

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, 2010**

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 **1-33926**

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.)

1600 Hwy 6 South, Suite 240

Sugar Land, Texas

(Address of principal executive offices)

77478

(Zip code)

Registrant's telephone number, including area code: **(409) 385-8300**

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ___ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ___

Accelerated filer ___

Non-accelerated filer ___

Smaller reporting company ___

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

Yes No

Number of shares of the Registrant's Common Stock (par value \$0.10 per share), outstanding at November 5, 2010: 23,450,745.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2010 (unaudited)	DECEMBER 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,286,818	\$ 2,451,614
Financial contracts	187,604	--
Trade receivables, net	15,665,822	12,302,955
Inventories	5,445,562	5,065,169
Current portion of notes receivable	54,876	372,387
Prepaid expenses and other assets	914,847	739,989
Deferred income taxes	572,883	640,057
Income taxes receivable	400,676	4,726,708
Total current assets	27,529,088	26,298,879
Property, pipeline and equipment, net	32,000,154	32,407,503
Investment in AMAK	30,883,657	31,146,157
Mineral properties in the United States	588,311	588,311
Notes receivable	--	35,001
Other assets	10,938	10,938
TOTAL ASSETS	\$ 91,012,148	\$ 90,486,789
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 3,355,056	\$ 3,617,043
Accrued interest	112,820	148,538
Current portion of derivative instruments	413,018	436,203
Accrued liabilities	2,521,758	1,336,219
Accrued liabilities in Saudi Arabia	628,242	471,280
Notes payable	12,000	12,000
Current portion of post retirement benefit	31,500	31,500
Current portion of long-term debt	1,400,000	1,400,000
Current portion of other liabilities	222,038	579,500
Total current liabilities	8,696,432	8,032,283
Long-term debt, net of current portion	20,389,488	23,439,488
Post retirement benefit, net of current portion	740,431	815,378
Derivative instruments, net of current portion	875,032	838,489
Other liabilities, net of current portion	433,177	562,011
Deferred income taxes	4,715,272	4,332,911
Total liabilities	35,849,832	38,020,560
EQUITY		
Common stock -authorized 40,000,000 shares of \$.10 par value; issued and outstanding, 23,450,745 and 23,433,995 shares in 2010 and 2009, respectively	2,345,074	2,343,399
Additional paid-in capital	42,231,542	41,604,168
Accumulated other comprehensive loss	(850,113)	(841,297)
Retained earnings	11,146,590	9,070,736
Total Arabian American Development Company Stockholders' Equity	54,873,093	52,177,006
Noncontrolling Interest	289,223	289,223
Total equity	55,162,316	52,466,229
TOTAL LIABILITIES AND EQUITY	\$ 91,012,148	\$ 90,486,789

See notes to consolidated financial statements.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30		SEPTEMBER 30	
	2010	2009	2010	2009
REVENUES				
Petrochemical Product Sales	\$ 35,572,993	\$ 29,741,240	\$ 101,184,338	\$ 79,280,937
Transloading Sales	199,432	--	853,636	4,624,681
Processing Fees	1,277,460	906,848	3,549,030	2,724,801
	<u>37,049,885</u>	<u>30,648,088</u>	<u>105,587,004</u>	<u>86,630,419</u>
OPERATING COSTS AND EXPENSES				
Cost of Petrochemical Product				
Sales and Processing (including depreciation of \$566,054, \$556,281, \$1,703,326, and \$1,671,957, respectively)	<u>31,632,185</u>	<u>26,354,402</u>	<u>92,725,819</u>	<u>66,948,640</u>
GROSS PROFIT	5,417,700	4,293,686	12,861,185	19,681,779
GENERAL AND ADMINISTRATIVE EXPENSES				
General and Administrative	2,530,766	2,480,340	8,228,616	6,581,643
Depreciation	108,545	107,397	328,398	328,739
	<u>2,639,311</u>	<u>2,587,737</u>	<u>8,557,014</u>	<u>6,910,382</u>
OPERATING INCOME	2,778,389	1,705,949	4,304,171	12,771,397
OTHER INCOME (EXPENSE)				
Interest Income	2,699	12,141	15,222	53,976
Interest Expense	(275,065)	(324,449)	(857,391)	(970,857)
Equity in loss – AMAK	--	--	(262,500)	--
Miscellaneous	(5,951)	65,176	(25,641)	(17,293)
	<u>(278,317)</u>	<u>(247,132)</u>	<u>(1,130,310)</u>	<u>(934,174)</u>
INCOME BEFORE INCOME TAXES	2,500,072	1,458,817	3,173,861	11,837,223
INCOME TAXES	<u>829,881</u>	<u>934,246</u>	<u>1,098,007</u>	<u>4,586,543</u>
NET INCOME	1,670,191	524,571	2,075,854	7,250,680
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST				
	<u>--</u>	<u>3,557</u>	<u>--</u>	<u>14,293</u>
NET INCOME ATTRIBUTABLE TO ARABIAN AMERICAN DEVELOPMENT COMPANY	<u>\$ 1,670,191</u>	<u>\$ 528,128</u>	<u>\$ 2,075,854</u>	<u>\$ 7,264,973</u>
Basic Earnings per Common Share				
Net Income attributable to Arabian American Development Company	\$ 0.07	\$ 0.02	\$ 0.09	\$ 0.31
Basic Weighted Average Number of Common Shares Outstanding				
	<u>23,750,745</u>	<u>23,733,995</u>	<u>23,749,070</u>	<u>23,725,995</u>
Diluted Earnings per Common Share				
Net Income attributable to Arabian American Development Company	\$ 0.07	\$ 0.02	\$ 0.09	\$ 0.31
Diluted Weighted Average Number of Common Shares Outstanding				
	<u>23,750,745</u>	<u>23,753,535</u>	<u>23,749,070</u>	<u>23,822,601</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, 2010

ARABIAN AMERICAN DEVELOPMENT STOCKHOLDERS

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		RETAINED EARNINGS	TOTAL	NON- CONTROLLING INTEREST	TOTAL EQUITY
	SHARES	AMOUNT							
DECEMBER 31, 2009	23,433,995	\$2,343,399	\$ 41,604,168	\$ (841,297)	\$ 9,070,736	\$52,177,006	\$ 289,223	\$52,466,229	
Stock options									
Issued to Directors	--	--	516,099	--	--	516,099	--	516,099	
Issued to Employees	--	--	73,072	--	--	73,072	--	73,072	
Stock									
Issued to Directors	14,000	1,400	29,540	--	--	30,940	--	30,940	
Issued to Employees	2,750	275	8,663	--	--	8,938	--	8,938	
Unrealized Loss on Interest Rate Swap (net of income tax benefit of \$4,543)									
	--	--	--	(8,816)	--	(8,816)	--	(8,816)	
Net Income	--	--	--	--	2,075,854	2,075,854	--	2,075,854	
Comprehensive Income	--	--	--	--	--	2,067,038	--	--	
SEPTEMBER 30, 2010	<u>23,450,745</u>	<u>\$2,345,074</u>	<u>\$ 42,231,542</u>	<u>\$ (850,113)</u>	<u>\$ 11,146,590</u>	<u>\$54,873,093</u>	<u>\$ 289,223</u>	<u>\$55,162,316</u>	

See notes to consolidated financial statements.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	NINE MONTHS ENDED	
	SEPTEMBER 30,	
	2010	2009
OPERATING ACTIVITIES		
Net Income	\$ 2,075,854	\$ 7,264,973
Adjustments to Reconcile Net Income Attributable to Arabian American Development Company		
To Net Cash Provided by Operating Activities:		
Depreciation	2,031,724	2,002,696
Accretion of Notes Receivable Discounts	(15,147)	(43,972)
Unrealized Gain on Derivative Instruments	(187,605)	(6,965,228)
Stock-based Compensation	629,049	187,017
Deferred Income Taxes	454,078	7,551,595
Provision for doubtful accounts	--	111,154
Postretirement Obligation	(74,947)	68,517
Equity loss in AMAK	262,500	--
Loss Attributable to Noncontrolling Interest	--	(14,293)
Changes in Operating Assets and Liabilities:		
Increase in Trade Receivables	(3,362,867)	(2,297,348)
Decrease in Notes Receivable	367,659	459,623
(Increase) Decrease in Income Tax Receivable	4,326,032	(2,570,374)
Increase in Inventories	(380,393)	(1,341,704)
(Increase) Decrease in Derivative Instrument Deposits	(250,000)	3,950,000
Decrease in Prepaid Expenses	75,141	17,540
Increase (Decrease) in Accounts Payable and Accrued Liabilities	923,552	(3,106,329)
Decrease in Accrued Interest	(35,718)	(21,119)
Increase in Other Liabilities	--	773,000
Increase (Decrease) in Accrued Liabilities in Saudi Arabia	156,962	(353,407)
Cash Provided by Operating Activities	6,995,874	5,672,341
INVESTING ACTIVITIES		
Additions to Property, Pipeline and Equipment	(2,110,670)	(3,155,865)
Additions to Mineral Properties in the U.S.	--	(17,537)
Cash Used in Investing Activities	(2,110,670)	(3,173,402)
FINANCING ACTIVITIES		
Additions to Long-Term Debt	1,000,000	2,530,761
Repayment of Long-Term Debt	(4,050,000)	(5,319,010)
Cash Used in Financing Activities	(3,050,000)	(2,788,249)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,835,204	(289,310)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,451,614	2,759,236
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 4,286,818	\$ 2,469,926
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 880,926	\$ 991,976
Cash refunds from taxes, net of payments of \$262,909	\$ (4,083,394)	\$ (278,622)
Supplemental disclosure of non-cash items:		
Capital expansion amortized to depreciation expense	\$ 486,296	\$ 452,151
Unrealized gain (loss) on interest rate swap, net of tax benefit	\$ (8,816)	\$ 357,058

See notes to consolidated financial statements.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying interim consolidated financial statements and footnotes thereto are unaudited. In the opinion of the management of Arabian American Development Company (the "Company"), these statements include all adjustments, which are of a normal recurring nature, necessary to present a fair statement of the Company's results of operations, financial position and cash flows for the periods presented. Unless the context requires otherwise, references to "we," "us," "our," and the "Company" are intended to mean consolidated Arabian American Development Company and its subsidiaries.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenue, costs, expenses, and gains and losses not affecting retained earnings that are reported in the Consolidated Financial Statements and accompanying disclosures. Actual results may be different. See the Company's 2009 Annual Report on Form 10-K for a discussion of the Company's critical accounting estimates.

Interim results are not necessarily indicative of results for a full year. The information in this Form 10-Q should be read in conjunction with the Company's 2009 Annual Report on Form 10-K.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Texas Oil & Chemical Company, II (the "Petrochemical Company" or "TOCCO"), which owns all of the capital stock of South Hampton Transportation, Inc. (formerly American Shield Refining Company) and South Hampton Resources, Inc., ("South Hampton"). South Hampton owns all of the capital stock of Gulf State Pipe Line Company, Inc. ("Gulf State"). The Company owns 100% of the capital stock of South Hampton Resources International, SL ("SHRI") located in Spain and approximately 55% of the capital stock of a Nevada mining company, Pioche-Ely Valley Mines, Inc. ("Pioche"). The consolidated financial statements include the financial position, results of operations, and cash flows of Pioche. Pioche does not conduct any substantial business activity.

We operate in one segment and all revenue originates from United States' sources and all long-lived assets owned are located in the United States.

The Company also owns a 41% interest in Al Masane Al Kobra Mining Company ("AMAK"), a Saudi Arabian closed joint stock company which owns and is developing a mine in Saudi Arabia. The Company concluded that since August 2009 it no longer had significant influence over the operating and financial policies of AMAK, and therefore, changed to the cost method of accounting for this investment. The Company recorded its cost method investment in AMAK at the carrying amount of its equity method investment at the date the method of accounting was changed. Under the cost method, earnings will be recognized only to the extent of distributions received.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010 the FASB issued Accounting Standards Updates ("ASU") No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. ASU 2010-06 amends Codification Subtopic 820-10 to now require a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, ASU 2010-06 clarifies the disclosures for reporting fair value measurement for each class of assets and liabilities and the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early application is permitted. The Company is currently evaluating the impact of the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. The Company adopted provisions of ASU 2009-06 that were effective after December 15, 2009 and the application of those provisions had no impact on the Company's consolidated financial statements.

In February 2010 the FASB issued ASU No. 2010-09, Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements. ASU 2010-09 reiterates that an SEC filer is required to evaluate subsequent events through the date that

the financial statements are issued and eliminates the required disclosure of the date through which subsequent events have been evaluated. The updated guidance was effective upon issuance and its adoption had no impact on the Company's consolidated financial statements.

In April 2010 the FASB issued ASU No. 2010-17, Revenue Recognition—Milestone Method (Topic 605) — Revenue Recognition (ASU 2010-17). ASU 2010-17 provides guidance on defining the milestone and determining when the use of the milestone method of revenue recognition for research or development transactions is appropriate. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and nonsubstantive milestones, and each milestone should be evaluated individually to determine if it is substantive. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact adoption of this update may have on the consolidated financial statements.

In July 2010 the FASB issued Accounting Standards Update No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20). ASU 2010-20 requires enhanced disclosures about the credit quality of financing receivables and the allowance for credit losses. Entities will be required to provide a greater level of disaggregated information about the credit quality of their financing receivables and their allowances for credit losses. In addition, entities will be required to disclose credit quality indicators, past due information, and modifications of financing receivables. The required disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The required disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Company is currently evaluating the impact adoption of this update may have on the consolidated financial statements.

3. RESTRICTED CASH AND ADVANCE FROM SHAREHOLDER

In April 2010 the Company received a deposit of \$3,000,000 from a shareholder who was considering the purchase of an undetermined number of shares of restricted stock in a private placement. In July 2010 the deposit was returned to the shareholder along with \$12,500 in interest expense and the transaction was cancelled. Therefore, as of September 30, 2010, no balance existed in restricted cash or advance from shareholder in the accompanying consolidated balance sheets.

4. TRADE RECEIVABLES

Trade receivables, net at September 30, 2010, and December 31, 2009, consisted of the following:

	September 30, 2010	December 31, 2009
Trade receivables	\$ 15,792,322	\$ 12,429,455
Less allowance for doubtful accounts	<u>(126,500)</u>	<u>(126,500)</u>
Trade receivables, net	<u>\$ 15,665,822</u>	<u>\$ 12,302,955</u>

5. INVENTORIES

Inventories include the following:

	September 30, 2010	December 31, 2009
Raw material	\$ 2,990,967	\$ 3,376,943
Petrochemical products	<u>2,454,595</u>	<u>1,688,226</u>
Total inventory	<u>\$ 5,445,562</u>	<u>\$ 5,065,169</u>

Inventories are recorded at the lower of cost, determined on the last-in, first-out method (LIFO), or market. At September 30, 2010, current cost exceeded LIFO value by approximately \$1,266,500. At December 31, 2009, current cost exceeded LIFO value by approximately \$1,098,000.

Inventories serving as collateral for the Company's line of credit with a domestic bank were \$3.13 million and \$3.33 million at September 30, 2010, and December 31, 2009, respectively (see Note 8).

6. PROPERTY, PIPELINE AND EQUIPMENT

Property, pipeline and equipment at September 30, 2010, and December 31, 2009 consisted of the following:

	September 30, 2010	December 31, 2009
Platinum catalyst	\$ 1,497,285	\$ 1,497,285
Land	689,363	689,363
Property, pipeline and equipment	48,376,618	47,885,793
Construction in progress	<u>1,629,845</u>	<u>10,000</u>
Total property, pipeline and equipment	52,193,111	50,082,441
Less accumulated depreciation and amortization	<u>(20,192,957)</u>	<u>(17,674,938)</u>
Net property, pipeline and equipment	<u>\$ 32,000,154</u>	<u>\$ 32,407,503</u>

Property, pipeline, and equipment serve as collateral for a \$14.0 million term loan with a domestic bank (see Note 8).

Construction in progress primarily represents the construction of a new isomerization/hex treater unit. The unit was near completion at the end of September into early October 2010. Depreciation on the unit will begin in October 2010.

Amortization relating to the platinum catalyst which is included in cost of sales was \$3,281 and \$3,281 for the three months ended September 30, 2010, and 2009, respectively and \$9,842 and \$9,842 for the nine months ended September 30, 2010, and 2009, respectively.

7. NET INCOME PER COMMON SHARE ATTRIBUTABLE TO ARABIAN AMERICAN DEVELOPMENT CO.

The following table (in thousands, except per share amounts) sets forth the computation of basic and diluted net income per share attributable to Arabian American Development Co. for the three and nine months ended September 30, 2010 and 2009, respectively.

				Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
				Per Share			Per Share		
				Income	Shares	Amount	Income	Shares	Amount
Basic Net Income per Share:									
Net Income attributable to									
Arabian American Development Co.	\$	1,671	23,751	\$	0.07	\$	528	23,734	\$ 0.02
Dilutive stock options outstanding			--					20	
Diluted Net Income per Share:									
Net Income attributable to									
Arabian American Development Co.	\$	<u>1,671</u>	<u>23,751</u>	\$	<u>0.07</u>	\$	<u>528</u>	<u>23,754</u>	<u>\$ 0.02</u>
September 30, 2010									
				Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
				Per Share			Per Share		
				Income	Shares	Amount	Income	Shares	Amount
Basic Net Income per Share:									
Net Income attributable to									
Arabian American Development Co.	\$	2,076	23,749	\$	0.09	\$	7,265	23,726	\$ 0.31
Dilutive stock options outstanding			--					97	
Diluted Net Income per Share:									
Net Income attributable to									
Arabian American Development Co.	\$	<u>2,076</u>	<u>23,749</u>	\$	<u>0.09</u>	\$	<u>7,265</u>	<u>23,823</u>	<u>\$ 0.31</u>

At September 30, 2010, and 2009, 1,076,667 and 439,000 potential common stock shares were issuable upon the exercise of options. Inclusion of the Company's options in diluted net income per share for the three and nine months ended September 30, 2010 has an anti-dilutive effect because the average market price of the Company's common stock for the three and nine months ended September 30, 2010, was less than the weighted average exercise price of the outstanding options.

8. LIABILITIES AND LONG-TERM DEBT

In September 2007 we entered into a \$10.0 million term loan agreement with a domestic bank to finance the expansion of the petrochemical facility. An amendment was entered into in November 2008 which increased the term loan to \$14.0 million due to the increased cost of the expansion. This note is collateralized by property, pipeline and equipment. The agreement expires October 31, 2018. At September 30, 2010, there was a short-term amount of \$1,400,000 and a long-term amount of \$9,900,000 outstanding. At December 31, 2009, there was a short-term amount of \$1,400,000 and a long-term amount of \$10,950,000 outstanding. The interest rate on the loan varies according to several options. At September 30, 2010, and December 31, 2009, the rate was 2.75% and 3.0%, respectively. Interest is paid monthly.

In May 2006 we entered into a \$12.0 million revolving loan agreement with a domestic bank secured by accounts receivable and inventory. Other amendments were entered into during 2008 which ultimately increased the availability of the line to \$21.0 million and subsequently reduced it to \$18.0 million based upon the Company's accounts receivable and inventory. The termination date was extended to June 30, 2012 with an additional amendment on August 5, 2010. At September 30, 2010, and December 31, 2009, there was a long-term amount outstanding of \$10,489,488 and \$12,489,488, respectively. The credit agreement contains a sub-limit of \$3.0 million available to be used in support of the hedging program. The interest rate on the loan varies according to several options. At September 30, 2010, and December 31, 2009, the rate was 2.75% and 3.0%, respectively. The borrowing base is determined by a formula in the loan agreement. If the amount outstanding exceeds the borrowing base, a principal payment is due to reduce the amount outstanding to the calculated borrowing base. Interest is paid monthly. Loan covenants that must be maintained quarterly include EBITDA, capital expenditures, dividends payable to parent, and leverage ratio. Interest on the loan is paid monthly and a commitment fee of 0.25% is due quarterly on the unused portion of the loan. At September 30, 2010, approximately \$5.1 million was available to be drawn, and the Company was in compliance with all covenants.

We currently have a supplier who is the sole provider of South Hampton's feedstock, although other sources are available. The account is on open status. In 2007 South Hampton and the supplier entered into an agreement, which expires seven years from the date of initial operation, for construction of a tank and pipeline connection for the handling of feedstock. In the event of default, South Hampton is obligated to reimburse the supplier for the unamortized portion of the cost of the tank. The tank was placed in service in July 2007. Therefore, at September 30, 2010, 3.25 years of the 7 year agreement have elapsed.

9. FAIR VALUE MEASUREMENTS

The carrying value of cash and cash equivalents, , income taxes receivable, accounts payable, accrued interest, accrued liabilities, accrued liabilities in Saudi Arabia and other liabilities approximate the fair value due to the immediate or short-term maturity of these financial instruments. The carrying value of notes receivable approximates the fair value due to its short-term nature and historical collectability. The fair value of variable rate long term debt and notes payable reflect recent market transactions and approximate carrying value. The fair value of our derivative instruments are described below.

The Company follows the fair value guidance found in ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC Topic 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements. ASC Topic 820 emphasizes that fair value, among other things, is based on exit price versus entry price, should include assumptions about risk such as nonperformance risk in liability fair values, and is a market-based measurement, not an entity-specific measurement. When considering the assumptions that market participants would use in pricing the asset or liability, ASC Topic 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The fair value hierarchy prioritizes inputs used to measure fair value into three broad levels.

Level 1 inputs	Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.
Level 2 inputs	Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.
Level 3 inputs	Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Commodity Financial Instruments

We periodically enter into financial instruments to hedge the cost of natural gasoline (the primary feedstock) and natural gas (used as fuel to operate the plant). South Hampton uses financial swaps on feedstock and options on natural gas to reduce the effect of significant raw material price increases on operating results.

We assess the fair value of the financial swaps on feedstock using quoted prices in active markets for identical assets or liabilities (Level 1 of fair value hierarchy). We assess the fair value of the options held to purchase natural gas using a pricing valuation model. This valuation model considers various assumptions, including publicly available forward prices, time value, volatility factors and current market and contractual prices for the underlying instrument, as well as other relevant economic measures (Level 2 of fair value hierarchy).

Interest Rate Swap

In March 2008 we entered into an interest rate swap agreement with Bank of America related to the \$10.0 million term loan secured by property, pipeline and equipment. The interest rate swap was designed to minimize the effect of changes in the LIBOR rate. We have designated the interest rate swap as a cash flow hedge under ASC Topic 815, *Derivatives and Hedging*.

South Hampton assesses the fair value of the interest rate swap using a present value model that includes quoted LIBOR rates and the nonperformance risk of the Company and Bank of America based on the Credit Default Swap Market (Level 2 of fair value hierarchy).

The following items are measured at fair value on a recurring basis subject to disclosure requirements of ASC Topic 820 at September 30, 2010, and December 31, 2009:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	September 30, 2010	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Assets:				
Natural Gasoline Swaps	\$ 349,822	\$ 349,822	-	-
Liabilities:				
Natural Gasoline Swaps	162,218	162,218	-	-
Interest Rate Swap	1,288,050	-	1,288,050	-
	December 31, 2009	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Liabilities:				
Interest Rate Swap	\$ 1,274,692	\$ -	\$ 1,274,692	\$ -

The Company has consistently applied valuation techniques in all periods presented and believes it has obtained the most accurate information available for the types of derivative contracts it holds. See discussion of our derivative instruments in Note 10.

10. DERIVATIVE INSTRUMENTS

Commodity Financial Instruments

Hydrocarbon based manufacturers such as the Company are significantly impacted by changes in feedstock and natural gas prices. Not considering derivative transactions, feedstock and natural gas used for the nine months ended September 30, 2010, and 2009, represented approximately 81.2% and 78.6% of our operating expenses, respectively.

On February 26, 2009, the Board of Directors adopted a resolution regarding derivative transactions. The 2009 resolution allows the Company to establish a commodity futures account for the purpose of maximizing Company resources and reducing the Company's risk as pertaining to its purchases of natural gas and feedstock for operational purposes by employing a four step process. This process, in summary, includes: (1) education of Company employees who are responsible for carrying out the policy, (2) adoption of a derivatives policy by the Board explaining the objectives for use of derivatives including accepted risk limits, (3) implementation of a comprehensive derivative strategy designed to clarify the specific circumstances under which the Company will use derivatives, and (4) establishment and maintenance of a set of internal controls to ensure that all of the derivatives transactions taking place are authorized and in accordance with the policies and strategies that have been enacted. On August 31, 2009, the Company adopted a formal risk management policy which incorporates the above process and establishes a "hedge committee" for derivative oversight. On January 28, 2010, we appointed members to the hedge committee to oversee transactions.

The Company endeavors to acquire feedstock and natural gas at the lowest possible cost. The primary feedstock (natural gasoline) is traded over the counter and not on organized futures exchanges. Financially settled instruments (fixed price swaps) are the principal vehicle used to give some predictability to feed prices. The Company does not purchase or hold any derivative financial instruments for trading or speculative purposes.

The derivative agreements currently in place are not designated as hedges per ASC Topic 815, *Derivatives and Hedging*. As of September 30, 2010, South Hampton had committed to derivative contracts with settlement dates through December 2010.

The following tables detail (in thousands) the impact the agreements had on the consolidated financial statements:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Unrealized gain	\$ 712	\$ 3,622	\$ 188	\$ 17,447
Realized loss	(421)	(3,622)	(161)	(16,338)
Net gain	<u>\$ 291</u>	<u>\$ --</u>	<u>\$ 27</u>	<u>\$ 1,109</u>

	September 30,	December 31,
	2010	2009
Fair value of derivative asset	\$ 188	\$ --

The realized and unrealized gains/ (losses) are recorded in Cost of Petrochemical Product Sales and Processing for the periods ended September 30, 2010, and 2009.

Interest Rate Swap

On March 21, 2008, we entered into an interest rate swap agreement with Bank of America related to the \$10.0 million term loan secured by property, pipeline and equipment. The effective date of the interest rate swap agreement is August 15, 2008, and terminates on December 15, 2017. As part of the interest rate swap agreement we will receive credit for payments of interest made on the term loan based upon the London InterBank Offered Rate (LIBOR) and will pay Bank of America an interest rate of 5.83% less the credit on the interest rate swap. We have designated the transaction as a cash flow hedge according to ASC Topic 815, *Derivatives and Hedging*. Beginning on August 15, 2008, the derivative instrument was reported at fair value with any changes in fair value reported within other comprehensive income (loss) in the Company's Statement of Stockholders' Equity. The Company entered into the interest rate swap to minimize the effect of changes in the LIBOR rate. The following tables detail (in thousands) the impact the agreement had on the financial statements:

	September 30,	
	2010	2009
Other Comprehensive Loss		
Cumulative loss	\$ (1,288)	\$ (1,156)
Deferred tax benefit	<u>438</u>	<u>393</u>
Net cumulative loss	<u>\$ (850)</u>	<u>\$ (763)</u>
Interest expense reclassified from other comprehensive loss	<u>\$ 359</u>	<u>\$ 384</u>

	September 30, 2010	December 31, 2009
Fair value of derivative liability	\$ 1,288	\$ 1,275

The cumulative loss from the changes in the swap contract's fair value that is included in other comprehensive loss will be reclassified into income when interest is paid. The net amount of pre-tax loss in other comprehensive income (loss) as of September 30, 2010, predicted to be reclassified into earnings within the next 12 months is approximately \$419,000. See further discussion of the fair value of the derivative instruments in Note 9.

11. STOCK-BASED COMPENSATION

On January 28, 2010, the Company awarded fully vested options to its non-employee directors for 32,667 shares in total for their service during 2009. The exercise price of the options is \$2.21 per share based upon the closing price on January 28, 2010. The options have a remaining life of 9.33 years as of September 30, 2010. Compensation expense recognized in connection with this award was approximately \$0 and \$72,000 for the three and nine months ended September 30, 2010. The fair value of the options granted was calculated using the Black-Scholes option valuation model with the following assumptions:

Expected volatility	418%
Expected dividends	None
Expected term (in years)	10
Risk free interest rate	3.68%

On June 22, 2010, the Company awarded a 7 year option to purchase 10,000 shares of restricted stock to a key employee with a vesting period of 2 years. The exercise price of the options is \$2.47 per share based upon the closing price on June 22, 2010. The options have a remaining life of 6.75 years as of September 30, 2010. Compensation expense recognized in connection with this award was approximately \$3,100 and \$3,100 for the three and nine months ended September 30, 2010. Additional expense will be recognized over the 2 year vesting period. The fair value of the options granted was calculated using the Black-Scholes option valuation model with the following assumptions:

Expected volatility	464%
Expected dividends	None
Expected term (in years)	7
Risk free interest rate	2.64%

Compensation expense of approximately \$35,000 and \$70,000 was recognized during the three and nine months ended September 30, 2010, respectively, related to options to purchase 95,000 shares awarded to officers and key employees in January 2010 for their service during 2009. Additional expense will be recognized over the 2 year vesting period. The fair value of the options granted was calculated using the Black-Scholes option valuation model with the following assumptions:

Expected volatility	467%
Expected dividends	None
Expected term (in years)	7
Risk free interest rate	3.15%

Directors' fees expense of approximately \$70,000 and \$164,000 was recognized during the three and nine months ended September 30, 2010, respectively, related to options to purchase 500,000 shares awarded to non-employee directors in February 2010 for their service during 2010 subject to attendance and service requirements. Additional expense will be recognized over the 5 year vesting period. The fair value of the options granted was calculated using the Black-Scholes option valuation model with the following assumptions:

Expected volatility	338%
Expected dividends	None
Expected term (in years)	5
Risk free interest rate	2.37%

Compensation expense of approximately \$93,000 and \$279,000 was recognized during the three and nine months ended September 30, 2010, related to options awarded to Mr. El Khalidi in July 2009. On May 9, 2010, the Board of Directors

determined that Mr. El Khalidi forfeited these options and other retirement benefits when he made various demands against the Company and other AMAK Saudi shareholders which would benefit him personally and were not in the best interests of the Company and its shareholders. The Company is currently reviewing its legal right to withdraw the options and benefits and as such, these options and benefits continue to be shown as outstanding. See further discussion in Note 16.

A summary of the status of the Company's stock option awards is presented below:

	Number of Stock Options	Weighted Average Exercise Price per Share
Outstanding at January 1, 2010	439,000	\$ 3.22
Granted	637,667	2.69
Exercised	--	--
Expired	--	--
Cancelled	--	--
Forfeited	--	--
Outstanding at September 30, 2010	<u>1,076,667</u>	\$ 2.91
Exercisable at September 30, 2010	<u>71,667</u>	\$ 1.75

See the Company's Annual Report on Form 10-K for the year ended December 31, 2009, for additional information.

12. INCOME TAXES

The Company files an income tax return in the U.S. federal jurisdiction and Texas. Tax returns for the years 2007 through 2009 remain open for examination in various tax jurisdictions in which we operate. The Internal Revenue Service previously audited the 2007 return with no change. They are currently in the process of auditing the 2009 return but no changes are expected. We recognized no material adjustment in the liability for unrecognized income tax benefits. As of September 30, 2010, no unrecognized tax benefits or interest related to uncertain tax positions have been accrued.

13. POST RETIREMENT OBLIGATIONS

In January 2008 an amended retirement agreement, replacing the February 2007 agreement, was entered into with Mr. El Khalidi. The amended agreement provides \$6,000 per month in benefits to Mr. El Khalidi upon his retirement for the remainder of his life. Additionally, upon his death \$4,000 per month will be paid to his surviving spouse for the remainder of her life. A health insurance benefit will also be provided. An additional \$382,000 was accrued in January 2008 for the increase in benefits. A liability of approximately \$740,000 based upon an annuity single premium value contract was outstanding at September 30, 2010, and was included in post retirement benefits and approximately \$114,000 was included in accrued liabilities in Saudi Arabia. Mr. El Khalidi retired effective June 30, 2009. As of September 30, 2010, no payments have been made pursuant to this agreement.

In June 2009 the Company's Board of Directors awarded Mr. El Khalidi a retirement bonus in the amount of \$31,500 for 42 years of service. While there is no written policy regarding retirement bonus compensation, the Company has historically awarded all employees (regardless of job position) a retirement bonus equal to \$750 for each year of service. Since Mr. El Khalidi was employed by the Company for 42 years, the Board of Directors voted to award him a \$31,500 retirement bonus, consistent with that provided to all other retired employees. This amount remained outstanding at September 30, 2010 and was included in post retirement benefits.

On May 9, 2010, the Board of Directors terminated the retirement agreement, options, retirement bonus, and any outstanding directors' fees due Mr. El Khalidi; however, due to the pending litigation discussed in Note 16, all amounts remain recorded until a resolution is achieved.

14. INVESTMENT IN AL MASANE AL KOBRA MINING COMPANY ("AMAK")

As of September 30, 2010, and December 31, 2009, the Company has a non-controlling equity interest of approximately \$30.9 million and \$31.1 million, respectively. This investment is accounted for under the cost method. There were no events or changes

in circumstances that may have an adverse effect on the fair value of our investment in AMAK at September 30, 2010. See the Company's Annual Report on Form 10-K for the year ended December 31, 2009, for additional information.

In the second quarter of 2010, the Company learned that AMAK recorded Zakat tax expense in 2008 of SR 1,965,000 (approximately \$525,000). This tax is not an income tax, but rather a tax on equity. This expense related to the time period when AMAK was accounted for under the equity method. The Company recorded a charge for our 50% share of this expense (approximately \$262,500) in the second quarter of 2010 on the basis that our receipt of this information in that period (which information was not available when the 2008 financial statements were issued) caused us to revise our original estimate of our share of AMAK's 2008 net income or loss. There was no Zakat tax for 2009.

15. RELATED PARTY TRANSACTIONS

We incurred transportation and equipment costs of approximately \$237,000 and \$169,000 for the 3 months ended September 30, 2010 and 2009, and \$718,000 and \$625,000 for the nine months ended September 30, 2010 and 2009, respectively, with Silsbee Trading and Transportation Company ("STTC"), which is currently owned by Nicholas Carter, President and CEO of the Company. Under the lease agreements, STTC pays all licenses, taxes, maintenance, and tires, and we are responsible for the drivers, insurance, and fuel. There are currently 14 tractors, 18 trailers, and several pieces of miscellaneous equipment under lease.

On August 1, 2004, we entered into a \$136,876 capital lease with STTC for the purchase of a diesel powered manlift. The lease bore interest at 6.9% for a 5 year term with monthly payments in the amount of \$3,250. Gross payments of \$3,250 and \$22,750, respectively, were made for the three and nine months ended September 30, 2009. Due to the expiration of the lease and the transfer of title to South Hampton in July 2009, no payments were made for the three or nine months ended September 30, 2010.

Legal fees of approximately \$114,000 and \$35,000 were paid during the three months ended September 30, 2010 and 2009, and approximately \$305,000 and \$81,000 were paid during the first nine months of 2010 and 2009 respectively, to the law firm of Germer Gertz, LLP of which Charles W. Goehringer, Jr. is a minority partner. Mr. Goehringer acts as corporate counsel for the Company and in November 2007 was appointed to the Board of Directors.

16. COMMITMENTS AND CONTINGENCIES

On May 9, 2010 after numerous attempts to resolve certain issues with Mr. El Khalidi, the Board of Directors terminated the retirement agreement, options, retirement bonuses, and all outstanding directors' fees due to Mr. El Khalidi, former CEO, President and Director of the Company. This action was taken in response to Mr. El Khalidi's consistent and documented attempts to delay the mining project, damage the credibility of the Company with its shareholders in Saudi Arabia, and disrupt the relationship with the Saudi AMAK shareholders. In June 2010 Mr. El Khalidi filed suit against the Company in the labor courts of Saudi Arabia alleging additional compensation owed to him for time served. In September 2010 Mr. El Khalidi threatened suit against the Company in Texas alleging breach of contract under the above agreements and other claims. We believe that the claims are unsubstantiated and intend to vigorously defend against the claims. The liabilities and options previously owed to Mr. El Khalidi will remain recorded until the lawsuit is resolved.

On September 14, 2010, the Company received notice of a lawsuit filed in Jefferson County, Texas. The suit alleges that the plaintiff became ill from exposure to asbestos. There are approximately 44 defendants named in the suit. On October 18, 2010, the Company received notice of another lawsuit filed in Jefferson County, Texas. The suit alleges that the plaintiff became ill from benzene exposure during his employment from 1970 to 2008 with Goodyear Tire and Rubber Company, a customer of South Hampton. There are approximately 7 defendants named in the suit. The Company has placed its insurers on notice of the claims and plans to vigorously defend the cases.

17. SUBSEQUENT EVENTS

On October 24, 2010, the Company executed a limited Guarantee in favor of the Saudi Industrial Development Fund ("SIDF") whereby the Registrant agreed to guaranty up to 41% of the SIDF loan to AMAK, in the principal amount of 330,000,000 Saudi Riyals (US\$88,000,000) (the "Loan"). The Company owns 41% of the currently issued and outstanding stock of AMAK. As a condition of the Loan, SIDF required all shareholders of AMAK to execute personal or corporate guarantees totaling 162.55% of the overall loan amount. The other AMAK shareholders are providing personal guarantees and the Company is the only AMAK shareholder providing a corporate guarantee. The loan is required in order for AMAK to fund construction of the underground and above-ground portions of its mining project in southwest Saudi Arabia, and to provide working capital for commencement of operations in 2011. By letter dated September 27, 2010, various AMAK Saudi shareholders agreed to use best efforts to have their personal guarantees stand ahead of and pay required payments to SIDF before the Company's corporate guarantee. The

Company received no additional compensation for executing the guarantee. See the Company's Form 8-K filed on October 27, 2010, for additional information.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010.

FORWARD LOOKING AND CAUTIONARY STATEMENTS

Except for the historical information and discussion contained herein, statements contained in this release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the following: a downturn in the economic environment; the Company's failure to meet growth and productivity objectives; fluctuations in revenues and purchases, impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and the Company's pension plans; ineffective internal controls; the Company's use of accounting estimates; competitive conditions; the Company's ability to attract and retain key personnel and its reliance on critical skills; impact of relationships with critical suppliers; currency fluctuations; impact of changes in market liquidity conditions and customer credit risk on receivables; the Company's ability to successfully manage acquisitions and alliances; general economic conditions domestically and internationally; insufficient cash flows from operating activities; difficulties in obtaining financing; outstanding debt and other financial and legal obligations; industry cycles; specialty petrochemical product and mineral prices; feedstock availability; technological developments; regulatory changes; 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 release, all of which are difficult to predict and many of which are beyond the Company's control.

Overview

The following discussion and analysis of the Company's financial results, as well as the accompanying unaudited consolidated financial statements and related notes to consolidated financial statements to which they refer, are the responsibility of the management of the Company. The Company's accounting and financial reporting fairly reflect its straightforward business model involving the manufacturing and marketing of petrochemical products. The Company's business model involves the manufacture and sale of physical products. Our consistent approach to providing high purity products and quality services to our customers has helped to sustain our current position as a preferred supplier of various petrochemical products.

We are well-positioned to participate in new investments to grow the Company. While petrochemical prices are volatile on a short-term basis and depend on the demand of our customers' products, our investment decisions are based on our long-term business outlook, using a disciplined approach in selecting and pursuing the most attractive investment opportunities. The corporate plan is a fundamental annual management process that is the basis for setting near-term operating and capital objectives in addition to providing the longer-term economic assumptions used for investment evaluation purposes. Potential investment opportunities are tested over a wide range of economic scenarios to establish the resiliency of each opportunity. Once investments are made, a reappraisal process is completed to ensure relevant lessons are learned and improvements are incorporated into future projects.

Review of Third Quarter and Year-to-Date 2010 Results

We reported third quarter 2010 earnings of \$1,670,191 up 216.3% or \$1,142,063 from the third quarter of 2009. Earnings per share were \$0.07 for the third quarter of 2010 up 250.0% as compared to the third quarter of 2009. Despite ongoing global economic weakness, sales volume of our petrochemical products (excluding transloading) increased by 2.3% from the third quarter of 2009.

We reported year-to-date 2010 earnings of \$2,075,854 down 71.4% or \$5,189,119 from the first nine months of 2009. Earnings per share of \$0.09 were down 71.0%. Sales volume of our petrochemical products (excluding transloading) increased by 6.4% from the first nine months of 2009.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash and cash equivalents increased by \$1.8 million during the nine months ended September 30, 2010, as compared to a decrease of \$0.3 million for the nine months ended September 30, 2009.

The change in cash and cash equivalents is summarized as follows:

	<u>2010</u>	<u>2009</u>
Net cash provided by (used in)	(in thousands)	
Operating activities	\$ 6,996	\$ 5,672
Investing activities	(2,111)	(3,173)
Financing activities	(3,050)	(2,788)
Increase (decrease) in cash and equivalents	<u>\$ 1,835</u>	<u>\$ (289)</u>
Cash and cash equivalents	<u>\$ 4,287</u>	<u>\$ 2,470</u>

Operating Activities

Cash provided by operating activities totaled \$6,995,874 for the first nine months of 2010, \$1,323,533 higher than 2009 (a 23.2% increase). In the first quarter of 2010 feedstock prices continued to rise, however in mid-May the feedstock prices decreased approximately 20% resulting in a proportionate increase in margins going forward. The full effect of the lower feedstock prices were not realized immediately as the higher prices take some time to work through inventories and materials within the system. This continued volatility in the market makes it difficult for the Company to plan and forecast where its product prices should be, but the use of derivative contracts to provide some predictability for feedstock prices should assist. As of the end of the third quarter of 2010, approximately 30 percent of our anticipated feedstock needs for the coming three months were covered by derivative contracts. In addition, the Company has adopted a strategy of moving its larger volume customers to formula based pricing to reduce the effect of feedstock cost volatility. With this pricing mechanism, product prices move in conjunction with feedstock prices without the necessity of announced price changes, although feedstock prices used in formula based pricing are typically based on the average cost during the prior month which may or may not reflect our actual feedstock cost for the month during which the product is actually sold. Implementation of this strategy should provide increased earnings predictability going forward; however, the Company continues to investigate alternative product pricing methods. Obvious downsides to formula based pricing occur when (i) feedstock costs decrease and the Company loses the ability to maintain product pricing and retain higher margins, or (ii) feedstock costs increase from one month to the next and the Company loses the ability to pass through increased costs and retain higher margins. In October 2010 the Company completed the construction of a small Isomerization unit which will allow for greater flexibility in the product slate and provide the ability to convert a product which is less in demand, into one which is a stronger performer.

During the first nine months of 2010, the Company reduced total debt by \$3,050,000 due to improved cash flow. At September 30, 2010, total debt was \$21,789,488 compared to \$24,839,488 at year-end 2009. The Company's debt to total equity ratio was 39.5% at the end of the third quarter of 2010 compared to 47.3% at year-end 2009.

Primary factors leading to the 23.2% net increase in cash provided by operating activities in 2010 are as follows:

- Trade receivables increased approximately \$3,363,000 (due to additional foreign sales with longer payment terms and an increase in the average selling price per gallon) as compared to an increase of \$2,297,000 in 2009;
- Income tax receivable decreased approximately \$4,326,000 (due to receipt of the carry-back claim refund) as compared to an increase of \$2,570,000 in 2009;
- Inventory increased approximately \$380,000 (due to a slight increase in volume and price) as compared to a increase of about \$1,342,000 (due to an increase in volume and price) in 2009;
- Accounts payable and accrued liabilities increased approximately \$924,000 (due to an increase in accruals for freight bills, fuel gas, swap settlement, and raw material purchases) while in 2009 the same accounts decreased by about \$3,106,000 (due to decreases in derivative accruals and timing of payments);
- Derivative instrument deposits increased \$250,000 (due to a margin call deposit being made), as compared to a decrease of \$3,950,000 (due to return of previous margin call deposits) in 2009;
- Other liabilities reflected no change as compared to an increase of \$773,000 (due to funds being received from outside parties for capital projects) in 2009;
- Notes receivable decreased about \$368,000 as compared to a decrease of \$460,000 in 2009 (due to notes receivable being paid down in both periods and certain notes being paid off in 2009);

- Prepaid expenses and other assets decreased approximately \$75,000 as compared to a decrease of \$18,000 in 2009 (due to expensing of prepaid pipeline services, marketing and insurance in both periods); and
- Accrued liabilities in Saudi Arabia increased approximately \$157,000 (due to the deferral of payments owed to the previous President of the Company) while in 2009 there was a decrease of about \$353,000 (due to payments being made to the President of the Company).

The Company's net income for the first nine months of 2010 decreased by approximately \$5,189,000 or 71.4% in 2010 as compared to the corresponding period of 2009. Major non-cash items affecting income included an increase in depreciation of approximately \$29,000, a decrease in accretion of note receivable discounts of about \$29,000, a decrease in the unrealized gain on derivative instruments of approximately \$6,778,000, an increase in stock-based compensation of about \$442,000, a decrease in deferred income taxes of roughly \$7,098,000, a decrease in post retirement obligations of approximately \$143,000, and an increase in the equity loss in AMAK of about \$263,000.

Investing Activities

Cash used by investing activities during the first nine months of 2010 was approximately \$2,111,000, representing a decrease of approximately \$1,063,000 over the corresponding period of 2009. The Company initiated and completed construction of a new processing unit during the first nine months of 2010 which will allow us to convert normal pentane to isopentane as market conditions dictate. The unit was in the final stages of completion at the end of September into early October of 2010.

Financing Activities

Cash used by financing activities during fiscal 2010 was approximately \$3,050,000 representing an increase of approximately \$262,000 over the corresponding period of 2009. The Company made net principal payments on long-term debt during 2010 of \$1,050,000 on the Company's term loan and \$2,000,000 on its line of credit. In 2009 long term debt decreased due to net payments on the line of credit of approximately \$1.5 million and \$1.3 million on the term loan.

On March 21, 2008, South Hampton entered into an interest rate swap agreement with Bank of America related to the \$10.0 million term loan secured by plant, pipeline and equipment. The effective date of the interest rate swap agreement is August 15, 2008 and terminates on December 15, 2017. As part of the interest rate swap agreement South Hampton will pay an interest rate of 5.83% and receive interest based upon LIBOR or a base rate plus a markup from Bank of America. South Hampton has designated the transaction as a cash flow hedge according to ASC Topic 815, *Derivatives and Hedging*. Beginning on August 15, 2008, the derivative instrument was reported at fair value with any changes in fair value reported within other comprehensive income (loss) in the Company's Statement of Stockholders' Equity. At September 30, 2010, Accumulated Other Comprehensive Loss net of \$438,000 tax was \$850,000 related to this transaction.

Results of Operations

Comparison of Three Months Ended September 30, 2010 and 2009

	2010	2009	Change	% Change
	(in thousands)			
Petrochemical Product Sales	\$ 35,573	\$ 29,741	\$ 5,832	19.6%
Transloading Sales	199	--	199	100.0%
Processing	1,277	907	370	40.8%
Gross Revenue	\$ 37,049	\$ 30,648	\$ 6,401	20.9%
Volume of sales (gallons)				
Petrochemical products	12,690	12,401	289	2.3%
Transloading	139	--	139	100.0%
Cost of Materials	\$ 31,632	\$ 26,354	\$ 5,278	20.0%
Total Operating Expense**	7,507	6,426	1,081	16.8%
Natural Gas Expense**	1,269	1,023	246	24.0%
General & Administrative Expense	2,531	2,480	51	2.1%
Depreciation*	675	663	12	1.8%
Capital Expenditures	\$ 780	\$ 1,458	\$ (678)	(46.5%)

*Includes \$566 and \$556 for 2010 and 2009, respectively, which is included in operating expense

**Included in cost of materials

Gross Revenue

Gross Revenue increased during the third quarter of 2010 from 2009 by approximately 20.9% primarily due to increases in selling prices of approximately 16.3% and sales volume including transloading of approximately 3.5%.

Petrochemical Product Sales

Petrochemical product sales increased by approximately 19.6% from the third quarter of 2009 to the third quarter of 2010 due to an increase in the average selling price of approximately 16.9% and an increase in volume of approximately 2.3% reflecting continued demand for our petrochemical products.

Transloading Sales

Transloading sales increased 100% from the third quarter of 2009 to 2010 primarily due to available spot opportunities during the third quarter of 2010.

Processing

Processing revenues increased 40.8% from the third quarter of 2009 to 2010 primarily due to one of the tolling customers running above minimum capacity during the quarter. The Petrochemical Company remains dedicated to maintaining a certain level of toll processing business in the facility and continues to pursue additional opportunities.

Cost of Materials

Cost of Materials increased approximately 20.0% from the third quarter of 2009 to 2010 primarily due to higher feedstock prices and an increase in gallons processed. Average feedstock price per gallon increased approximately 13.6% from 2009 to 2010 while volume processed increased approximately 6.2%. The Petrochemical Company uses natural gasoline as feedstock which is the heavier liquid remaining after butane and propane are removed from liquids produced by natural gas wells. The material is a commodity product in the oil/petrochemical markets and generally is readily available. The price of natural gasoline normally correlates approximately 93% with the price of crude oil.

Total Operating and Natural Gas Expense

Total Operating Expense for the Petrochemical Company increased approximately 16.8% from the third quarter of 2009 to 2010. Natural gas and labor are the largest individual expenses in this category. The cost of natural gas purchased increased 24.0% from 2009 to 2010 due to higher per-unit costs. The average price per MMBTU for the third quarter of 2009 was \$3.59; whereas, for 2010 the per-unit cost was \$4.67 (a 30% increase). The average price of gas in the third quarter of 2009 is viewed as unreasonably low considering the historical pattern of pricing for that commodity. Volume purchased decreased from approximately 285,000 MMBTU to about 272,000 MMBTU due to operating efficiency improvements. Labor costs were higher by approximately 11.9% due to an increase in the profit sharing and safety award accrual of approximately \$224,000 and a decrease in the amount of capitalized labor of approximately \$66,000. The number of employees was essentially the same for both periods.

General and Administrative Expense

General and Administrative costs from the third quarter of 2009 to 2010 increased 2.1%. Payroll costs increased due to the addition of personnel and higher salaries due mainly to cost of living adjustments. Insurance premiums increased largely due to additional property coverage and an increase in health insurance premiums plus the addition of a foreign credit insurance policy. Consulting fees increased due to efforts to meet and maintain compliance with SEC reporting guidelines. Other increases in general and administrative expenses from 2009 to 2010 were officers' compensation of approximately \$38,000, directors' fees of \$56,000 and legal fees of \$111,000. These were offset by a decrease in expenses in Saudi Arabia due to the termination of the lease for the Company's branch office.

Depreciation

Depreciation increased slightly from the third quarter of 2009 to 2010 due to a relatively stable basis for depreciation with few additions subject to depreciation between the quarters.

Capital Expenditures

Capital Expenditures decreased during the third quarter of 2010 from 2009. During the third quarter of 2009 we were in the process of revamping our original HDS system while in the third quarter of 2010 we were working on an Isomerization unit which will enable us to convert normal pentane to isopentane as required by market demand.

Comparison of Nine Months Ended September 30, 2010 and 2009

	2010	2009	Change	% Change
	(in thousands)			
Petrochemical Product Sales	\$ 101,184	\$ 79,281	\$ 21,903	27.6%
Transloading Sales	854	4,624	(3,770)	(81.5%)
Processing	3,549	2,725	824	30.2%
Gross Revenue	\$ 105,587	\$ 86,630	\$ 18,957	21.9%
Volume of sales (thousand gallons)				
Petrochemical products	35,861	33,716	2,145	6.4%
Transloading	504	4,019	(3,515)	(87.5%)
Cost of Materials	\$ 92,726	\$ 66,949	\$ 25,777	38.5%
Total Operating Expense**	21,401	26,214	(4,813)	(18.4%)
Natural Gas Expense**	3,930	4,572	(642)	(14.0%)
General & Administrative Expense	8,229	6,581	1,648	25.0%
Depreciation*	2,031	2,001	30	1.5%
Capital Expenditures	\$ 2,111	\$ 3,156	\$ (1,045)	(33.1%)

*Includes \$1,703 and \$1,672 for 2010 and 2009, respectively, which is included in operating expense

**Included in cost of materials

Gross Revenue

Gross Revenue increased during the first nine months of 2010 from 2009 by approximately 21.9% primarily due to increases in selling prices of approximately 26.2% offset by the expiration of the transloading contract in April 2009. Total sales volume including transloading decreased approximately 3.6% due to the lower volume required for transloading.

Petrochemical Product Sales

Petrochemical product sales increased by approximately 27.6% from the first nine months of 2009 to the first nine months of 2010 due to an increase in the average selling price of approximately 20.0% and an increase in volume of approximately 6.4% reflecting continued demand for our petrochemical products.

Transloading Sales

Transloading sales decreased approximately 81.5% from the first nine months of 2009 to 2010 primarily due to the expiration of a transloading contract in April 2009. Sales in 2010 reflected spot opportunities that were fulfilled.

Processing

Processing revenues increased approximately 30.2% from the first nine months of 2009 to 2010 primarily due to one of the tolling customers running above minimum capacity during the period.

Cost of Materials

Cost of Materials increased from the first nine months of 2009 to 2010 due to higher feedstock prices. Average feedstock price per gallon increased approximately 47.8% from 2009 to 2010 while volume processed decreased approximately 1.0%.

Total Operating and Natural Gas Expense

Total Operating Expense for the Petrochemical Company decreased from the first nine months of 2009 to 2010. Natural gas and labor are the largest individual expenses in this category. The cost of natural gas purchased decreased 14.0% from 2009 to 2010 due to lower usage and a refund for overcharges. The average price per MMBTU for 2009 was \$3.92; whereas, for 2010 the per-unit cost was \$4.94. Volume purchased decreased from approximately 839,000 MMBTU to about 816,000 MMBTU. The volume purchased was lower due to the use of the more efficient production train which became operational in late 2008. Labor costs were higher by approximately 8.2% due to a decrease in the amount of capitalized labor of approximately \$548,000.

General and Administrative Expense

General and Administrative costs from the first nine months of 2009 to 2010 increased 25.0%. Payroll costs increased due to the addition of personnel and higher salaries due mainly to cost of living adjustments. Insurance premiums increased approximately \$184,000 largely due to additional property coverage and an increase in health insurance premiums plus the addition of a credit policy to cover some foreign sales. Consulting fees increased approximately \$362,000 mainly due to efforts to meet and maintain compliance with SEC reporting guidelines, due diligence efforts and the employ of compensation consultants to access policies. Legal fees increased about \$326,000 primarily due to due diligence efforts, SEC compliance and representation in Saudi Arabia. Other increases in general and administrative expenses from 2009 to 2010 were officers' compensation of approximately \$137,000, post retirement benefits of \$155,000, directors' fees of \$332,000, and accounting fees of \$94,000.

Depreciation

Depreciation increased slightly from the first nine months of 2009 to 2010 due to a relatively stable basis for depreciation with few additions subject to depreciation between the quarters.

Capital Expenditures

Capital Expenditures decreased slightly during the first nine months of 2010 as compared to the same period of 2009. During the first half of 2009 we were in the process of revamping our HDS system while in the first nine months of 2010 we were working on an Isomerization unit which will enable us to convert normal pentane to isopentane as required by market demand.

Contractual Obligations

The table below summarizes the following contractual obligations of the Company:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations	\$ 21,789,488	\$ 1,400,000	\$ 13,289,488	\$ 2,800,000	\$ 4,300,000
Operating Leases	1,086,686	375,305	593,870	117,511	-
Total	<u>\$ 22,876,174</u>	<u>\$ 1,775,305</u>	<u>\$ 13,883,358</u>	<u>\$ 2,917,511</u>	<u>\$ 4,300,000</u>

Guarantee of SIDF Loan to AMAK

As discussed in Note 17 above, as a condition of the Loan from the SIDF in the principal amount of 330,000,000 SR (US\$88,000,000) to AMAK, we were required to execute a Guarantee of up to 41% of the Loan. The decision to provide a limited corporate guarantee in favor of AMAK was not easy as we considered numerous facts and circumstances. One of the factors considered was that without the US\$88,000,000 from the SIDF, construction activity on the project would likely have ceased. Another factor considered was that prior to making a firm commitment regarding funding, the SIDF performed its own exhaustive due diligence of the project and obviously reached the conclusion that the project is viable and capable of servicing the debt. Yet another factor considered was our ability to reach agreement with various AMAK Saudi shareholders whereby they agreed to use best efforts to have their personal guarantees stand ahead of and pay required payments to SIDF before our corporate guarantee. Finally, we researched numerous loans made by the SIDF to others and were unable to find a single instance where the SIDF actually called a guarantee or foreclosed on a project. Based on the above, we determined that it was in the best interest of the Company and its shareholders to provide the limited corporate guarantee to facilitate completion of the mining project in a timely manner. We also determined that the stand-in-front agreement in conjunction with the actual value of plant and equipment on the ground should act in concert to minimize any exposure arising from the corporate guarantee.

Critical Accounting Policies and Estimates

Our critical accounting policies are more fully described in Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2009. The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period reported. By their nature, these estimates, assumptions and judgments are subject to an inherent degree of uncertainty. We base our estimates, assumptions and judgments on historical experience, market trends and other factors that are believed to be reasonable under the circumstances. Estimates, assumptions and judgments are reviewed on an ongoing basis and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies have been discussed with the Audit Committee of the Board of Directors. We believe there have been no material changes to our critical accounting policies and estimates compared to those discussed in our Annual Report on Form 10-K for the year ended December 31, 2009.

Recent and New Accounting Standards

See Note 2 to the Consolidated Financial Statements for a summary of recent accounting guidance.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

Derivative Instrument Risk

Refer to Note 10 on pages 9 through 10 of this Form 10-Q.

Interest Rate Risk

Refer to Note 10 on pages 9 through 10 of this Form 10-Q.

Except as noted above, 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, 2009.

ITEM 4. CONTROLS AND PROCEDURES.

The Company's management evaluated, with the participation of the Chief Executive Officer and Chief Accounting Officer, the effectiveness of the Company's disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Accounting Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None other than the pending claims and lawsuits as discussed in Note 16 above.

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 year ended December 31, 2009 other than as described below.

Guarantee of SIDF loan to AMAK could jeopardize our financial condition if called

In the event AMAK fails to comply with all of the covenants and conditions contained in the SIDF loan agreement, we could be required to pay up to 41% of the outstanding SIDF Loan amount which may adversely affect our business, our financial and operating results and our financial condition.

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)	- Restated Bylaws of the Company dated April 26, 2007 (incorporated by reference to Item 5.03 to the Company's Form 8-K dated April 26, 2007 (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 15, 2008 between Arabian American Development Company and Hatem El Khalidi (incorporated by reference to Exhibit 10(h) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (filed No. 001-33926)).
10(h)*	- Stock Option Plan of Arabian American Development Company for Key Employees adopted April 7, 2008 (incorporated by reference to Exhibit A to the Company's Form DEF 14A filed April 30, 2008 (file No. 001-33926)).
10(i)*	- Arabian American Development Company Non-Employee Director Stock Option Plan adopted April 7, 2008 (incorporated by reference to Exhibit B to the Company's Form DEF 14A filed April 30, 2008 (file No. 001-33926)).

Exhibit Number	Description
10(j)	- Master Lease Agreement dated February 3, 2009, between Silsbee Trading and Transportation Corp. and South Hampton Resources, Inc. (incorporated by reference to Exhibit 10(j) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (file No. 001-33926)).
10(k)	- Memorandum of Understanding relating to formation of AMAK, dated May 21, 2006 (incorporated by reference to Exhibit 10(k) to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (file No. 001-33926)).
10(l)	- Memorandum of Understanding relating to formation of AMAK, dated June 10, 2006 (incorporated by reference to Exhibit 10(l) to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (file No. 001-33926)).
10(m)	- Articles of Association of Al Masane Al Kobra Mining Company, dated July 10, 2006 (incorporated by reference to Exhibit 10(m) to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (file No. 001-33926)).
10(n)	- Bylaws of Al Masane Al Kobra Mining Company (incorporated by reference to Exhibit 10(n) to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (file No. 001-33926)).
10(o)	- Letter Agreement dated August 5, 2009, between Arabian American Development Company and the other Al Masane Al Kobra Company shareholders named therein (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on August 27, 2009 (file No. 001-33926)).
10(p)	- Limited Guarantee dated October 24, 2010 between Arabian American Development Company and the Saudi Industrial Development Fund (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on October 27, 2010 (filed No. 001-33926)).
10(q)	- Loan Agreement dated September 1, 2010 between Al Masane Al Kobra Mining Company and the Saudi Industrial Development Fund (incorporated by reference to Exhibit 99.1 to the Company's Form 8-K filed on October 27, 2010 (filed No. 001-33926)).
10(r)	- Letter dated September 27, 2010 from Al Masane Al Kobra Mining Company shareholders to Arabian American Development Company (incorporated by reference to Exhibit 99.2 to the Company's Form 8-K filed on October 27, 2010 (filed No. 001-33926)).
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 5, 2010 ARABIAN AMERICAN DEVELOPMENT COMPANY
(Registrant)

By: /s/Connie Cook
Connie Cook
Chief Accounting Officer

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a – 14(a)/15d-14(a)

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 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 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15f) 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 report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting.
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 independent registered public accounting firm 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 control 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 control over financial reporting.

Date: November 5, 2010 /s/ Nicholas Carter
Nicholas Carter
President and Chief Executive Officer

CERTIFICATION PURSUANT TO EXCHANGE ACT RULE 13a – 14(a)/15d-14(a)

I, Connie Cook, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Arabian American Development Company;
2. Based on my knowledge, this 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 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15f) 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 report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting.
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 independent registered public accounting firm 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 control 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 control over financial reporting.

Date: November 5, 2010 /s/ Connie Cook
Connie Cook
Chief Accounting Officer

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

In connection with the Quarterly Report of Arabian American Development Company (the "Company") on Form 10-Q for the period ended September 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas Carter, 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, to such officer's knowledge:

- (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
President and Chief Executive Officer

November 5, 2010

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

In connection with the Quarterly Report of Arabian American Development Company (the "Company") on Form 10-Q for the period ended September 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Connie Cook, Chief Accounting 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, to such officer's knowledge:

- (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/ Connie Cook
Connie Cook
Chief Accounting Officer

November 5, 2010