

UNITED SECURITY BANCSHARES
Form SC 13G/A
February 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934
(Amendment No. 03)*

UNITED SECURITY BANCSHARES

(Name of Issuer)

COMMON STOCK, NO PAR VALUE

(Title of Class of Securities)

911460103

(CUSIP Number)

Calendar Year 2013

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- ☐ Rule 13d-1(b)
- ☒ Rule 13d-1(c)
- ☐ Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 911460103

1 NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)
AUDRY B THOMASON

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)
(a) ☐
(b) ☐

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION
USA

	5	SOLE VOTING POWER
		585,696
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:	6	SHARED VOTING POWER
		194,211
	7	SOLE DISPOSITIVE POWER
		585,696

	8	SHARED DISPOSITIVE POWER
		194,211

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
779,907

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

o

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

5.2%

12 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

IN

FOOTNOTES

Item 1.

- (a) Name of Issuer
UNITED SECURITY BANCSHARES
- (b) Address of Issuer's Principal Executive Offices
2126 INYO STREET
FRESNO, CA 93721

Item 2.

- (a) Name of Person Filing
AUDRY B THOMASON
- (b) Address of Principal Business Office or, if none, Residence
26193 CLUB DRIVE
MADERA, CA 93638
- (c) Citizenship
USA
- (d) Title of Class of Securities
COMMON STOCK, NO PAR VALUE
- (e) CUSIP Number
911460103

Item 3. If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

- (a) ☐ Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).
- (b) ☐ Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).
- (c) ☐ Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).
- (d) ☐ Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C 80a-8).
- (e) ☐ An investment adviser in accordance with §240.13d-1(b)(1)(ii)(E);
- (f) ☐ An employee benefit plan or endowment fund in accordance with §240.13d-1(b)(1)(ii)(F);
- (g) ☐ A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
- (h) ☐ A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
- (i) ☐ A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);

(j) o A non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J).

(k) o A group, in accordance with § 240.13d-1(b)(1)(ii)(K). If filing as a non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J), please specify the type of institution: Not applicable

Item 4. Ownership.

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

- (a) Amount beneficially owned: 799,907
- (b) Percent of class: 5.2
- (c) Number of shares as to which the person has:
 - (i) Sole power to vote or to direct the vote: 585,696
 - (ii) Shared power to vote or to direct the vote: 194,211
 - (iii) Sole power to dispose or to direct the disposition of: 585,696
 - (iv) Shared power to dispose or to direct the disposition of: 194,211

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following o .

Not applicable

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Not applicable

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company

Not applicable

Item 8. Identification and Classification of Members of the Group

Not applicable

Item 9. Notice of Dissolution of Group

Not applicable

Item Certification
10.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 14, 2014

By:

/s/ AUDRY B THOMASON

Name: AUDRY B THOMASON

Title:

Footnotes:

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (See 18 U.S.C. 1001)

----- Net cash provided by (used in) financing (2,586,631) 761,625 activities -----
Increase in cash and cash 1,271,878 904,952 equivalents Cash and cash equivalents at beginning of year 2,071,682
1,166,730 ----- Cash and cash equivalents at end of year \$ 3,343,560 2,071,682 =====
===== Supplementary cash flow information: Interest paid \$ 98,500 86,316 =====
Taxes paid \$ 6,530 8,498 ===== See accompanying notes to consolidated financial
statements. 46 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial
Statements December 31, 2001 and 2000 (1) Organization and Significant Accounting Policies Organization Blue
Dolphin Energy Company (the "Company") was incorporated in Delaware in January 1986 to engage in oil and gas
exploration, production and acquisition activities and oil and gas transportation and marketing. It was formed pursuant
to a reorganization effective June 9, 1986. Principles of Consolidation The consolidated financial statements of the
Company include the accounts of its wholly-owned subsidiaries and majority owned subsidiary (American
Resources). All significant intercompany balances and transactions have been eliminated in consolidation. Accounting
Estimates Management has made a number of estimates and assumptions relating to the reporting of assets and
liabilities and to the disclosure of contingent assets and liabilities including reserve information which affects the
depletion calculation as well as the computation of the full cost ceiling limitation to prepare these financial statements
in conformity with accounting principles generally accepted in the United States. Actual results could differ from
those estimates. Cash Equivalents Cash equivalents include liquid investments with an original maturity of three
months or less. Cash balances are maintained in depository and overnight investment accounts with a financial

institution which at times, exceed insured limits. The Company monitors the financial condition of the financial institution and has experienced no losses associated with these accounts. Oil and Gas Properties Oil and gas properties are accounted for using the full-cost method of accounting, whereby all costs associated with acquisition, exploration, and development of oil and gas properties, including directly related internal costs, are capitalized on a country-by-country cost center basis. Due to the difference in the expected life of the reserves of 47 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements the properties, the Company used two separate cost centers, one for its Buccaneer Field property and one for its other properties. With the write off of the Buccaneer Field during the year ended December 31, 2000, the Company is now utilizing one cost center for all of its properties. Amortization of such costs and estimated future development costs are determined using the unit-of-production method. Provision for the estimated costs of offshore platform and well abandonment, net of salvage value, is computed on the units of production method and is included in depletion, depreciation and amortization. Costs directly associated with the acquisition and evaluation of unproved properties are excluded from the amortization computation until it is determined whether or not proved reserves can be assigned to the properties or impairment has occurred. Estimated proved oil and gas reserves are based upon reports of independent petroleum engineers. The net carrying value of oil and gas properties, less related deferred income taxes, is limited to the lower of unamortized cost or the cost center ceiling, defined as the sum of the present value (10% discount rate applied) of estimated future net revenues from proved reserves, after giving effect to income taxes, and the lower of cost or estimated fair value of unproved properties. Disposition of oil and gas properties are recorded as adjustments to capitalized costs, with no gain or loss recognized unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves. The following table reflects the depletion expense incurred from oil and gas properties during the periods indicated: Year Ended December 31, 2001 2000 ----- Depletion expense per Mcf equivalent produced \$1.53 \$1.18 ===== At December 31, 2001, oil and gas properties included \$221,832 of unproved leasehold costs that are not being amortized. These costs will begin to be amortized when they are evaluated and proved reserves are discovered, impairment is indicated or when the lease term expires. Unproved leasehold costs consist of interests in state and federal leases located in the Gulf of Mexico with expiration dates ranging from July 2002 to November 2004. In order to retain the leases after the primary term, they must be producing or development operations must be in progress. The leases have primary terms of 5 years. Development of these leases is dependent upon the other owners of the leases to initiate a plan of development. The following table reflects the periods when costs were incurred for unproved leasehold costs: 48 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements December 31, ----- Total 2001 2000 Prior Years ----- Property acquisition costs \$ 177,518 (102,920) -- 280,438 Exploration costs 44,314 (106,030) -- 150,344 ----- \$ 221,832 (208,950) -- 430,782 ===== The Company capitalizes interest on expenditures made in connection with significant exploration and production projects that are not subject to current amortization. Interest is capitalized only for the period that activities are in progress to bring these projects to their intended use. No interest has been capitalized for the periods reflected herein. Pipelines and Facilities Pipelines and facilities are recorded at cost. Depreciation is computed using the straight-line method over estimated useful lives of 10-22 years. Provision for the estimated cost of pipeline and facilities abandonment, net of salvage value, is computed on a straight line basis over the estimated useful life of such assets and is included in Depletion, Depreciation and Amortization. Other Property and Equipment Depreciation of furniture, fixtures and other equipment, including assets held under capital leases, is computed using the straight-line method over estimated useful lives of 3-10 years. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of, assets are grouped and evaluated for impairment based on the ability to identify separate cash flows generated therefrom. For the year ended December 31, 2001, the Company recorded a full impairment of \$1.9 million of its investment in both the Petroport and Sabine Seaport projects. Abandonment A provision for the abandonment, dismantlement and site clearance of offshore production platforms and existing wells is made using the unit-of-production method applied to estimates based on current costs. A provision for pipeline and pipeline facilities abandonment costs is also provided using the straight-line method over the estimated useful lives of the pipeline and pipeline facilities. Until such time that the liability becomes current, the provisions are included in accumulated depletion, depreciation, amortization and impairment, and are undiscounted. Aggregate abandonment liability is estimated to be approximately \$4,866,000 at

December 31, 2001, of which \$1,556,000 is included in accumulated depletion, depreciation, amortization, and impairment and \$3,300,000 is included in accrued expenses and other liabilities. 49 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements New Avoca and Drillmar The Company records its investment in New Avoca (25% owned and managed by the Company) and Drillmar using the equity method of accounting. Under the equity method, investments are recorded at cost plus the Company's equity in undistributed earnings and losses after acquisition. Stock-Based Compensation The Company applies SFAS No. 123, Accounting for Stock-Based Compensation, which allows a company to adopt a fair value based method of accounting for a stock-based employee compensation plan or to continue to use the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. The Company chose to continue to account for stock-based compensation under the intrinsic value method and provides the pro forma effects of the fair value method as required. Recognition of Oil and Gas Revenue Sales from producing wells are recognized on the entitlement method of accounting which defers recognition of sales when, and to the extent that, deliveries to customers exceed the Company's net revenue interest in production. Similarly, when deliveries are below the Company's net revenue interest in production, sales are recorded to reflect the full net revenue interest. The Company's imbalance liability at December 31, 2001 and 2000 was not material. Recognition of Pipeline Transportation Revenue Revenue from the transportation of gas, condensate and crude oil is recognized on the accrual basis as products are transported. Operation of Oil and Gas Properties Until December 2000, the Company operated, for a monthly fee, oil and gas properties in which it did not own an interest. Revenues and costs from these activities are included in operating fees and lease operating expenses, respectively. Operating fees received related to properties in which the Company owns an interest are netted against the appropriate operating costs in the statement of operations. Fees received in excess of costs incurred are reflected as a reduction of the full cost pool. 50 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements Income Taxes The Company provides for income taxes using the asset and liability method pursuant to SFAS No. 109, Accounting for Income Taxes ("Statement 109"). Under the asset and liability method of Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Earnings Per Share The Company follows SFAS No. 128 ("Statement 128"), "Earnings per Share", for computing and presenting earnings per share and requires, among other things, dual presentation of basic and diluted earnings per share on the face of the statement of operations. The employee stock options at December 31, 2001 and 2000, were not included in the computation of diluted earnings per share because the effect of their assumed exercise and conversion would have an antidilutive effect on the computation of diluted loss per share. Environmental The Company is subject to extensive Federal, state and local environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental expenditures are expensed or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. Liabilities for expenditures of a noncapital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated. Such liabilities are generally recorded at their undiscounted amounts unless the amount and timing of payments is fixed or reliably determinable. 51 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements Recently Issued Accounting Pronouncements Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), was issued in June 1998 by the Financial Accounting Standards Board. SFAS 133 establishes new accounting and reporting standards for derivative instruments and for hedging activities. This statement requires an entity to establish at the inception of a hedge, the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk. Certain provisions of SFAS 133 were amended by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of Statement 133", SFAS 133, as amended, is effective for all fiscal quarters of fiscal years

beginning after June 15, 2000. SFAS 133, as amended, did not have a material effect on the Company's consolidated financial position or the results of operations. In July 2001, the FASB issued Statement No. 141 ("SFAS 141"), "Business Combinations," and Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". The Company does not expect to have unamortized goodwill, unamortized identifiable assets, or unamortized negative goodwill upon adoption of SFAS 142 on January 1, 2002. In August 2001, the FASB issued Statement No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. If the obligation is settled for other than the carrying amount of the liability, the Company will recognize a gain or loss on settlement. 52 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements The Company is required and plans to adopt the provisions of SFAS 143 for the quarter ending March 31, 2003. To accomplish this, the Company must identify all legal obligations for asset retirement obligations and determine the fair value of these obligations on the date of adoption. The determination of fair value is complex and will require the Company to gather market information and develop cash flow models. Additionally, the Company will be required to develop processes to track and monitor these obligations. Because of the effort necessary to comply with the adoption of SFAS 143, it is not practicable for management to estimate the impact of adopting this Statement at the date of this report. In October 2001, the FASB issued Statement No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS 144 provides that long-lived assets to be disposed of by sale be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations, and broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company is currently assessing the impact of SFAS 144 on its financial condition and results of operations. Reclassifications Certain 2000 balances have been reclassified to conform with the 2001 financial statement presentation. There is no effect on net loss due to the reclassifications. (2) Liquidity and Going Concern At December 31, 2001 the Company's working capital deficit was approximately \$1.2 million. In order to satisfy its working capital and capital expenditure requirements in 2002, the Company believes that it will need to raise between \$2.0 to \$3.0 million of capital. The Company will need to seek external financing and/or sell assets to raise the necessary capital. There can be no assurance that the Company will be able to obtain financing or sell assets on commercially reasonable terms. The Company's inability to raise capital may have a material adverse effect on its financial condition, ability to meet its obligations and operating needs and results of operations. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. 53 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements (3) Fair Value of Financial Instruments The carrying values of cash and cash equivalents, receivables and accounts payable approximate fair value due to the short-term maturities of these instruments. (4) Income Taxes Income tax expense for both 2001 and 2000 was \$0. The income tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2001 are presented below: Deferred tax assets: Net operating loss carryforwards \$ 10,739,000 Alternative minimum tax credit 244,444 Basis differences in property and equipment 1,524,000 ----- Total gross deferred tax assets 12,507,444 Deferred tax liabilities-state tax (34,000) ----- Net deferred tax asset 12,473,444 Less valuation allowance (12,229,000) ----- Deferred tax asset \$ 244,444 ===== In 1999,

the Company acquired a 75% interest in American Resources, which had deferred tax assets of approximately \$8.5 million made up of basis differences in oil and gas properties and net operating losses. A full valuation allowance was recorded to reduce the corresponding deferred assets, since it is more likely than not that they will not be realized, due to the limitation of the use of the net operating loss carryforwards resulting from the ownership change in December 1999. In assessing the realizability of deferred tax assets, the Company applies SFAS No. 109 to determine whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. As a result, the Company's valuation allowance at December 31, 2001 reduces the deferred tax assets to \$244,444. The Company's effective tax rate applicable to continuing operations in 2001 and 2000 is as follows:

54 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES	Notes to Consolidated Financial Statements	2001	2000
Expected tax rate (34%)	(34%)	State taxes, net of federal benefit	-- --
Expenses not deductible for tax purposes	-- --	Increase in valuation allowance recognized in earnings	34% 34%
Other	-- --	-----	-----
0%	0%	=====	=====

For federal tax purposes, the company had a net operating loss carryforward ("NOL") of approximately \$31.6 million and \$28.3 million for the years ended December 31, 2001 and 2000, respectively. These NOLs must be utilized prior to their expiration, which is between 2002 and 2021. Of the \$31.6 million of NOLs as of December 31, 2001, \$17.5 million relate to American Resources. The Company has an alternative minimum tax credit carry forward of \$244,444 that does not expire and may be applied to reduce regular tax to an amount not less than the alternative minimum tax payable in any one year. (5) Long-term Debt The Company retired \$218,412 principal amount of promissory notes in January 2001. The promissory notes were originally issued in December 1996, to holders of the Company's Preferred Stock as full payment of the cumulative preferred stock dividends. The promissory notes were unsecured and bore interest at the rate of 10.25% per annum. Interest only was payable semi-annually with the principal due on December 31, 2000. In December 1999, the Company issued a \$1.0 million unsecured convertible promissory note to Harris A. Kaffie, a director of the Company. This convertible promissory note originally due June 1, 2000 was extended to March 31, 2001, bore interest at 10% per annum, and was convertible into Common Stock at \$6.00 per share. This convertible promissory note and accrued interest of \$64,361 were paid in January 2001. The Company issued three unsecured convertible promissory notes in 2000 totaling \$1.0 million; two in the principal amount of \$200,000 each on May 25, 2000 and July 6, 2000, issued to Ivar Siem, Chairman of the Company, and one in the principal amount of \$600,000 on November 30, 2000, issued to TI A/S, beneficially controlled by Ivar Siem. The convertible promissory notes were due March 31, 2001, bore interest at the rate of 10% per annum and were convertible into Common Stock at the rate of \$6.00 per share. These convertible promissory notes and accrued interest of \$32,790 were paid in January 2001. 55 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements (6) Stockholders' Equity In 2001, the Company incurred costs totaling \$185,943 associated with the registration of shares of its Common Stock. In addition, the Company issued 17,867 shares of its Common Stock as a severance payment to a former employee and recorded compensation expense of \$28,586. The Company also issued 2,824 shares to the board of directors and recorded an expense of \$12,000. In 2000, the Company incurred costs totaling \$263,458 associated with the registration of shares of Common Stock, \$.01 par value per share. In addition, the Company issued 2,785 shares of its Common Stock as a severance payment to a former employee and recorded compensation expense of \$15,537. (7) Stock Options Effective April 14, 2000, the Company adopted, after approval by stockholders, a stock incentive plan (the "2000 Plan"). The stock subject to the options and other provisions of the 2000 Plan are shares of the Company's Common Stock \$.01 par value (the "Stock"). No more than 500,000 shares of Stock will be available for incentive stock options ("ISOs"). The 2000 Plan is administered by the Compensation Committee of the Board of Directors. Options granted must be exercised within 10 years from their grant date. The exercise price of ISOs cannot be less than 100% of the fair market value of a share of Stock. The 2000 Plan also provides for the granting of other incentive awards, however only ISOs and non-statutory stock options have been issued under the 2000 Plan. The Company adopted a stock option plan in 1996 (the "1996 Plan"). The stock subject to the options and other provisions of the 1996 Plan are shares of the Company's Common Stock. The total amount of the Common Stock with respect to which options may be granted shall not exceed in the aggregate 10% of the number of issued and outstanding shares of Common Stock of the Company. The stock options become exercisable from time to time in part or as a whole, as the Compensation Committee, appointed by the Board of Directors, or the Board of Directors in their discretion may provide. However, the Committee shall not grant options which may become exercisable in any one calendar year to purchase more than one-third of the maximum amount granted. All options expire five years after the date of grant. The price of options granted may not be less than eighty-five percent of the

fair market value of the Common Stock on the date the option is granted. Optionees must continue their association with the Company for six months after exercising the options, or the underlying stock reverts to the Company. At December 31, 2001 the Company has reserved a total of 153,173 shares of Common Stock for issuance under the above mentioned stock option plans. The outstanding stock options granted to key employees, officers and directors, for the purchase of shares of the Company's Common Stock, are as follows: 56 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements Exercise price per share

Shares From To	Balance, December 31, 1999	177,104	2.789	5.000	=====
Granted	55,300	6.000	6.000	Expired (47,503)	2.789 6.000 Exercised (33,665) 2.789 3.984 -----
Balance, December 31, 2000	151,236	2.789	6.000	=====	Granted 42,104 1.900 1.900 Expired (36,834) 3.125 6.000 Exercised (3,333) 3.825 3.825 -----
Balance, December 31, 2001	153,173	1.900	6.000	=====	The weighted average exercise price per share was \$3.825 and \$3.365 in 2001 and 2000, respectively. As of December 31, 2001, options for 122,506 shares of Common Stock were immediately exercisable. There were 42,104 and 55,300 options granted in 2001 and 2000, respectively. Pursuant to the requirements of FASB No. 123, the weighted average fair market value of options granted during 2001 and 2000 was \$0.24 per share and \$1.30 per share, respectively. The weighted average closing bid prices for the Company's stock at the date the options were granted during 2001 and 2000 are \$1.90 per share and \$5.25 per share, respectively. The fair market value pursuant to FASB No. 123 of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model. The model assumed expected volatility of 29% and 70%, risk-free interest rate of 2.22% and 6.39% for grants in 2001 and 2000, respectively, and an expected life of 1 year. As the Company has not declared dividends on its Common Stock since it became a public entity, no dividend yield was used. Actual value realized, if any, is dependent on the future performance of the Company's Common Stock and overall stock market conditions. There is no assurance the value realized by an optionee will be at or near the value estimated by the Black-Scholes model. No compensation expense was recorded in 2001 and 2000 for stock options granted. Had compensation cost for the Company's stock option plans been determined based on the fair market value at the grant dates for awards made, the Company's net loss and loss per share would have been adjusted to the pro forma amounts indicated below: 57 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements Year ended December 31, ----- 2001 2000 ----- Net (loss) as reported \$ (2,649,142) \$ (10,135,120) Pro Forma \$ (2,759,436) \$ (10,271,293) Basic and diluted (loss) Per share as reported (0.44) (1.70) Pro Forma (0.46) 1.72) Outstanding options at December 31, 2001 expire between December 25, 2002 and December 17, 2011. (8) Related Party Transactions Related party transactions which are not disclosed elsewhere in these consolidated financial statements are discussed in the following paragraphs: In September 2001, Drillmar, a 12.8% owned affiliate of the Company, entered into a merger agreement and merged with Zephyr Drilling Ltd. ("Zephyr"). Prior to the merger, Zephyr was a limited partnership in which Drillmar was the general partner. Zephyr owned a semi-submersible drilling rig that has been prepared for reconfiguration into a semi-tender. As a result of the merger, the Company's interest in Drillmar decreased from 64% to 12.8%. Ivar Siem, Chairman of the Company, and Harris A. Kaffie, a Director of the Company, were limited partners of Zephyr. After the merger between Drillmar and Zephyr, Messrs. Siem and Kaffie were owners of 30.3% and 30.6%, respectively, of Drillmar's common stock. During 2001, Messrs. Siem and Kaffie provided funding to Drillmar of \$525,000 and \$425,000, respectively, and were issued unsecured promissory notes from Drillmar. The promissory notes are due June 30, 2002 and bear interest at the rate of 10% per annum. Along with the promissory notes, Drillmar issued detachable warrants to Messrs. Siem and Kaffie of 52,500 and 42,500, respectively. Each warrant provides for the purchase of one share of Drillmar common stock at \$5 per share and are exercisable through January 31, 2005. The promissory notes issued by Drillmar are nonrecourse to the Company. In January 2001, the Company entered into an agreement with Drillmar whereby it agreed to provide office space and certain management and administrative services to Drillmar for approximately \$40,000 per month. This agreement can be terminated at any time by the mutual agreement of the parties. Through October 2001, the Company used the monthly payments it was entitled to receive to fund its investment in Drillmar. 58 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements (9) Leases The Company has various noncancelable operating leases which continue through 2006. The following is a schedule of future minimum lease payments required under noncancelable operating leases at December 31, 2001: Year ending December 31, ----- 2002 \$ 186,498 2003 185,521 2004 195,617 2005 195,617 2006 195,617 ----- \$ 958,870 ===== Rental expense under operating leases for the years indicated are as follows: Year

ended December 31, ----- 2001 \$ 198,548 2000 190,211 (10) Commitments and Contingencies As a result of the decision to cease operating activities in the Buccaneer Field, the Company's leases in or on the Buccaneer Field terminated in January 2001. The Company must plug and abandon all remaining wells and remove platform facilities within one year from the termination of the leases. In 2001, the Company plugged its remaining wells at a cost of approximately \$1.4 million. During the operations of removing the Buccaneer Field platform complexes in 2001 at a cost of approximately \$0.4 million, discussions were initiated with the Texas Parks and Wildlife ("TP&W") in an effort to leave certain of the under water portions of the platform complexes in place as artificial reefs. In December 2001, operations to remove the platform complexes were suspended while the Company continues its discussions with the TP&W. The Company expects that the TP&W will make a decision to leave either one, both or neither of the Buccaneer Field platform complexes in place as artificial reefs in the second quarter 2002. If one or both of the platform complexes are left in place as an artificial reef, certain site clearance costs would be eliminated. The Company requested and has received an extension from the MMS until October 1, 2002 to complete the removal and site clearance of the platform complexes. The Company still believes that its provision for abandonment costs of \$4.6 million at December 31, 2001 is adequate. 59 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements In December 1999, American Resources received approximately \$4.5 million from Blue Dolphin Exploration for American Resources common stock representing a 75% ownership interest and \$24.2 million from Fidelity Oil for an 80% interest in its Gulf of Mexico assets. American Resources senior secured debt was held by Den norske bank ("Den norske"). Den norske sold the senior debt to the Company for the right to receive a possible future payment if the cumulative net revenues received by American Resources and Fidelity Oil attributable to American Resources proved oil and gas reserves in the Gulf of Mexico as of January 1, 1999, exceed \$30.0 million during the period January 1, 1999, through December 31, 2001, whereby Den norske will be entitled to receive an amount equal to 50% of those net revenues in excess of \$30.0 million during that three-year period. The amount payable to Den norske will be paid 80% by Fidelity Oil and 20% by American Resources. A payment of approximately \$.8 million was due on March 15, 2002; however, Den norske granted an extension of this payment until April 30, 2002. The Company has provided for a liability to Den norske in the amount of \$.8 million at December 31, 2001. On May 8, 2000, American Resources and its former Chief Financial Officer, were named in a lawsuit in the United States District Court for the Southern District of Texas, Houston Division, styled H&N Gas, Limited Partnership, et al. v. Richard Hale, et al (Case No H-00-1371). The lawsuit alleges, among other things, that H&N Gas ("H&N") was defrauded by American Resources in connection with gas purchase options and gas price swap contracts entered into from February 1998 through September 1999. H&N alleges unlawful collusion between American Resources' prior management and the then president of H&N, Richard Hale ("Hale"), to the detriment of H&N. H&N generally alleges that Hale directed H&N to purchase illusory options from American Resources that bore no relation to any physical gas business and that American Resources did not have the financial resources and/or sufficient quantity of gas to perform. H&N further alleges that American Resources and Hale colluded with respect to swap transactions that were designed to benefit American Resources at the expense of H&N. H&N further alleges civil conspiracy against all the defendants. H&N is seeking approximately \$6.2 million in actual damages plus treble damages, punitive damages and prejudgment interest against American Resources directly. As a result of its conspiracy allegation, H&N also contends that all defendants are jointly and severally liable for over \$40.0 million in actual damages plus treble damages, punitive damages and prejudgment interest. American Resources intends to vigorously defend this claim. The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Company's financial position, results of operations or cash flows. (11) Business Segment Information The Company's income producing operations are conducted in two principal business segments: oil and gas exploration and production, which includes upstream projects, and pipeline operations, which includes mid-stream projects. Intersegment revenues consist of transportation, general processing and storage fees charged by certain 60 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements subsidiaries to another for gas and crude oil transported through the Blue Dolphin Pipeline System. The intercompany revenues and expenses are eliminated in consolidation. Information concerning these segments for the years ended December 31, 2001 and 2000 is as follows: Depletion, Depreciation, Operating Amortization Intersegment income Identifiable and Revenues revenues (loss)(1) assets Impairment(2) -----

	2001	2000
Year ended December 31, 2001: Oil and gas exploration and production and operating fees	\$ 4,694,202	(616,124)

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5,125,652 2,627,626 Pipeline operations 991,823 (11,756) 4,433,200 163,858 Other -- (3,189,867) 2,230,160
1,966,750 ----- Consolidated 5,686,025 (3,817,747) 11,789,012 4,758,234 Other
income 1,272,727 ----- Loss before income taxes (2,545,020) Year ended December 31, 2000: Oil and gas
exploration and production and operating fees \$ 5,735,674 6,000 (8,577,943) 4,164,299 12,292,574 Pipeline
operations 2,225,312 13,016 625,486 8,958,876 369,824 Other (19,016) (1,297,234) 789,780 89,488 -----
----- Consolidated 7,941,970 (9,249,691) 13,912,955 12,751,886 Other expense (647,471)
----- Loss before income taxes (9,897,162) 1. Consolidated income (loss) from operations includes \$1,223,117
and \$1,188,721 in unallocated general and administrative expenses, and unallocated depletion, depreciation and
amortization of \$1,966,750 and \$89,488 for the years ended December 31, 2001 and 2000, respectively. 2. Pipeline
depletion, depreciation and amortization includes a provision for pipeline abandonment of \$19,740 for the years ended
December 31, 2001 and 2000, respectively. Oil and gas depletion, depreciation and amortization includes a provision
for abandonment costs of platforms and wells of \$13,793 for the year ended December 31, 2001. In addition, the
Company recorded an expense of approximately \$1.0 million for the year ended December 31, 2001, as a result of a
change in the estimated costs associated with the Buccaneer Field abandonment. 3. See the supplemental disclosures
for oil and gas producing activities for discussion of capitalized costs incurred for oil and gas production operations.
Capital expenditures of \$1,737,331 were incurred for pipeline operations for the year ended December 31, 2001.
Capitalized expenditures of \$59,305 were incurred for mid-stream projects for the year ended December 31, 2001. 61
BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements The
Company's primary market area is the Texas and Louisiana Gulf Coast region of the United States. The Company has
a concentration of credit risk with customers in the energy and petrochemical industries. The Company's customers
may be similarly affected by changes in economic, regulatory or other factors. Trade receivables are generally not
collateralized; however, the Company's customers' historical and future credit positions are thoroughly analyzed prior
to extending credit. In 2000, no customer accounted for more than 10% of the Company's total revenues. Revenues
from major customers exceeding 10% of segment revenues were as follows for the period indicated. Oil and gas sales
and Pipeline operating fees operations Total ----- Year Ended December 31, 2001:
Houston Exploration \$ -- 639,975 639,975 (12) Supplemental Oil and Gas Information - Unaudited The following
supplemental information regarding the oil and gas activities of the Company is presented pursuant to the disclosure
requirements promulgated by the Securities and Exchange Commission ("SEC") and SFAS No. 69, Disclosures About
Oil and Gas Producing Activities ("Statement 69"). In November 2000, the Company decided to abandon the
Buccaneer Field as a result of the occurrence of unforeseen adverse events. As a result of this decision, the leases on
the field terminated in January 2001 pursuant to their terms. The timing and amount of estimated future development
costs may significantly increase or decrease the Company's total proved and proved developed reserve volumes, the
Standardized Measure of Discounted Future Net Cash Flows, and the components and changes therein. These reserves
and future net revenues reflect capital expenditures totaling \$150,000, \$328,000, \$81,000, \$111,000 and \$225,000 in
the years ending December 31, 2002, 2003, 2004, 2005 and 2006, respectively. Estimated Quantities of Proved Oil
and Gas Reserves Set forth below is a summary of the changes in the estimated quantities of the Company's crude oil
and condensate, and gas reserves for the periods indicated, as estimated by Ryder Scott Company as of December 31,
2001. All of the Company's reserves are located within the United States. Proved reserves cannot be measured exactly
because the estimation of reserves involves numerous judgmental determinations. Accordingly, reserve estimates must
be continually revised as a result of new information obtained from drilling and production history, new geological
and geophysical data and changes in economic conditions. 62 BLUE DOLPHIN ENERGY COMPANY AND
SUBSIDIARIES Notes to Consolidated Financial Statements Proved reserves are estimated quantities of gas, crude
oil, and condensate which geological and engineering data demonstrate, with reasonable certainty, to be recoverable in
future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are
proved reserves that can be expected to be recovered through existing wells with existing equipment and operating
methods. Oil Gas Quantity of Oil and Gas Reserves (Bbls) (Mcf) ----- Total
proved reserves at December 31, 1999 256,224 22,217,942 ----- Revisions to previous estimates
(10,175) (18,507,271) New discoveries and extensions 3,793 1,868,000 Production (64,707) (911,671) -----
----- Total proved reserves at December 31, 2000 185,135 4,667,000 ----- Revisions to previous
estimates (13,476) (841,816) Production (40,769) (815,184) ----- Total proved reserves at December
31, 2001 130,890 3,010,000 ===== Proved developed reserves: December 31, 2001 128,783

2,613,000 December 31, 2000 182,106 3,134,000 Capitalized Costs of Oil and Gas Producing Activities The following table sets forth the aggregate amounts of capitalized costs relating to the Company's oil and gas producing activities and the aggregate amount of related accumulated depletion, depreciation and amortization as of December 31, 2001: Unproved properties and prospect generation costs not being amortized \$ 221,832 Proved properties being amortized 27,348,510 Less accumulated depletion, depreciation, amortization and impairment (24,406,674) ----- Net capitalized costs \$ 3,163,668 =====

During 2001, the Company recorded an impairment charge on its oil and gas properties of \$1.1 million. The impairment reflects the recognition of additional Buccaneer Field plugging and abandonment costs. 63 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements During 2000, the Company recorded an impairment charge on its oil and gas properties of \$10,754,976. The impairment was comprised of a non-cash write-off of proved reserves from the Buccaneer Field of \$5.4 million and the recognition of associated plugging and abandonment costs estimated to be \$5.4 million. Costs Incurred in Oil and Gas Producing Activities The following table reflects the costs incurred in oil and gas property acquisition, exploration and development activities during the periods indicated: Year Ended December 31, -----

	2001	2000
Property acquisition costs \$ --	--	--
Exploration costs	143,829	467,256
Development costs	773,115	1,417,790
	\$ 916,944	1,885,046

=====

Standardized Measure of Discounted Future Net Cash Flows The following table reflects the Standardized Measure of Discounted Future Net Cash Flows relating to the Company's interest in proved oil and gas reserves as of: December 31, -----

	2001	2000
Future cash inflows \$	10,374,365	51,320,776
Future development costs (1,190,585) (2,397,403)		
Future production costs (1,761,074) (2,477,723)		
Future net cash inflows before income taxes	7,422,706	46,445,650
Future income taxes	10,473,236	(3,490,661)
Future net cash flows	17,895,942	42,954,661
10% discount factor (920,497) (6,307,411)		
Standardized measure of discounted future net cash inflow \$	16,975,445	36,647,578

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64 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements Future net cash flows at each year end, as reported in the above schedule, were determined by summing the estimated annual net cash flows computed by: (1) multiplying estimated quantities of proved reserves to be produced during each year by current prices and (2) deducting estimated expenditures to be incurred during each year to develop and produce the proved reserves (based on current costs). Income taxes were computed by applying year-end statutory rates to pretax net cash flows, reduced by the tax basis of the properties and available net operating loss carryforwards. The annual future net cash flows were discounted, using a prescribed 10% rate, and summed to determine the standardized measure of discounted future net cash flow. The Company cautions readers that the standardized measure information which places a value on proved reserves is not indicative of either fair market value or present value of future cash flows. Other logical assumptions could have been used for this computation which would likely have resulted in significantly different amounts. Such information is disclosed solely in accordance with Statement 69 and the requirements promulgated by the SEC to provide readers with a common base for use in preparing their own estimates of future cash flows and for comparing reserves among companies. Management of the Company does not rely on these computations when making investment and operating decisions. Principal changes in the Standardized Measure of Discounted Future Net Cash Flows attributable to the Company's proved oil and gas reserves for the periods indicated are as follows: December 31, -----

	2001	2000
Sales and transfers, net of production costs* \$	(3,538,653)	(4,150,204)
Acquisition of reserves --	--	--
Net change in estimated future development costs	980,063	(5,495,874)
Extensions and discoveries --	14,431,684	
Revisions in previous quantity estimates (1,663,095) 2,280,195		
Net changes in sales and transfer prices, net of production costs	27,307,388	6,125,097
Accretion of discount	3,688,897	1,499,151
Net change in income taxes	13,719,714	(153,634)
Change in production rates (timing) and other (5,551,671) 7,207,408		
Net change \$(19,672,133) 21,743,823		

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*47% of the Company's estimated proved oil reserves and 39% of its estimated proved gas reserves were being produced at December 31, 2001. 65 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements (13) Sales of Assets On January 22, 2001, the Company sold its 50% interest in the Black Marlin Pipeline System to affiliates of the Williams Companies, Inc. for approximately \$4.6 million. The Black Marlin Pipeline System includes a 75-mile gas and condensate gathering line with related shore facilities servicing the High Island Area, offshore Texas (the "Black Marlin Pipeline") and a 3-mile lateral pipeline extending from High Island Block A-5 to an interconnection to the Black Marlin Pipeline in High Island Block A-6 (the "A-5 Lateral"). This disposition was consummated, in part,

through a sale of all of the outstanding capital stock of Black Marlin Pipeline Company (formerly an indirect wholly owned subsidiary of the Company) the owner of a 50% interest in the Black Marlin Pipeline, pursuant to a Purchase and Sale Agreement dated January 12, 2001 (the "Stock Purchase Agreement") among Black Marlin Energy Company, a wholly owned subsidiary of the Company, MCNIC Pipeline & Processing Company ("MCNIC"), WBI Southern, Inc. ("WBI") and Williams Field Services Group, Inc. The Company received \$3.6 million for the outstanding capital stock of Black Marlin Pipeline Company for a gain of \$1,305,534. The remaining part of this disposition was consummated through the sale of the A-5 Lateral owned 50% by Blue Dolphin Pipe Line Company, a wholly owned subsidiary of the Company ("BDPL"), pursuant to a Purchase and Sale Agreement dated January 12, 2001, among BDPL, MCNIC, WBI and Williams Field Services - Gulf Coast Company, L.P. The Company received \$1.0 million for its interest in the A-5 Lateral, for a gain of \$112,092. In connection with Blue Dolphin Exploration's acquisition of American Resources in December 1999, Blue Dolphin Exploration arranged for Fidelity Oil to acquire an 80% interest in American Resources oil and gas assets located in the Gulf of Mexico for approximately \$24.2 million. For the right to participate in the acquisition of these assets, Fidelity Oil agreed to assign Blue Dolphin Exploration 10% of its working interest in the proved properties acquired from American Resources after it has recovered its investment in these properties. In the fourth quarter 2001, Fidelity Oil had recovered its investment in the proved properties. However, instead of assigning 10% of its interest in the proved properties, Fidelity Oil paid Blue Dolphin \$1.4 million in cash in December 2001. The proceeds were accounted for as a reduction to capitalized costs of oil and gas properties. (14) Subsequent Event In February 2002, the Company acquired a 1/3 interest in the Blue Dolphin Pipeline System and the inactive Omega Pipeline from MCNIC. Pursuant to the terms of the purchase and sales agreement, Blue Dolphin issued MCNIC a \$750,000 promissory note due December 31, 2006, with required monthly payments to be made out of 90% of the net revenues of the interest acquired. The note bears interest at the rate of 6% per annum and is secured by the interest acquired. Additionally, a contingent payment of up to \$750,000 will be made, if the promissory note is retired before its maturity date, payable annually after the 66 BLUE DOLPHIN ENERGY COMPANY AND SUBSIDIARIES Notes to Consolidated Financial Statements promissory note is retired until December 31, 2006 out of 50% of the net revenues from the interest acquired. The termination date, December 31, 2006, will be extended by one additional year, up to a maximum of two years, for years in which non-recurring, extraordinary expenditures attributable to the interest acquired exceeds \$200,000, in the aggregate, during any year. On December 2, 1999, the Company, through Blue Dolphin Exploration, acquired a 75% ownership interest in American Resources by purchasing approximately 39.5 million shares of American Resources common stock. On February 19, 2002, the Company completed its acquisition of American Resources, pursuant to the Amended and Restated Agreement and Plan of Merger dated as of December 19, 2001 (the "Merger Agreement"). Pursuant to the Merger Agreement, American Resources became a wholly owned subsidiary of the Company and each outstanding share of (i) American Resources common stock, par value \$.00001 per share, was converted into the right to receive, at the option of the holder, either \$.06 per share in cash or .0362 of a share of the Company's Common Stock, par value \$.01 per share (the "Common Stock"), and (ii) American Resources Series 1993 Preferred Stock, par value \$12.00 per share, was converted into the right to receive, at the option of the holder, either \$.07 in cash or .0301 of a share of Common Stock. As a result of elections made by American Resources' stockholders, the Company will issue approximately 273,336 shares of Common Stock and will pay approximately \$255,000 in cash. 67 Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures Upon the recommendation of the Registrant's Audit Committee, on February 15, 2002, the Registrant's Board of Directors decided not to renew the engagement of KPMG LLP ("KPMG") as the Registrant's principal accountant and selected Mann Frankfort Stein & Lipp CPAs, LLP ("Mann Frankfort") as KPMG's replacement. In connection with the audits of the Registrant's two fiscal years ended December 31, 2000, and the subsequent interim period through February 15, 2002, there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement. The audit reports of KPMG on the consolidated financial statements of the Registrant and subsidiaries as of and for the years ended December 31, 2000 and 1999 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles, except that KPMG's report on the Registrant's consolidated financial statements for the years ended December 31, 2000 and 1999 contained a separate paragraph stating that "As discussed in Note 1 to the consolidated financial statements, effective January 1, 1999, the Company changed its

method of accounting for costs of start-up activities." During the two fiscal years ended December 31, 2000 and the subsequent interim period prior to engaging Mann Frankfort, neither the Registrant nor anyone on its behalf consulted with Mann Frankfort regarding the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Registrant's financial statements, and neither a written report nor oral advice was provided to the Registrant by Mann Frankfort that was an important factor considered by the Registrant in reaching a decision as to any accounting, auditing or financial reporting issue. PART III Item 13. Exhibits and Reports on Form 8-K (a) 1. Exhibits No. Description --- 3.1 (1) Certificate of Incorporation of the Company. 3.2 (2) Certificate of Correction to the Certificate of Incorporation of the Company dated June 30, 1987. 3.3 (2) Certificate of Amendment to the Certificate of Incorporation of the Company dated June 30, 1987. 3.4 (2) Certificate of Amendment to the Certificate of Incorporation of the Company dated December 11, 1989. 68 3.5 (2) Certificate of Amendment to the Certificate of Incorporation of the Company dated December 14, 1989. 3.6 (2) Bylaws of the Company. 3.7 (4) Certificate of Amendment to the Certificate of Incorporation of the Company dated December 8, 1997. 4.1 (2) Specimen Certificate of Blue Dolphin Energy Company Common Stock. * 10.1 (3) Blue Dolphin Energy Company 1996 Employee Stock Option Plan. * 10.2 (7) Blue Dolphin Energy Company 2000 Stock Incentive Plan 10.12 (5) Asset Purchase Agreement between WBI Southern, Inc., Blue Dolphin Pipeline Company, Buccaneer Pipe Line Co. and Mission Energy, Inc. 10.13 (5) Purchase and Sale Agreement between Enron Pipeline Company, Black Marlin Energy Company and Blue Dolphin Energy Company. 10.14 (5) Asset Purchase Agreement between WBI Southern, Inc., BlackMarlin Pipeline Company and Black Marlin Energy Company. 10.15 (5) Asset Purchase Agreement between MCNIC Offshore Pipeline & Processing Company, Black Marlin Pipeline Company and Black Marlin Energy Company. 10.16 (6) Investment Agreement, as amended, by and between American Resources Offshore, Inc. and Blue Dolphin Exploration Company. 10.18 (8) Purchase and Sale Agreement by and between Williams Field Services Group, Inc. and Black Marlin Energy Company 10.19 (8) Purchase and Sale Agreement by and between Williams Field Services - Gulf Coast Company, L.P. and Blue Dolphin Pipeline Company 10.20 (9) Amended and Restated Agreement and Plan of Merger dated as of December 19, 2001 (the "Merger Agreement") among Blue Dolphin Energy Company, American Resources Offshore, Inc. and BDCO Merger Sub, Inc. 10.21 (10) Amended and Restated Agreement and Plan of Merger, as amended, among American Resources Offshore, Inc., Blue Dolphin Energy Company and BDCO Merger Sub, Inc. and American Resources Offshore, Inc. 10.22 (9) Letter agreement between Blue Dolphin Exploration Company and Fidelity Exploration & Production Company. 10.23 (9) Amendment No.1 to the Amended and Restated Agreement and Plan of Merger. 69 16.1 (10) Letter from KPMG, L.L.P. 21.1** List of Subsidiaries of the Company. 23.1** Consent of Ryde r Scott Company, independent petroleum engineers. (1) Incorporated herein by reference to Exhibits filed in connection with Registration Statement on Form S-4 of ZIM Energy Corp. filed under the Securities Act of 1933 (Commission File No. 33-5559). (2) Incorporated herein by reference to Exhibits filed in connection with Form 10-K of Blue Dolphin Energy Company for the year ended December 31, 1989 under the Securities and Exchange Act of 1934, dated March 30, 1990 (Commission File No. 000-15905). (3) Incorporated herein by reference to Exhibits filed in connection with Form 10-K of Blue Dolphin Energy Company for the year ended December 31, 1995 under the Securities and Exchange Act of 1934, dated March 29, 1996 (Commission File No. 000-15905). (4) Incorporated herein by reference to Exhibits filed in connection with the definitive Information Statement on Schedule 14C of Blue Dolphin Energy Company under the Securities and Exchange Act of 1934, dated November 18, 1997 (Commission File No. 000-15905). (5) Incorporated herein by reference to Exhibits filed in connection with Form 8-K of Blue Dolphin Energy Company under the Securities and Exchange Act of 1934, dated March 1, 1999 (Commission File No. 000-15905). (6) Incorporated herein by reference to Exhibits filed in connection with Schedule 13D of Blue Dolphin Energy Company under the Securities and Exchange Act of 1934, dated October 22, 1999 (Commission File No. 000-15905). (7) Incorporated herein by reference to Exhibits filed in connection with the Proxy Statement of Blue Dolphin Energy Company under the Securities and Exchange Act of 1934, dated May 18, 2000 (Commission File No. 000-15905). (8) Incorporated herein by reference to Exhibits filed in connection with Form 8-K of Blue Dolphin Energy Company under the Securities and Exchange Act of 1934, dated January 22, 2001 (Commission File No. 000-15905). (9) Incorporated herein by reference to Exhibits filed in connection with Form S-4 of Blue Dolphin Energy Company under the Securities Act of 1933 (Commission File No. 333-82186). (10) Incorporated herein by reference to Exhibits filed in connection with Form 8-K of Blue Dolphin Energy Company under the Securities and Exchange Act of 1934, dated February 25, 2002 (Commission File No. 000-15905). 70 * Management Compensation

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Plan. ** Filed herewith. (b) Reports on Form 8-K On December 20, 2001, the Company filed a current report on Form 8-K dated December 20, 2001, reporting an Amended and Restated Agreement and Plan of Merger with American Resources Offshore, Inc. The items reported in such current report were Item 5 (Other Events). On February 25, 2002, the Company filed a current report on Form 8-K dated February 15, 2002, reporting a change in Certifying Accountant. The items reported in such current report were Item 4 (Change in Registrant's Certifying Accountant). On March 1, 2002, the Company filed a current report on Form 8-K dated February 19, 2002, reporting it completed the acquisition of American Resources Offshore, Inc. The items in such current report were Item 2 (Acquisition or Disposition of Assets). On March 13, 2002, the Company filed a current report on Form 8-K dated February 28, 2002, reporting the acquisition of an additional 1/3 interest in the Blue Dolphin Pipeline System from MCNIC Pipeline & Processing Company. The items reported in such current report were Item 5 (Other Events). 71 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. BLUE DOLPHIN ENERGY COMPANY (Registrant) By: /s/ Michael J. Jacobson ----- Michael J. Jacobson, President (principal executive officer) Date: March 28, 2002 Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. Signature Title Date ----- /s/ Michael J. Jacobson President (principal March 28, 2002 ----- executive officer) Michael J. Jacobson /s/ G. Brian Lloyd Vice President, Treasurer March 28, 2002 ----- (principal accounting G. Brian Lloyd and financial officer) /s/ Ivar Siem Chairman March 28, 2002 ----- Ivar Siem /s/ Harris A. Kaffie Director March 28, 2002 ----- Harris A. Kaffie /s/ Michael S. Chadwick Director March 28, 2002 ----- Michael S. Chadwick /s/ Robert D. Wagner, Jr. Director March 28, 2002 ----- Robert D. Wagner, Jr. 72