

BLUE DOLPHIN ENERGY CO
Form DEF 14A
April 21, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

BLUE DOLPHIN ENERGY COMPANY

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

BLUE DOLPHIN ENERGY COMPANY
801 Travis Street, Suite 2100
Houston, Texas 77002
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
to be held Thursday, May 14, 2009

To the Stockholders of Blue Dolphin Energy Company:

The annual meeting of stockholders (the Annual Meeting) of Blue Dolphin Energy Company (the Company) will be held on Thursday, May 14, 2009, at 9:30 a.m., local time, at The Houston Club, 811 Rusk Street, Houston, Texas 77002 in the Magnolia Room (9th Floor) for the following purposes:

1. To elect five directors to serve until the next annual meeting of stockholders or until their successors are duly elected and qualified, or until their earlier resignation or removal;
2. To consider and vote upon a proposal to amend the Company s Certificate of Incorporation, as amended and restated (the Certificate), to increase the number of authorized common shares, par value \$0.01 per share (the Common Stock), from 25,000,000 shares to 100,000,000 shares; and
3. To consider and transact any other business that may properly come before the Annual Meeting or any adjournment or postponement thereof.

Additional information regarding the meeting and the above proposals is set forth in the accompanying Proxy Statement. The Board of Directors has fixed the close of business on April 2, 2009, as the record date for the meeting, and only holders of common stock on the record date are entitled to notice of, and to vote at, the Annual Meeting and any adjournment or postponement thereof.

You are cordially invited to attend the Annual Meeting in person. **Even if you plan to attend the Annual Meeting, we urge you to vote your shares at your earliest convenience in order to ensure that your shares will be represented at the meeting. You can vote by signing, dating and returning the enclosed proxy form or by submitting your proxy voting instructions through the Internet. If you hold your shares through a broker or other nominee, you should contact your broker to determine whether you may submit your proxy by telephone or Internet.**

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:
The Company s 2008 Annual Report on Form 10-K,
2009 Notice and Proxy Statement and Proxy Form are available online at
(www.shareholdervote.info/).**

By Order of the Board of Directors

/s/ IVAR SIEM
IVAR SIEM
CHAIRMAN AND CHIEF EXECUTIVE
OFFICER

Houston, Texas
April 20, 2009

BLUE DOLPHIN ENERGY COMPANY

April 20, 2009

To Our Stockholders:

With the downturn of the economy and Hurricane Ike, the second half of last year turned out to be difficult for our industry in general, and for us. We also expect 2009 to be a challenging year. However, times like these yield opportunities. We have assumed an active role in consolidation of smaller companies and expect to be able to broaden our asset base without taking high risks or paying inflated prices, which we have seen a lot of over the last few years. Our pipeline assets performed well in 2008 and suffered only minor damage and interruption as a result of Hurricane Ike. A successful well drilled in late 2008 was completed and connected to our Blue Dolphin Pipeline in the first quarter of 2009. We participated in the development of the prospect and, in addition to revenue from transportation services, we will receive a small overriding royalty interest. The delay in drilling of the acreage around our Omega Pipeline in the High Island Area continues to be a disappointment. Several high priced blocks have been leased by various operators, but they have not yet been drilled.

Our income from sales of oil and gas production has continued to decline in line with the natural depletion of the reserves in which we have interests. As a result of Hurricane Ike, our production was shut-in from mid September of last year until early February of this year due to damage to third party owned and operated onshore processing facilities through which our production flows.

Earlier this month, we accepted the resignation of Mr. Michael Jacobson, President, which will be effective on May 14, 2009 following our Annual Meeting of Stockholders. Mike has been a loyal part of Blue Dolphin's senior management team for more than nineteen years. His influence, professionalism and leadership directed us through many trials with positive results. We appreciate his efforts in preparing the Company to move to the next level and wish him the best in all of his future endeavors. Mr. Thomas Heath will be appointed to the position of President upon Mr. Jacobson's departure. Tom, who has been with Blue Dolphin for two years as Executive Vice President, has an understanding of the current inner-workings of the Company and has more than 20 years of energy experience having served in various management positions. We are confident that Tom will be able to take the reins of the Company and lead us into the next phase of our evolution.

We appreciate your support and look forward to the work ahead.

With regards,

/s/ IVAR SIEM
IVAR SIEM
CHAIRMAN AND CHIEF EXECUTIVE
OFFICER

801 Travis Street, Suite 2100, Houston, Texas 77002
Phone (713) 568-4725 · Fax (713) 227-7626 · www.blue-dolphin.com

BLUE DOLPHIN ENERGY COMPANY
801 Travis Street, Suite 2100
Houston, Texas 77002
PROXY STATEMENT

2009 ANNUAL MEETING OF STOCKHOLDERS

This Proxy Statement and accompanying Notice and Proxy Form are being furnished to the stockholders of Blue Dolphin Energy Company, a Delaware corporation (the Company), in connection with the solicitation of proxies by the Board of Directors of the Company for use at the annual meeting of stockholders (the Annual Meeting) and any adjournment or postponement thereof. The Annual Meeting will be held on Thursday, May 14, 2009, at 9:30 a.m., local time, at The Houston Club, 811 Rusk Street, Houston, Texas 77002 in the Magnolia Room (9th Floor). This Proxy Statement and accompanying Notice and Proxy Form are first being mailed to stockholders on or about April 27, 2009. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 is being mailed with this Proxy Statement.

At the Annual Meeting, stockholders will be asked to: (i) elect five directors to serve until the next annual meeting of stockholders or until their successors are duly elected and qualified, or until their earlier resignation or removal; (ii) consider and vote upon a proposal to amend the Company's Certificate of Incorporation, as amended and restated (the Certificate), to increase the number of authorized shares of common stock, par value \$0.01 per share (the Common Stock), from 25,000,000 shares to 100,000,000 shares; and (iii) consider and transact any other business that may properly come before the Annual Meeting and any adjournment or postponement thereof.

Record Date and Quorum

The Board of Directors has fixed the close of business on April 2, 2009, as the record date (the Record Date) for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting. A complete list of stockholders entitled to vote at the Annual Meeting will be open for examination by any stockholder during normal business hours for a period of ten days prior to the Annual Meeting at the Company's principal executive office, 801 Travis Street, Suite 2100, Houston, Texas 77002. On the Record Date, there were 11,745,299 shares of Common Stock issued and outstanding. Stockholders are entitled to one vote per share of Common Stock held on the Record Date on each matter presented at the Annual Meeting.

The holders of a majority of the issued and outstanding shares of Common Stock, whether present in person or represented by proxies, will constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes (e.g. shares held by brokers and other nominees as to which they have not received voting instructions from the beneficial owners and lack the discretionary authority to vote on a particular matter) are counted as present for purposes of determining whether a quorum is present.

Vote Required for Approval

In order for a proposal to be approved, the Company's by-laws require an affirmative vote of a majority of the votes cast by the stockholders present and entitled to vote at the Annual Meeting, either in person or by proxy. Under Proposal No. 1 Election of Directors, the affirmative vote of a majority of the votes cast is required for the election of director nominees. Under Proposal No. 2 Amend the Company's Certificate to Increase the Number of Shares of Common Stock Authorized for Issuance, the affirmative

vote of a majority of the votes cast is required to change the Company's Certificate to increase the number of authorized shares of Common Stock from 25,000,000 shares to 100,000,000 shares. Since Proposal Nos. 1 and 2 require the affirmative vote of a majority of the votes cast, abstentions, withheld votes and broker non-votes will have no effect on these matters.

Voting and Revocability of Proxy

All shares of Common Stock represented at the Annual Meeting by properly executed proxies will be voted in accordance with the instructions indicated on the proxies. If no instructions are indicated with respect to any shares for which properly executed proxies have been received, such proxies will be voted: (i) **FOR** election of all nominees to the Board of Directors; (ii) **FOR** amending the Company's Certificate to increase the number of authorized shares of Common Stock from 25,000,000 shares to 100,000,000 shares; and (iii) in the discretion of the proxy holder on any other matters properly brought before the Annual Meeting.

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before it is voted.

Proxies may be revoked by any of the following actions:

- by providing written notice of revocation to the Company;
- delivering to the Company a signed proxy of a later date;
- submitting through the Internet a proxy of a later date;
- if applicable, submitting by telephone a vote of a later date; or
- by voting in person at the Annual Meeting.

Any written notice revoking a proxy should be sent to Blue Dolphin Energy Company, Attention: Secretary, 801 Travis Street, Suite 2100, Houston, Texas 77002.

Reimbursement of Solicitation Expenses

The Company will bear all costs of this solicitation. Proxies will be solicited primarily by mail, but directors, officers and other employees of the Company may also solicit proxies in person, by telephone or other electronic means in the ordinary course of business for which they will not receive additional compensation. **The Company has requested that brokerage houses, nominees, fiduciaries and other custodians send proxy materials to the beneficial owners of Common Stock, for which the Company will reimburse them for their reasonable out-of-pocket expenses.**

PROPOSAL NO. 1 ELECTION OF DIRECTORS

Director Nominees

Dr. Laurence N. Benz and Messrs. John N. Goodpasture, Harris A. Kaffie, Erik Ostbye and Ivar Siem (each a Director Nominee) have been nominated by the Board of Directors to serve as directors until the next annual meeting of stockholders, or in each case until their successors have been duly elected and qualified, or until their earlier resignation or removal. All of the Director Nominees have previously been elected by the stockholders. Each Director Nominee has consented to being nominated and has expressed his intention to serve if elected. The Board of Directors has no reason to believe that any of the Director Nominees will be unable or unwilling to serve if elected. However, should any Director Nominee become unable or unwilling to serve as a director at the time of the Annual Meeting, the person or persons exercising the proxies will vote for the election of a substitute Director Nominee designated by the Board of Directors.

The following sets forth, as of April 20, 2009, each Director Nominee's name, all positions held with the Company, principal occupation, age and year in which the Director Nominee first became a director of the Company.

Name, Age and Principal Occupation	Director Since
<p>Ivar Siem, 62, <i>Chairman of the Board and Chief Executive Officer</i>. Mr. Siem has served as Chairman of the Board of Directors of the Company since 1989 and was appointed as Chief Executive Officer in 2004. Since 2000, he has also served as Chairman of the Board of Directors and President of Drillmar, Inc., a well construction and intervention company. From 1995 to 2000, Mr. Siem served on the Board of Directors of Grey Wolf, Inc., during which time he served as Chairman from 1995 to 1998 and as interim President in 1995 during its restructuring. Since 1981, he has been an international consultant in energy, technology and finance. From 1974 to 1981, Mr. Siem managed the oil and gas interests of Fred. Olsen and from 1977 he managed their drilling operation, Dolphin International, Inc. Mr. Siem holds a Bachelor of Science in Mechanical Engineering from the University of California, Berkeley, and has completed an executive MBA program at Amos Tuck School of Business, Dartmouth University.</p>	1989
<p>Laurence N. Benz, 47, <i>Director</i>. Dr. Benz was elected as a director of the Company in 2004. He is currently the President / Chief Executive Officer of PT Development LLC, a private equity firm with operating holdings in various health care related companies. From 1987 to 2007, he served as the President of Kentucky Orthopedic Rehabilitation LLC, which he founded. From 1984 through 1989, he served as a Captain in the Army Medical Specialists Corps of the United States Army. Dr. Benz is the founder and organizer of multiple private companies representing healthcare, banking, telecommunications, real estate and consulting services. He also serves on the Board of Directors for multiple private companies. Dr. Benz received a Bachelor of Science in Biology from Bowling Green State University, a Masters in Physical Therapy from Baylor University, a Masters in Business Administration from Ohio State University and a Doctorate in Physical Therapy from MGH Institute of Health Professionals in Boston, Massachusetts.</p>	2004
<p>John N. Goodpasture, 60, <i>Director</i>. Mr. Goodpasture was appointed as a director of the Company in 2006. Since 2001, he has served as Vice President of Corporate Development for Texas Eastern Products Pipeline Company, L.L.C., the general partner of TEPPCO Partners, L.P. In this capacity, Mr. Goodpasture directs the Acquisition and Divestiture activities for the partnership, and also has primary commercial responsibility for the Midstream business segment. From 1999 to 2001, he was Vice President of Business Development for Enron Transportation Services. From 1980 to 1999, Mr. Goodpasture held various executive-level positions with Seagull Energy Corporation, including President of Seagull Pipeline & Marketing Company. Previously he held a variety of management positions at Union Carbide Corporation, where he began his career in 1970. Mr. Goodpasture also serves on the Board of Directors of End Hunger Network of Houston. He earned a Bachelor of Science in Mechanical Engineering from Texas Tech University in Lubbock, Texas.</p>	2006
<p>Harris A. Kaffie, 59, <i>Director</i>. Mr. Kaffie has served as a director of the Company since 1989. Mr. Kaffie is a private investor with diverse investments and business activities across such areas as energy, finance, venture capital, real estate development, farming, ranching and minerals. Since 1994, he has been associated with Kaffie Brothers, a real estate, farming and ranching company, where he serves as a partner. He also serves on the Board of Directors of several privately held companies. Mr. Kaffie received a Bachelor of Business Administration from Southern Methodist University in 1972.</p>	1989

Name, Age and Principal Occupation	Director Since
<p>Erik Ostbye, 57, Director. Mr. Ostbye was elected as a director of the Company in 2006. Since 1983, Mr. Ostbye has been associated with the Arne Blystad Group of companies. Since 2007, he has served as President of Chianti Asset Management LLC, from 2003 to 2007 he was Vice President of Finance of Sokana Chartering, from 1988 to 2003 he served as Vice President of Finance of Blystad Shipping (USA) Inc. and from 1983 to 1988 he was Financial Manager of Arne Blystad AS. Following the sale of the Blystad tanker operation to Eitzen Chemical USA in 2006, Mr. Ostbye has continued his work for the Blystad Group of companies as a U.S. representative. Mr. Ostbye also serves on the Board of Directors of several privately held companies. He holds a Sivilokonom/MBA from the Norwegian School of Management (BI).</p>	<p>2006</p>

Recommendation

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR
THE ELECTION OF ALL OF THE DIRECTOR NOMINEES.**

**PROPOSAL NO. 2 AMEND THE COMPANY S CERTIFICATE TO INCREASE THE
NUMBER OF SHARES OF COMMON STOCK AUTHORIZED FOR ISSUANCE**

The Certificate currently authorizes a maximum of 25,000,000 shares of Common Stock for issuance by the Company. The Board of Directors has considered, deemed advisable and adopted a resolution approving a proposal to increase the number of shares of Common Stock authorized for issuance from 25,000,000 shares to a maximum of 100,000,000 shares. As of the Record Date there were 11,745,299 shares of Common Stock outstanding. Approximately 271,559 additional shares of Common Stock are currently issuable upon exercise of outstanding employee stock options.

The proposed increase in the number of shares of Common Stock authorized for issuance will provide the Company with the flexibility necessary to: (i) raise additional capital through one or more public offerings or private placements of shares of Common Stock or options, warrants, convertible debt, convertible preferred stock, or other securities exercisable or convertible into shares of Common Stock; (ii) acquire additional assets or businesses by using shares of Common Stock for a portion or all of the consideration paid to the sellers; (iii) repay indebtedness by issuing shares of Common Stock in lieu of cash; (iv) attract and retain directors, officers and key employees and motivate such persons to exert their best efforts on behalf of the Company by issuing options to acquire shares of Common Stock; or (v) effect stock splits in the form of a stock dividend or otherwise to make stock dividends to existing stockholders. The Board of Directors believes that the number of shares of Common Stock currently authorized for issuance is not adequate to provide a sufficient number of shares for transactions such as those described above. The Board of Directors also believes that the proposed increase in the number of authorized shares of Common Stock could be an important factor in the Company s ability to raise capital. Accordingly, the Board of Directors believes that the proposed amendment to the Certificate to increase the authorized shares of Common Stock is appropriate and in the best interests of the Company and its stockholders.

Upon approval of the proposed amendment to the Certificate and filing of the Amended and Restated Certificate with the Secretary of the State of Delaware, the authorized shares of Common Stock will be available for issuance by action of the Board of Directors for any reasons described above or for any other corporate purpose. The authorized shares of Common Stock in excess of those issued will be available for issuance at such times and for such corporate purposes as the Board of Directors may deem advisable, without further action by stockholders, except as may be required by applicable law, National Association of Securities Dealers Rules or by the rules of any stock exchange or national securities association trading system on which the Common Stock may be listed or traded in the future. Upon issuance, such shares will

have the same rights as the outstanding shares of Common Stock. Holders of Common Stock have no preemptive rights.

The Company has no arrangements, agreements, understandings or plans at the present time for the issuance or use of the additional shares of Common Stock proposed to be authorized. The Board of Directors does not intend to issue any Common Stock except on terms that the directors deem to be in the best interests of the Company and its then-existing stockholders. Any future issuance of Common Stock will be subject to the rights and preferences of holders of outstanding shares of any preferred stock that the Company may issue in the future.

The issuance in the future of additional shares of Common Stock may have the effect of diluting the earnings per share and book value per share, as well as the stock ownership and voting rights, of the current holders of Common Stock. In addition, the effective increase in the number of authorized but unissued shares of Common Stock may be construed as having an anti-takeover effect. Although the Board of Directors is not proposing this amendment to the Certificate for this purpose, the Company could, subject to the Board of Director's fiduciary duties and applicable law, issue such additional authorized shares to purchasers who might oppose a hostile takeover bid or any efforts to amend or repeal certain provisions of the Certificate or by-laws. Such a use of these additional authorized shares could render more difficult, or discourage, an attempt to acquire control of the Company through a transaction opposed by the Board of Directors.

Recommendation

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR
AMENDING THE COMPANY'S CERTIFICATE TO INCREASE THE NUMBER OF
AUTHORIZED SHARES OF COMMON STOCK
FROM 25,000,000 SHARES TO 100,000,000 SHARES.**

Executive Officers

The following sets forth the age and background of each executive officer and the year in which the executive officer first joined the Company:

Name, Age and Principal Occupation	Joined Company
Michael J. Jacobson , 62, <i>President</i> . Mr. Jacobson has served as President of the Company since 1990 having also served in dual capacities as Chief Executive Officer from 1990 to 2004 and as Secretary from 2005 to 2006 and again in 2008. Mr. Jacobson also served as Treasurer for a portion of 2008. Prior to joining the Company, Mr. Jacobson served in various senior management positions in the energy industry, including Senior Vice President and Chief Financial and Administrative Officer for Creole International, Inc. and its subsidiaries, international providers of engineering and technical services to the energy sector, and Vice President of Operations for the parent holding company. He has also served as Vice President and Chief Financial Officer of Volvo Petroleum, Inc. and certain Fred. Olsen oil and gas interests. Mr. Jacobson began his career with Shell Oil Company in 1968, where he served in various analytical and management capacities in the exploration and production organization until 1974. Mr. Jacobson received his Bachelor of Science in Finance from the University of Colorado.	1990

Name, Age and Principal Occupation	Joined Company
<p>Thomas W. Heath, 46, <i>Executive Vice President and Secretary</i>. Mr. Heath was appointed as Executive Vice President of the Company in 2007 and as Secretary in 2009. From 2004 to 2007 he served as a Vice President of Union Bank of California, N.A., an affiliate of Bank of Tokyo-Mitsubishi UFJ, Ltd., where he developed and implemented an energy derivatives desk supporting Energy Capital Services. From 1988 to 2004, Mr. Heath held a variety of management and executive level positions with the evolving marketing units of Acadian Gas Pipeline System, Coral Energy, L.P. (formerly Shell Trading Gas & Power), Sempra Energy Trading Corp. and Tejas Gas Corporation. Mr. Heath began his career in 1983 with Columbia Gulf Transmission Company where he served in various operational and commercial positions until 1988. He is an alumnus of the University of Houston.</p>	2007
<p>T. Scott Howard, 37, <i>Accounting Manager, Treasurer and Assistant Secretary</i>. Mr. Howard was appointed as Treasurer of the Company in February 2009 and Assistant Secretary in 2008. He has served as Accounting Manager of the Company since 2006. From 1996 to 2006, he held a variety of management level positions: Audit Manager with DRDA, P.C., an independent public accounting firm in Houston, Texas from 2002 to 2006, Trust Officer with Frost National Bank in Houston, Texas from 2000 to 2002 and Controller for Hall's Insurance Agency, Inc. in Dickinson, Texas from 1996 to 2000. He began his career in 1994 as a Staff Accountant for Griffin, Iles, Masel & Duval, LLP, a public accounting firm, until 1996. Mr. Howard, a Certified Public Accountant in Texas, received his Bachelor of Business Administration in Accounting from St. Edward's University.</p>	2006

COMMITTEES AND MEETINGS OF THE BOARD OF DIRECTORS

Board of Directors

During 2008, the Board of Directors held four regular meetings and one special meeting of the Board of Directors. Each director attended at least 75% of the total number of meetings of the Board of Directors and committees on which he served. The Board of Directors has two standing committees, an Audit Committee and a Compensation Committee.

Audit Committee

During 2008, the Audit Committee consisted of Dr. Benz and Messrs. Kaffie and Ostbye with Dr. Benz serving as Chairman. The Board of Directors has affirmatively determined that all members of the Audit Committee are independent and that Dr. Benz qualifies as an Audit Committee Financial Expert. During the fiscal year ended December 31, 2008, the Audit Committee met four times. The Audit Committee's duties include overseeing financial reporting and internal control functions and the Audit Committee's charter is available on our website (www.blue-dolphin.com).

Compensation Committee

During 2008, the Compensation Committee consisted of Messrs. Goodpasture and Kaffie. The Board of Directors has affirmatively determined that all members of the Compensation Committee are independent. The Compensation Committee does not have a charter, however, its duties are to oversee and set the Company's compensation policies, to approve compensation of executive officers and to administer its stock incentive plan. The Compensation Committee met one time during the fiscal year ended December 31, 2008.

Nomination Procedures

Given the size of the Board of Directors and that a majority of the members are independent, as defined under NASDAQ Stock Market listing standards, the Board of Directors adopted a Board of Directors Nomination Procedures policy in July 2005 in lieu of appointing a standing nominating committee. The policy is used by independent members of the Board of Directors when choosing nominees to stand for election.

The Board of Directors will consider for possible nomination qualified nominees recommended by stockholders. As addressed in the Board of Directors Nomination Procedures policy, the manner in which independent directors evaluate nominees for director as recommended by a stockholder will be the same as that for nominees received from other sources. Stockholders who wish to propose a qualified candidate for consideration should submit complete information as to the identity and qualifications of that person to the Secretary of the Company no later than February 12, 2010, for the 2010 Annual Meeting of Stockholders. The information should be sent to: Blue Dolphin Energy Company, Attention: Secretary, 801 Travis Street, Suite 2100, Houston, Texas 77002. (See Nominations and Proposals by Stockholders for the 2010 Annual Meeting of Stockholders in this Proxy Statement for more information.)

The Board of Directors will continue to nominate qualified directors of whom the Board of Directors believes will make important contributions to the Board of Directors and the Company. The Board of Directors generally requires that nominees be persons of sound ethical character, be able to represent all stockholders fairly, have demonstrated professional achievement, have meaningful experience and have a general appreciation of the major business issues facing the Company.

Director Attendance at the Annual Meeting

In 2008, four of the five directors attended the Annual Meeting. A meeting of the Board of Directors will take place on the same day as the Annual Meeting and directors are expected to attend the meeting. If a director is unable to attend the Board meeting in person, participation by telephone is permitted and in that event the director may not be physically present at the Annual Meeting. The Company will make appropriate arrangements for directors that choose to attend the Annual Meeting and Board meeting in person.

AUDIT COMMITTEE REPORT

The duties and responsibilities of the Audit Committee are set forth in a written charter adopted by the Board of Directors. The Audit Committee is comprised solely of directors who meet NASDAQ's definition of independence as is currently applicable to the Company. The Audit Committee reviews and reassesses the written charter annually and recommends any changes to the Board of Directors for approval. In addition, the Audit Committee periodically reviews relevant requirements of the Sarbanes-Oxley Act of 2002, proposed and adopted rules of the Securities and Exchange Commission (SEC) and new listing standards of the NASDAQ Capital Market regarding Audit Committee procedures and responsibilities to ensure compliance. The Audit Committee charter was last amended by the Board of Directors in August 2008 and is available on our website (www.blue-dolphin.com). No changes to the Audit Committee charter have been made since that time.

The Audit Committee's primary duties and responsibilities are to:

- assess the integrity of the Company's financial reporting process and systems of internal control regarding accounting;
- assess the independence and performance of the Company's independent registered public accounting firm; and
- provide an avenue of communication among the Company's independent registered public accounting firm, management and the Board of Directors.

Management is responsible for the Company's internal controls and the financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with standards of the Public Company Accounting Oversight Board (PCAOB) and to issue a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

During 2008, the Audit Committee consisted of Dr. Benz and Messrs. Kaffie and Ostbye with Dr. Benz serving as Chairman. The Board of Directors has determined that Dr. Benz qualifies as an Audit Committee Financial Expert. The Audit Committee met four times during the fiscal year ended December 31, 2008.

The Audit Committee reviewed and discussed the audited financial statements of the Company for the fiscal year ended December 31, 2008 with the Company's management and management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America. The Audit Committee discussed with UHY LLP ("UHY"), the Company's independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended and adopted by the PCAOB in Rule 3200T. The Audit Committee received written disclosures and the letter from UHY as required by PCAOB Rule 3526, *Communications with Audit Committees Concerning Independence*, and the Audit Committee discussed with UHY their independence. The Audit Committee considered the non-audit services provided by UHY and determined that the services provided are compatible with maintaining UHY's independence. The Audit Committee must pre-approve all audit and non-audit services provided to the Company by its independent registered public accounting firm. Fees paid to UHY in fiscal years ended December 31, 2008 and 2007 by the Company were as follows:

	2008	2007
Audit fees	\$ 128,000	\$ 126,615
Audit-related fees	13,529	8,943
Tax fees	21,288	20,597
All other fees		
Total	\$ 162,817	\$ 156,155

Audit fees include fees related to the audit of our consolidated financial statements and review of our quarterly reports that are filed with the SEC. Audit-related fees include fees related to consultation concerning financial accounting and reporting standards for share based payments to employees and non-employees, current and deferred taxes and revenue recognition. Tax fees primarily include fees for preparation of federal and state income tax returns as well as tax planning services.

Based on discussions with management and UHY, review of the representation of management and review of the report of UHY to the Audit Committee, the Audit Committee recommended to the Board of Directors that the Company's audited, consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as filed with the SEC.

The Audit Committee:

Laurence N. Benz, Chairman

Harris A. Kaffie

Erik Ostbye

CORPORATE GOVERNANCE

Director Independence

The Board of Directors has affirmatively determined that, with the exception of Mr. Siem, all directors are independent and have no material relationship with the Company (either directly or indirectly or as a stockholder or officer of an organization that has a relationship with the Company), and that all members of the Audit and Compensation Committees are independent, pursuant to NASDAQ Capital Market listing standards.

Code of Conduct

All directors, officers and employees must act ethically at all times and in accordance with the Company's Code of Conduct policy adopted by the Board of Directors in July 2005. The Audit Committee has established procedures to enable anyone who has a concern about the Company's conduct or policies, or any employee who has a concern about the Company's accounting, internal accounting controls or auditing matters, to communicate that concern directly to the Chairman of the Audit Committee. The Company's Code of Conduct policy prohibits any employee from retaliating or taking any adverse action against anyone for raising or helping to resolve an integrity concern. Violations and/or concerns may be sent anonymously by mail to Laurence N. Benz (Audit Committee Chairman, Blue Dolphin Energy Company), 13000 Equity Place, Suite 105, Louisville, Kentucky 40223, via email to larry@physicaltherapist.com or such other contact information for Dr. Benz that the Company may post on its website from time to time.

Code of Ethics

In April 2003, the Board of Directors adopted a Code of Ethics policy that is applicable to the principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code of Ethics policy is posted on our website (www.blue-dolphin.com) and is available to any stockholder, without charge, upon written request to Blue Dolphin Energy Company, Attention: Secretary, 801 Travis Street, Suite 2100, Houston, Texas 77002. Any amendments or waivers to provisions of the Code of Ethics policy will be disclosed on our website.

Communicating with the Directors

Any stockholder who desires to contact the Board of Directors or specific members of the Board of Directors may do so by writing to: Blue Dolphin Energy Company, Attention: Secretary for Board of Directors, 801 Travis Street, Suite 2100, Houston, Texas 77002. Currently, all communications addressed in such manner are sent directly to the indicated directors. In the future, if the Board of Directors adopts a process for determining which communications are relayed to directors, that process will be disclosed on our website.

OTHER MATTERS

At the date of this Proxy Statement, the Board of Directors is not aware of any matter to be acted upon at the Annual Meeting other than those matters as described in Proposal Nos. 1 and 2 and as set forth in the accompanying Notice. If other business comes before the Annual Meeting, the persons named on the proxy will vote the proxy in accordance with their best judgment.

EXECUTIVE AND DIRECTOR COMPENSATION

Executive Compensation Policy and Procedures

Compensation for the Company's executive officers consists of base salary, cash bonuses and incentive awards that have historically consisted of stock options. The Compensation Committee has the authority to approve all forms of executive compensation based on its experience and informal consideration of compensation practices of oil and gas companies of similar size and business focus. The Compensation Committee has not used compensation consultants in the past in making its determinations. The Company believes that stock ownership by its executive officers and other employees furthers the alignment between the interests of the executive officers and other employees and the stockholders, thereby enhancing the Company's efforts to improve stockholder returns and increase shareholder value. The Company's stock incentive plan provides that upon a change of control, the Compensation Committee may accelerate the vesting of options, cancel options and make payments in respect thereof in cash in accordance with the terms of the stock incentive plan, adjust the outstanding options as appropriate to reflect such change of control or provide that each option shall thereafter be exercisable for the number and class of securities or property that the optionee would have been entitled to receive had the option been exercised. The stock incentive plan provides that a change of control occurs if any person, entity or group acquires or gains ownership or control of more than 50% of the outstanding Common Stock or, if after certain enumerated transactions, the persons who were directors before such transactions cease to constitute a majority of the Board of Directors.

The compensation of executive officers is reviewed on an annual basis, as well as when changes in responsibilities occur. The Compensation Committee may not delegate its authority to approve compensation determinations for executive officers. The Compensation Committee approves changes in compensation for Messrs. Jacobson, Heath and Howard based on the recommendations of Mr. Siem as principal executive officer and Chairman of the Board of Directors. The Compensation Committee determines the compensation for Mr. Siem.

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Compensation for Named Executives

The following table sets forth the compensation paid to the Company's principal executive officer and the two most highly compensated executive officers other than the principal executive officer whose annual salary exceeded \$100,000 in the fiscal year ended December 31, 2008 (collectively, the Named Executive Officers) for services rendered to the Company:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Non-Equity		All Other Compensation	Total
					Option Awards ⁽³⁾	Incentive Plan		
Ivar Siem ⁽¹⁾ Chairman of the Board and Chief Executive Officer	2008	\$ 100,000	\$		\$ 84,970			\$ 184,970
	2007	\$ 83,333	\$ 30,000		\$ 21,243			\$ 134,576
Michael J. Jacobson President	2008	\$ 180,000	\$		\$ 42,485			\$ 222,485
	2007	\$ 180,000	\$ 20,000		\$ 10,621			\$ 210,621
Thomas W. Heath ⁽²⁾ Executive Vice President and Secretary	2008	\$ 175,000			\$ 161,280			\$ 336,280
	2007	\$ 116,667			\$ 94,080			\$ 210,747

(1) Mr. Siem's current salary is based on part-time employment with the Company in his capacity as Chief Executive Officer.

(2) Mr. Heath has a three year employment agreement with an annual base salary of \$175,000. His employment with the Company began May 1, 2007. Therefore, the amounts reflected for

2007 are for a partial year.

- (3) Represents amounts recognized for financial statement purposes for the fiscal years ended December 31, 2008 and 2007, in accordance with Statement of Financial Accounting Standards No. 123(R), *Share Based Payments*. Assumptions used in the calculation of these amounts are included in Footnote 5 to the Company's audited, consolidated financial statements for the fiscal year ended December 31, 2008, which is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and Footnote 8 to the Company's audited, consolidated financial statements for the fiscal year

ended
December 31,
2007, which is
included in the
Company's
Annual Report
on Form
10-KSB for the
year ended
December 31,
2007.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

Name	Option Awards				Stock Awards				
	Number of Securities Underlying Unexercised Options -	Number of Securities Underlying Unexercised Options -	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options -	Equity Incentive Plan Awards: Exercise Price	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested	Market Value of Shares or Units of Stock that Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested
Ivar Siem ⁽¹⁾	8,000			\$ 6.00	5/17/2010				
	50,000	50,000		\$ 2.81	10/15/2013				
Michael J. Jacobson ⁽¹⁾	6,000			\$ 6.00	5/17/2010				
	25,000	25,000		\$ 2.81	10/15/2013				
Thomas W. Heath ⁽²⁾	66,000	134,000		\$ 2.99	5/31/2017				

(1) Messrs. Siem s and Jacobson s unexercisable options vest on October 15, 2009.

(2) Mr. Heath s unexercisable options vest 49% on May 1, 2009 and 51% on May 1, 2010.

Director Compensation Policy and Procedures

Directors who are also employees of the Company are not paid any fees or other compensation for services as a member of the Board of Directors or any committee of the Board of Directors. Compensation for members of the Board of Directors and committees of the Board of Directors is approved by the Board of Directors based on recommendations by Mr. Siem as principal executive officer and Chairman of the Board of Directors. As with employee stock ownership, the Company believes that stock ownership by members of the Board of Directors furthers the alignment between the interests of the directors and the stockholders, resulting in an enhancement of the Company's efforts to improve stockholder returns and increase stockholder value.

Compensation for Non-Employee Directors

Non-employee directors are paid an annual retainer of \$20,000, payable quarterly in Common Stock with the number of shares based upon the fair value on the date of payment. The shares are restricted from sale pursuant to holding periods under Rule 144 of the Securities Act of 1933, as amended, and applicable state securities laws. The Audit Committee chairman receives an additional annual retainer of \$5,000 and other Audit Committee members receive an additional annual retainer of \$2,500. The Audit Committee retainer is payable semi-annually in cash. No additional compensation is paid to directors serving on the Compensation Committee. Directors are entitled to be reimbursed for reasonable out-of-pocket expenses related to in-person meeting attendance.

The following table sets forth the compensation paid to non-employee directors in fiscal year ended December 31, 2008:

DIRECTOR COMPENSATION

Name	Fees	Stock	Option	Non-Equity	All Other	Total
	Earned			Incentive		
	or Paid in	Awards ⁽¹⁾	Awards	Plan	Compensation	
	Cash			Compensation		
Laurence N. Benz	\$ 5,000	\$ 20,000				\$ 25,000
John N. Goodpasture	\$	\$ 20,000				\$ 20,000
Harris A. Kaffie	\$ 2,500	\$ 20,000				\$ 22,500
Erik Ostbye	\$ 2,500	\$ 20,000				\$ 22,500

(1) Represents amounts recognized for financial statement purposes for the fiscal year ended December 31, 2008, in accordance with Statement of Financial Accounting Standards No. 123(R), *Share Based Payments*. Assumptions used in the calculation of these amounts are included in Footnote 5 to the Company's audited, consolidated financial statements for the fiscal year ended December 31, 2008, which is included in the Company's

Annual Report
on Form 10-K
for the year
ended
December 31,
2008.

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**SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT**

The table below sets forth certain information with respect to the beneficial ownership for shares of Common Stock (the only class of voting security issued and outstanding) as of April 2, 2009, as held by: (i) all persons or institutions known by us to be beneficial owners of 5% or more of the outstanding shares of Common Stock, (ii) each director and Director Nominee, (iii) each executive officer; and (iv) all executive officers and directors as a group. Unless otherwise indicated, each of the following persons or institutions have sole voting and dispositive power with respect to such shares.