BLUE DOLPHIN ENERGY CO
Form DEF 14A
April 18, 2008

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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 þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material pursuant to § 240.14a-11(c) or § 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)

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þ No fee required
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BLUE DOLPHIN ENERGY COMPANY
801 Travis Street, Suite 2100
Houston, Texas 77002
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
to be held Thursday, May 15, 2008

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 15, 2008, at 9:30 a.m., local time, at The Houston Club at 811 Rusk Street, Houston, Texas in the Magnolia Room 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; and

2. 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 4, 2008, 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 card 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.**

For the Board of Directors

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

Houston, Texas
April 16, 2008

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BLUE DOLPHIN ENERGY COMPANY

April 16, 2008

To Our Stockholders:

The activity level for our industry in general remains high and the outlook for the near term looks good despite the downturn in the economy. The exploratory drilling along our Blue Dolphin Pipeline and our Galveston Area 350 Pipeline during this past fiscal year resulted in four (4) discoveries, all of which have been connected to our systems and are now on stream. One disappointment has been the delay in the drilling of the acreage around our Omega Pipeline in the High Island area. 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 reservoirs in which we have interests. The history of our current production goes back to our oil and gas prospect generating activity, which resulted in several after pay-out interests on offshore blocks. During this past year we participated in the drilling of a development well in High Island Block 115, which was successful. The well is now producing approximately 9 MMcfd. Our net revenue interest is small, just over 2%; however, production revenue from the well will offset some of the decline from our other properties. We also will be participating in the drilling of another well on one of our High Island blocks this year, the results of which should be available around the middle of the year. We have not yet decided to go forward with the oil and gas prospect generating program as mentioned to you last year. The Board of Directors is currently considering expanding our business area beyond the pipeline gathering business, which has been our main focus the last few years. We will report separately on any significant addition to the direction of the Company.

In May of last year we hired Thomas Heath to strengthen our business development efforts. I am pleased to report to you that, although we have not yet consummated an acquisition, Tom has made good progress in the time he has been here. I am confident that we will soon see the results of his efforts.

We appreciate your support and look forward to a successful coming year.

With regards,

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

801 Travis Street, Suite 2100, Houston, Texas 77002
Phone (713) 227-7660 Fax (713) 227-7626 www.blue-dolphin.com

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

2008 ANNUAL MEETING OF STOCKHOLDERS

This Proxy Statement and accompanying Notice and Proxy Card 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 15, 2008, at 9:30 a.m., local time, at The Houston Club at 811 Rusk Street, Houston, Texas in the Magnolia Room. This Proxy Statement and accompanying Notice and Proxy Card are first being mailed to stockholders on or about April 25, 2008. The Company s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007 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; and (ii) 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 4, 2008, 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 11,624,447 shares of common stock, par value $.01 per share (the 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 issued and outstanding, 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.

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 **FOR** election of all nominees to the Board of Directors and in the discretion of the proxy holder on any other matters properly brought before the Annual Meeting.

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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 or by telephone 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

Messrs. Laurence N. Benz, 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 be 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.

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The following sets forth, as of April 16, 2008, 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
Ivar Siem, 61, *Chairman of the Board and Chief Executive Officer*. 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.	1989
Laurence N. Benz, 46, *Director*. 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 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.	2004
John N. Goodpasture, 59, *Director*. Mr. Goodpasture was appointed as a director of the Company in December 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. 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.	2006
Harris A. Kaffie, 58 *, Director*. 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.	1989
	2006

Erik Ostbye, 56, *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).

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Vote Required for Approval

A plurality of the votes cast by the stockholders present and entitled to vote at the Annual Meeting, in person or by proxy, is necessary for the election of directors. Accordingly, abstentions and broker non-votes will have no effect on the election of directors.

Recommendation

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

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, 61, *President, Treasurer and Secretary*. 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 was appointed to the additional position of Treasurer in 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, Vice President of Operations for the parent holding company, and 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
Thomas W. Heath, 45, *Executive Vice President*. Mr. Heath was appointed as Executive Vice President of the Company in 2007. 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.	2007
T. Scott Howard, 36, *Accounting Manager, Assistant Treasurer and Assistant Secretary*. Mr. Howard was appointed as Assistant Treasurer and Assistant Secretary of the Company in April 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, who is a Certified Public Accountant in Texas, received his Bachelor of Business Administration in Accounting from St. Edward s University.	2006

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COMMITTEES AND MEETINGS OF THE BOARD OF DIRECTORS

Board of Directors

During 2007, the Board of Directors held four regular meetings. 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 2007, the Audit Committee consisted of Messrs. Benz, Kaffie and Ostbye with Mr. Benz serving as Chairman. The Board of Directors has determined that Mr. Benz qualifies as an Audit Committee Financial Expert. During the fiscal year ended December 31, 2007, the Audit Committee met five 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 2007, the Compensation Committee consisted of Messrs. Goodpasture and Kaffie. 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, 2007.

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 13, 2009, for the 2009 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 2009 Annual Meeting in this Proxy Statement for more information.)

The Board of Directors will continue to nominate qualified incumbent directors whom the Board of Directors believes will continue to 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.

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Director Attendance at the Annual Meeting

The Board of Directors policy regarding director attendance at the Annual Meeting is that they are welcome to attend, and that the Company will make appropriate arrangements for directors that choose to attend. In 2007, five of the six incumbent directors of the Company, and three of the five Director Nominees, attended the Annual Meeting.

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 as determined by the Board of Directors. 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 SEC and new listing standards of the NASDAQ Capital Market regarding Audit Committee procedures and responsibilities to ensure Company compliance. The Audit Committee charter was last amended by the Board of Directors in January 2005 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 and to issue a report thereon. The Audit Committee s responsibility is to monitor and oversee these processes.

During 2007, the Audit Committee consisted of Messrs. Benz, Kaffie and Ostbye with Mr. Benz serving as Chairman. The Board of Directors has determined that Mr. Benz qualifies as an Audit Committee Financial Expert. The Audit Committee met five times during the fiscal year ended December 31, 2007.

The Audit Committee reviewed and discussed the audited financial statements of the Company for the fiscal year ended December 31, 2007 with the Company s management and management represented to the Audit Committee that the Company s 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*, and related amendments.

The Audit Committee received written disclosures and the letter from UHY as required by Independence Standards Board Standard No. 1, *Independence Discussion with Audit Committees*, and the Audit Committee discussed with UHY their independence from the Company. 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 accountants.

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Fees paid to UHY in fiscal years ended December 31, 2007 and 2006 by the Company were as follows:

	2007	2006
Audit fees	$ 126,615	$ 98,866
Audit-related fees	8,943	5,700
Tax fees	20,597	29,758
All other fees		
Total	$ 156,155	$ 134,324

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 financial statements be included in the Company s Annual Report on Form 10-KSB for the fiscal year ended December 31, 2007, 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 Stock Market listing standards.

Code of Conduct

All directors, officers and employees must act ethically at all times and in accordance with the 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.

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Code of Ethics

In April 2003, the Board of Directors adopted a Code of Ethics 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 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 to, or waivers to, provisions of the Code of Ethics 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.

OTHER MATTERS

At the date of this Proxy Statement, the Board of Directors does not know of any matter to be acted upon at the Annual Meeting other than those matters as described in Proposal No. 1 and set forth in the 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 compensation in all forms for executive officers based on its experience and informal consideration of competitive market practices regarding the compensation of executive officers in companies of similar size and complexity. 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.

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

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principal executive officer and Chairman of the Board of Directors. The Compensation Committee determines the compensation for Mr. Siem.

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, 2007 (collectively, the Named Executive Officers) for services rendered to the Company:

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards[2]	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Ivar Siem[1]								
Chairman of the Board and	2007	$ 83,333	$30,000		$21,243			$134,576
Chief Executive Officer	2006	$ 60,000						$ 60,000
Michael J. Jacobson								
President	2007	$180,000	$20,000		$10,621			$210,621
	2006	$180,000	$25,000					$205,000
Thomas W. Heath[2]								
Executive Vice President	2007	$116,667			$94,080			$210,747
	2006							

(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 contract with an annual base salary of $175,000. His employment with the Company began May 1, 2007. Therefore, the amounts reflected are for

a partial year.

(3) Represents amounts recognized for financial statement purposes for the fiscal year ended December 31, 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 8 to the Company s audited 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

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options - Exercisable	Number of Securities Underlying Unexercised Options - Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option 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				
		100,000	100,000	$2.81	10/15/2013				
Michael J. Jacobson[1]	6,000			$6.00	5/17/2010				
		50,000	50,000	$2.81	10/15/2013				
Thomas W. Heath[2]		200,000	200,000	$2.99	5/31/2017				

(1) Messrs. Siem s and Jacobson s unexercisable options vest 50% on October 15, 2008 and 50% on October 15, 2009.

(2)

Mr. Heath s options vest 33% on May 1, 2008, 33% on May 1, 2009 and 34% 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.

Compensation for Non-Employee Directors

Non-employee directors are paid an annual retainer of $20,000, payable quarterly in the Company s Common Stock with the number of shares based upon the fair value on the date of payment. The shares are restricted from sale for a period of two years from the date of grant. 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.

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The following table sets forth the compensation paid to non-employee directors in fiscal year ended December 31, 2007:

DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash	Stock Awards[1]	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Laurence N. Benz	$ 5,000	$18,000				$23,000
John N. Goodpasture	$	$17,160				$17,160
Harris A. Kaffie	$ 2,500	$18,000				$20,500
Erik Ostbye	$ 2,500	$18,000				$20,500

(1) Represents amounts recognized for financial statement purposes for the fiscal year ended December 31, 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 8 to the Company s audited 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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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 16, 2008, 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.

Name of Beneficial Owner	Shares Owned Beneficially Number	Percent[1]
Columbus Petroleum Limited, Inc.[2]	911,712	7.7%
Spencer Finance Corp. and Arne Blystad[3]	842,743	7.1%
Spencer Energy AS[3]	586,743	5.0%
Harris A. Kaffie[4]	823,364	7.0%
Ivar Siem[4]	639,265	5.4%
Thomas W. Heath[4]	146,000	1.2%
Michael J. Jacobson[4]	102,220	*
Laurence N. Benz	60,797	*
Erik Ostbye	10,324	*
John N. Goodpasture	9,447	*
T. Scott Howard[4]	4,500	*
Directors and Executive Officers as a Group (8 Persons)	1,795,917	15.2%

* Less than 1%.

(1) Based upon 11,792,518 shares of Common Stock issued and outstanding on April 16, 2008 and shares of Common Stock issuable upon exercise of options that may be exercised within 60 days of April 16, 2008.

(2) Based upon a Schedule 13D filed with the SEC on

September 8, 2004, the address of Columbus Petroleum Limited, Inc. was Aeulestrasse 74, FL-9490, Vaduz, Liechtenstein.

(3) Based on a Schedule 13D filed with the SEC on April 9, 2007, Spencer Finance Corp. and Arne Blystad jointly exercise voting and investment authority over the shares owned by Spencer Finance Corp. Spencer Energy AS is a subsidiary of Spencer Finance Corp., and as such, the 586,743 shares held by Spencer Energy AS are included in the 842,743 shares controlled by Spencer Finance Corp. and Arne Blystad. The principal business address for Spencer Finance Corp., Arne Blystad and Spencer Energy AS was Haakon VII gt. 1, 0161 Oslo, Norway.

(4) Includes shares of Common Stock issuable upon exercise of options that may be exercised within 60 days of April 16, 2008 as follows: Mr. Kaffie 83,571; Mr. Siem 8,000; Mr. Heath 66,000; Mr. Jacobson 6,000; Mr. Howard 4,500; and all directors and executive officers as a group 168,071.

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COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company s directors, executive officers, and stockholders who own more than 10% of our Common Stock, to file reports of stock ownership and changes in ownership with the SEC and to furnish us with copies of all such reports as filed. Based solely on a review of the copies of the Section 16(a) reports furnished to us, the Company believes that during 2007, all of its directors, executive officers and greater than 10% stockholders complied with their Section 16(a) filing requirements.

NOMINATIONS AND PROPOSALS BY STOCKHOLDERS FOR THE 2009 ANNUAL MEETING

The Company has tentatively set the 2009 Annual Meeting of Stockholders for May 15, 2009. Accordingly, stockholders should submit nominations and proposals in accordance with the guidance set forth below.

Nominations for the 2009 Annual Meeting of Stockholders

The Company s Certificate of Incorporation provides that no person shall be eligible for nomination and election as a director unless written notice of such nomination is received from a stockholder of record by the Secretary of the Company 90 days before the anniversary date of the previous year s annual meeting. Further, such written notice is to be accompanied by the written consent of the nominee to serve, the name, age, business and residence addresses, and principal occupation of the nominee, the number of shares beneficially owned by the nominee, and any other information which would be required to be furnished by law with respect to any nominee for election to the Board of Directors. Stockholders who desire to nominate persons to serve on the Board of Directors at the 2009 Annual Meeting of Stockholders must submit nominations to the Company, at its principal executive office, so that such notice is received by the Company no later than February 13, 2009. In order to avoid controversy as to the date on which any such nomination is received by the Company, it is suggested that stockholders submit their nominations, if any, by certified mail, return receipt requested. (See Nominating Procedures in this Proxy Statement for more information.)

Proposals for the 2009 Annual Meeting of Stockholders

Stockholders who desire to present proposals, other than notices of nomination for the election of directors, to stockholders of the Company at the 2009 Annual Meeting of Stockholders, and to have such proposals included in the Company s proxy materials, must submit their proposals to the Company, at its principal executive office, by December 25, 2008. In order to avoid controversy as to the date on which any such proposal is received by the Company, it is suggested that stockholders submit their proposals, if any, by certified mail, return receipt requested. Moreover, any stockholder who intends to submit a proposal for consideration at the Company s 2009 Annual Meeting of Stockholders, but not for inclusion in the Company s proxy materials, must notify the Company. Pursuant to the rules of the SEC, such notice must: (i) be received at the Company s executive offices no later than March 13, 2009 and (ii) satisfy the rules of the SEC.

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RELATIONSHIP WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

UHY has been engaged by the Company s Board of Directors as the Company s independent registered public accounting firm since 2002. The Company expects that they will continue to serve as the Company s independent registered public accounting firm. Through December 31, 2007, UHY had a continuing relationship with UHY Advisors, Inc. (Advisors) from which it leased auditing staff who were full time, permanent employees of Advisors and through which UHY s partners provide non-audit services. UHY has only a few full-time employees and therefore, few, if any of the audit services performed were provided by permanent full-time employees of UHY. UHY manages and supervises the audit services and audit staff, and is exclusively responsible for the opinion rendered in connection with its examination. Representatives of UHY are expected to be present at the Annual Meeting, with the opportunity to make a statement if they desire to do so, and to respond to questions.

By Order of the Board of Directors

/s/ MICHAEL J JACOBSON
MICHAEL J JACOBSON
PRESIDENT

Houston, Texas
April 16, 2008

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Blue Dolphin Energy Company Annual Meeting of Stockholders (the Annual Meeting)
May 15, 2008 at 9:30 a.m. Local Time
The Houston Club (Magnolia Room), 811 Rusk Street, Houston, Texas

The undersigned acknowledges receipt of the Notice of the Annual Meeting of Stockholders and the Proxy Statement, revokes all previous proxies and appoints Michael J. Jacobson and T. Scott Howard, and each of them, as proxies, each with the power to appoint his substitute, and authorizes each of them to represent and to vote, as designated on the reverse hereof, all of the shares of common stock of Blue Dolphin Energy Company held of record by the undersigned at the close of business on April 4, 2008 at the Annual Meeting and at any adjournment or postponement thereof.

Date and sign the proxy card below, mark your elections on the reverse side and return the proxy card in the postage-paid envelope provided.

DATED:

Signature

Signature (If Held Jointly)

Please sign EXACTLY as your name appears hereon. When signing as attorney, executor, administrator, trustee or guardian, please give your full title as such. If more than one trustee, all should sign. If shares are held jointly, both owners must sign.

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Blue Dolphin Energy Company Annual Meeting of Stockholders (the Annual Meeting)
May 15, 2008 at 9:30 a.m. Local Time
The Houston Club (Magnolia Room), 811 Rusk Street, Houston, Texas

THIS PROXY WILL BE VOTED AS DIRECTED, OR IF NO DIRECTION IS INDICATED, WILL BE VOTED FOR THE PROPOSALS. THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

Mark Votes in Blue or Black Ink Only This Proxy Card is Valid Only When Signed and Dated on the Reverse Side

The Board of Directors recommends a vote FOR the following proposals:

1. ELECTION OF DIRECTORS.

	For	Withhold Authority
(01) Laurence N. Benz	o	o
(02) John N. Goodpasture	o	o
(03) Harris A. Kaffie	o	o
(04) Erik Ostbye	o	o
(05) Ivar Siem	o	o

2. IN THEIR DISCRETION, THE PROXIES ARE AUTHORIZED TO VOTE UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF.

IF YOU PLAN TO ATTEND THE MEETING, PLEASE CHECK HERE: o