ARABIAN AMERICAN DEVELOPMENT CO
Form 10-Q
November 14, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended SEPTEMBER 30, 2006

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 identification no.)	75-1256622 (I.R.S. employer incorporation or organization)
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 September 30, 2006: 22,771,994.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	SEPTEMBER 30, 2006	DECEMBER 31, 2005
ASSETS		
CURRENT ASSETS		
Cash	$ 3,814,261	$ 1,738,558
Trade Receivables, Net	10,682,636	12,972,657
Financial Contracts	--	74,752
Prepaid Derivative Settlement	2,300,000	--
Inventories	369,329	1,164,674
Total Current Assets	17,166,226	15,950,641
PLANT, PIPELINE AND EQUIPMENT	20,643,705	17,905,048
Less: Accumulated Depreciation	(10,619,956)	(9,678,443)
Net Plant, Pipeline and Equipment	10,023,749	8,226,605
AL MASANE PROJECT	37,085,131	36,804,098
OTHER INTERESTS IN SAUDI ARABIA	2,431,248	2,431,248
MINERAL PROPERTIES IN THE UNITED STATES	1,058,079	1,058,492
OTHER ASSETS	2,542,024	2,476,865
TOTAL ASSETS	$ 70,306,457	$ 66,947,949
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	$ 1,115,496	$ 1,787,353
Financial Contracts	2,261,284	--
Accrued Liabilities	1,431,247	1,638,742
Accrued Liabilities in Saudi Arabia	1,619,919	2,407,282
Notes Payable	11,012,500	11,025,833
Current Portion of Long-Term Debt	2,429,743	1,425,932
Total Current Liabilities	19,870,189	18,285,142
LONG-TERM DEBT	4,617,237	9,838,662
DEFERRED REVENUE	2,281,617	1,732,556
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	801,653	808,443
STOCKHOLDERS' EQUITY		
COMMON STOCK-authorized 40,000,000 shares of $.10 par value; issued and outstanding, 22,571,994 and 22,431,994 shares in 2006 and 2005, respectively	2,257,199	2,243,199
ADDITIONAL PAID-IN CAPITAL	37,087,206	36,512,206
RETAINED EARNINGS (ACCUMULATED DEFICIT)	3,391,356	(2,472,259)
Total Stockholders' Equity	42,735,761	36,283,146

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 70,306,457	$ 66,947,949

See notes to consolidated financial statements.

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

	THREE MONTHS ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2006	2005	2006	2005
REVENUES				
Petrochemical Product Sales	$ 26,253,133	$ 19,521,900	$ 72,635,032	$ 55,608
Processing Fees	1,288,351	1,211,825	3,305,099	3,100
	27,541,484	20,733,725	75,940,131	58,708
OPERATING COSTS AND EXPENSES				
Cost of Petrochemical Product Sales and Processing	24,763,985	12,826,547	61,158,976	42,690
General and Administrative	1,522,286	1,125,042	4,289,185	3,251
Depreciation	379,021	170,231	941,512	481
	26,665,292	14,121,820	66,389,673	46,423
OPERATING INCOME	876,192	6,611,905	9,550,458	12,284
OTHER INCOME (EXPENSE)				
Interest Income	72,592	23,519	171,918	42
Interest Expense	(92,973)	(230,560)	(632,804)	(659
Minority Interest	3,184	3,314	6,791	6
Miscellaneous Income (Expense)	(43,544)	(194)	199,519	50
	(60,741)	(203,921)	(254,576)	(559
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	815,451	6,407,984	9,295,882	11,725
INCOME TAXES	300,849	481,000	3,432,267	829
INCOME FROM CONTINUING OPERATIONS	514,602	5,926,984	5,863,615	10,895
DISCONTINUED OPERATIONS				
Income from Operations of Coin	--	--	--	989
Gain on Disposal of Coin	--	--	--	5,825
GAIN FROM DISCONTINUED OPERATIONS	--	--	--	6,815

NET INCOME	$ 514,602	$ 5,926,984	$ 5,863,615	$ 17,711
Basic Earnings per Common Share				
Income from Continuing Operations	$ 0.023	$ 0.261	$ 0.257	$ 0
Discontinued Operations	0.000	0.000	0.000	0
Net Income	$ 0.023	$ 0.261	$ 0.257	$ 0
Basic Weighted Average Number of Common Shares Outstanding	22,808,954	22,731,994	22,782,092	22,731
Diluted Earnings per Common Share				
Income from Continuing Operations	$ 0.022	$ 0.261	$ 0.255	$ 0
Discontinued Operations	0.000	0.000	0.000	0
Net Income	$ 0.022	$ 0.261	$ 0.255	$ 0
Diluted Weighted Average Number of Common Shares Outstanding	23,073,902	22,731,994	22,967,626	22,731

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, 2006

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TOTAL
	SHARES	AMOUNT			
DECEMBER 31, 2005	22,431,994	$ 2,243,199	$36,512,206	$(2,472,259)	$36,283,146
Common Stock					
Issued to Employees	40,000	4,000	56,000	--	60,000
Issued to Directors	100,000	10,000	290,000	--	300,000
Stock Options to Directors	--	--	229,000	--	229,000
Net Income	--	--	--	5,863,615	5,863,615
SEPTEMBER 30, 2006	22,571,994	$ 2,257,199	$37,087,206	$ 3,391,356	$42,735,761

See notes to consolidated financial statements.

ARABIAN AMERICAN DEVELOPMENT COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005
OPERATING ACTIVITIES		
Net Income	$ 5,863,615	$ 17,711,223
Adjustments to Reconcile Net Income To Net Cash Provided by Operating Activities:		
Depreciation	941,512	481,561
Increase (Decrease) in Deferred Revenue	549,061	(29,140)
Unrealized (Gain) Loss on Financial Contracts	2,336,036	(3,269,202)
Gain on Disposal of Coin	--	(5,825,668)
Minority Interest/Other	(6,789)	(6,947)
Common Stock/Option Compensation Expense	589,000	--
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in Trade Receivables	2,290,021	(4,399,321)
Increase in Prepaid Derivative Settlement	(2,300,000)	--
Decrease in Inventories	795,345	600,368
(Increase) Decrease in Other Assets	9,593	(261,860)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	(886,415)	601,095
Increase (Decrease) in Accrued Interest	7,063	(578,959)
Increase in Accrued Liabilities in Saudi Arabia	(787,363)	(221,377)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,325,927	4,801,773
INVESTING ACTIVITIES		
Additions to Al Masane Project	(281,033)	(161,248)
Additions to Plant, Pipeline and Equipment	(2,738,657)	(3,113,412)
Reduction in Mineral Properties in the United States	413	181
NET CASH USED IN INVESTING ACTIVITIES	(3,019,277)	(3,274,479)
FINANCING ACTIVITIES		
Additions to Notes Payable and Long-Term Obligations	4,558,726	1,379,890
Reduction of Notes Payable and Long-Term Obligations	(8,789,673)	(253,000)
NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES	(4,230,947)	1,126,890
NET INCREASE IN CASH	2,075,703	2,654,184
CASH AT BEGINNING OF PERIOD	1,738,558	623,202
CASH AT END OF PERIOD	$ 3,814,261	$ 3,277,386

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. For additional information please refer to the consolidated financial statements and footnotes thereto and to Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's December 31, 2005 Annual Report on Form 10-K.

These financial statements include the accounts of Arabian American Development Company (the "Company") and its wholly-owned subsidiary, American Shield Refining Company (the "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"), and, until June 9, 2005, approximately 99.9% of the capital stock of Productos Quimicos Coin, S.A. de C.V. ("Coin"), a specialty petrochemical products company located near Coatzacoalcos, Mexico. 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. ACCOUNTING PRONOUNCEMENTS

FASB STATEMENT NO. 123 (REVISED 2004)

In December 2004 the Financial Accounting Standards Board (FASB) issued Statement No. 123 (revised 2004), "Share-Based Payment" (Statement No. 123R), which requires the fair value of all share-based payments to employees, including grants of employee stock options, to be recognized as expense over the employees' requisite service period. The Company adopted Statement No. 123R on a prospective basis effective January 1, 2006. Under the prospective method, the Company continues to account for previously outstanding stock options at the date of adoption of SFAS 123R under APB 25. The specific impact of our adoption will depend on the levels of share-based incentive awards granted in the future.

FASB STATEMENT NO. 155

In February 2006 the FASB issued Statement No. 155, "Accounting for Certain Hybrid Financial Instruments," which amends Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," and Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Statement No. 155 is effective for all

financial instruments acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006. We are currently evaluating the impact, if any, of adopting FAS 155 on our financial statements.

FASB STATEMENT NO. 48

In June 2006 the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109(FIN48). FIN48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement NO. 109. "Accounting for Income Taxes," by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. If a tax position is more likely than not to be sustained upon examination, then an enterprise would be required to recognize in its financial statements the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The provisions of FIN 48 will be effective as of the beginning of our 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact, if any, of adopting FIN 48 on our financial statements.

EITF ISSUE NO. 06-3

In June 2006 the FASB ratified its consensus on EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)" (EITF No. 06-3). The scope of EITF No. 06-3 includes any tax assessed by a governmental authority that is imposed concurrent with or subsequent to a revenue-producing transaction between a seller and a customer. For taxes within the scope of this issue that are significant in amount, the consensus requires the following disclosures: (i) the accounting policy elected for these taxes and (ii) the amount of the taxes reflected gross in the income statement on an interim and annual basis for all periods presented. The disclosure of those taxes can be done on an aggregate basis. The consensus is effective for interim and annual periods beginning after December 15, 2006, with earlier application permitted. Adoption of EITF No. 06-3 is not expected to affect our financial position or results of operations.

FASB STATEMENT NO. 157

In September 2006 the FASB issued Statement No. 157, "Fair Value Measurements." Statement No. 157 defines fair value, established a framework for measuring fair value under GAAP, and expands disclosures about fair value measures. Statement No. 157 is effective for fiscal years beginning after November 15, 2007, with early adoption encouraged. The provisions of Statement No. 157 are to be applied on a prospective basis, with the exception of certain financial instruments for which retrospective application is required. The adoption of Statement No. 157 is not expected to materially affect our financial position or results of operations.

3. INVENTORIES

Inventories include the following:

	SEPTEMBER 30, 2006	DECEMBER 31, 2005

Petrochemical products	$ 369,329	$1,164,674

Inventories are recorded at the lower of cost, determined on the last-in, first-out method (LIFO), or market. At September 30, 2006, and December 31, 2005, current cost exceeded LIFO value by approximately $596,000 and $601,000, respectively,

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4. 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, 2006 and 2005, respectively.

	THREE MONTHS ENDED SEPTEMBER 30, 2006			THREE MONTHS ENDED SEPTEMBER 30, 2005		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
CONTINUING OPERATIONS						
BASIC NET INCOME PER SHARE:						
Income from continuing operations	$ 515	22,809	$0.023	$5,927	22,732	$0.261
Dilutive stock options outstanding		265				
DILUTED NET INCOME PER SHARE:						
Income from continuing operations	$ 515	23,074	$0.022	$5,927	22,732	$0.261
DISCONTINUED OPERATIONS						
BASIC NET INCOME PER SHARE:						
Income from discontinued operations	$ --	22,809	$0.000	$ --	22,732	$0.000
Dilutive stock options outstanding		265				
DILUTED NET INCOME PER SHARE:						
Income from discontinued operations	$ --	23,074	$0.000	$ --	22,732	$0.000
TOTAL OPERATIONS						
BASIC NET INCOME PER SHARE:						
Net income	$ 515	22,809	$0.023	$5,927	22,732	$0.261
Dilutive stock options outstanding		265				
DILUTED NET INCOME PER SHARE:						
Net income	$ 515	23,074	$0.022	$5,927	22,732	$0.261

	NINE MONTHS ENDED SEPTEMBER 30, 2006			NINE MONTHS ENDED SEPTEMBER 30, 2005		
	Income	Shares	Per Share Amount	Income	Shares	Per Shar Amount
CONTINUING OPERATIONS						
BASIC NET INCOME PER SHARE:						
Income from continuing operations	$ 5,864	22,782	$0.257	$10,896	22,732	$0.479
Dilutive stock options outstanding		185				
DILUTED NET INCOME PER SHARE:						
Income from continuing operations	$ 5,864	22,967	$0.255	$10,896	22,732	$0.479
DISCONTINUED OPERATIONS						
BASIC NET INCOME PER SHARE:						
Income from discontinued operations	$ --	22,782	$0.000	$ 6,816	22,732	$0.300
Dilutive stock options outstanding		185				
DILUTED NET INCOME PER SHARE:						
Income from discontinued operations	$ --	22,967	$0.000	$ 6,816	22,732	$0.300
TOTAL OPERATIONS						
BASIC NET INCOME PER SHARE:						
Net income	$ 5,864	22,782	$0.257	$17,711	22,732	$0.779
Dilutive stock options outstanding		185				
DILUTED NET INCOME PER SHARE:						
Net income	$ 5,864	22,967	$0.255	$17,711	22,732	$0.779

For the three and nine months ended September 30, 2005, options for 400,000 shares were excluded from diluted shares outstanding because their effect was anti-dilutive.

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5. SEGMENT INFORMATION

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

THREE MONTHS ENDED SEPTEMBER 30, 2006	PETROCHEMICAL	MINING	TOTAL

Continuing operations:			
Revenue from external customers	$ 27,541,484	$ --	$ 27,541,484
Depreciation	378,942	79	379,021
Operating income (loss)	1,012,130	(135,938)	876,192
Total assets	$ 29,615,506	$ 40,690,951	$ 70,306,457

THREE MONTHS ENDED SEPTEMBER 30, 2005	PETROCHEMICAL	MINING	TOTAL
Continuing operations			
Revenue from external customers	$ 20,733,725	$ --	$ 20,733,725
Depreciation	170,231	--	170,231
Operating income (loss)	6,764,647	(152,742)	6,611,905
Total assets	$ 23,374,655	$ 40,232,814	$ 63,607,469

NINE MONTHS ENDED SEPTEMBER 30, 2006	PETROCHEMICAL	MINING	TOTAL
Continuing operations:			
Revenue from external customers	$75,940,131	$ --	$75,940,131
Depreciation	941,344	168	941,512
Operating income (loss)	10,141,422	(590,964)	9,550,458

NINE MONTHS ENDED SEPTEMBER 30, 2005	PETROCHEMICAL	MINING	TOTAL
Continuing operations			
Revenue from external customers	$58,708,273	$ --	$58,708,273
Depreciation	481,561	--	481,561
Operating income (loss)	12,731,951	(447,183)	12,284,768
Discontinued operations (Productos Quimicos Coin)			
Revenue from external customers	$ 2,042,676	$ --	$ 2,042,676
Depreciation	--	--	--
Operating income	497,730	--	497,730

Information regarding foreign operations for the three and nine months ended September 30, 2006 and 2005 follows (in thousands). Revenues are attributed to countries based upon the origination of the transaction.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	2006	2005
REVENUES				
United States	$27,541	$20,734	$75,940	$58,709
Mexico	--	--	--	2,042
Saudi Arabia	--	--	--	--

	$27,541	$20,734	$75,940	$60,751
LONG-LIVED ASSETS				
United States	$11,082	$ 9,182		
Mexico	--	--		
Saudi Arabia	39,516	39,013		
	$50,598	$48,195		

6. LEGAL PROCEEDINGS

For the period ending September 30, 2006, South Hampton had no outstanding lawsuits.

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. No action occurred on this item in the third quarter of 2006. See the 10-K Report as of December 31, 2005 for more detail on this topic.

7. LIABILITIES AND LONG-TERM DEBT

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, 2006, approximately $4.6 million was outstanding.

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 contract requires South Hampton to reduce its debt to the supplier by $250,000 per quarter. Therefore, $1.0 million of the balance of approximately $4.26 million was classified as current at December 31, 2005. At September 30, 2006, the total balance of $2.4 million is classified as current. The supplier is currently the sole provider of the facility's feedstock supply. On June 1, 2005, the contract was extended to May 31, 2007.

In the first three quarters of 2006 TOCCO paid dividends to ASRC in amounts sufficient to repay approximately $340,000 of the liability to its President and Chief Executive Officer. During the first three quarters of 2006, approximately $730,000 of this liability was paid and $585,000 remained outstanding.

8. 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. 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. Except in rare cases, the account uses options and financial swaps to meet the targeted goals. These derivative agreements are not designated as hedges per SFAS 133, as amended. TOCCO had option and swap contracts outstanding as of September 30, 2006, covering various natural gas price movement scenarios through October of 2007 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 March of 2007. For the nine months ended September 30, 2006 and 2005, the net realized gain from the derivative agreements was approximately $1,192,000 and $760,000, respectively. There was an estimated unrealized loss for the nine months ended September 30, 2006 of approximately

$2,336,000 and an unrealized gain for the nine months ended September 30, 2005 of approximately $3,269,000. The realized and unrealized gains are recorded in Cost of Petrochemical Product Sales and Processing for the periods ended September 30, 2006 and 2005.

In September 2006, margin calls were made on the financial swaps for $2,300,000, due to a decrease in the price of natural gasoline. As of September 30, 2006, this amount is recorded in Other Assets in the consolidated balance sheet as a prepayment against potential hedge settlements.

9. DISCONTINUED OPERATIONS

A creditor (bank) of Coin, holding a first lien, initiated a mortgage foreclosure proceeding that resulted in the court ordered public auction of the plant facilities in Mexico on February 23, 2004. As a result, the court awarded the plant facilities to the creditor in partial settlement of the outstanding debt owed by Coin. The court order required legal transfer of the assets to the creditor within three days; however, the transfer was delayed by the legal filings of the Company. Ultimately, management and Coin's legal counsel were unable to determine if or when the legal transfer of ownership would occur. As a result, management recorded the loss on the foreclosure of the facility with a charge to consolidated operations of $2,900,964 during the fourth quarter of 2004. In April 2005, management ceased operating the plant and shut down the facility. In late April 2005, management met with a third party having a contract with the Mexican bank to take over the Coin facility in the event the foreclosure proceedings were completed. An agreement was reached whereby the Company would sign appropriate documentation transferring title to the facility in exchange for relief from certain outstanding liabilities. In exchange for an orderly and clean transfer of title, the Company received relief from the remaining outstanding bank interest and penalties of approximately $530,000, was relieved of severance liabilities of approximately $160,000 due the remaining employees at the Coatzacoalcos location, and received $100,000 cash with which to satisfy miscellaneous expenses associated with closing the Mexico City

office. Documentation was completed and signed on May 19, 2005.

On June 9, 2005, the Company sold the stock in the Mexican corporation to an independent third party in Mexico and essentially ceased all operations in the country. The stock was sold for an immaterial amount and the sale was designed to allow the third party to make use of the accumulated tax losses. The Company recorded a gain on disposal of Coin of approximately $5.9 million. There are no material continuing liabilities associated with the Company's prior ownership of the Coin operation.

10. SHARE-BASED COMPENSATION

Common Stock

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. Compensation expense recognized in connection with these issuances was $300,000 and $360,000 for the three and nine months ended September 30, 2006, respectively.

Stock Options

In August 2006, the Company issued 100,000 stock options to a director of the Company for his many years of service. The options have a three year exercise period at an exercise price of $2. Stock option compensation expense recognized for the three and nine months ended September 30, 2006 was $300,000. The fair value for these options was estimated on the date of grant using the fair value option pricing model with the following assumptions: (1) risk-free interest rate of 4.8%, (2) an expected life of 3 years, (3) 115% volatility and (4) no dividends.

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, 2006	400,000	$1.00
GRANTED	100,000	$2.00
EXERCISED	--	
FORFEITED	--	
OUTSTANDING AT SEPTEMBER 30, 2006	500,000	$1.20
EXERCISABLE AT SEPTEMBER 30, 2006	500,000	$1.20

The outstanding options of 400,000 at January 1, 2006 have an indefinite life and the 100,000 options issued during the period have a remaining contractual life of 35 months.

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 August 25, 2005, South Hampton legally changed its name from South Hampton Refining Co. to South Hampton Resources, Inc. The former name had been used by South Hampton since the late 1970's when it was involved in the processing of crude oil and the production of motor fuels. Since South Hampton had emphasized the petrochemical and specialty product business for the past twenty years and no longer produced motor fuels of any nature, it was felt the name was misleading and needed to be changed.

On July 31, 2006, the Company, which was quoted on the Pink Sheets for the last four (4) 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. Its corporate overhead needs are minimal. A discussion of each segment's liquidity and capital resources follows.

SPECIALTY PETROCHEMICALS SEGMENT. Historically, this segment has contributed all of the Company's internally generated cash flows. As the petroleum markets have fluctuated the last twenty years, South Hampton was able to adapt by raising prices, cutting costs, shifting focus, or developing new markets as necessary. When oil prices began their dramatic rise in 2004, TOCCO had financial swaps in place which protected it against sudden and

volatile price swings in feedstock prices and to a lesser extent, fuel gas costs. Product demand has continued to be strong during the last several years of fluctuating petroleum markets. These conditions allowed the Petrochemical segment to report significant earnings and to meet continued volatility

of the markets in the future. The Company also moved to take advantage of the increased demand by increasing its production capacity by 30% in the first quarter of 2005. The increased capacity has been fully utilized over the last eighteen months and further expansion is being considered.

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, 2007, and year to year thereafter, with thirty days written notice of termination by either party. A provision of the contract states that South Hampton will reduce the debt to the supplier by $250,000 per quarter. South Hampton has paid the account ahead of the scheduled balance reductions, and the account is now operating as an open account, secured by inventory and fixed assets. The supplier is currently the sole provider of feedstock, although other sources are available in the open market. At September 30, 2006, South Hampton owed the supplier approximately $2.39 million.

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.

On February 23, 2004, the Coin plant facilities were awarded to a creditor in a foreclosure hearing. The foreclosure was contested successfully until early 2005. On May 19, 2005, through a negotiated settlement, the facility was transferred to the acquirer and on June 9, 2005, the stock in Coin was sold. See Note 9 to the notes to the consolidated financial statements (unaudited). There are no material continuing liabilities associated with the Company's prior ownership of the Coin operation.

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 was delayed over the last five years because open market prices for metals were insufficient to attract additional investment required to achieve production. As world economy and metal prices have improved over the last two years, investment viability has improved and steps are being taken to take advantage of the improved investment climate.

During 2005, the Company paid past due lease amounts of $586,000 plus $117,000 due for 2006. The 2007 lease payment of $117,000 will be due on January 1, 2007. On May 29, 2006, the Company's President notified the Ministry by letter of the progress made in the formation of a joint venture which will directly implement the work plan.

The Company is presently working with three companies organized and existing under the laws of the Kingdom of Saudi Arabia, to achieve the formation of a joint stock company under the name Al Masane Al Kobra Mining Company ("ALAK"). ALAK's primary activity will be the mining of base metals ore and concomitant metals, and refining the ore into condensed copper, zinc, gold and silver alloys, at the Al Masane mining project location. On June 10, 2006, the Company developed a preliminary Memorandum of Understanding ("MOU") with Thamarat Najran Company, a company organized and existing under the laws of the Kingdom of Saudi Arabia ("TNC"). The basis of the MOU was approved by the Boards of the Company and TNC on July 7 and July 3, 2006, respectively. A

Partnership Agreement including two additional Saudi investment companies, Qasr Al-Ma'adin Corporation and Durrat Al-Masani' Corporation, was negotiated and approved by the Saudi partners on August 9, 2006 and was approved by the Board of the Company on August 28, 2006. While final detailed arrangements may change as the project develops, the basic terms of agreement are as follows: (1) The capitalization of the joint stock company will be the amount necessary to develop the project, approximately $120 million, (2)the Company will own 50% of ALAK and the remainder will be held by the Saudi investors; (3) the Company will contribute the mining assets, mining lease, and outstanding debt of approximately $11 million for a credit of $30 million and the Saudi investors will contribute $30 million, 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. ALAK will have all

powers of administration over the Al Masane mining project. The Company will have three directors representing its interests on a six-member board of directors with the Chairman of ALAK chosen from the three 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. The Company has hired an attorney and a consultant in Saudi Arabia to facilitate (1)the formation of the Joint Stock Company, (2)the net transfer of the mining assets and lease into the newly formed company, and (3)the raising of the 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 the steps are completed. The formation of a new Joint Stock company and the transfer of the assets are dependent upon successfully negotiating the regulations and bureaucracy of the Saudi Government and the Company expects to accomplish this in early 2007. Any guarantees which might be required to raise the additional capital for ALAK is undetermined at this time.

After initialization, the work plan will take approximately twenty-two (22) months to complete, after which commercial production would begin. The Company, on April 20, 2005, signed an agreement with SNC-Lavalin Engineering and Construction Company of Toronto, Canada ("SNC-Lavalin"), to update the feasibility study. The prices of zinc, copper, gold and silver have increased significantly over the last two 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. The firm concluded that capital expenditure of approximately $115 million is needed 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 to allow the economic feasibility to be reviewed. 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 2003, and therefore, mining projects were not economically feasible. As the prices have recovered for the 2004-2006 time period, the project becomes near breakeven over the three year period, 2003 through 2005. If spot prices as of September 29, 2006, are used in the analysis, or even the ten year average of prices is used, 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 2003 and 2005 to current levels:

	AVERAGE PRICE FOR 2003-2005	SPOT PRICE AS OF 09/29/2006	INCREASE
GOLD	$406.00 per ounce	$601.75 per ounce	$195.75 per ounce
SILVER	$6.29 per ounce	$11.50 per ounce	$5.21 per ounce
COPPER	$1.26 per pound	$3.44 per pound	$2.18 per pound
ZINC	$0.49 per pound	$1.53 per pound	$1.04 per pound

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 on the Greater Al Masane areas revealed mineralization similar to that discovered at Al Masane.

In August of 2006, the Ministry notified the Company that its application for a mineral exploration license did not comply with requirements of the 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. Information is being accumulated currently and the applications are expected to be submitted in early 2007.

Management is also addressing two other significant financing issues within this segment. These issues are the $11 million note payable to the Saudi Arabian government and accrued salaries and termination benefits of approximately $1,007,000 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 $1,255,000 at December 31, 2005 and $585,000 as of September 30, 2006).

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. As a part of the current arrangement with the formation of the Joint Stock Company (ALAK), the liability for the loan is intended to be transferred along with the assets and lease of the mining activity to the new organization. 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 be unable to pay the entire amount due.

With respect to the accrued salaries and termination benefits due employees working in Saudi Arabia, the Company plans to continue employing these individuals depending upon the needs of the mining operation until ALAK actually takes over the facility. Management believes it has sufficient

resources to manage this severance liability as necessary. The President has been paid approximately $730,000 in 2006 of the total amount owed, and plans are to eliminate the balance by the end of the year.

As noted previously, the Company's mineral interests in the United States are its ownership interest in Pioche, which has been inactive for many years. Its 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 on the property. 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 of the Board, 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. Hatem El-Khalidi, who holds an MSc. Degree in Geology from Michigan State University, is also a consultant in oil and mineral exploration. Mr. El-Khalidi is the person who discovered the Al Masane deposits, which under his direct supervision were subsequently developed by the Company. The third board member, 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. In that position, a $200 million annual budget was under his direct control and supervision. Mr. Sultan supervised the work of the USGS (United States Geological Survey) Mission in Saudi Arabia, the BRGM (French Government Mineral Survey), and the British Riofenix Mission (owned by Rio Tinto Mining Company). All of these studies explored and evaluated many mineral deposits for the Ministry in Saudi Arabia with some becoming mines. Mr. Sultan is the member responsible for the Audit Committee of the Company. 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 plant. His employment in the petrochemical business predates the acquisition by the Company in 1987. Mr. Carter replaced Mr. Mohammed Al-Omair on the Board effective April 27, 2006.

RESULTS OF OPERATIONS

SPECIALTY PETROCHEMICALS SEGMENT. In the quarter ended September 30, 2006, total petrochemical product sales and processing fees from continuing operations increased approximately $6,808,000 or 33%, while the cost of petrochemical sales and processing (excluding depreciation) increased approximately $11,937,000 or 93% from the same period in 2005. Consequently, the total gross profit margin on revenue in the third quarter of 2006

decreased approximately $5,130,000 or 65% compared to the same period in 2005. The change in gross profit margin for the period was primarily due to the change in the fair value of derivatives for feedstock purchases. See Note 8. of the notes to the consolidated financial statements (unaudited) concerning the accounting for Derivative Instruments. 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 unfortunately sometimes has negative results during the short term when price fluctuations are significant as they were in the third quarter of 2006.

In the nine months ended September 30, 2006, total petrochemical product sales and processing fees from continuing operations increased approximately $17,232,000 or 29%, while the cost of petrochemical sales and processing (excluding depreciation) increased approximately $18,469,000 or 43% from the same period in 2005. Consequently, the total gross profit margin on petrochemical product sales and processing in the first nine months of 2006 decreased approximately $1,237,000 compared to the same period in 2005. The cost of petrochemical product sales and processing and gross profit margin for the nine months ended September 30, 2006 includes an estimated unrealized loss of approximately $2,336,000 on the derivative agreements.

The Petrochemical segment completed a de-bottlenecking project on the solvents unit during the later part of the first quarter of 2005. The project added two new, larger fractionation towers and divided the solvent production into two trains. Total capacity of the unit was increased by approximately 30% and was functional by March 31, 2005. Consistent operation at full capacity of the expanded equipment was attained in the early part of the third quarter 2005. The project cost approximately $1.5 million and was accomplished using current maintenance department employees. The expanded capacity has allowed the Company to increase sales to meet demand growth

and to increase market share. The expanded capacity has operated at maximum rates for the last twelve months and further expansion is being considered.

Sales from discontinued operations decreased approximately $2,043,000 or 100%, while its cost of sales (excluding depreciation) decreased approximately $1,545,000 or 100%. Therefore, discontinued operations had a gross profit margin on product sales for the nine months of $0, compared to a gross profit margin of approximately $498,000 for the same period in 2005. The discontinued operations relates to the Mexican venture discussed in Note 9 to the notes to the consolidated financial statements (unaudited).

Sales demand has remained high during the last twenty-four (24) months despite constant price increases to customers. Management attributes the strong sales demand to improved general economic activity during the past year and to growth in the industries served by the petrochemical product lines. Growth of markets served has generally been 2% to 3% annually over the last ten (10) years. The Company's growth in volume has generally matched that trend over the same time period, although with the recently expanded capacity, the growth rate in sales has increased above the industry wide growth rate. The Company bases its marketing philosophy on high quality, consistent product, and service to the customer and believes this is essential to being successful in this specialty product marketplace.

By January of 2006 most of the feedstock price fluctuation related to hurricanes Rita and Katrina had worked out of the markets. Throughout 2006 sales prices have generated acceptable margins, and the need for constant price increases has deminished. Demand has remained strong on most products through the nine months of 2006, and the process ran at 92% of capacity for the first quarter, 88% in the second quarter and 97% in the third quarter. Small operational equipment modifications were made as the Company continues

to fine tune the equipment which was added in the previous year. Reliability and mechanical integrity of the equipment is continually being improved by the Company to assist its ability to meet market demand.

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. Approximately 50% of the Company's monthly feedstock requirements for three to six months ahead are covered at any one time. This ratio cushions price increases and allows the Company to experience partial benefit when the price drops. In the third quarter of 2006, the natural gasoline derivative agreements had a realized gain of approximately $619,000 and an estimated unrealized loss of approximately $1,814,000 for a total negative effect of approximately $1,195,000. The program is designed to be insurance against unforeseen dramatic price swings rather than as a speculative profit center. It operates mostly as a "buy and hold" program. See Note 8 to the consolidated financial statements (unaudited) for a discussion of the accounting methods used for Derivatives.

The price of natural gas (fuel gas), which is the petrochemical operation's largest single operating expense, continued to be high during the third quarter of 2006 as compared to historical levels. Of course what is historically considered a "high" price has changed within the industry as the Company's natural gas price, including the effect of the hedge program, has fluctuated within the $6.00 to $8.00 per mmbtu range for the last twenty-four (24) months. The Company has option contracts in place for fuel gas through the third quarter of 2007 in order to minimize the impact of price fluctuations in the market (see Note 8 to the consolidated financial statements (unaudited)). The Company was also able to pass through price increases as they have occurred. In the third quarter of 2006, the natural gas derivative agreements had a realized loss of approximately $33,000 and an estimated unrealized loss of approximately $447,000.

Toll processing fee revenue for the third quarter of 2006 of approximately $1,288,000 represents an increase of approximately $77,000 or 6% above the fees for the same period in 2005. Toll processing fee revenue for the first nine months of 2006 of approximately $3,305,000 represents an increase of approximately $205,000 or 7% above the fees for the same period in 2005. 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 rise during the remainder of 2006 and beyond as expanded facilities for a major customer were completed in October 2005. The revised contract with this customer will generate additional processing fees and contains a capital repayment feature. The project began operations on schedule (considering the hurricane caused delay) and is producing high quality products in the 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 capacity for the remainder of 2006. A project expanding the capacity of a tolling unit for a different customer was operational by August 3, 2006, and is expected to further enhance tolling revenues.

Interest expense for the third quarter of 2006 of approximately $93,000 represents a decrease of approximately $129,000 or 58% below the fees for the same period in 2005. Interest expense for the first nine months of 2006 of approximately $632,000 represents an increase of approximately $258,000 or 69% above the fees for the same period in 2005. Interest expense increased in 2006 primarily due to the penalties associated with the buyout of the Catalyst note.

While the volume of feedstock purchased is rising 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. Insurance expenses will remain flat throughout 2006 with the exception of property coverage. The hurricanes caused the premiums for that line of coverage to increase by 250% upon renewal in June of 2006. The increase is not material to the results of the operation.

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

The Company assesses the carrying values of its assets on an ongoing basis. Factors which may affect the carrying values of the mining properties include, but are not limited to, mineral prices, capital cost estimates, estimated operating costs of any mines and related processing, ore grade and related metallurgical characteristics, design of any mines and the timing of any mineral production. Prices currently used to assess the recoverability of the Al Masane project costs for 2006 are $3.35 per pound for copper and $1.51 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, 2006. There are no assurances that, particularly in the event of a prolonged period of depressed mineral prices, the Company will not be required to take a material write-down of its mineral properties in the future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

Other than as disclosed, 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, 2005.

ITEM 4. CONTROLS AND PROCEDURES.

The Company carried out an evaluation, under the supervision and with the participation of Company management, including the Company's President and Chief Executive Officer and Treasurer, of the effectiveness of the Company's disclosure controls and procedures, as of the end of the period covered by this report. Based upon that evaluation, the President and Chief Executive Officer and Treasurer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective such that information relating to the Company (including its consolidated subsidiaries) required to be disclosed in the Company's Securities and Exchange Commission reports (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) is accumulated and communicated to the Company's management, including the President and Chief Executive Officer and Treasurer, as appropriate, to allow timely decisions regarding required disclosure.

During the period covered by this report, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Reference is made to Note 6 to the notes to the consolidated financial statements (unaudited) contained in this Report for a discussion of material pending legal proceedings.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth information about the Company's Common Stock repurchases during the three months ended September 30, 2006:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maxi Share Y Purch Pl Pr
July 1, 2006 through July 31, 2006	--	$--	--	
August 1, 2006 through August 31, 2006	--	$--	--	
September 1, 2006 through September 30, 2006	--	$--	--	
Total	--	$--	--	
	==	==	==	

ITEM 3. DEFAULTS ON SENIOR SECURITIES.

Reference is made to Notes 6, 7 and 9 to the notes to consolidated financial statements (unaudited) and Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Report for a discussion of the $11 million note payable to the Saudi Arabian government.

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

NONE.

ITEM 5. OTHER INFORMATION.

Reference is made to Part I. Item 2. Management's Discussion and Analysis of

Financial Condition and Results of Operations for a discussion of activities related to formation of a joint venture company under the name Al Masane Al Kobra Mining Company ("ALK") to mine base metals ore at the Al Masane mining project.

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)	-	Letter Agreement dated May 7, 2005 between Sheikh Fahad Al-Athel and the Company (incorporated by reference to Exhibit 10(p) to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (file No. 0-6247)).

EXHIBIT NUMBER		DESCRIPTION
10(f)	-	Judicial Agreement dated May 19, 2005 between Fabricante Y Comercializadora Beta, S.A. de C.V. and Productos Coin, S.A.de C.V. (incorporated by reference to Exhibit 10(r) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (file No. 0-6247)).
10(g)	-	Agreement dated June 6, 2005 between Fabricante Y Comercializadora Beta, S.A. de C.V. and Productos Quimicos Coin, S.A. de C.V. (incorporated by reference to Exhibit 10(s) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (file No. 0-6247)).
10(h)	-	Mercantile Shares Purchase and Sale Agreement dated June 9, 2005 between Texas Oil & Chemical Co. II. Inc. and Ernesto Javier Gonzalez Castro and Mauricio Ramon Arevalo Mercado. (incorporated by reference to Exhibit 10(t) to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (file No. 0-6247)).
10(i)	-	Partnership Agreement dated August 6, 2006 between Arabian American Development Company, Thamarat Najran Company, Qasr Al-Ma'adin Corporation, and Durrat Al-Masani' Corporation.
10(j)	-	Financial and Legal Service and Advice Agreement dated August 5, 2006 between Arabian American Development Company, Nassir Ali Kadasa, and Dr. Ibrahim AL-Mounif.
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 14, 2006 ARABIAN AMERICAN DEVELOPMENT COMPANY

(Registrant)

By: /s/ NICHOLAS CARTER

Nicholas Carter Secretary/Treasurer
Authorized Officer and Principal Financial
Officer)

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