requested on a Loan Request, and for no other purpose.”

(q) **Section 9.9** of the Credit Agreement is hereby deleted in its entirety and replaced with **Section 9.9** as follows:

“9.9 Sale of Assets

. No Company may make any Disposition or enter into any agreement to make any Disposition, except (a) Dispositions of surplus, obsolete or worn out or no longer used assets in the ordinary course of business, (b) Dispositions of Inventory in the ordinary course of business, (c) the Disposition of delinquent accounts receivable in the ordinary course of business for purposes of collection, (d) Dispositions of property by any Company to another Company or to a wholly-owned Subsidiary; *provided that*, if the transferor of such property is the Borrower or a Guarantor, the transferee thereof must either be the Borrower or a Guarantor and must comply with **Section 6**, (e) to the extent permitted by **Section 9.6**, and (f) without duplication of *clauses (a) through (e)* of this **Section 9.9**, Dispositions of personal property assets up to \$150,000 individually and up to \$500,000 in the aggregate during the term of this Agreement.”

(r) **Section 10.3** of the Credit Agreement is hereby deleted and replaced with **Section 10.3** as follows:

“10.3 “Maximum Unfinanced Capital Expenditures

. All Unfinanced Capital Expenditures for TOCCO may not exceed \$4,000,000 in the aggregate in any calendar year, commencing with the calendar year ended December 31, 2007.”

(s) New **Sections 11.13** through **11.19** of the Credit Agreement are hereby added to the Credit Agreement in their appropriate numerical order as follows:

“11.13 Foreclosure of Other Liens

. The holder of any Lien on the Subject Property other than a Lender Lien (without implying Lender’s consent to the existence, placing, creating, or permitting of any lien or security interest) institutes foreclosure or other proceedings for the enforcement of its remedies thereunder and those proceedings are not stayed within ten (10) days after notice to Borrower.

11.14 Title

. Borrower’s title to any or all of the Subject Property shall be challenged in writing or endangered by any Person whatsoever and the same (a) is not dismissed or cured within ten (10) days and (b) is considered by Lender in its sole reasonable discretion to present a material threat to the Collateral.

11.15 Project Requirements

. Borrower shall knowingly default or breach any Governmental Requirements pertaining to the Subject Expansion that results in a significant or material impairment of the value of the Subject Property.

11.16 Cease Construction

. Borrower ceases the construction of the Improvements for the Subject Expansion for more than thirty (30) days (for reasons other than *Force Majeure*) without Lender’s prior written consent, which shall not be unreasonably withheld or delayed.

11.17 Permits

. Borrower fails to (a) keep in full force and effect any required permit or approval from any appropriate Governmental Authority with respect to the construction of the Improvements and such failure continues for thirty (30) days after Borrower receives notice of, or has actual knowledge of, such failure, or (b) obtain a certificate of completion by the general contractor on or before fifteen (15) months after the date of the initial Loan under the Term Loan.

11.18 Survey Matters

. Any Survey required by Lender shows any matter not existing as of the date of the survey delivered on or prior to the initial Loan under the Term Loan which is unsatisfactory to Lender in its reasonable credit judgment, and such matter is not removed within a period of thirty (30) days after notice thereof by Lender to Borrower.

11.19 Contractor Default

. The general contractor or any subcontractor defaults under any Construction Contract in a manner which Lender deems to be material, and, unless otherwise agreed in writing by Lender, Borrower fails promptly to exercise its rights and remedies under such Construction Contract with respect to such default.”

(t) New **Sections 12.6** through **12.7** are hereby added to the Credit Agreement in their appropriate numerical order as follows:

“12.6 Complete Construction

. Upon the occurrence of a Default, Lender may, but shall not be obligated to: (a) perform all work necessary to complete the construction and equipping of the Improvements for the Subject Expansion in accordance with the Governmental Requirements; (b) do anything necessary or desirable in Lender’s sole judgment to fulfill the obligation of Borrower, including the right to avail itself of and procure performance of the Construction Contract and subcontractors or to let new or additional contracts with the contractor or the same subcontractors or to others; and (c) employ watchmen and other safeguards to protect the Subject Property and the Subject Expansion.

Without restricting the generality of the foregoing, Borrower hereby appoints Lender as the attorney-in-fact of Borrower, with full power of substitution, and in the name of Borrower, if Lender elects to do so, after the occurrence of a Default and in respect of the Term Loan, to (a) use such sums as are necessary, including any proceeds of the Term Loan, to make such changes or corrections in the plans and specifications for the Subject Expansion, and employ such engineers, inspectors, rental agents, managers and contractors as may be required for the purpose of completing the construction of the Improvements substantially in the manner contemplated by such plans and specifications and Governmental Requirements, (b) execute all applications and certificates in the name of Borrower which may be required for completion of construction of the Improvements for the Subject Expansion, (c) endorse the name of Borrower on any checks or drafts representing proceeds of the Insurance Policies, or other checks or installments payable to Borrower with respect to the Subject Property, (d) do every act with respect to the construction of the Improvements for the Subject Expansion which Borrower may do, (e) prosecute or defend any action or proceeding incident to the Subject Property, (f) to do all things necessary in Lender's sole judgment, to complete construction, finishing and equipping of the Improvements for the Subject Expansion and to rent, operate and manage the Improvements, and to pay operating costs and expenses, including any applicable management fees, of every kind and nature in connection therewith so that the same shall be operational and usable for its intended purpose, all in the name of Borrower, Lender or both, (g) to pay interest when due on all amounts disbursed hereunder (either by adding such interest to the principal balance of the Term Loan or paying the same in cash), (h) to pay, settle or compromise all existing bills and claims which may be or become liens or security interests, or to avoid such bills and claims becoming liens against the Subject Property or against fixtures or equipment, or as may be necessary or desirable for the completion of construction or for the equipping and operation of the Improvements for the Subject Expansion, and (i) to prosecute and defend all actions or proceedings in connection with the Subject Property or any equipment or fixtures. Lender shall have no obligation to undertake any of the foregoing actions, and if Lender should do so, it shall have no liability to Borrower for the sufficiency or adequacy of any such actions taken by Lender. All cost and expenses, including all reasonable attorneys' fees (based on standard rates for hours actually worked by outside counsel) in connection with the matters contemplated in this **Section 12.6** shall be payable by Borrower on demand, and if not promptly paid, shall be part of the Obligation and shall be secured by all of the Loan Documents. The power-of-attorney granted hereby is a power coupled with an interest and irrevocable by action of Borrower without the joinder of Lender. Lender shall have no obligation to undertake any of the foregoing actions, and if Lender should do so, it shall have no liability to Borrower for the sufficiency or adequacy of any such actions taken by Lender.

12.7 Cessation of Loans under the Term Loan

. Upon the occurrence of a Default, the obligation of Lender to make any Loans under the Term Loan and all other obligations of Lender hereunder and under the Loan Documents shall at Lender's option, immediately cease during any applicable cure period upon the failure of which Lender's obligations to make Loans under the Term Loan shall, at Lender's option, immediately terminate; *provided that*, nothing in this **Section 12.7** shall be deemed to limit the other provisions of this Agreement setting forth the conditions precedent to Lender's obligation to make any Loans under the Term Loan or the conditions under which Lender may refuse to make further disbursements or to limit Lender's option to make further Loans under the Term Loan at Lender's sole option notwithstanding the occurrence of one or more Defaults."

(u) **Section 13.8** of the Credit Agreement is hereby deleted in its entirety and replaced with **Section 13.8** as follows:

"13.8 Discharge Only Upon Payment in Full; Reinstatement in Certain Circumstances

. Each Company's obligations under the Loan Documents remain in full force and effect until the commitment for the Revolving Credit Facility is terminated, the commitment for the Term Loan is terminated, and the Obligation is paid in full (except for provisions under the Loan Documents which by their terms expressly survive payment of the Obligation and termination of the Loan Documents). If at any time any payment of the principal of or interest on any Note or any other amount payable by any Company or any other obligor on the Obligation under any Loan Document is rescinded or must be restored or returned upon the insolvency, bankruptcy or reorganization of Borrower or otherwise, the obligations of each Company under the Loan Documents with respect to that payment shall be reinstated as though the payment had been due but not made at that time."

(v) **Exhibit C** to the Credit Agreement is hereby deleted in its entirety and replaced with **Exhibit C** attached to this Amendment.

3. First Amendment to Borrower Security Agreement. The Borrower Security Agreement is hereby amended as follows:

(a) **Section 3** of the Borrower Security Agreement is hereby amended to add the following at the end of such **Section 3**:

"Notwithstanding anything to the contrary herein or in any other Loan Document, the Collateral (as defined herein) shall not include the tolling product or other property as processed by Borrower for its customers located from time to time in Borrower's tanks located on Borrower's property as such tanks and tolling product or other property are more particularly described on attached **Exhibit "A"** (as such **Exhibit "A"** may be replaced revised, updated, amended or otherwise modified from time to time with Secured Party's consent, not to be unreasonably withheld or delayed)."

(b) **Exhibit "A"** attached to this Amendment is hereby added as **Exhibit "A"** at the end of the Borrower Security Agreement.

4. Conditions. This Amendment shall be effective once each of the following have been delivered to Lender in Proper Form:

- (a) this Amendment executed by Borrower and Lender, together with Guarantors' Consent and Agreement attached to this Amendment executed by such Guarantors;
- (b) the Term Note executed by Borrower;
- (c) a Deed of Trust covering the Subject Property;
- (d) an Assignment of Construction Contracts;
- (e) a survey of the Subject Property;
- (f) a final commitment for mortgagee's title insurance on the foregoing Deed of Trust (with a mortgagee's policy of title insurance to be delivered to Lender promptly after execution and delivery of this Amendment);
- (g) an Appraisal of the Subject Property;
- (h) an Officer's Certificate of Borrower (with attachments thereto required by Lender); and
- (i) such other documents and information as Lender may reasonably request.

5. Representations and Warranties. Borrower represents and warrants to Lender that (a) it possesses all requisite power and authority to execute, deliver and comply with the terms of this Amendment, (b) this Amendment has been duly authorized and approved by all requisite corporate action on the part of Borrower, (c) no other consent of any Person (other than Lender) is required for this Amendment to be effective, (d) the execution and delivery of this Amendment does not violate its organizational documents, (e) the representations and warranties in each Loan Document to which it is a party are true and correct in all material respects on and as of the date of this Amendment as though made on the date of this Amendment after giving effect to this Amendment (*except* to the extent that such representations and warranties speak to a specific date), (f) it is in full compliance with all covenants and agreements contained in each Loan Document to which it is a party *other than* in respect of the Existing Default (before giving effect to this Amendment), and (g) after giving effect to this Amendment, to the best of Borrower's knowledge after due inquiry and investigation, no Potential Default or Default has occurred and is continuing. No investigation by Lender is required for Lender to rely on the representations and warranties in this Amendment.

6. Scope of Amendment; Reaffirmation; Release. All references to the Credit Agreement shall refer to the Credit Agreement as affected by this Amendment. Except as affected by this Amendment, the Loan Documents are unchanged and continue in full force and effect. However, in the event of any inconsistency between the terms of the Credit Agreement (as affected by this Amendment) and any other Loan Document, the terms of the Credit Agreement (as affected by this Amendment) shall control and such other document shall be deemed to be amended to conform to the terms of the Credit Agreement (as amended by this Amendment). Borrower hereby reaffirms its obligations under the Loan Documents to which it is a party and agrees that all Loan Documents to which it is a party remain in full force and effect and continue to be legal, valid, and binding obligations enforceable in accordance with their terms (as the same are affected by this Amendment).

7. Miscellaneous.

(a) No Waiver of Defaults. This Amendment does not constitute (i) a waiver of, or a consent to, (A) any provision of the Credit Agreement or any other Loan Document not expressly referred to in this Amendment, or (B) any present or future violation of, or default under, any provision of the Loan Documents other than the Existing Default, or (ii) a waiver of Lender's right to insist upon future compliance with each term, covenant, condition and provision of the Loan Documents.

(b) Headings. The headings and captions used in this Amendment are for convenience only and will not be deemed to limit, amplify or modify the terms of this Amendment, the Credit Agreement, or the other Loan Documents.

(c) Costs, Expenses and Attorneys' Fees. Borrower agrees to pay or reimburse Lender on demand for all its reasonable out-of-pocket costs and expenses incurred in connection with the preparation, negotiation, and execution of this Amendment, including, without limitation, the reasonable fees and disbursements of Lender's counsel.

(d) Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of each of the undersigned and their respective successors and permitted assigns.

(e) Multiple Counterparts. This Amendment may be executed in any number of counterparts with the same effect as if all signatories had signed the same document. All counterparts must be construed together to constitute one and the same instrument. This Amendment may be transmitted and signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable law, have the same force and effect as manually signed originals and shall be binding on Borrower and Lender.

(f) Governing Law. This Amendment and the other Loan Documents must be construed, and their performance enforced, under Texas law.

(g) Arbitration. Upon the demand of any party to this Amendment, any dispute shall be resolved by binding arbitration as provided for in **Section 13.9** of the Credit Agreement.

(h) Entirety. **THE LOAN DOCUMENTS (AS AMENDED HEREBY) REPRESENT THE FINAL AGREEMENT BETWEEN BORROWER AND LENDER AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BY THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.**

[Signatures appear on the following page.]

This Amendment is executed as of the date set out in the preamble to this Amendment.

BORROWER

SOUTH HAMPTON RESOURCES, INC.

By: /s/ N Carter
Name: Nick Carter
Title: President

LENDER

BANK OF AMERICA, N.A.

By: /s/ Adam Rose
Name: Adam C. Rose
Title: Vice President

Signature Page to Waiver and Second Amendment to Credit Agreement
and First Amendment to Borrower Security Agreement

**GUARANTORS' CONSENT AND AGREEMENT TO
WAIVER AND SECOND AMENDMENT TO CREDIT AGREEMENT AND FIRST AMENDMENT TO BORROWER
SECURITY AGREEMENT**

As an inducement to Lender to execute, and in consideration of Lender's execution of, the Waiver and Second Amendment to Credit Agreement and First Amendment to Borrower Security Agreement (the "***Amendment***"), the undersigned hereby consent to the Amendment (including without limitation, the provision by Lender of the Term Loan to Borrower) and agree that the Amendment shall in no way release, diminish, impair, reduce or otherwise adversely affect the obligations and liabilities of the undersigned under the Guaranty executed by the undersigned in connection with the Credit Agreement, or under any Loan Documents, agreements, documents or instruments executed by the undersigned to create liens, security interests or charges to secure any of the Obligations (as defined in the Credit Agreement), all of which are in full force and effect. The undersigned hereby agree that the obligations and indebtedness guaranteed by the undersigned under the Guaranty, include without limitation, the obligations and indebtedness under the Term Loan. The undersigned further represent and warrant to Lender that (a) the representations and warranties in each Loan Document to which it is a party are true and correct in all material respects on and as of the date of this Amendment as though made on the date of this Amendment (except to the extent that such representations and warranties speak to a specific date), (b) they are in full compliance with all covenants and agreements contained in each Loan Document to which they are a party, and (c) no Default or Potential Default has occurred and is continuing. Guarantors hereby release Lender from any liability for actions or omissions in connection with the Loan Documents prior to the date of this Amendment. This Guarantors' Consent and Agreement shall be binding upon the undersigned and their respective successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

GUARANTOR:

GULF STATE PIPE LINE COMPANY, INC.

By: /s/ N Carter
Name: Nick Carter

Title: President

TEXAS OIL & CHEMICAL CO. II, INC.

By: /s/ N Carter
Name: Nick Carter
Title: President

EXHIBIT C (TO CREDIT AGREEMENT)

LOAN REQUEST

_____, 20__

Bank of America, N.A.

700 Louisiana, 7th Floor

Houston, Texas 77002

Attn: Adam C. Rose

Reference is made to the Credit Agreement dated as of May 25, 2006 (as amended, supplemented or restated from time to time, the “*Credit Agreement*”), between the undersigned and Bank of America, N.A., a national banking association (“*Lender*”). Capitalized terms used but not defined in this Loan Request shall have the meanings given such terms in the Credit Agreement. The undersigned hereby gives you notice pursuant to *Section 2.3* of the Credit Agreement that it requests a Loan under the Credit Agreement on the following terms:

- (A) Loan Date (a Business Day)
- (B) [Revolving Loan][Term Loan]
- (C) Principal Amount of Loan^{*}
- (D) Type of Loan^{**}
- (E) For LIBOR Loans, Interest Period

and the last day thereof^{***}

Borrower hereby certifies that the following statements are true and correct on the date this Loan Request, and will be true and correct on the Loan Date specified above after giving effect to such Loan: (a) all of the representations and warranties in the Loan Documents are true and correct in all material respects (except to the extent that they speak to a specific date); (b) no Material Adverse Event has occurred; and (c) no Default or Potential Default exists.

VERY TRULY YOURS,

BORROWER:

SOUTH HAMPTON RESOURCES, INC.

BY:
NAME:
TITLE:

* Not less than \$100,000 or a greater integral multiple of \$10,000 (if a Base Rate Loan); not less than \$100,000 or a greater integral multiple of \$10,000 (if a LIBOR Loan)

** LIBOR Loan or Base Rate Loan

*** LIBOR Loan — 1, 2, 3 or 6 months. In no event may the Interest Period end after the Revolving Credit Termination Date in respect of the Revolving Credit Facility or the Term Loan Maturity Date in respect of the Term Loan.

**** Must be a Responsible Officer

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-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information, 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 over financial reporting.

Date: November 9, 2007

/s/HATEM EL-KHALIDI
Hatem El-Khalidi
President and Chief Executive Officer

CERTIFICATION

I, Nicholas Carter, 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-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information, 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 over financial reporting.

Date: November 9, 2007

/s/NICHOLAS CARTER

Nicholas Carter
Treasurer

**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 quarter ended September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Hatem El-Khalidi, President and 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; 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
President and Chief Executive Officer

November 9, 2007

**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 quarter ended September 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Nicholas Carter, Treasurer 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; 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/NICHOLAS CARTER

Nicholas Carter
Treasurer

November 9, 2007