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

FORM 10-KSB

(Mark One)
[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

OR

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

For the transition period from _____ to _____

Commission file number: 0-21467

PACIFIC ETHANOL, INC.
(Name of small business issuer in its charter)

DELAWARE	41-2170618
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5711 N. WEST AVENUE, FRESNO, CA	93711
(Address of principal executive offices)	(Zip Code)

(559) 435-1771
(Issuer's telephone number, including area code)

Securities registered under Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
NONE	NONE

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, $0.01 PAR VALUE
(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes [ ] No [X]

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

The issuer's revenues for its most recent fiscal year were $87,599,012.

The aggregate market value of the voting common equity held by non-affiliates of the registrant computed by reference to the closing sale price of the common equity on March 31, 2006 was $659,442,542. The registrant has no outstanding non-voting common equity.

The number of shares outstanding of the registrant's only class of common stock, $0.01 par value, was 30,549,888 on March 31, 2006.

DOCUMENTS INCORPORATED BY REFERENCE:
NONE

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

OVERVIEW

Our primary goal is to become a leader in the production, marketing and sale of ethanol and other renewable fuels in the Western United States.

Through our wholly-owned subsidiary, Kinergy Marketing, LLC, or Kinergy, we are currently engaged in the business of marketing ethanol in the Western United States. We provide transportation, storage and delivery of ethanol through third-party service providers. We sell ethanol primarily in California, Nevada, Arizona, Washington and Oregon and have extensive customer relationships throughout the Western United States and extensive supplier relationships throughout the Western and Midwestern United States. We do not currently produce any ethanol that we sell. Until we commence the production of ethanol, if at all, we expect our operations to consist primarily of the marketing and sale of ethanol produced by third-parties. Accordingly, we expect that until we complete the construction of our initial ethanol production facility in Madera County, California, our consolidated net sales will consist solely of net sales generated by Kinergy. We anticipate that our sales will grow in the long-term as demand for ethanol increases and as a result of our marketing agreements with third-party ethanol producers.

We believe that we have a competitive advantage due to the market niche that we have developed by supplying ethanol to customers in several major metropolitan and rural markets in California and other Western states. We also believe that the experience of our management over the past two decades and the operations Kinergy has conducted over the past five years have enabled us to establish valuable relationships in the ethanol marketing industry and understand the business of marketing ethanol.

Through Pacific Ethanol Madera, LLC, or PEI Madera, a second-tier subsidiary of our wholly-owned subsidiary, Pacific Ethanol California, Inc., or PEI California, we are constructing an ethanol production facility in Madera County to begin the production and sale of ethanol and its co-products. We also intend to construct or otherwise acquire one or more additional ethanol production facilities as financing resources and business prospects make the construction or acquisition of these facilities advisable.

Our wholly-owned subsidiary, ReEnergy, LLC, or ReEnergy, does not presently have any significant business operations or plans. ReEnergy previously held an option to acquire real property in Visalia, California, on which we intended to build an ethanol production facility. Recently, we decided not to proceed with our initial plans to build a facility on the Visalia site and, as a result, we allowed the option to expire on December 15, 2005 without exercising our right to purchase the land and we are in the process of dissolving ReEnergy. We have secured an option to acquire an additional parcel of real property on which we may construct an additional ethanol production facility.

In April 2006, we raised $84.0 million in an offering of our Series A Cumulative Redeemable Convertible Preferred Stock and secured up to approximately $34.0 million in debt financing. A portion of the preferred stock financing and up to the entire amount of the debt financing will be used to complete the construction of our ethanol production facility in Madera County. See "Management's Discussion and Analysis or Plan of Operation--Preferred Stock Financing" and "--Debt Financing."

In March 2005, we completed a share exchange transaction, or the Share Exchange Transaction, with the shareholders of PEI California, and the holders of the membership interests of each of Kinergy and ReEnergy. Upon completion of the Share Exchange Transaction, we acquired all of the issued and outstanding shares of capital stock of PEI California and all of the outstanding membership interests of each of Kinergy and ReEnergy. Immediately prior to the consummation of the Share Exchange Transaction, our predecessor, Accessity Corp., a New York corporation, or Accessity, reincorporated in the State of Delaware under the name Pacific Ethanol, Inc. See "Management's Discussion and Analysis or Plan of Operation--Share Exchange Transaction."

Prior to the Share Exchange Transaction, through its wholly-owned subsidiary Sentaur Corp., Accessity was in the business of providing medical billing recovery services for hospitals. Sentaur Corp's services were designed to help hospitals recoup discounts improperly taken by insurance companies and other institutional payors of medical treatments. In addition, through its wholly-owned subsidiary DriverShield CRM Corp., Accessity was in the business of providing internet-based vehicle repair management services, including collision and general repair programs, estimating and auditing services and vehicle rentals for insurance companies and affinity group members.

INDUSTRY OVERVIEW

OVERVIEW OF ETHANOL MARKET

Methyl tertiary-butyl ether, or MTBE, was used for over 20 years in California and other states as an oxygenate. An oxygenate is a substance that, when added to gasoline, increases the amount of oxygen in the gasoline blend and improves its air quality characteristics. Oxygenated fuels sometimes are mandated by the Environmental Protection Agency, or EPA, for sale and use in geographical areas which fail to achieve certain air quality standards. MTBE is, however, a known carcinogen that contaminates groundwater, and California banned the addition of MTBE to motor fuels effective January 1, 2004. The EPA lists on its website at least 20 states with partial or complete bans on the use of MTBE. Ethyl alcohol, or ethanol, has recently replaced MTBE as a fuel additive and an oxygenate in California, New York and Connecticut.

California is the nation's largest market for gasoline. According to the California Department of Motor Vehicles, approximately 30.5 million motor vehicles were registered in California in 2005 and were estimated to use approximately 16.8 billion gallons of gasoline. California's last oil refinery was built in 1969. We believe that California's stringent permitting process and the economics of constructing and operating an oil refinery in California present difficult barriers to entry into the oil refining market. In addition, we believe that California is in a volatile and highly-sensitive energy situation due to its relative geographic isolation from oil refiners located elsewhere in the United States coupled with what we believe is an overall decline in oil refining capacity in the United States. According to the California Energy Commission, California imports approximately 10% of its finished fuel products and during 2004 imported over 55% of its total petroleum supply.

We believe that the ethanol industry produced approximately 4.0 billion gallons of ethanol in 2005, an increase of approximately 18% from the approximately 3.4 billion gallons of ethanol produced in 2004. We believe that the ethanol market in California exceeded 950 million gallons in 2005, representing nearly 25% of the national market. However, California has only three ethanol plants with a combined production capacity of less than 35 million gallons per year, leaving California with ethanol production levels substantially below the demand for ethanol in California. The balance of ethanol is shipped via rail from the Midwest to California. Gasoline and diesel products that supply the major fuel terminals are shipped in pipelines throughout the northern and southern portions of California. Unlike gasoline and diesel, however, ethanol cannot be shipped in these pipelines because ethanol has an affinity for mixing with water already present in the pipelines. When mixed, water dilutes ethanol and creates significant quality control issues. Therefore, ethanol must be trucked from rail terminals to regional fuel terminals, or blending racks.

We believe that approximately 95% of the ethanol produced in the United States is made in the Midwest from corn. According to the U.S. Department of Energy, ethanol is typically blended at 5.7% to 10% by volume in the United States, but is also blended at up to 85% by volume for vehicles designed to operate on 85% ethanol. Compared to gasoline, ethanol is generally considered to be less expensive and cleaner burning and contains higher octane. We anticipate that the increasing demand for transportation fuels coupled with limited

opportunities for gasoline refinery expansions and the growing importance of reducing CO(2) emissions through the use of renewable fuels will generate additional growth in the California ethanol market.

Ethanol sold into the Central Valley region of California, or Central Valley, is currently shipped via rail from the Midwest, and then "double-handled" into trucks and shipped to blending racks in Sacramento, Stockton, Fresno and Bakersfield. We believe that this one to two thousand mile transport and "double handling" can add significantly to the final price of ethanol. We estimate that ethanol demand in the Central Valley was approximately 200 million gallons in 2005.

We believe that ethanol prices, net of tax incentives offered by the federal government, are positively correlated to fluctuations in gasoline prices. In addition, we believe that ethanol prices in California are typically $0.15 to $0.20 per gallon higher than in the Midwest due to the freight costs of delivering ethanol from Midwest production facilities.

Currently, ethanol represents only up to 3% of the total annual gasoline supply in the United States. We believe that the ethanol industry has substantial room to grow to reach what we estimate is an achievable level of at least 10% of the total annual gasoline supply in the United States. An increase in the demand for ethanol from California's current level of 5.7% to at least 10% of total annual gasoline supply would result in demand for approximately 700 million additional gallons of ethanol, representing an increase in annual demand in California of approximately 75%. An additional 700 million gallons of ethanol would represent an increase in annual demand of approximately 18% for the entire United States.

OVERVIEW OF ETHANOL PRODUCTION PROCESS

The production of ethanol from starch or sugar-based feedstocks has been practiced for thousands of years. While the basic production steps remain the same, the process has been refined considerably in recent years, leading to a highly-efficient process that we believe now yields more energy in the ethanol and co-products than is required to make the products. The modern production of ethanol requires large amounts of corn, or other high-starch grains, and water as well as chemicals, enzymes and yeast, and denaturants such as unleaded gasoline or liquid natural gas, in addition to natural gas and electricity.

In the dry milling process, corn or other high-starch grains are first ground into meal and then slurried with water to form a mash. Enzymes are then added to the mash to convert the starch into the simple sugar, dextrose. Ammonia is also added for acidic (pH) control and as a nutrient for the yeast. The mash is processed through a high temperature cooking procedure, which reduces bacteria levels prior to fermentation. The mash is then cooled and transferred to fermenters, where yeast is added and the conversion of sugar to ethanol and CO(2) begins.

After fermentation, the resulting "beer" is transferred to distillation, where the ethanol is separated from the residual "stillage." The ethanol is concentrated to 190 proof using conventional distillation methods and then is dehydrated to approximately 200 proof, representing 100% alcohol levels, in a molecular sieve system. The resulting anhydrous ethanol is then blended with about 5% denaturant, which is usually gasoline, and is then ready for shipment to market.

The residual stillage is separated into a coarse grain portion and a liquid portion through a centrifugation process. The soluble liquid portion is concentrated to about 40% dissolved solids by an evaporation process. This intermediate state is called condensed distillers solubles, or syrup. The coarse grain and syrup portions are then mixed to produce wet distillers grains, or WDG, or can be mixed and dried to produce dried distillers grains with solubles, or DDGS. Both WDG and DDGS are high-protein animal feed products.

OVERVIEW OF DISTILLERS GRAINS MARKET

We believe that approximately 5.8 to 6.8 million tons of dried distillers grains are produced and sold every year in North America. Dairy cows and beef cattle are the primary consumers of distillers grains. According to Rincker and Berger, in their 2003 article entitled OPTIMIZING THE USE OF DISTILLER GRAIN FOR DAIRY-BEEF PRODUCTION, a dairy cow can consume 12-15 lbs of WDG per day in a balanced diet. At this rate, the WDG output of an ethanol facility that produces 25 million gallons of ethanol per year can feed approximately 75,000-95,000 dairy cows and an ethanol facility that produces 35 million gallons of ethanol per year can feed approximately 105,000-130,000 dairy cows. We believe that the only distillers grains currently available in California are shipped from the Midwest via rail cars in dry form.

Successful and profitable delivery of DDGS from the Midwest faces a number of challenges, including product inconsistency, handling difficulty and lower feed values. All of these challenges are mitigated with a consistent supply of WDG from a local plant. DDGS delivered via rail to California from the Midwest undergoes an intense drying process and exposure to extreme heat at the production facility and in the railcars, during which various nutrients are burned off which reduces the nutritional composition of the final product. In addition, DDGS shipped via rail can take as long as two weeks to be delivered to California, and scheduling errors or rail yard mishaps can extend delivery time even further. DDGS tends to solidify and set in place as it sits in a rail car and thus expedient delivery is important. After solidifying and setting in place, DDGS becomes very difficult and thus expensive to unload. During the

summer, rail cars typically take a full day to unload but can take longer. Also, DDGS shipped from the Midwest can be inconsistent because some Midwest producers use a variety of feedstocks depending on the availability and price of competing crops. Corn, milo sorghum, barley and wheat are all common feedstocks used for the production of ethanol but lead to significant variability in the nutritional composition of distillers grains. California dairies depend on rations that are calculated with precision and a subtle difference in the makeup of a key ingredient can significantly affect bovine milk production. By not drying the distillers grains and by shipping them locally, we believe that we will be able to preserve the feed integrity of these grains.

Historically, the market price for distillers grains has been stable in comparison to the market price for ethanol. We believe that the market price of DDGS is determined by a number of factors, including the market value of corn, soybean meal and other competitive protein ingredients, the performance or value of DDGS in a particular feed formulation and general market forces of supply and demand. We also believe that nationwide, the market price of distillers grains historically has been influenced by producers of distilled spirits and more recently by the large corn dry-millers that operate fuel ethanol plants. In California, the market price of distillers grains is often influenced by nutritional models that calculate the feed value of distillers grains by nutritional content.

OUR STRATEGY

Our primary goal is to become a leader in the production, marketing and sale of ethanol and other renewable fuels in the Western United States. Our business strategy to achieve this goal includes the following elements:

- CONTINUE TO DEVELOP AND EXPAND OUR ETHANOL DISTRIBUTION NETWORK. We have developed and plan to continue to develop and expand, our ethanol distribution network for delivery of ethanol by truck to virtually every significant fuel terminal as well as to numerous smaller fuel terminals throughout California. Fuel terminals have limited storage capacity and we have been successful in securing storage tanks in California. In addition, we have an extensive network of third-party delivery trucks available to deliver ethanol throughout California.

- CONTINUE TO EXPAND OUR BUSINESS IN GROWING GEOGRAPHIC MARKETS. We intend to continue to expand our business in regions where MTBE has been banned and that represent growing markets for ethanol, including Phoenix, Arizona, Las Vegas, Nevada and Portland, Oregon.

- COMPLETE CONSTRUCTION OF FIVE ETHANOL PRODUCTION FACILITIES ON THE WEST COAST BY THE END OF 2008. We are currently constructing our first ethanol production facility located in Madera County to produce ethanol and its co-products, specifically, WDG and CO(2), for sale in the Central Valley. We are also in the process of developing additional plant sites. We believe that, following the completion of construction of our planned five facilities, if it occurs, we will be the largest producer of ethanol on the West Coast and that our proximity to the geographic market in which we plan to sell our ethanol provides us significant competitive advantages over ethanol producers in the Midwest.

- MAKE STRATEGIC ACQUISITIONS OF EXISTING OR PENDING ETHANOL PRODUCTION FACILITIES. We plan to explore opportunities to make strategic acquisitions of existing or pending ethanol production facilities. In circumstances where, in our judgment, the acquisition of existing or pending ethanol production facilities represents an opportunity to more quickly or successfully meet our business goals, we intend to undertake to consummate these acquisitions.

- IDENTIFY AND EXPLOIT NEW RENEWABLE FUELS AND TECHNOLOGIES. We plan to identify and exploit new renewable fuels and technologies. We are currently examining new technologies enabling the conversion of cellulose, which is generated predominantly from wood waste, paper waste and agricultural waste, into ethanol and we are also researching opportunities to produce bio-diesel to serve West Coast markets.

KINERGY CUSTOMERS

We purchase and resell ethanol to various customers in the Western United States. We also arrange for transportation, storage and delivery of ethanol purchased by our customers through our agreements with third-party service providers. Our revenue is obtained primarily from sales of ethanol to large oil companies.

During 2005, Kinergy purchased and resold an aggregate of approximately 67 million gallons of fuel grade ethanol to approximately 27 customers. Sales to Kinergy's three largest customers represented approximately 39% of our net sales in 2005. Sales to each of our other customers did not represent 10% or more of our net sales in 2005. Customers who accounted for 10% or more of our net sales in 2005 were New West Petroleum, Chevron Products USA, and Southern Counties Oil Co., which accounted for 18%, 11% and 10%, respectively, of Kinergy's net sales during that year.

During 2004, Kinergy purchased and resold an aggregate of approximately 55 million gallons of fuel grade ethanol to approximately 25 customers. Net sales to Kinergy's four largest customers represented in the aggregate approximately 49% of Kinergy's total revenues in 2004. Sales to each of Kinergy's other customers did not represent 10% or more of Kinergy's net sales in 2004. Customers who accounted for 10% or more of Kinergy's net sales in 2004 were Southern Counties Oil Co., which accounted for 13% of Kinergy's net sales during that period and Conoco Phillips, Chevron Products USA and Valero, each of which accounted for 12% of Kinergy's net sales during that period.

Most of the major metropolitan areas in California have fuel terminals served by rail, but other major metropolitan areas and more remote smaller cities and rural areas in California do not. We believe that we have developed a valuable niche in California by growing our business to supply customers in areas without rail access at fuel terminals, which are primarily located in the Sacramento, San Joaquin and Imperial Valleys of California. We manage the complicated logistics of shipping ethanol from the Midwest by rail to intermediate storage locations throughout the Western United States and trucking the ethanol from these storage locations to blending racks where the ethanol is blended with gasoline. We believe that by establishing an efficient service for truck deliveries to these more remote locations, we have differentiated ourselves from our competitors, which has resulted in increased sales and profitability. In addition, by producing ethanol in California, we believe that we will benefit from our ability to increase spot sales of ethanol from this additional supply following ethanol price spikes caused from time to time by rail delays in delivering ethanol from the Midwest to California.

In March 2005, we agreed with Phoenix Bio-Industries, LLC, or PBI, to market and sell PBI's entire ethanol production volume from its facility in Goshen, California, which is approximately fifty miles southeast of our Madera County site. PBI commenced ethanol production at this facility in the fourth quarter of 2005 and we expect initial production volume to be approximately 25 million gallons per year. The term of the agreement is two years from the date that ethanol is first available for marketing from PBI's production facility. We believe that through Kinergy, we could market and sell locally all of the 25 million gallons expected to be produced each year at PBI's Goshen facility as well as all or substantially all of the 35 million gallons of ethanol expected to be produced each year at our Madera County ethanol production facility.

Kinergy has two principal methods of conducting its ethanol marketing and sales activities: direct sales and inventory sales. Kinergy's first method of marketing and selling ethanol involves direct sales through which suppliers deliver ethanol directly via rail to Kinergy's customers. For direct sales, Kinergy typically matches ethanol purchase and sale contracts of like quantities and delivery periods. These back-to-back direct sales typically involve no price risks to Kinergy that otherwise may result from fluctuations in the market price of ethanol. Kinergy's second method of marketing and selling ethanol involves truck deliveries from inventory purchased by Kinergy in advance. For inventory sales, as with direct sales, Kinergy typically matches ethanol purchase and sale contracts of like quantities. However, timing differences do exist and consequently, a back-to-back inventory sale may lag by up to two or more weeks. This time lag results from inventory transit and turnover times. As a result, Kinergy may supply ethanol under new inventory sales contracts from existing inventory. These back-to-back inventory sales therefore involve some price risks to Kinergy resulting from potential fluctuations in the market price of ethanol.

We believe that the only consistent price risk to Kinergy currently is inventory risk. Management seeks to optimize transitions to new inventory sales contracts and reduce the effects of declining ethanol prices by managing inventory as carefully as possible to decrease inventory levels in anticipation of declining ethanol prices. In addition, management seeks to increase inventory levels in anticipation of rising ethanol prices. Because Kinergy decreases inventory levels in anticipation of declining ethanol prices and increases inventory levels in anticipation of rising ethanol prices, it is subject to the risk of ethanol prices moving in unanticipated directions, which could result in declining or even negative gross profit margins over certain periods of time, but also enables Kinergy to potentially benefit from above-normal gross profit margins.

Over the past few years, the market price of ethanol has experienced significant fluctuations. More recently, the price of ethanol declined by approximately 25% from its 2004 average price per gallon in five months from January 2005 through May 2005 and reversed this decline and increased to approximately 55% above its 2004 average price per gallon in four months from June 2005 through September 2005. Since September 2005, the price of ethanol has generally trended downward and the average price of ethanol during October 2005 and through December 2005 was approximately 24% above its 2004 average price per gallon. We believe that the market price of ethanol will, for the foreseeable future, continue to experience significant fluctuations which may cause our future results of operations to fluctuate significantly. As a result, our historical results of operations may not be predictive of our future results of operations.

Historically, Kinergy's gross profit margins have averaged between 2.0% and 4.4%. Kinergy's gross profit margin in 2005 and 2004 was 3.6% and 3.9%, respectively. We believe that Kinergy's future gross profit margins may be lower than historical levels for two principal reasons. First, increased competition

in the ethanol market may reduce margins. Second, Kinergy may, in some cases, engage in direct sales arrangements that typically result in lower gross margins. Historically, Kinergy's sales were comprised to a greater degree of inventory sales that often involved the buying and selling of ethanol based on anticipated trends in the market price of ethanol. These inventory sales represented higher-risk positions but enabled Kinergy to achieve higher margin levels, as compared to direct sales, as a result of correctly anticipating fluctuations in the market price of ethanol. As a result of highly-volatile ethanol prices, we are unable to estimate Kinergy's future gross profit margins from inventory sales. However, we believe that over longer periods of up to a year or more, our gross profit margin from inventory sales is unlikely to exceed our historic high average gross profit margin of 4.4%.

If we are able to complete our ethanol production facility in Madera County and commence producing ethanol, we expect our gross profit margins for ethanol that we produce to be substantially higher than our gross profit margins for Kinergy's direct sales and inventory sales activities. However, any gross profits that we realize from the production of ethanol will be highly dependent upon the prevailing market price of ethanol at the time of sale. Moreover, in light of the recent and expected future volatility in the price of ethanol, we are now, and expect for the foreseeable future to be, unable to estimate our gross profit margins resulting from the sale of ethanol that we may produce.

We expect to begin to market and sell ethanol we produce upon completion of construction of our initial ethanol production facility in Madera County. We intend to continue to market ethanol and manage the shipping, storage and delivery of ethanol from the Midwest to existing and new customers in the Western United States. In addition, we intend to continue to expand our business in regions that represent growing markets for ethanol, including Phoenix, Arizona, Las Vegas, Nevada and Portland, Oregon.

KINERGY SUPPLIERS

During 2005, Kinergy purchased an aggregate of approximately 67 million gallons of fuel grade ethanol from approximately 15 suppliers. Purchases from Kinergy's three largest suppliers represented approximately 59% of Kinergy's total purchases in 2005. Purchases from each of Kinergy's other suppliers did not represent 10% or more of total purchases in 2005. Suppliers who accounted for 10% or more of these purchases in 2005 were Chief Industries, Inc., Archer Daniels Midland Company, and Renewable Products Marketing Group, LLC, which accounted for 22%, 20% and 17%, respectively, of Kinergy's purchases during that year.

During 2004, Kinergy purchased an aggregate of approximately 55 million gallons of fuel grade ethanol from approximately 13 suppliers. Suppliers who accounted for 10% or more of the purchases in 2004 were Archer Daniels Midland Company, Chief Industries, Inc. and C&N Ethanol which accounted for 27%, 23% and 14%, respectively, of Kinergy's purchases during that year representing an aggregate of approximately 64% of the total ethanol Kinergy purchased for resale.

We do not presently engage in any ethanol production activities. However, we are in the process of constructing an ethanol plant in Madera County for the production of at least 35 million gallons of ethanol per year. We are a marketer and reseller of ethanol throughout the Western United States. Accordingly, we are dependent upon various producers of fuel grade ethanol for our ethanol supplies. In addition, we provide ethanol transportation, storage and delivery services through third-party service providers.

We assume risk of loss with respect to each shipment of ethanol once the ethanol is delivered to us by our suppliers at the agreed upon delivery location. We maintain this risk of loss until the ethanol is delivered to a fuel terminal. If our suppliers ship ethanol directly to our customers, risk of loss passes directly from our suppliers to our customers and we do not assume any risk of loss. We maintain insurance to cover the risks associated with our activities.

Historically, we have not owned or leased any rail cars, tanker trucks or other fuel transportation vehicles. Instead, we have entered into contracts with third-party providers to receive ethanol at agreed upon locations from our suppliers and to store and/or deliver the ethanol to agreed upon locations on behalf of our customers. These contracts generally run from year-to-year, subject to termination by either party upon advance written notice before the end of the then-current annual term. However, due to increasing constraints on the availability of rail cars, we are in the process of executing long-term leases on rail cars to provide our customers with additional options to support their distribution needs.

PEI CALIFORNIA CUSTOMERS

Upon completion of our ethanol plant in Madera County, we expect to market and sell ethanol produced at this plant through Kinergy. Kinergy's business focus has been on growing its market share at the Fresno fuel terminal, which is the only wholesale distribution point for gasoline for over 200 miles between Stockton and Bakersfield, California. The Fresno fuel terminal is only 20 miles southeast of our Madera County site. The Fresno/Clovis metro area population is approximately 850,000. In addition, the Fresno fuel terminal serves the Central Valley, which is one of the largest agricultural regions in the world. We are currently supplying over 50% of the ethanol distributed out of the Fresno fuel terminal. We expect that all of the ethanol generated by our Madera County facility will be able to be sold locally in the Fresno market that Kinergy has

developed, capturing a key competitive advantage over Midwest ethanol producers who must incur the costs of delivering ethanol from thousands of miles away and subject their supplies to rail delays and other challenges.

The San Joaquin Valley of California (located in the southern half of the Central Valley) has one of the highest concentrations of dairy cows in the world, with over 1.4 million head of cattle in an area covering approximately 30,000 square miles. We believe that there are approximately 500,000 dairy cows within a 50-mile radius of our production site in Madera County. We expect that our Madera County facility will be able to produce enough WDG to feed 105,000 to 130,000 dairy cows each year.

We expect to be one of the few WDG producers with production facilities located in California. We intend to position WDG as the protein feed of choice based on its nutritional composition, consistency of quality and delivery, ease of handling and its mixing ability with minerals and other feed ingredients. We believe that WDG has an ideal moisture level to carry minerals and other feed ingredients and we expect to capture a higher combined profit margin by providing WDG to the feed market in California.

PEI CALIFORNIA SUPPLIERS

The production of ethanol requires a significant amount of raw materials and supplies, such as corn, natural gas, electricity and water. The cost of corn is the most important variable cost associated with the production of ethanol. A 35 million gallon per year ethanol facility requires approximately 12.5 million bushels of corn each year or, according to the United States Department of Agriculture--National Agricultural Statistics Survey, nearly 66% of California's total 2005 annual corn production of approximately 19 million bushels. Therefore, a California ethanol plant must be able to efficiently ship corn from the Midwest via rail and then cheaply and reliably truck processed ethanol to local markets. We believe that our grain receiving facility at our Madera County site is one of the most efficient grain receiving facilities in the United States. The unloading system was designed to unload 110 rail cars consistently in less than fifteen hours. The plant will have the capacity to store a 49-day supply of corn, or approximately 1.8 million bushels.

We plan to source corn using standard contracts, such as spot purchases, forward purchases and basis contracts. We plan to establish a relationship with a forwarding broker at the Chicago Board of Trade and expect to establish allowable limits of open and un-hedged grain transactions that its merchants will be required to follow pursuant to a risk management program. The limits established are expected to be reviewed and adjusted on a regular basis.

CONSTRUCTION OF ETHANOL PLANT

PEI California, through PEI Madera, has entered into construction agreements with W.M. Lyles Co. for the construction of an ethanol plant at our Madera County site. The total construction cost of the facility is currently estimated to be $55.3 million. Of this amount, approximately $50.6 million is a guaranteed maximum price, or GMP, provided by W.M. Lyles Co. under construction agreements while the balance of approximately $4.7 million of construction and related expenditures are outside the scope of the W.M. Lyles Co. GMP. The GMP sets a cap on total construction costs while providing for shared savings if the actual cost falls below the GMP price. However, PEI Madera is liable for additional costs to the extent that the scope of work actually performed by W.M. Lyles Co. exceeds the scope of work that is the basis for the GMP. The construction agreements also provide that if PEI Madera terminates W.M. Lyles Co. in favor of another contractor, PEI Madera will be required to pay a termination fee of $5.0 million in addition to payment of all costs incurred by W.M. Lyles Co. for services rendered through the date of termination.

PEI California has entered into a letter agreement with W.M. Lyles Co. that provides that if W.M. Lyles Co. pays performance liquidated damages to PEI Madera as a result of a defect attributable to Delta-T Corporation (our process design and technology provider), or if W.M. Lyles Co. pays liquidated damages to PEI Madera under PEI Madera's construction agreements as a result of a delay that is attributable to Delta-T Corporation, then PEI California will reimburse W.M. Lyles Co. for the liquidated damages to the extent they exceed $2.0 million and up to a maximum of $8.1 million.

Responsibility for the proper and timely construction of our initial ethanol production facility in Madera County rests with W.M. Lyles Co. We are requiring a payment and performance bond to guarantee the quality and the timeliness of the construction of this facility. We had previously authorized W.M. Lyles Co. to expend up to $15.0 million on Phase I of construction, which has been completed. PEI Madera also issued a formal Notice to Proceed effective March 1, 2006, for the balance of the estimated $34.0 million necessary to complete the construction.

Water supply is one of the most critical issues in developing a project in the State of California. There is a pervasive water shortage in the Central Valley, often causing spikes in the price of available water. We have taken a number of steps to reduce our exposure to interruptions in our water supply and to fluctuations in the market price of water. We have selected Delta-T

Corporation, a process design and technology provider, that we believe is recognized in its industry for efficient use of water. Also, our Madera County property has one deep-water well with another deep-water well currently being developed, which together we believe will provide an ample supply of fresh water for our proposed ethanol production facility.

COMPETITION

We operate in the highly-competitive ethanol marketing industry and plan to construct ethanol production facilities to begin producing our own ethanol. The largest ethanol producer in the United States is Archer-Daniels-Midland Company, or ADM, with wet and dry mill plants in the Midwest and a total production capacity of about 1.2 billion gallons per year, or about 30% of total United States ethanol production. According to the Renewable Fuels Association's ETHANOL INDUSTRY OUTLOOK 2006, there are approximately 95 ethanol plants currently operating with a combined annual production capacity of approximately 4.0 billion gallons. In addition, 29 ethanol plants and 9 expansions were under construction with a combined annual capacity of approximately 1.5 billion gallons. We believe that most of the growth in ethanol production over the last ten years has been by farmer-owned cooperatives that have commenced or expanded ethanol production as a strategy for enhancing demand for corn and adding value through processing. We believe that many smaller ethanol plants rely on marketing groups such as Ethanol Products, Aventine Renewable Energy, Inc. and Renewable Products Marketing Group to move their product to market. We believe that, because ethanol is a commodity, many of the Midwest ethanol producers can target California, though ethanol producers further west in states such as Nebraska and Kansas often enjoy delivery cost advantages.

In March 2005, we agreed with PBI to market and sell PBI's entire ethanol production from its facility in Goshen, California, which is approximately fifty miles southeast of our Madera County site. PBI commenced ethanol production at this facility in the fourth quarter of 2005 and we expect initial production to be approximately 25 million gallons per year. The term of the agreement is two years from the date that ethanol is first available for marketing from PBI's production facility.

We believe that our ability to successfully compete in the ethanol marketing industry depends on many factors, including the following principal competitive factors:

- OUR ETHANOL DISTRIBUTION NETWORK. We believe that we have a competitive advantage due to the market niche that we have developed by supplying ethanol to customers in areas and markets in the Western United States that are not served by rail. We have developed an ethanol distribution network for delivery of ethanol by truck to virtually every significant fuel terminal as well as to numerous smaller fuel terminals throughout California. Fuel terminals have limited storage capacity and we have been successful in securing storage tanks in California. In addition, we have an extensive network of third-party delivery trucks available to deliver ethanol throughout California.

- OUR CUSTOMER AND SUPPLIER RELATIONSHIPS. We have developed strong business relationships with our customers and suppliers. In particular, we have developed strong business relationships with major and independent un-branded customers who collectively control the majority of all gasoline sales in California. In addition, we have developed strong business relationships with ethanol suppliers throughout the Western and Midwestern United States.

Although we believe that Kinergy is in an advantageous position relative to its competitors, Kinergy does have certain competitive vulnerabilities, including the current limited supply of available ethanol, which may result in Kinergy's inability to fully satisfy all of the demands of its customers, resulting in customers seeking alternative supplies of ethanol, including directly from ethanol producers such as ADM. If customers purchase ethanol from sources other than Kinergy, Kinergy's market share, sales and profitability may decline. In addition, if the price of ethanol stabilizes at historically high levels, or continues to increase, ethanol producers may seek to circumvent Kinergy's marketing and distribution services in order to obtain additional profits that Kinergy may otherwise be generating. Also, because ethanol competes with other alternative fuels, Kinergy's focus on ethanol subjects it to the vulnerability that other alternative fuels may offer advantages relative to ethanol or may, in the future, be favored through governmental regulations and offer greater tax incentives.

We believe that our ability to successfully compete in the ethanol production industry depends on many factors, including the following principal competitive factors:

- OUR LOCATION IN CALIFORNIA. We believe that after the completion of construction of an ethanol production facility, if it occurs, we will have a competitive advantage in the Central Valley market for ethanol because competing Midwest-sourced ethanol must be "double-handled" to reach Central Valley distribution racks and Midwest ethanol producers must incur the costs of delivering ethanol from hundreds of miles away and subject their supplies to rail delays and other challenges. In addition, the San Joaquin Valley has over 1.4 million head of dairy cattle in an area less than 30,000 square miles, which we believe will provide an excellent market for WDG, a co-product of ethanol and an important protein source for

dairy cows.

- OUR ETHANOL MARKETING DIVISION. Upon completion of our initial ethanol production facility in Madera County, if it occurs, we expect to market and sell ethanol produced at this facility through Kinergy. We estimate that ethanol demand in the Central Valley was approximately 200 million gallons in 2005. Kinergy is currently supplying over 50% of the ethanol distributed out of the Fresno fuel terminal. We expect that all or substantially all of the ethanol generated by PBI's facility in Goshen and at our Madera County facility will be able to be sold locally in the Fresno market that Kinergy has developed.

Although we believe that our ethanol production business will be in an advantageous position relative to our competitors, we do have certain competitive vulnerabilities, including the fact that we are not yet producing ethanol. Because we are not presently in the ethanol production business, unlike our competitors, and other than through certain activities of Kinergy, we are not benefiting from sales of ethanol at the current, historically unprecedented high price levels. Our inability to capture profits based on the currently high price levels may provide our competitors, who are presently producing ethanol, with greater relative advantages resulting from greater capital resources available to these competitors.

Although we believe that we have certain competitive advantages over our competitors, realizing and maintaining those advantages will require a continued high level of investment in marketing and customer service and support. We may not have sufficient resources to continue to make such investments. Even if sufficient funds are available, we may not be able to make the modifications and improvements necessary to maintain our competitive advantages.

GOVERNMENTAL REGULATION

We and our existing and proposed business operations are subject to extensive and frequently changing federal, state and local laws and regulations relating to the protection of the environment. These laws, their underlying regulatory requirements and the enforcement thereof, some of which are described below, impact, or may impact, our existing and proposed business operations by imposing:

- restrictions on our existing and proposed business operations and/or the need to install enhanced or additional controls;
- the need to obtain and comply with permits and authorizations;
- liability for exceeding applicable permit limits or legal requirements, in certain cases for the remediation of contaminated soil and groundwater at our facilities, contiguous and adjacent properties and other properties owned and/or operated by third parties; and
- specifications for the ethanol we market and plan to produce.

In addition, some of the governmental regulations to which we are subject are helpful to our ethanol marketing business and proposed ethanol production business. The ethanol fuel industry is greatly dependent upon tax policies and environmental regulations that favor the use of ethanol in motor fuel blends in North America. Some of the governmental regulations applicable to our ethanol marketing business and proposed ethanol production business are briefly described below.

FEDERAL EXCISE TAX EXEMPTION

Ethanol blends have been either wholly or partially exempt from the federal excise tax, or FET, on gasoline since 1978. The exemption has ranged from $0.04 to $0.06 per gallon of gasoline during that 25-year period. Current law provides a $0.051 per gallon exemption from the $0.183 per gallon FET on gasoline if the taxable product is blended in a mixture containing at least 10% ethanol. The FET exemption was revised and its expiration date was extended for the sixth time since its inception as part of the Jumpstart Our Business Strength, or JOBS, Act enacted in October 2004. The new expiration date of the FET exemption is December 31, 2010. We believe that it is highly likely that this tax incentive will be extended beyond 2010 if Congress deems it necessary for the continued growth and prosperity of the ethanol industry.

CLEAN AIR ACT AMENDMENTS OF 1990

In November 1990, a comprehensive amendment to the Clean Air Act of 1977 established a series of requirements and restrictions for gasoline content designed to reduce air pollution in identified problem areas of the United States. The two principal components affecting motor fuel content are the Oxygenated Fuels Program, which is administered by states under federal guidelines, and a federally supervised Reformulated Gasoline Program.

OXYGENATED FUELS PROGRAM

Federal law requires the sale of oxygenated fuels in certain carbon monoxide non-attainment Metropolitan Statistical Areas, or MSA, during at least four winter months, typically November through February. Any additional MSA not in compliance for a period of two consecutive years in subsequent years may also be included in the program. The EPA Administrator is afforded flexibility in requiring a shorter or longer period of use depending upon available supplies of oxygenated fuels or the level of non-attainment. This law currently affects the Los Angeles area, where over 150 million gallons of ethanol are blended with

gasoline each winter.

REFORMULATED GASOLINE PROGRAM

The Clean Air Act Amendments of 1990 established special standards effective January 1, 1995 for the most polluted ozone non-attainment areas: Los Angeles Basin, Baltimore, Chicago Area, Houston Area, Milwaukee Area, New York-New Jersey, Hartford Region, Philadelphia Area and San Diego, with provisions to add other areas in the future if conditions warrant. California's Central Valley was added in 2002. At the outset of the program there were a total of 96 MSAs not in compliance with clean air standards for ozone, which currently represents approximately 60% of the national market.

The legislation requires a minimum of 2.0% oxygen by weight in reformulated gasoline as a means of reducing carbon monoxide pollution and replacing octane lost by reducing aromatics which are high octane portions of refined oil. The Reformulated Gasoline Program also includes a provision that allows individual states to "opt into" the federal program by request of the governor, to adopt standards promulgated by California that are stricter than federal standards, or to offer alternative programs designed to reduce ozone levels. Nearly all of the Northeast and middle Atlantic areas from Washington, D.C., to Boston not under the federal mandate have "opted into" the federal standards.

These state mandates in recent years have created a variety of gasoline grades to meet different regional environmental requirements. Reformulated gasoline accounts for about 30% of nationwide gasoline consumption. Under current law, California refiners must blend a minimum of 2.0% oxygen by weight. This is the equivalent of 5.7% ethanol in every gallon of gas, or roughly 900 million gallons of ethanol per year in California alone.

NATIONAL ENERGY LEGISLATION

A national Energy Bill was signed into law in August 2005 by President Bush. The Energy Bill substitutes the existing oxygenation program in the Reformulated Gasoline Program with a national "renewable fuels standard." The standard sets a minimum amount of renewable fuels that must be used by fuel refiners. Beginning in 2006, the minimum amount of renewable fuels that must be used by fuel refiners is 4.0 billion gallons, which increases progressively to 7.5 billion gallons in 2012. While we believe that the overall national market for ethanol will grow, we believe that the market for ethanol in geographic areas such as California could experience either increases or decreases in the demand for ethanol depending on the preferences of petroleum refiners and state policies. See "Risk Factors."

ADDITIONAL ENVIRONMENTAL REGULATIONS

In addition to the governmental regulations applicable to the ethanol marketing and production industries described above, our business is subject to additional federal, state and local environmental regulations, including regulations established by the EPA, the California Air Quality Management District, the San Joaquin Valley Air Pollution Control District and the California Air Resources Board, or CARB. We cannot predict the manner or extent to which these regulations will harm or help our business or the ethanol production and marketing industry in general.

EMPLOYEES

As of March 31, 2006, we employed 22 persons on a full-time basis, including through our subsidiaries. Our employees are highly skilled, and our success will depend in part upon our ability to retain such employees and attract new qualified employees who are in great demand. We have never had a work stoppage or strike, and no employees are presently represented by a labor union or covered by a collective bargaining agreement. We consider our relations with our employees to be good.

ITEM 2. DESCRIPTION OF PROPERTY.

Our corporate headquarters, located in Fresno, California, consists of a 3,000 square foot office rented on a month-to-month basis. We also rent, on a month-to-month basis, an office in Davis, California, consisting of 500 square feet. In addition, we rent, under a three-year lease, an office in Portland, Oregon, consisting of 860 square feet.

We have acquired real property located in Madera County consisting of approximately 137 acres on which we are constructing our first ethanol production facility. See "Business--Construction of Ethanol Plant" above. In management's opinion, this property is adequately covered by insurance.

We have also secured an option to acquire an additional parcel of real property on which we may construct additional ethanol production facilities.

ITEM 3. LEGAL PROCEEDINGS.

We are subject to legal proceedings, claims and litigation arising in the

ordinary course of business. While the amounts claimed may be substantial, the ultimate liability cannot presently be determined because of considerable uncertainties that exist. Therefore, it is possible that the outcome of those legal proceedings, claims and litigation could adversely affect our quarterly or annual operating results or cash flows when resolved in a future period. However, based on facts currently available, management believes such matters will not adversely affect our financial position, results of operations or cash flows.

BARRY SPIEGEL

On December 23, 2005, Barry J. Spiegel, a stockholder of Pacific Ethanol and former director of Accessity, filed a complaint in the Circuit Court of the 17th Judicial District in and for Broward County, Florida (Case No. 05018512), or the Spiegel Action, against Barry Siegel, Philip Kart, Kenneth Friedman and Bruce Udell, or collectively, the Defendants. Messrs. Siegel, Udell and Friedman are former directors of Accessity and Pacific Ethanol. Mr. Kart is a former executive officer of Accessity and Pacific Ethanol.

The Spiegel Action relates to the Share Exchange Transaction and purports to state the following five counts against the Defendants: (i) breach of fiduciary duty, (ii) violation of Florida's Deceptive and Unfair Trade Practices Act, (iii) conspiracy to defraud, (iv) fraud, and (v) violation of Florida Securities and Investor Protection Act. Mr. Spiegel is seeking $22.0 million in damages. On March 8, 2006, Defendants filed a motion to dismiss the Spiegel Action.

We have agreed with Messrs. Friedman, Siegel, Kart and Udell to advance the costs of defense in connection with the Spiegel Action. Under applicable provisions of Delaware law, we may be responsible to indemnify each of the Defendants in connection with the Spiegel Action. The final outcome of the Spiegel Action will most likely take an indefinite time to resolve.

GERALD ZUTLER

In January 2003, DriverShield CRM Corp., or DriverShield, then a wholly-owned subsidiary of our predecessor, Accessity, was served with a complaint filed by Mr. Gerald Zutler, its former President and Chief Operating Officer, alleging, among other things, that DriverShield breached his employment contract, that there was fraudulent concealment of DriverShield's intention to terminate its employment agreement with Mr. Zutler, and discrimination on the basis of age and aiding and abetting violation of the New York State Human Rights Law. The complaint was filed in the Supreme Court of the State of New York, County of Nassau, Index No.: 654/03. Mr. Zutler is seeking damages aggregating $2.225 million, plus punitive damages and reasonable attorneys' fees. DriverShield's management believes that DriverShield properly terminated Mr. Zutler's employment for cause, and intends to vigorously defend this suit. An Answer to the complaint was served by DriverShield on February 28, 2003. In 2003, Mr. Zutler filed a motion to have DriverShield's attorney removed from the case. The motion was granted by the court, but was subsequently overturned by an appellate court. DriverShield has filed a claim with its insurance carrier under its directors and officers and employment practices' liability policy. The carrier has agreed to cover certain portions of the claim as they relate to Mr. Siegel, DriverShield's former Chief Executive Officer. The policy has a $50,000 deductible and a liability limit of $3.0 million per policy year. At the present time, the carrier has agreed to cover the portion of the claim that relates to Mr. Siegel and has agreed to a fifty percent allocation of expenses.

MERCATOR GROUP, LLC

We filed a Demand for Arbitration against Presidion Solutions, Inc., or Presidion, alleging that Presidion breached the terms of the Memorandum of Understanding, or the MOU, between Accessity and Presidion dated January 17, 2003. We sought a break-up fee of $250,000 pursuant to the terms of the MOU alleging that Presidion breached the MOU by wrongfully terminating the MOU. Additionally, we sought out of pocket costs of its due diligence amounting to approximately $37,000. Presidion filed a counterclaim against us alleging that we had breached the MOU and therefore owe Presidion a break-up fee of $250,000. The dispute was heard by a single arbitrator before the American Arbitration Association in Broward County, Florida in late February 2004. During June 2004, the arbitrator awarded us the $250,000 break-up fee set forth in the MOU between us and Presidion, as well as our share of the costs of the arbitration and interest from the date of the termination by Presidion of the MOU, aggregating approximately $280,000. During the third quarter of 2004, Presidion paid us the full amount of the award with accrued interest. The arbitrator dismissed Presidion's counterclaim against us.

In 2003, we filed a lawsuit seeking damages in excess of $100 million as a result of information obtained during the course of the arbitration discussed above, against: (i) Presidion Corporation, f/k/a MediaBus Networks, Inc., Presidion's parent corporation, (ii) Presidion's investment bankers, Mercator Group, LLC, or Mercator, and various related and affiliated parties and (iii) Taurus Global LLC, or Taurus, (collectively referred to as the "Mercator Action"), alleging that these parties committed a number of wrongful acts, including, but not limited to tortuously interfering in the transaction between us and Presidion. In 2004, we dismissed this lawsuit without prejudice, which was filed in Florida state court. We recently refiled this action in the State of California, for a similar amount, as we believe this to be the proper jurisdiction. On August 18, 2005, the court stayed the action and ordered the parties to arbitration. The parties agreed to mediate the matter. Mediation took place on December 9, 2005 and was not successful. On December 5, 2005, we filed

a Demand for Arbitration with the American Arbitration Association. On April 6, 2006, a single arbitrator was appointed. The final outcome of the Mercator Action will most likely take an indefinite time to resolve. We currently have limited information regarding the financial condition of the defendants and the extent of their insurance coverage. Therefore, it is possible that we may prevail, but may not be able to collect any judgment. The share exchange agreement relating to the Share Exchange Transaction provides that following full and final settlement or other final resolution of the Mercator Action, after deduction of all fees and expenses incurred by the law firm representing us in this action and payment of the 25% contingency fee to the law firm, shareholders of record of Accessity on the date immediately preceding the closing date of the Share Exchange Transaction will receive two-thirds and we will retain the remaining one-third of the net proceeds from any Mercator Action recovery.

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

(a) We held our 2005 annual meeting of stockholders on December 30, 2005. As of the close of business on November 28, 2005, the record date for the meeting, we had outstanding 28,667,185 shares of common stock. A total of 26,052,724 shares of common stock were represented in person or by proxy at the meeting and constituted a quorum.

(b) Management's nominees for election as directors were William L. Jones, Neil M. Koehler, Frank P. Greinke, Charles W. Bader, John J. Prince, Terry L. Stone and Kenneth J. Friedman, each of whom was an incumbent director. Each of those nominees was elected as a director at the meeting.

(c) (i) Proposal 1: To elect seven nominees to the board of directors:

NOMINEE	FOR	WITHHOLD AUTHORITY
William L. Jones	23,726,744	40,980
Neil M. Koehler	23,738,184	29,540
Frank P. Greinke	23,723,482	44,242
Charles W. Bader	23,732,584	35,140
John L. Prince	23,721,144	46,580
Terry L. Stone	23,721,144	46,580
Kenneth J. Friedman	23,672,761	94,963

(c) (ii) Proposal 2: To consider and approve the issuance of shares of Series A Cumulative Redeemable Convertible Preferred Stock pursuant to the Purchase Agreement dated November 14, 2005 between Pacific Ethanol, Inc. and Cascade Investment, L.L.C. and the Certificate of Designations, Powers, Preferences and Rights of the Series A Cumulative Redeemable Convertible Preferred Stock, and the consummation of the transactions contemplated by the Purchase Agreement and the Certificate of Designations.

For:	18,986,755
Against:	201,745
Abstention:	9,224
Broker non-votes:	2,285,000

(c) (iii) Proposal 3: To ratify the appointment of Hein & Associates LLP as the independent registered public accounting firm to audit our financial statements for the year ending December 31, 2005.

For:	23,731,918
Against:	29,200
Abstention:	6,606
Broker non-votes:	2,285,000

(d) Not applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock has been traded on the Nasdaq National Market under the symbol "PEIX" since October 10, 2005. Prior to October 10, 2005 and since March 24, 2005, our common stock traded on the Nasdaq Capital Market (formerly, the Nasdaq SmallCap Market) under the symbol "PEIX." Prior to March 24, 2005, our common stock traded on the Nasdaq SmallCap Market under the symbol "ACTY." The table below shows, for each fiscal quarter indicated, the high and low closing prices for shares of our common stock. This information has been obtained from The Nasdaq Stock Market. The prices shown reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

	HIGH	LOW
YEAR ENDED DECEMBER 31, 2004		
First Quarter.....	$ 2.61	$ 1.70

Second Quarter	6.09	1.62
Third Quarter	5.71	4.50
Fourth Quarter	6.75	4.48
YEAR ENDED DECEMBER 31, 2005		
First Quarter	$ 10.25	$ 5.49
Second Quarter	12.94	8.58
Third Quarter	11.20	7.78
Fourth Quarter	13.48	7.71

As of March 31, 2006, we had 30,549,888 shares of common stock outstanding and held of record by approximately 516 stockholders. These holders of record include depositories that hold shares of stock for brokerage firms which, in turn, hold shares of stock for numerous beneficial owners. On March 31, 2006, the closing sale price of our common stock on the Nasdaq National Market was $21.59 per share.

We have never paid cash dividends on our common stock and do not currently intend to pay cash dividends on our common stock in the foreseeable future. We currently anticipate that we will retain any earnings for use in the continued development of our business.

Our current and future debt financing arrangements may limit or prevent cash distributions from our subsidiaries to us, depending upon the achievement of certain financial and other operating conditions and our ability to properly service the debt, thereby limiting or preventing us from paying cash dividends. In addition, the holders of our preferred stock are entitled to dividends of 5%, and those dividends must be paid prior to the payment of any dividends to our common stockholders.

In June 2005, we issued 28,749 shares of common stock upon the exercise of warrants with an exercise price of $0.0001 per share.

In September 2005, we issued 28,750 and 6,906 shares of common stock upon the exercise of warrants with an exercise price of $0.0001 and $2.00 per share, respectively.

In November 2005, we issued 25,006 shares of common stock upon the exercise of warrants with an exercise price of $1.50 per share.

In December 2005, we issued 28,750, 2,501, 20,000, 109,000 and 22,000 shares of common stock upon the exercise of warrants with an exercise price of $0.0001, $2.00, $2.65, $3.00 and $5.00 per share, respectively.

Exemption from the registration provisions of the Securities Act of 1933 for the transactions described above is claimed under Section 4(2) of the Securities Act of 1933, among others, on the basis that such transactions did not involve any public offering and the purchasers were accredited or sophisticated with access to the kind of information registration would provide. In each case, appropriate investment representations were obtained, stock certificates were issued with restricted stock legends, and stop transfer orders were placed with our transfer agent.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes to consolidated financial statements included elsewhere in this report. This report and our consolidated financial statements and notes to consolidated financial statements contain forward-looking statements, which generally include the plans and objectives of management for future operations, including plans and objectives relating to our future economic performance and our current beliefs regarding revenues we might generate and profits we might earn if we are successful in implementing our business strategies. The forward-looking statements and associated risks may include, relate to or be qualified by other important factors, including, without limitation:

- the projected growth or contraction in the ethanol market in which we operate;
- fluctuations in the market price of ethanol;
- our business strategy for expanding, maintaining or contracting our presence in this market;
- our ability to obtain the necessary financing to complete construction of our planned ethanol production facilities other than our facility in Madera County, California;
- anticipated trends in our financial condition and results of operations; and
- our ability to distinguish ourselves from our current and future competitors.

We do not undertake to update, revise or correct any forward-looking statements.

Any of the factors described above or in the "Risk Factors" section below could cause our financial results, including our net income or loss or growth in net income or loss to differ materially from prior results, which in turn could, among other things, cause the price of our common stock to fluctuate substantially.

OVERVIEW

Our primary goal is to become a leader in the production, marketing and sale of ethanol and other renewable fuels in the Western United States.

Through our wholly-owned subsidiary, Kinergy Marketing, LLC, or Kinergy, we are currently engaged in the business of marketing ethanol in the Western United States. We provide transportation, storage and delivery of ethanol through third-party service providers. We sell ethanol primarily in California, Nevada, Arizona, Washington and Oregon and have extensive customer relationships throughout the Western United States and extensive supplier relationships throughout the Western and Midwestern United States. We do not currently produce any ethanol that we sell. Until we commence the production of ethanol, if at all, we expect our operations to consist primarily of the marketing and sale of ethanol produced by third-parties. Accordingly, we expect that unless and until we complete the construction of our initial ethanol production facility in Madera County our consolidated net sales will consist solely of net sales generated by Kinergy. We anticipate that our net sales will grow in the long-term as demand for ethanol increases and as a result of our marketing agreements with third-party ethanol producers.

We believe that we have a competitive advantage due to the market niche that we have developed by supplying ethanol to customers in several major metropolitan and rural markets in California and other Western states. We also believe that the experience of our management over the past two decades and the operations Kinergy has conducted over the past five years have enabled us to establish valuable relationships in the ethanol marketing industry and understand the business of marketing ethanol.

Through Pacific Ethanol Madera, LLC, or PEI Madera, a second-tier subsidiary of our wholly-owned subsidiary, Pacific Ethanol California, Inc., or PEI California, we are constructing an ethanol production facility in Madera County to begin the production and sale of ethanol and its co-products. In April 2006, we secured all the necessary financing to complete construction of this facility. See "Preferred Stock Financing" and "Debt Financing." We also intend to construct or otherwise acquire additional ethanol production facilities as financing resources and business prospects make the construction or acquisition of these facilities advisable.

Our wholly-owned subsidiary, ReEnergy, LLC, or ReEnergy, does not presently have any significant business operations or plans. ReEnergy previously held an option to acquire real property in Visalia, California, on which we intended to build an ethanol production facility. Recently, we decided not to proceed with our initial plans to build a facility on the Visalia site and, as a result, we allowed the option to expire on December 15, 2005 without exercising our right to purchase the land and we are in the process of dissolving ReEnergy. We have secured an option to acquire an additional parcel of real property on which we may construct an additional ethanol production facility.

Currently, ethanol represents only up to 3% of the total annual gasoline supply in the United States. We believe that the ethanol industry has substantial room to grow to reach what we estimate is an achievable level of at least 10% of the total annual gasoline supply in the United States. An increase in the demand for ethanol from California's current level of 5.7% to at least 10% of total annual gasoline supply would result in demand for approximately 700 million additional gallons of ethanol, representing an increase in annual demand in California of approximately 75%. An additional 700 million gallons of ethanol would represent an increase in annual demand of approximately 18% for the entire United States.

Kinergy has two principal methods of conducting its ethanol marketing and sales activities: direct sales and inventory sales. Kinergy's first method of marketing and selling ethanol involves direct sales through which suppliers deliver ethanol directly via rail to Kinergy's customers. For direct sales, Kinergy typically matches ethanol purchase and sale contracts of like quantities and delivery periods. These back-to-back direct sales typically involve no price risks to Kinergy that otherwise may result from fluctuations in the market price of ethanol. Kinergy's second method of marketing and selling ethanol involves truck deliveries from inventory purchased by Kinergy in advance. For inventory sales, as with direct sales, Kinergy typically matches ethanol purchase and sale contracts of like quantities. However, timing differences do exist and consequently, a back-to-back inventory sale may lag by up to two or more weeks. This time lag results from inventory transit and turnover times. As a result, Kinergy may supply ethanol under new inventory sales contracts from existing inventory. These back-to-back inventory sales therefore involve some price risks to Kinergy resulting from potential fluctuations in the market price of ethanol.

We believe that the only consistent price risk to Kinergy currently is inventory risk. Management seeks to optimize transitions to new inventory sales contracts and reduce the effects of declining ethanol prices by managing inventory as carefully as possible to decrease inventory levels in anticipation of declining ethanol prices. In addition, management seeks to increase inventory levels in anticipation of rising ethanol prices. Because Kinergy decreases inventory levels in anticipation of declining ethanol prices and increases inventory levels in anticipation of rising ethanol prices, it is subject to the risk of ethanol prices moving in unanticipated directions, which could result in declining or even negative gross profit margins over certain periods of time,

but also enables Kinergy to potentially benefit from above-normal gross profit margins.

Over the past few years, the market price of ethanol has experienced significant fluctuations. More recently, the price of ethanol declined by approximately 25% from its 2004 average price per gallon in five months from January 2005 through May 2005 and reversed this decline and increased to approximately 55% above its 2004 average price per gallon in four months from June 2005 through September 2005. Since September 2005, the price of ethanol has generally trended downward and the average price of ethanol during October 2005 and through December 2005 was approximately 24% above its 2004 average price per gallon. We believe that the market price of ethanol will, for the foreseeable future, continue to experience significant fluctuations which may cause our future results of operations to fluctuate significantly. As a result, our historical results of operations may not be predictive of our future results of operations.

Historically, Kinergy's gross profit margins have averaged between 2.0% and 4.4%. Kinergy's gross profit margins in 2005 and 2004 were 3.6% and 3.9%, respectively. We believe that Kinergy's future gross profit margins may be lower than historical levels for two principal reasons. First, increased competition in the ethanol market may reduce margins. Second, Kinergy may, in some cases, engage in direct sale arrangements that typically result in lower gross margins. Historically, Kinergy's sales were comprised to a greater degree of inventory sales that often involved the buying and selling of ethanol based on anticipated trends in the market price of ethanol. These inventory sales represented higher-risk positions but enabled Kinergy to achieve higher margin levels, as compared to direct sales, as a result of correctly anticipating fluctuations in the market price of ethanol. As a result of highly-volatile ethanol prices, we are unable to estimate Kinergy's future gross profit margins from inventory sales. However, we believe that over longer periods of up to a year or more, our gross profit margin from inventory sales is unlikely to exceed our historic high average gross profit margin of 4.4%.

If we are able to complete our ethanol production facility in Madera County and commence producing ethanol, we expect our gross profit margins for ethanol that we produce to be substantially higher than our gross profit margins for Kinergy's direct sales and inventory sales activities. However, any gross profits that we realize from the production of ethanol will be highly dependent upon the prevailing market price of ethanol at the time of sale. Moreover, in light of the recent and expected future volatility in the price of ethanol, we are now, and expect for the foreseeable future to be, unable to estimate our gross profit margins resulting from the sale of ethanol that we may produce.

Kinergy's gross profit margin declined by 56% from 3.9% in 2004 to 1.7% in the first quarter of 2005, declined further by 82% from 3.9% in 2004 to 0.7% in the second quarter of 2005 and increased by 59% from 3.9% in 2004 to 6.2% in the third quarter of 2005 and decreased by 6.2% from 3.9% in 2004 to 3.7% in the fourth quarter of 2005. Kinergy's gross profit margin for 2005 declined by 7.8% from 3.9% in 2004 to 3.6% in 2005. Kinergy's gross profit margin in the first quarter of 2005 is generally reflective of the contracted margins for that period. The decline in Kinergy's gross profit margin in the second quarter of 2005 resulted primarily from the transition from inventory sales contracts ending in the first quarter of 2005 to new inventory sales contracts beginning in the second quarter of 2005 during a period of rapidly declining market prices. As discussed above, because of the time lag in delivering ethanol under new inventory sales contracts, Kinergy sold ethanol under these contracts from existing inventory that was purchased at levels higher than the prevailing market price at the time of sale. The increase in Kinergy's gross profit margin in the third quarter of 2005 is generally reflective of opportunistic buying and selling during a period of rapidly increasing market prices. The decrease in Kinergy's gross profit margin in the fourth quarter of 2005 resulted primarily from the transition to new sales contracts beginning in the fourth quarter of 2005 at lower market prices. As noted above, the price of ethanol declined during the first and second quarters of 2005 by approximately 25% from its 2004 average price per gallon in five months from January 2005 through May 2005 and reversed this decline and increased during the third quarter of 2005 to approximately 55% above its 2004 average price per gallon in four months from June 2005 through September 2005. Since September 2005, the price of ethanol has generally trended downward and the average price of ethanol for the fourth quarter of 2005 was approximately 24% above its 2004 average price per gallon.

Management correctly anticipated a softening in the price of ethanol in early 2005, but neither management nor, we believe, the ethanol industry as a whole, anticipated the speed and the extent of the decline in the price of ethanol from January 2005 through May 2005. As a result, Kinergy was forced to sell some ethanol at negative gross profit levels following the rapid and extensive decline in the price of ethanol. In the second quarter of 2005, and before ethanol prices increased to levels significantly higher than their recent lows, Kinergy sold much of this ethanol inventory that was acquired at prices higher than those prevailing at the time of sale. Accordingly, despite the general increase in ethanol prices during the second quarter of 2005, this inventory and these sales still had the effect of depressing Kinergy's gross profit margin to 0.7% for the entire second quarter of 2005 and to 0.8% for the six months ended June 30, 2005. However, as a result of the substantial increase in the price of ethanol during the third quarter of 2005, and the opportunistic buying and selling of ethanol during that period, Kinergy's gross profit margin increased to 6.2% for the third quarter of 2005, a level significantly higher than our gross profit margins for either the first or second quarters of 2005. As noted above, our results in the third quarter of 2005, together with our results in the fourth quarter of 2005, raised Kinergy's gross profit margin to

3.6% for year ended December 31, 2005.

Management decided to maintain net long ethanol positions in the first and second quarters of 2005 as a result of a confluence of factors, including its expectation of increased prices of gasoline and petroleum and anticipated favorable federal legislation that we expected would increase the demand for and price of ethanol over the short- and longer-terms. We believe that these factors were, however, outweighed by a sudden but short-lived excess of ethanol supplied to the market by a number of new ethanol production facilities. We believe that the sudden and short-lived excess of ethanol supplied to the market coupled with higher market-wide inventory levels caused the rapid and steep decline in the price of ethanol. Following its rapid decline during January 2005 through May 2005, the price of ethanol reversed and subsequently increased to unprecedented high levels from June 2005 through September 2005. Though prices showed a moderate downward trend in the fourth quarter of 2005, we believe that the year's overall trend of increasing ethanol prices reflects the market's relatively quick absorption of the additional supply of ethanol that was, and that continues to be, supplied to the market by new ethanol production facilities.

SHARE EXCHANGE TRANSACTION

On March 23, 2005, we completed a share exchange transaction, or the Share Exchange Transaction, with the shareholders of PEI California, and the holders of the membership interests of each of Kinergy and ReEnergy, pursuant to which we acquired all of the issued and outstanding shares of capital stock of PEI California and all of the outstanding membership interests of each of Kinergy and ReEnergy. Immediately prior to the consummation of the share exchange, our predecessor, Accessity Corp., or Accessity, reincorporated in the State of Delaware under the name "Pacific Ethanol, Inc." through a merger of Accessity with and into its then-wholly-owned Delaware subsidiary named Pacific Ethanol, Inc., which was formed for the purpose of effecting the reincorporation. We are the surviving entity resulting from the reincorporation merger and Kinergy, PEI California and ReEnergy are three of our wholly-owned subsidiaries.

The Share Exchange Transaction has been accounted for as a reverse acquisition whereby PEI California is deemed to be the accounting acquiror. As a result, our results of operations for 2004 consist of the operations of PEI California only. We have consolidated the results of PEI California, Kinergy and ReEnergy beginning March 23, 2005, the date of the Share Exchange Transaction. Accordingly, our results of operations for 2005 consist of the operations of PEI California for the entire 12-month period and the operations of Kinergy and ReEnergy from March 23, 2005 through December 31, 2005. We expect that, until we complete construction of our ethanol production facility in Madera County, our operations will consist solely of operations conducted by Kinergy.

In connection with the Share Exchange Transaction, we issued an aggregate of 20,610,987 shares of common stock to the shareholders of PEI California, 3,875,000 shares of common stock to the limited liability company member of Kinergy and an aggregate of 125,000 shares of common stock to the limited liability company members of ReEnergy. In addition, holders of options and warrants to acquire an aggregate of 3,157,587 shares of common stock of PEI California were, following the consummation of the Share Exchange Transaction, deemed to hold warrants to acquire an equal number of our shares of common stock. Also, a holder of a promissory note, a portion of which was convertible into an aggregate of 664,879 shares of common stock of PEI California was, following the consummation of the Share Exchange Transaction, entitled to convert the note into an equal number of shares of our common stock.

The following table summarizes the unaudited assets acquired and liabilities assumed in connection with the Share Exchange Transaction:

<TABLE>
<CAPTION>

	Accessity March 23, 2005	Kinergy March 23, 2005	ReEnergy March 23, 2005	Total
<S>	<C>	<C>	<C>	<C>
Current Assets				
Cash	$ 2,870,270	$ 454,099	$ 2,555	$ 3,326,924
Other current assets	--	3,407,272	--	3,407,272
Total Current Assets	2,870,270	3,861,371	2,555	6,734,196
Property and Equipment	--	6,224	--	6,224
Other Assets				
Land option	--	--	120,000	120,000
Intangible Assets				
Distribution backlog	--	136,000	--	136,000
Customer relations	--	4,741,000	--	4,741,000
Non-compete	--	695,000	--	695,000
Trade name	--	2,678,000	--	2,678,000
Goodwill	--	2,565,750	--	2,565,750

Total Intangible Assets	--	10,815,750	--	10,815,750
Total Assets	2,870,270	14,683,345	122,555	17,676,170
Current Liabilities				
Accounts payable and accrued expenses	138,978	1,771,981	1,116	1,912,075
Amount due to Cagan-McAfee	83,017	--	--	83,017
Due to Kinergy/ReEnergy Members	--	2,095,614	1,439	2,097,053
Total Current Liabilities	221,995	3,867,595	2,555	4,092,145
Net Assets	$ 2,648,275	$ 10,815,750	$ 120,000	$ 13,584,025
Expense for services rendered in connection with feasibility study	$ --	$ --	$ 852,250	$ 852,250
Stock Issued	2,339,452	3,875,000	125,000	6,339,452
Stock issued to Accessity officers	600,000	--	--	600,000
Stock Issued as finders fee	150,000	--	--	150,000
Total Stock Issued	3,089,452	3,875,000	125,000	7,089,452

</TABLE>

The purchase price represented a significant premium over the recorded net worth of the acquired entities' assets. In deciding to pay this premium, we considered various factors, including the value of Kinergy's trade name, Kinergy's extensive market presence and history, Kinergy's industry knowledge and expertise, Kinergy's extensive customer relationships and expected synergies with Kinergy's business and assets and our planned entry into the ethanol production business.

The following table summarizes, on an unaudited pro forma basis, our combined results of operations, as though the acquisitions occurred as of January 1, 2004. The pro forma amounts give effect to appropriate adjustments for amortization of intangibles and income taxes. The pro forma amounts presented are not necessarily indicative of future operating results.

	Year Ended December 31,	
	2005	2004
Net sales	$ 111,186,711	$ 82,810,168
Net loss	$ (9,829,336)	$ (3,706,158)
Loss per share of common stock Basic and diluted	$ (0.35)	$ (0.13)

Prior to the Share Exchange Transaction, through its wholly-owned subsidiary Sentaur Corp., Accessity was in the business of providing medical billing recovery services for hospitals. Sentaur Corp.'s services were designed to help hospitals recoup discounts improperly taken by insurance companies and other institutional payors of medical treatments. In addition, through its wholly-owned subsidiary DriverShield CRM Corp., Accessity was in the business of providing internet-based vehicle repair management services, including collision and general repair programs, estimating and auditing services and vehicle rentals for insurance companies and affinity group members.

COMMON STOCK FINANCING

On March 23, 2005, prior to the consummation of the Share Exchange Transaction, PEI California issued to 63 accredited investors in a private offering an aggregate of 7,000,000 shares of common stock at a purchase price of $3.00 per share, two-year investor warrants to purchase 1,400,000 shares of common stock at an exercise price of $3.00 per share and two-year investor warrants to purchase 700,000 shares of common stock at an exercise price of $5.00 per share, for total gross proceeds of approximately $21,000,000. PEI California paid cash placement agent fees and expenses of approximately $1,850,400 and issued five-year placement agent warrants to purchase 678,000 shares of common stock at an exercise price of $3.00 per share in connection with the offering. Additional costs related to the financing include legal, accounting and consulting fees that totaled approximately $274,415.

We were obligated under a registration rights agreement, or Registration Rights Agreement, related to the above financing to file, on the 151st day following March 23, 2005, a Registration Statement with the Securities and Exchange Commission, or the Commission, registering for resale shares of common stock, and shares of common stock underlying investor warrants and certain of the placement agent warrants, issued in connection with the private offering. If (i) we did not file the Registration Statement within the time period prescribed, or (ii) we failed to file with the Commission a request for acceleration in accordance with Rule 461 promulgated under the Securities Act of 1933, within five trading days of the date that we are notified (orally or in

writing, whichever is earlier) by the Commission that the Registration Statement will not be "reviewed," or is not subject to further review, or (iii) the Registration Statement filed or required to be filed under the Registration Rights Agreement was not declared effective by the Commission on or before November 3, 2005, or (iv) after the Registration Statement is first declared effective by the Commission, it ceases for any reason to remain continuously effective as to all securities registered thereunder, or the holders of such securities are not permitted to utilize the prospectus contained in the Registration Statement to resell such securities, for more than an aggregate of 45 trading days during any 12-month period (which need not be consecutive trading days) (any such failure or breach being referred to as an "Event," and for purposes of clause (i) or (iii) the date on which such Event occurs, or for purposes of clause (ii) the date on which such five-trading day period is exceeded, or for purposes of clause (iv) the date on which such 45-trading day-period is exceeded being referred to as "Event Date"), then in addition to any other rights the holders of such securities may have under the Registration Statement or under applicable law, then, on each such Event Date and on each monthly anniversary of each such Event Date (if the applicable Event shall not have been cured by such date) until the applicable Event is cured, we are required to pay to each such holder an amount in cash, as partial liquidated damages and not as a penalty, equal to 2.0% of the aggregate purchase price paid by such holder pursuant to the Securities Purchase Agreement relating to such securities then held by such holder. If we fail to pay any partial liquidated damages in full within seven days after the date payable, we are required to pay interest thereon at a rate of 18% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to such holder, accruing daily from the date such partial liquidated damages are due until such amounts, plus all such interest thereon, are paid in full. The partial liquidated damages are to apply on a daily pro-rata basis for any portion of a month prior to the cure of an Event.

The Registration Rights Agreement also provides for customary piggy-back registration rights whereby certain holders of shares of our common stock, or warrants to purchase shares of our common stock, can cause us to register such shares for resale in connection with our filing of a Registration Statement with the Commission to register shares in another offering. The Registration Rights Agreement also contains customary representations and warranties, covenants and limitations.

The Registration Statement was not declared effective by the Securities and Exchange Commission on or before 225 days following March 23, 2005. We endeavored to have all security holders entitled to these registration rights execute amendments to the Registration Rights Agreement reducing the penalty from 2.0% to 1.0% of the aggregate purchase price paid by such holder pursuant to the Securities Purchase Agreement relating to such securities then held by such holder. This penalty reduction applied to penalties accrued on or prior to January 31, 2006 as a result of the related Registration Statement not being declared effective by the Securities and Exchange Commission. Certain of the security holders executed this amendment. However, not all security holders executed this amendment and as a result, we paid an aggregate of $298,050 in penalties on November 8, 2005. The Registration Statement was declared effective by the Securities and Exchange Commission on December 1, 2005.

PREFERRED STOCK FINANCING

GENERAL

On April 13, 2006, we issued to one investor, Cascade Investment, L.L.C., or Cascade, 5,250,000 shares of our Series A Cumulative Redeemable Convertible Preferred Stock, or Series A Preferred Stock, at a price of $16.00 per share, for an aggregate purchase price of $84.0 million. Of the $84.0 million aggregate purchase price, $4.0 million was paid to us at closing and $80.0 million was deposited into a restricted cash account and will be disbursed in accordance with the Deposit Agreement described below. We are entitled to use the initial $4.0 million of proceeds for general working capital purposes and must use the remaining $80.0 million for the construction or acquisition of one or more ethanol production facilities in accordance with the terms of the Deposit Agreement described below.

CERTIFICATE OF DESIGNATIONS

The Certificate of Designations, Powers, Preferences and Rights of the Series A Cumulative Redeemable Convertible Preferred Stock, or Certificate of Designations, provides for 7,000,000 shares of preferred stock to be designated as Series A Cumulative Redeemable Convertible Preferred Stock. The Series A Preferred Stock ranks senior in liquidation and dividend preferences to our common stock. Holders of Series A Preferred Stock are entitled to quarterly cumulative dividends payable in arrears in cash in an amount equal to 5% of the purchase price per share of the Series A Preferred Stock; however, such dividends may, at our option, be paid in additional shares of Series A Preferred Stock based on the value of the purchase price per share of the Series A Preferred Stock. The holders of Series A Preferred Stock have a liquidation preference over the holders of our common stock equivalent to the purchase price per share of the Series A Preferred Stock plus any accrued and unpaid dividends on the Series A Preferred Stock. A liquidation will be deemed to occur upon the

happening of customary events, including transfer of all or substantially all of our capital stock or assets or a merger, consolidation, share exchange, reorganization or other transaction or series of related transaction, unless holders of 66 2/3% of the Series A Preferred Stock vote affirmatively in favor of or otherwise consent to such transaction.

The holders of the Series A Preferred Stock have conversion rights initially equivalent to two shares of common stock for each share of Series A Preferred Stock. The conversion ratio is subject to customary antidilution adjustments. In addition, antidilution adjustments are to occur in the event that we issue equity securities at a price equivalent to less than $8.00 per share, including derivative securities convertible into equity securities (on an as-converted or as-exercised basis). Certain specified issuances will not result in antidilution adjustments. The shares of Series A Preferred Stock are also subject to forced conversion upon the occurrence of a transaction that would result in an internal rate of return to the holders of the Series A Preferred Stock of 25% or more. Accrued but unpaid dividends on the Series A Preferred Stock are to be paid in cash upon any conversion of the Series A Preferred Stock.

The holders of Series A Preferred Stock vote together as a single class with the holders of our common stock on all actions to be taken by our stockholders. Each share of Series A Preferred Stock entitles the holder to the number of votes equal to the number of shares of our common stock into which each share of Series A Preferred Stock is convertible. However, the number of votes for each share of Series A Preferred Stock may not exceed the number of shares of common stock into which each share of Series A Preferred Stock would be convertible if the applicable conversion price were $8.99. The holders of Series A Preferred Stock are afforded numerous customary protective provisions with respect to certain actions that may only be approved by holders of a majority of the shares of Series A Preferred Stock. The holders of the Series A Preferred Stock are also afforded preemptive rights with respect to certain securities offered by us and are entitled to certain redemption rights.

DEPOSIT AGREEMENT

The Deposit Agreement between us and Comerica Bank provides for a restricted cash account into which $80.0 million of the aggregate purchase price for the Series A Preferred Stock has been deposited. We may not withdraw funds from the restricted cash account except in accordance with the terms of the Deposit Agreement. Under the Deposit Agreement, we may, with certain prescribed limitations, requisition funds from the restricted cash account for the payment of construction costs in connection with the construction of ethanol production facilities.

REGISTRATION RIGHTS AND STOCKHOLDERS AGREEMENT

In connection with the issuance of the Series A Preferred Stock, we entered into a Registration Rights and Stockholders Agreement, or Rights Agreement, with Cascade. The Rights Agreement is to be effective until the holders of the Series A Preferred Stock, and their affiliates, as a group, own less than 10% of the Series A Preferred Stock issued under the purchase agreement with Cascade, including common stock into which such Series A Preferred Stock has been converted (the "Termination Date"). The Rights Agreement provides that holders of a majority of the Series A Preferred Stock, including common stock into which the Series A Preferred Stock has been converted, may demand and cause us, at any time after April 13, 2007, to register on their behalf the shares of common stock issued, issuable or that may be issuable upon conversion of the Series A Preferred Stock, or Registrable Securities. Following such demand, we are required to notify any other holders of the Series A Preferred Stock or Registrable Securities of our intent to file a registration statement and, to the extent requested by such holders, include them in the related registration statement. We are required to keep such registration statement effective until such time as all of the Registrable Securities are sold or until such holders may avail themselves of Rule 144(k), which requires, among other things, a minimum two-year holding period and requires that any holder availing itself of Rule 144(k) not be an affiliate of Pacific Ethanol. The holders are entitled to three demand registrations on Form S-1 and unlimited demand registrations on Form S-3; however, we are not obligated to effect more than two demand registrations on Form S-3 in any 12-month period.

In addition to the demand registration rights afforded the holders under the Rights Agreement, the holders are entitled to "piggyback" registration rights. These rights entitle the holders who so elect to be included in registration statements to be filed by us with respect to other registrations of equity securities. The holders are entitled to unlimited "piggyback" registration rights.

The Rights Agreement provides for the initial appointment of two persons designated by Cascade to our Board of Directors, and the appointment of one of such persons as the Chairman of the Compensation Committee of the Board of Directors. Following the Termination Date, Cascade is required to cause its director designees, and all other designees, to resign from all applicable committees and boards of directors, effective as of the Termination Date.

DEBT FINANCING

OVERVIEW

On April 13, 2006, PEI California's second-tier subsidiary, Pacific

Ethanol Madera LLC, or PEI Madera, entered into a Construction and Term Loan Agreement, or Construction Loan, with Hudson United Capital, or Hudson, and Comerica Bank, or Comerica. This debt financing, or Debt Financing, is in the aggregate amount of up to approximately $34.0 million and will provide a portion of the total financing necessary for the completion of our ethanol production facility in Madera County, or Project. The Project cost is not to exceed approximately $65.1 million, or Project Cost.

We have contributed assets to PEI Madera having a value of approximately $13.9 million (the "Contributed Assets"). We are is responsible for arranging cash equity (the "Contributed Amount") in an amount that, when combined with the Contributed Assets would be equal to no less than the difference between the Debt Financing amount of $34.0 million and the total Project Cost. The Contributed Amount is expected to be approximately $31.1 million and been satisfied through the application of $17.7 million of Cascade's investment in our Series A Preferred Stock.

CONSTRUCTION LOAN AND TERM LOAN

The Debt Financing will initially be in the form of a construction loan, or Construction Loan, that will mature on or before the Final Completion Date, after which the Debt Financing will be converted to a term loan, or Term Loan, that will mature on the seventh anniversary of the closing of the Term Loan. If the conversion does not occur and PEI Madera elects to repay the Construction Loan, then PEI Madera must pay a termination fee equal to 5.00% of the amount of the Construction Loan. The closing of the Term Loan is expected to be the Final Completion Date. The Construction Loan interest rate will float at a rate equal to the 30-day London Inter Bank Offered Rate, or LIBOR, plus 3.75%. PEI Madera will be required to pay the Construction Loan interest monthly during the term of the Construction Loan. The Term Loan interest rate will float at a rate equal to the 90-day LIBOR plus 4.00%. PEI Madera will be required to purchase interest rate protection in the form of a LIBOR rate cap of no more than 5.50% from a provider on terms and conditions reasonably acceptable to Lender, and in an amount covering no less than 70% of the principal outstanding on any loan payment date commencing on the first draw down date through the fifth anniversary of the Term Loan. Loan repayments on the Term Loan are to be due quarterly in arrears for a total of 28 payments beginning on the closing of the Term Loan and ending on its maturity date. The loan amortization for the Project will be established on the closing of the Term Loan based upon the operating cash projected to be available to PEI Madera from the Project as determined by closing pro forma projections. The Debt Financing will be the only secured indebtedness permitted on the Project. The Debt Financing will be senior to all obligations of the Project and PEI Madera other than direct Project operating expenses and expenses incurred in the ordinary course of business. All direct and out-of-pocket expenses of Pacific Ethanol or our direct and indirect subsidiaries will be reimbursed only after the repayment of the Debt Financing obligations.

The Term Loan amount is to be the lesser of (i) $34.0 Million, (ii) 52.25% of the total Project cost as of the Term Loan Conversion Date, and (iii) an amount equal to the present value (discounted at an interest rate of 9.5% per annum) of 43.67% of the operating cash distributable to and received by PEI Madera supported by the closing pro forma projections, from the closing of Term Loan through the seventh anniversary of such closing.

LENDER'S SECURITY INTEREST

The Debt Financing is secured by: (i) a perfected first priority security interest in all of the assets of PEI Madera, including inventories and all right title and interest in all tangible and intangible assets of the Project; (ii) a perfected first priority security interest in the Project's grain facility, including all of PEI Madera's and Pacific Ethanol's and its affiliates' right title and interest in all tangible and intangible assets of the Project's grain facility; (iii) a pledge of 100% of the ownership interest in PEI Madera; (iv) a pledge of the PEI Madera's ownership interest in the Project; (v) an assignment of all revenues produced by the Project and PEI Madera; (vi) the pledge and assignment of the material Project documents, to the extent assignable; (vii) all contractual cash flows associated with such agreements; and (viii) any other collateral security as Lender may reasonably request. In addition, the Construction Loan is secured by a completion bond provided by W.M. Lyles Co.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of net sales and expenses for each period. The following represents a summary of our critical accounting policies, defined as those policies that we believe are the most important to the portrayal of our financial condition and results of operations and that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain.

REVENUE RECOGNITION

We derive revenue primarily from sales of ethanol. Our sales are based upon written agreements or purchase orders that identify the amount of ethanol

to be purchased and the purchase price. Shipments are made to customers, either, directly from suppliers or from our inventory to our customers by truck or rail. Ethanol that is shipped by rail originates primarily in the Midwest and takes from 10 to 14 days from date of shipment to be delivered to the customer or to one of four terminals in California and Oregon. For local deliveries the product is shipped by truck and delivered the same day as shipment. Revenue is recognized upon delivery of ethanol to a customer's designated ethanol tank in accordance with Staff Accounting Bulletin ("SAB") No. 104, REVENUE RECOGNITION, and the related Emerging Issues Task Force ("EITF") Issue No. 99-19, REPORTING REVENUE GROSS AS A PRINCIPAL VERSUS NET AS AN AGENT.

Revenues on the sale of ethanol, which is shipped from our stock of inventory, are recognized when the ethanol has been delivered to the customer, provided that appropriate signed documentation of the arrangement, such as a signed contract, purchase order or letter of agreement, has been received, the fee is fixed or determinable and collectibility is reasonably assured.

In accordance with EITF Issue No. 99-19, revenue from drop shipments of third-party ethanol sales are recognized upon delivery, and recorded at the gross amount when we are responsible for fulfillment of the customer order, have latitude in pricing, incur credit risk on the receivable and have discretion in the selection of the supplier. Shipping and handling costs are included in cost of goods sold.

We have entered into certain contracts under which we may pay the owner of the ethanol the gross payments received by us from third parties for forward sales of ethanol less certain transaction costs and fees. From the gross payments, we may deduct transportation costs and expenses incurred by or on behalf of Pacific Ethanol in connection with the marketing of ethanol pursuant to the agreement, including truck, rail and terminal fees for the transportation of the facility's ethanol to third parties and may also deduct and retain a marketing fee calculated after deducting these costs and expenses. During 2005, we did not record revenues under these terms. If and when we do purchase and sell ethanol under these terms, we will evaluate the proper recording of the sales under EITF Issue No. 99-19.

INVENTORIES

Inventories consist of fuel ethanol and is valued at the lower of cost or market, cost being determined on a first-in, first-out basis. Shipping, handling and storage costs are classified as a component of cost of goods sold. Title to ethanol transfers from the producer to us when the ethanol passes through the inlet flange of our receiving tank.

INTANGIBLES, INCLUDING GOODWILL

We periodically evaluate our intangibles, including goodwill, for potential impairment. Our judgments regarding the existence of impairment are based on legal factors, market conditions and operational performance of our acquired businesses.

In assessing potential impairment of goodwill, we consider these factors and forecast financial performance of the acquired businesses. If forecasts are not met, we may have to record additional impairment charges not previously recognized. In assessing the recoverability of our goodwill and other intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of those respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets that were not previously recorded. If that were the case, we would have to record an expense in order to reduce the carrying value of our goodwill.

In connection with the Share Exchange Transaction and our acquisition of Kinergy and ReEnergy, we engaged a valuation firm to determine what portion of the purchase price should be allocated to identifiable intangible assets. Through that process, we have estimated that for Kinergy, the distribution backlog is valued at $136,000, the customer relationships are valued at $4,741,000, a non-compete agreement is valued at $695,000 and the trade name is valued at $2,678,000. We issued stock valued at $9,803,750 for the acquisition of Kinergy. In addition, certain stockholders sold stock to the sole member of Kinergy and a related party, increasing the purchase price by $1,012,000. The purchase price for Kinergy totaled $10,815,750. Goodwill directly associated with the Kinergy acquisition therefore totaled $2,565,750. The Kinergy trade name is determined to have an indefinite life and therefore, rather than being amortized, is being periodically tested for impairment. The distribution backlog has an estimated life of six months, the customer relationships were estimated to have a ten-year life and the non-compete had an estimated life of three years and, as a result, will be amortized accordingly, unless otherwise impaired at an earlier time.

We made a $150,000 cash payment and issued stock valued at $316,250 for the acquisition of ReEnergy. In addition, certain stockholders sold stock to the members of ReEnergy, increasing the purchase price by $506,000. The purchase price for ReEnergy totaled $972,250. Of this amount, $120,000 was recorded as an asset for the option to acquire land and because the acquisition of ReEnergy was

not deemed to be an acquisition of a business, the remaining purchase price of $852,250 was recorded as an expense for services rendered in connection with a feasibility study. Upon the expiration of the land option on December 15, 2005, we expensed the $120,000 fair value of the option.

STOCK-BASED COMPENSATION

We account for stock-based compensation in accordance with Accounting Principles Board Opinion ("APB") Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. Under the intrinsic-value method prescribed by APB Opinion No. 25, compensation cost is the excess, if any, of the quoted market price of the stock on the grant date of the option over the exercise price of the option.

Pro forma information regarding net loss and loss per share is required by Statement of Financial Accounting Standards ("SFAS") No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, and has been determined as if we had accounted for our employee stock options under the fair value method of that Statement. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

RESULTS OF OPERATIONS

The tables presented below, which compare our results of operations from one period to another, present the results for each period, the change in those results from one period to another in both dollars and percentage change, and the results for each period as a percentage of net sales. The columns present the following:

- The first two data columns in each table show the absolute results for each period presented.
- The columns entitled "Dollar Variance" and "Percentage Variance" show the change in results, both in dollars and percentages. These two columns show favorable changes as a positive and unfavorable changes as negative. For example, when our net sales increase from one period to the next, that change is shown as a positive number in both columns. Conversely, when expenses increase from one period to the next, that change is shown as a negative in both columns.

- The last two columns in each table show the results for each period as a percentage of net sales.

YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,		DOLLAR VARIANCE	PERCENTAGE VARIANCE	RESULTS AS A PERCENTAGE OF NET SALES FOR THE YEAR ENDED DECEMBER 31,	
	2005	2004	FAVORABLE (UNFAVORABLE)	FAVORABLE (UNFAVORABLE)	2005	2004
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales	$ 87,599,012	$ 19,764	$ 87,579,248	443,125%	100.0%	100.0%
Cost of sales	84,444,183	12,523	(84,431,660)	(674,213)	96.4	63.4
Gross profit	3,154,829	7,241	3,147,588	43,469	3.6	36.6
Selling, general and administrative expenses	10,994,630	2,277,510	(8,717,120)	(383)	12.6	11,523.5
Feasibility study expensed in connection with acquisition of ReEnergy	852,250	--	(852,250)	(100)	1.0	--
Acquisition cost expense in excess of cash received	480,948	--	(480,948)	(100)	0.5	--
Discontinued design of cogeneration facility	310,523	--	(310,522)	(100)	0.3	--
Loss from operations	(9,483,521)	(2,270,269)	(7,213,252)	(318)	(10.8)	(11,486.9)
Total other expense	(433,998)	(530,698)	96,700	18	(0.5)	(2,685.2)
Loss from operations before income taxes	(9,917,519)	(2,800,967)	(7,116,552)	(254)	(11.3)	(14,172.1)
Provision for income taxes	5,600	1,600	(4,000)	(250)	--	8.1
Net loss	$ (9,923,119)	$(2,802,567)	$ (7,120,552)	(254)%	(11.3)%	(14,180.2)%

</TABLE>

NET SALES. Net sales for the year ended December 31, 2005 increased by $87,579,248 to $87,599,012 as compared to $19,764 for the year ended December 31, 2004. Sales attributable to the acquisition of Kinergy on March 23, 2005 contributed $87,583,105 of this increase. Without the acquisition of Kinergy, our net sales would have been $15,907.

GROSS PROFIT. Gross profit for 2005 increased by $3,147,588 to $3,154,829 as compared to $7,241 for 2004, primarily due to the acquisition of Kinergy on March 23, 2005. Gross profit as a percentage of net sales decreased to 3.6% for 2005 as compared to 36.6% for 2004. This difference is attributable to the acquisition of Kinergy on March 23, 2005.

Historically, Kinergy's gross profit margins have averaged between 2.0% and 4.4%. Kinergy's gross profit margins in 2005 and 2004 were 3.6% and 3.9%, respectively. We believe that Kinergy's future gross profit margins may be lower than historical levels for two principal reasons. First, increased competition in the ethanol market may reduce margins. Second, Kinergy may, in some cases, engage in direct sales arrangements that typically result in lower gross margins.

Kinergy's gross profit margin declined from 3.9% in 2004 to 3.6% for 2005. This slight decline in Kinergy's gross profit margin for 2005 resulted primarily from a combination of factors. The transition from inventory sales contracts ending in the first quarter of 2005 to new inventory sales contracts beginning in the second quarter of 2005 during a period of rapidly declining market prices reduced gross profit margins for the first and second quarters of 2005 as compared to the same periods in 2004. This reduction was offset by rapidly increasing market prices during the third quarter of 2005 resulting in a gross profit margin of 6.2% for that period and a combined gross profit margin of 3.6% for the nine months ended September 30, 2005. Kinergy sold ethanol under these contracts from existing inventory that was purchased at levels higher than the prevailing market price at the time of sale in the second quarter of 2005 and conversely sold ethanol under these contracts from existing inventory that was purchase at levels lower than the prevailing market price at the time of sale in the third quarter. Kinergy's gross profit margin in the fourth quarter of 2005 was 3.7% as compared to 3.9% during the same period in 2004. Accordingly, the fluctuation in ethanol prices during 2005, had the net effect of reducing Kinergy's gross profit margin by 0.3% from 3.9% in 2004 to 3.6% in 2005.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses in 2005 increased by $8,717,120 (383%) to $10,994,630 as compared to $2,277,510 in 2004. This increase was primarily due to $2,041,052 in additional legal, accounting and consulting fees, $2,058,009 in abandoned debt financing fees, $802,177 in additional amortization of intangibles and $1,250,904 in additional payroll expense related to the three executive employment agreements that became effective upon the consummation of the Share Exchange Transaction on March 23, 2005, the addition of two staff positions in May and June 2005, an employee promotion in May 2005, the addition of two executive positions in June 2005, the addition of two high-level ethanol plant management positions in September 2005 and the addition of three additional staff positions in the fourth quarter of 2005. Additionally, non-cash compensation and consulting fees increased $651,000 for non-cash compensation from stock grants in connection with the hiring of two employees, $232,250 for a stock grant that vested upon closing of the Share Exchange Transaction on March 23, 2005, $104,400 for non-cash consulting fees related to stock options granted to a consulting firm in connection with the employment of our Chief Financial Officer, $58,834 for non-cash compensation related to stock options granted in connection with the hiring of two ethanol plant managers, $21,656 for non-cash compensation related to stock options granted to reward employees for past performance, $172,500 for non-cash consulting fees related to warrants that were granted in February 2004 and vested over one year, and $822,636 for non-cash consulting fees related to warrants that were granted in connection with the Share Exchange Transaction that vest ratably over two years. The increase in selling, general and administrative expenses was also due to $194,564 in additional insurance expense related primarily to liability and property coverage for our Madera County construction site, a $408,914 increase in non-sales commission expense related to insurance proceeds for the casualty loss at the Company's Madera facility, a $164,296 increase for expenses related to the termination of the proposed acquisition of PBI, a $221,260 increase in business travel expenses, a $81,899 increase in research and development expense, a $168,027 increase in market and filing fees, a $164,542 increase in policy and investor relations expenses, a $71,726 increase in rents, a $47,527 increase in advertising and marketing expense, an $54,780 increase in dues and trade memberships, a $54,157 increase in printing and postage expense, a $25,057 increase in telephone expense, a $7,158 increase in bad debt expense, and the net balance of $45,295 related to various increases in other selling, general and administrative expenses.

We expect that over the near-term, our selling, general and administration expenses will increase as a result of, among other things, increased legal and accounting fees associated with increased corporate governance activities in response to the Sarbanes-Oxley Act of 2002, recently adopted rules and regulations of the Securities and Exchange Commission, increased employee costs associated with planned staffing increases, increased sales and marketing expenses, increased activities related to the construction of our Madera County ethanol production facility and increased activity in searching for and analyzing potential acquisitions.

SERVICES RENDERED IN CONNECTION WITH FEASIBILITY STUDY. Services rendered in connection with feasibility study in 2005 increased by $852,250 (100%) as compared to $0 in 2004. This amount arose in the connection with the acquisition of ReEnergy and relates to a feasibility study for an ethanol plant in Visalia, California. Based on this study, ReEnergy entered into an option to buy land for the ethanol plant that expired on December 15, 2005.

DISCONTINUED DESIGN OF COGENERATION FACILITY. We had recorded $310,522 as

construction in progress related to the design of an energy cogeneration facility at our Madera ethanol production facility. Based on various factors including increased project complexity and rising natural gas costs, making construction less favorable, further development was not pursued and we expensed the full amount at December 31, 2005.

OTHER INCOME/(EXPENSE). Other income/(expense) increased by $96,700 to ($433,998) in 2005 as compared to ($530,698) in 2004, primarily due to a $345,261 increase in interest income on cash held in seven day investment accounts, $27,726 in management fees and other income, a net decrease of $37,232 in interest expense related to long-term debt, amortization of discount, and construction payables, net of capitalized interest related to our planned Madera County ethanol plant, an increase of ($15,010) in bank charges, finance charges, and short-term interest, and an increase in liquidated damages and fees paid to shareholders in the amount of ($298,509).

LIQUIDITY AND CAPITAL RESOURCES

During 2005, we funded our operations primarily from $2,596,765 in net income from Kinergy, $18,875,185 in net proceeds we received in connection with PEI California's private offering of common stock and warrants to purchase common stock in March 2005, and $939,384 in net proceeds from the exercise of warrants and options to purchase shares of our common stock. As of December 31, 2005, we had negative working capital of $2,894,133, which represented a $1,869,386 decrease from negative working capital of $1,024,747 at December 31, 2004. This decrease in working capital is primarily due to accounts payable from the acquisition of Kinergy and accounts payable to W.M. Lyles Co. for the construction of the Madera ethanol production facility. As of December 31, 2005 and 2004, we had an accumulated deficit of $13,584,365 and $3,661,246, respectively, and cash and cash equivalents of $4,521,111 and $42, respectively.

Our current available capital resources consist primarily of approximately $4.5 million in cash and $2.75 million in investments in marketable securities as of December 31, 2005. This amount was primarily raised through the private offering by PEI California described above and the exercise of outstanding warrants and options. We expect that our future available capital resources will consist primarily of any balance of the $4.5 million in cash and $2.75 million in investments in marketable securities as of December 31, 2005, cash generated from Kinergy's ethanol marketing business, if any, restricted and unrestricted proceeds from the issuance of our Series A Preferred Stock, and any future debt and/or equity financings.

Short-term investments increased $2,750,000 from $0 to $2,750,000 as of December 31, 2005. Short-term investments mainly consist of Auction Rate Securities, or ARS. ARS generally have long-term maturities beyond three months but are priced and traded as short-term instruments.

Accounts receivable increased $4,939,074 during 2005 from $8,464 as of December 31, 2004 to $4,947,538 as of December 31, 2005. Sales attributable to the acquisition of Kinergy contributed substantially all of this increase.

Inventory balances increased $362,972 during 2005, from $0 as of December 31, 2004 to $362,972 as of December 31, 2005. This increase was entirely due to the acquisition of Kinergy. Inventory represented 0.75% of our total assets as of December 31, 2005.

Cash provided by our operating activities totaled $4,007,011 in 2005 as compared to cash used in our operating activities of $454,515 in 2004. This $4,461,526 increase in cash provided by operating activities primarily resulted from an increase in accounts payable and accrued expenses.

Cash used in our investing activities totaled $17,250,958 in 2005 as compared to $969,998 of cash used in 2004. Included in the results for the year ended December 31, 2005 are net cash of $540,825 used in connection with the Share Exchange Transaction, net cash of $17,272,971 used to purchase property, plant and equipment, $15,000,000 from the sale of available-for-sale investments, $12,250,000 used purchase available-for-sale investments, $14,086 used for payment of deposits, and net cash of $3,326,924 that we acquired in connection with the Share Exchange Transaction.

Cash provided by our financing activities totaled $17,765,016 in 2005 as compared to $1,175,471 in 2004. The change is due to the net proceeds of $18,875,185 from a private offering of equity securities on March 23, 2005, as described above, $2,097,053 used as payment of notes payable to Kinergy and ReEnergy, $300,000 used as payment of related party notes payable $280,000 proceeds from notes payable to a related party, $939,384 from the exercise of warrants and options to purchase shares of our common stock and the receipt of $67,500 in connection with a stockholder receivable.

On April 13, 2006, we issued to Cascade 5,250,000 shares of our Series A Preferred Stock at a price of $16.00 per share for an aggregate purchase price of $84.0 million. Of the $84.0 million aggregate purchase price, $4.0 million was paid to us at closing and $80.0 million has been deposited into a restricted cash account and will be disbursed in accordance with the Deposit Agreement described above. We are entitled to use the initial $4.0 million of proceeds for

general working capital and must use the remaining $80.0 million for the construction or acquisition of one or more ethanol production facilities in accordance with the terms of the Deposit Agreement.

On April 13, 2006, PEI Madera entered into a Construction Loan with Hudson and Comerica for debt financing in the aggregate amount of up to approximately $34.0 million. We must use these loan proceeds for the construction of our Madera County ethanol production facility.

We have a $2.0 million revolving line of credit with Comerica Bank, or Comerica, that we use from time to time in connection with the operations of Kinergy. Principal amounts outstanding under the line of credit accrue interest, on a per annum basis, at Comerica's "base rate" of interest plus 1.0%. Comerica's "base rate" of interest is currently the prime rate of interest and is subject to adjustment from time to time by Comerica. As of December 31, 2005, the interest rate on principal amounts outstanding under the line of credit would have been 8.25%. There were no balances outstanding on the line of credit as of December 31, 2005 and 2004.

On October 1, 2005, we issued an Irrevocable Standby Letter of Credit by Comerica Bank for any sum not to exceed a total of $400,000, leaving funds available of $1.6 million on the line of credit. The designated beneficiary of the letter of credit is one of our vendors, and the letter was initially valid through March 31, 2006. On April 1, 2006, the Irrevocable Standby Letter of Credit extended to September 30, 2006.

We have used a portion of the net proceeds from PEI California's private offering that occurred in March 2005 to fund our working capital requirements and begin site preparation at our Madera County site. We expect to use the remainder of the net proceeds from this offering and the $4.0 million unrestricted net proceeds from the offering of shares of our Series A Preferred Stock to fund our working capital requirements over the next 12 months. A portion of the proceeds from the Series A Preferred Stock financing and the entire amount of the approximately $34.0 million in Debt Financing are expected to be used as follows for a total cost of completion of our Madera County ethanol production facility estimated at approximately $55.3 million: site work ($1.7 million); building and concrete ($7.0 million); site utilities ($1.1 million); equipment and tanks ($19.2 million); piping ($5.7 million); electrical ($3.7 million); and engineering, general conditions, and other ($16.9 million). The above amounts do not include up to $10.2 million in additional funding required for capital raising expenses, interest expense during construction, and working capital.

The Registration Statement relating to PEI California's March 2005 private offering described above was not declared effective by the Securities and Exchange Commission on or before November 3, 2005 as required by the terms of the Registration Rights Agreement. We endeavored to have all security holders entitled to these registration rights execute amendments to the Registration Rights Agreement reducing the penalty from 2.0% to 1.0% of the aggregate purchase price paid by such holder pursuant to the Securities Purchase Agreement relating to such securities then held by such holder. This penalty reduction applied to penalties accrued on or prior to January 31, 2006 as a result of the related Registration Statement not being declared effective by the Securities and Exchange Commission. Certain of the security holders executed this amendment. However, not all security holders executed this amendment and as a result, we paid an aggregate of $298,050 in liquidated damages on November 8, 2005. The Registration Statement was declared effective by the Securities and Exchange Commission on December 1, 2005.

We believe that current and future available capital resources, revenues generated from operations, and other existing sources of liquidity, including the credit facilities we have and the remaining proceeds we have from PEI California's March 2005 private offering, our offering of Series A Preferred Stock and the available proceeds from the Debt Financing, will be adequate to meet our anticipated working capital and capital expenditure requirements for at least the next twelve months. If, however, our capital requirements or cash flow vary materially from our current projections, if unforeseen circumstances occur, or if we require a significant amount of cash to fund future acquisitions, we may require additional financing. Our failure to raise capital, if needed, could restrict our growth or hinder our ability to compete.

EFFECTS OF INFLATION

The impact of inflation and changing prices has not been significant on the financial condition or results of operations of either our company or our operating subsidiaries.

IMPACTS OF NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued SFAS No. 123R (revised 2004), SHARE-BASED PAYMENT. SFAS No. 123R replaced SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, and superseded APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. In March 2005, the Securities and Exchange Commission issued SAB No. 107, VALUATION OF SHARE-BASED PAYMENT ARRANGEMENT FOR PUBLIC COMPANIES, which expresses views of the staff of the Securities and Exchange Commission regarding the interaction between SFAS No. 123R and certain Securities and Exchange Commission rules and regulations, and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. SFAS No. 123R will require compensation cost related to share-based payment transactions to be recognized in the financial statements. SFAS No. 123R required public companies to apply SFAS No. 123R in the first

interim or annual reporting period beginning after June 15, 2005. In April 2005, the Securities and Exchange Commission approved a new rule that delays the effective date, requiring public companies to apply SFAS No. 123R in their next fiscal year, instead of the next interim reporting period, beginning after June 15, 2005. As permitted by SFAS No. 123, we elected to follow the guidance of APB Opinion No. 25, which allowed companies to use the intrinsic value method of accounting to value their share-based payment transactions with employees. SFAS No. 123R requires measurement of the cost of share-based payment transactions to employees at the fair value of the award on the grant date and recognition of expense over the requisite service or vesting period. SFAS No. 123R requires implementation using a modified version of prospective application, under which compensation expense of the unvested portion of previously granted awards and all new awards will be recognized on or after the date of adoption. SFAS No. 123R also allows companies to adopt SFAS No. 123R by restating previously issued statements, basing the amounts on the expense previously calculated and reported in their pro forma footnote disclosures required under SFAS No. 123. We will adopt SFAS No. 123R using the modified prospective method in the first interim period of fiscal 2006 and we are currently evaluating the impact that the adoption of SFAS No. 123R will have on our consolidated results of operations and financial position.

In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, ACCOUNTING CHANGES AND ERROR CORRECTIONS, which addresses the accounting and reporting for changes in accounting principles. SFAS No. 154 replaces APB Opinion No. 20 and FIN 20 and is effective for accounting changes in fiscal years beginning after December 31, 2005. This Statement applies to all voluntary changes in accounting principle. This Statement defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. This Statement redefines restatement as the revising of previously issued financial statements to reflect the correction of an error.

In September 2005, the FASB reached a final consensus on EITF Issue No. 04-13, ACCOUNTING FOR PURCHASES AND SALES OF INVENTORY WITH THE SAME COUNTERPARTY. EITF Issue No. 04-13 concludes that two or more legally separated exchange transactions with the same counterparty should be combined and considered as a single arrangement for purposes of applying APB Opinion No. 29, ACCOUNTING FOR NONMONETARY TRANSACTIONS, when the transactions were entered into "in contemplation" of one another. The consensus contains several indicators to be considered in assessing whether two transactions are entered into in contemplation of one another. If, based on consideration of the indicators and the substance of the arrangement, two transactions are combined and considered a single arrangement, an exchange of finished goods inventory for either raw material or work-in-process should be accounted for at fair value. The provisions of EITF Issue No. 04-13 are applied to transactions completed in reporting periods beginning after March 15, 2006. We do not expect this statement to have a material impact on our financial condition or our results of operations.

In February 2006, the FASB issued SFAS No. 155, ACCOUNTING FOR CERTAIN HYBRID FINANCIAL INSTRUMENTS, which amends SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, and SFAS No. 140, ACCOUNTING OR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. Specifically, SFAS No. 155 amends SFAS No. 133 to permit fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided the whole instrument is accounted for on a fair value basis. Additionally, SFAS No. 155 amends SFAS No. 140 to allow a qualifying special purpose entity to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 applies to all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, with early application allowed. The adoption of SFAS No. 155 is not expected to have a material impact on tour results of operations or financial position.

RISK FACTORS

AN INVESTMENT IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. IN ADDITION TO THE OTHER INFORMATION IN THIS REPORT AND IN OUR OTHER FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS BEFORE DECIDING TO INVEST IN SHARES OF OUR COMMON STOCK OR TO MAINTAIN OR INCREASE YOUR INVESTMENT IN SHARES OF OUR COMMON STOCK. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, IT IS LIKELY THAT OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS COULD BE SERIOUSLY HARMED. AS A RESULT, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE, AND YOU COULD LOSE PART OR ALL OF YOUR INVESTMENT.

RISKS RELATED TO OUR COMBINED OPERATIONS

WE HAVE INCURRED SIGNIFICANT LOSSES IN THE PAST AND WE MAY INCUR SIGNIFICANT LOSSES IN THE FUTURE. IF WE CONTINUE TO INCUR LOSSES, WE WILL EXPERIENCE NEGATIVE CASH FLOW, WHICH MAY HAMPER OUR OPERATIONS, MAY PREVENT US FROM EXPANDING OUR BUSINESS AND MAY CAUSE OUR STOCK PRICE TO DECLINE.

We have incurred losses in the past. As of December 31, 2005, we had an

accumulated deficit of approximately $13.6 million. For the year ended December 31, 2005, we incurred a net loss of approximately $9.9 million. We expect to incur losses for the foreseeable future and at least until the completion of our first ethanol production facility in Madera County. We estimate that the earliest completion date of this facility and, as a result, our earliest date of ethanol production, will not occur until the fourth quarter of 2006. We expect to rely on cash from operations and financings to fund all of the cash requirements of our business. If our net losses continue, we will experience negative cash flow, which may hamper current operations and may prevent us from expanding our business. We may be unable to attain, sustain or increase profitability on a quarterly or annual basis in the future. If we do not achieve, sustain or increase profitability our stock price may decline.

OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM HAS ADVISED MANAGEMENT AND OUR AUDIT COMMITTEE THAT THEY HAVE IDENTIFIED A MATERIAL WEAKNESS IN OUR DISCLOSURE CONTROLS AND PROCEDURES. OUR BUSINESS AND STOCK PRICE MAY BE ADVERSELY AFFECTED IF WE DO NOT REMEDIATE THIS MATERIAL WEAKNESS OR IF WE HAVE OTHER MATERIAL WEAKNESSES IN OUR DISCLOSURE CONTROLS AND PROCEDURES.

In connection with its audit of our consolidated financial statements for the year ended December 31, 2005, our independent registered public accounting firm advised management of the following matter that the accounting firm considered to be a material weakness: The current organization of our accounting department does not provide us with the appropriate resources and adequate technical skills to accurately account for and disclose our activities. Our resources to produce reliable financial reports and fulfill our other obligations as a public company are limited due to our small number of employees and the limited public company experience of our management. The existence of one or more material weaknesses in our disclosure controls and procedures could result in errors in our financial statements and substantial costs and resources may be required to rectify these material weaknesses. If we are unable to produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of our stock could decline significantly, we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed.

THE HIGH CONCENTRATION OF OUR SALES WITHIN THE ETHANOL PRODUCTION AND MARKETING INDUSTRY COULD RESULT IN A SIGNIFICANT REDUCTION IN SALES AND NEGATIVELY AFFECT OUR PROFITABILITY IF DEMAND FOR ETHANOL DECLINES.

Our revenue is and will continue to be derived primarily from sales of ethanol. Currently, the predominant oxygenate used to blend with gasoline is ethanol. Ethanol competes with several other existing products and other alternative products could also be developed for use as fuel additives. We expect to be completely focused on the production and marketing of ethanol and its co-products for the foreseeable future. We may be unable to shift our business focus away from the production and marketing of ethanol to other renewable fuels or competing products. Accordingly, an industry shift away from ethanol or the emergence of new competing products may reduce the demand for ethanol. A downturn in the demand for ethanol would significantly and adversely affect our sales and profitability.

THROUGH A SUBSIDIARY, WE HAVE ISSUED A SIGNIFICANT AMOUNT OF DEBT, RESULTING IN SUBSTANTIAL DEBT SERVICE REQUIREMENTS THAT COULD REDUCE THE VALUE OF YOUR INVESTMENT.

Our subsidiary, PEI Madera, recently completed a debt financing of up to approximately $34.0 million to be used to complete construction of our first ethanol production facility in Madera County. As a result, our capital structure is highly leveraged. Our debt levels and debt service requirements could have important consequences which could reduce the value of your investment, including:

- limiting our ability to borrow additional amounts for operating capital or other purposes and causing us to be able to borrow additional funds only on unfavorable terms;
- reducing funds available for operations and distributions because a substantial portion of our cash flow will be used to pay interest and principal on our debt;
- making us vulnerable to increases in prevailing interest rates;
- placing us at a competitive disadvantage because we may be substantially more leveraged than some of our competitors;
- subjecting significant assets to liens, which means that there may be no assets left for our stockholders in the event of a liquidation; and
- limiting our ability to adjust to changing market conditions, which could increase our vulnerability to a downturn in our business or general economic conditions.

If PEI Madera is unable to pay its debt service obligations, we could be forced to reduce or eliminate dividends to our stockholders, if they were to commence, and/or reduce or eliminate needed capital expenditures. It is possible that we could be forced to sell assets, seek to obtain additional equity capital or refinance or restructure all or a portion of this debt on substantially less favorable terms. In the event that we are unable to refinance all or a portion of this debt or raise funds through asset sales, sales of equity or otherwise, we may be forced to liquidate and you could lose your entire investment.

GOVERNMENTAL REGULATIONS OR THE REPEAL OR MODIFICATION OF VARIOUS TAX INCENTIVES FAVORING THE USE OF ETHANOL COULD REDUCE THE DEMAND FOR ETHANOL AND CAUSE OUR SALES AND PROFITABILITY TO DECLINE.

Our business is subject to extensive regulation by federal, state and local governmental agencies. We cannot predict in what manner or to what extent governmental regulations will harm our business or the ethanol production and marketing industry in general. For example the energy bill signed into law by President Bush in August 2005 includes a national renewable fuels standard that requires refiners to blend a percentage of renewable fuels into gasoline. This legislation replaced the then current oxygenate requirements in the State of California and may potentially decrease the demand for ethanol in the State of California. If the demand for ethanol in the State of California decreases, our sales and profitability would decline.

The fuel ethanol business benefits significantly from tax incentive policies and environmental regulations that favor the use of ethanol in motor fuel blends in the United States. Currently, a gasoline marketer that sells gasoline without ethanol must pay a federal tax of $0.18 per gallon compared to $0.13 per gallon for gasoline that is blended with 10% ethanol. Smaller credits are available for gasoline blended with lesser percentages of ethanol. The repeal or substantial modification of the federal excise tax exemption for ethanol-blended gasoline or, to a lesser extent, other federal or state policies and regulations that encourage the use of ethanol could have a detrimental effect on the ethanol production and marketing industry and materially and adversely affect our sales and profitability.

VIOLATIONS OF ENVIRONMENTAL REGULATIONS COULD SUBJECT US TO SEVERE PENALTIES AND MATERIALLY AND ADVERSELY AFFECT OUR SALES AND PROFITABILITY.

The production and sale of ethanol is subject to regulation by agencies of the federal government, including, but not limited to, the EPA, as well as other agencies in each jurisdiction in which ethanol is produced, sold, stored or transported. Environmental laws and regulations that affect our operations, and that are expected to affect our planned operations, are extensive and have become progressively more stringent. Applicable laws and regulations are subject to change, which could be made retroactively. Violations of environmental laws and regulations or permit conditions can result in substantial penalties, injunctive orders compelling installation of additional controls, civil and criminal sanctions, permit revocations and/or facility shutdowns. If significant unforeseen liabilities arise for corrective action or other compliance, our sales and profitability could be materially and adversely affected.

WE RELY HEAVILY ON OUR PRESIDENT AND CHIEF EXECUTIVE OFFICER, NEIL KOEHLER. THE LOSS OF HIS SERVICES COULD ADVERSELY AFFECT OUR ABILITY TO SOURCE ETHANOL FROM OUR KEY SUPPLIERS AND OUR ABILITY TO SELL ETHANOL TO OUR CUSTOMERS.

Our success depends, to a significant extent, upon the continued services of Neil Koehler, who is our President and Chief Executive Officer. For example, Mr. Koehler has developed key personal relationships with our ethanol suppliers and customers. We greatly rely on these relationships in the conduct of our operations and the execution of our business strategies. The loss of Mr. Koehler could, therefore, result in the loss of our favorable relationships with one or more of our ethanol suppliers and customers. In addition, Mr. Koehler has considerable experience in the construction, start-up and operation of ethanol production facilities and in the ethanol marketing business. Although we have entered into an employment agreement with Mr. Koehler, that agreement is of limited duration and is subject to early termination by Mr. Koehler under certain circumstances. In addition, we do not maintain "key person" life insurance covering Mr. Koehler or any other executive officer. The loss of Mr. Koehler could also significantly delay or prevent the achievement of our business objectives.

THE ETHANOL PRODUCTION AND MARKETING INDUSTRY IS EXTREMELY COMPETITIVE. MANY OF OUR SIGNIFICANT COMPETITORS HAVE GREATER FINANCIAL AND OTHER RESOURCES THAN WE DO AND ONE OR MORE OF THESE COMPETITORS COULD USE THEIR GREATER RESOURCES TO GAIN MARKET SHARE AT OUR EXPENSE. IN ADDITION, CERTAIN OF OUR SUPPLIERS MAY CIRCUMVENT OUR MARKETING SERVICES, CAUSING OUR SALES AND PROFITABILITY TO DECLINE.

The ethanol production and marketing industry is extremely competitive. Many of our significant competitors in the ethanol production and marketing industry, such as Archer-Daniels-Midland Company, or ADM, have substantially greater production, financial, research and development, personnel and marketing resources than we do. In addition, we are not currently producing any ethanol that we sell and therefore are unable to capture the higher gross profit margins generally associated with production activities. As a result, our competitors, who are presently producing ethanol, may have greater relative advantages resulting from greater capital resources due to higher gross profit margins. As a result, our competitors may be able to compete more aggressively and sustain that competition over a longer period of time than we could. Our lack of resources relative to many of our significant competitors may cause us to fail to anticipate or respond adequately to new developments and other competitive pressures. This failure could reduce our competitiveness and cause a decline in our market share, sales and profitability.

In addition, some of our suppliers are potential competitors and, especially if the price of ethanol remains at historically high levels, they may seek to capture additional profits by circumventing our marketing services in favor of selling directly to our customers. If one or more of our major suppliers, or numerous smaller suppliers, circumvent our marketing services, our sales and profitability will decline.

OUR FAILURE TO MANAGE OUR GROWTH EFFECTIVELY COULD PREVENT US FROM ACHIEVING OUR GOALS.

Our strategy envisions a period of rapid growth that may impose a significant burden on our administrative and operational resources. The growth of our business, and in particular, the completion of construction of our planned ethanol production facilities, will require significant investments of capital and management's close attention. In addition to our plans to construct additional ethanol production facilities after the completion of our first facility in Madera County, we have entered into significant marketing agreements with Front Range Energy, LLC and PBI, and we are seeking to enter into additional similar agreements with companies that currently, or expect to, produce ethanol, all of which may result in a substantial growth in our marketing business. Our ability to effectively manage our growth will require us to substantially expand the capabilities of our administrative and operational resources and to attract, train, manage and retain qualified management, technicians and other personnel. We may be unable to do so. In addition, our failure to successfully manage our growth could result in our sales not increasing commensurately with our capital investments. If we are unable to successfully manage our growth, we may be unable to achieve our goals.

RISKS RELATING TO THE BUSINESS OF KINERGY

KINERGY'S PURCHASE AND SALE COMMITMENTS AS WELL AS ITS INVENTORY OF ETHANOL HELD FOR SALE SUBJECT US TO THE RISK OF FLUCTUATIONS IN THE PRICE OF ETHANOL, WHICH MAY RESULT IN LOWER OR EVEN NEGATIVE GROSS PROFIT MARGINS AND WHICH COULD MATERIALLY AND ADVERSELY AFFECT OUR PROFITABILITY.

Kinergy's purchases and sales of ethanol are not always matched with sales and purchases of ethanol at prevailing market prices. Kinergy commits from time to time to the sale of ethanol to its customers without corresponding and commensurate commitments for the supply of ethanol from its suppliers, which subjects us to the risk of an increase in the price of ethanol. Kinergy also commits from time to time to the purchase of ethanol from its suppliers without corresponding and commensurate commitments for the purchase of ethanol by its customers, which subjects us to the risk of a decline in the price of ethanol. In addition, Kinergy increases inventory levels in anticipation of rising ethanol prices and decreases inventory levels in anticipation of declining ethanol prices. As a result, Kinergy is subject to the risk of ethanol prices moving in unanticipated directions, which could result in declining or even negative gross profit margins. Accordingly, our business is subject to fluctuations in the price of ethanol and these fluctuations may result in lower or even negative gross margins and which could materially and adversely affect our profitability.

KINERGY DEPENDS ON A SMALL NUMBER OF CUSTOMERS FOR THE VAST MAJORITY OF ITS SALES. A REDUCTION IN BUSINESS FROM ANY OF THESE CUSTOMERS COULD CAUSE A SIGNIFICANT DECLINE IN OUR OVERALL SALES AND PROFITABILITY.

The vast majority of Kinergy's sales are generated from a small number of customers. During 2005, sales to Kinergy's three largest customers, each of whom accounted for 10% or more of total net sales, represented approximately 18%, 11% and 10%, respectively, representing an aggregate of approximately 39%, of Kinergy's total net sales. During 2004, sales to Kinergy's four largest customers, each of whom accounted for 10% or more of total net sales, represented approximately 13%, 12%, 12% and 12%, respectively, representing an aggregate of approximately 49%, of Kinergy's total net sales. We expect that Kinergy will continue to depend for the foreseeable future upon a small number of customers for a significant portion of its sales. Kinergy's agreements with these customers generally do not require them to purchase any specified amount of ethanol or dollar amount of sales or to make any purchases whatsoever. Therefore, in any future period, Kinergy's sales generated from these customers, individually or in the aggregate, may not equal or exceed historical levels. If sales to any of these customers cease or decline, Kinergy may be unable to replace these sales with sales to either existing or new customers in a timely manner, or at all. A cessation or reduction of sales to one or more of these customers could cause a significant decline in our overall sales and profitability.

KINERGY'S LACK OF LONG-TERM ETHANOL ORDERS AND COMMITMENTS BY ITS CUSTOMERS COULD LEAD TO A RAPID DECLINE IN OUR SALES AND PROFITABILITY.

Kinergy cannot rely on long-term ethanol orders or commitments by its customers for protection from the negative financial effects of a decline in the demand for ethanol or a decline in the demand for Kinergy's services. The limited certainty of ethanol orders can make it difficult for us to forecast our sales and allocate our resources in a manner consistent with our actual sales. Moreover, our expense levels are based in part on our expectations of future sales and, if our expectations regarding future sales are inaccurate, we may be unable to reduce costs in a timely manner to adjust for sales shortfalls. Furthermore, because Kinergy depends on a small number of customers for a significant portion of its sales, the magnitude of the ramifications of these risks is greater than if Kinergy's sales were less concentrated within a small number of customers. As a result of Kinergy's lack of long-term ethanol orders and commitments, we may experience a rapid decline in our sales and profitability.

KINERGY DEPENDS ON A SMALL NUMBER OF SUPPLIERS FOR THE VAST MAJORITY OF THE ETHANOL THAT IT SELLS. IF ANY OF THESE SUPPLIERS IS UNABLE OR DECIDES NOT TO CONTINUE TO SUPPLY KINERGY WITH ETHANOL IN ADEQUATE AMOUNTS, KINERGY MAY BE UNABLE TO SATISFY THE DEMANDS OF ITS CUSTOMERS AND OUR SALES, PROFITABILITY AND RELATIONSHIPS WITH OUR CUSTOMERS WILL BE ADVERSELY AFFECTED.

Kinergy depends on a small number of suppliers for the vast majority of the ethanol that it sells. During 2005, Kinergy's three largest suppliers, each of whom accounted for 10% or more of total purchases, represented approximately 22%, 20%, and 17%, respectively, of purchases, representing an aggregate of approximately 59%, of the total ethanol Kinergy purchased for resale. During 2004, Kinergy's three largest suppliers, each of whom accounted for 10% or more of the total purchases, represented approximately 27%, 23% and 14%, respectively, of purchases, representing an aggregate of approximately 64% of the total ethanol Kinergy purchased for resale. We expect that Kinergy will continue to depend for the foreseeable future upon a small number of suppliers for a significant majority of the ethanol that it purchases. In addition, Kinergy sources the ethanol that it sells primarily from suppliers in the Midwestern United States. The delivery of the ethanol that Kinergy sells is therefore subject to delays resulting from inclement weather and other conditions. Also, there is currently a substantial demand for ethanol which has, for most of 2005, far exceeded ethanol production capacities and Kinergy's management has, from time to time, found it very difficult to satisfy all the demands for ethanol by Kinergy's customers. If any of these suppliers is unable or declines for any reason to continue to supply Kinergy with ethanol in adequate amounts, Kinergy may be unable to replace that supplier and source other supplies of ethanol in a timely manner, or at all, to satisfy the demands of its customers. If this occurs, our sales and profitability and Kinergy's relationships with its customers will be adversely affected.

RISKS RELATING TO THE BUSINESS OF PEI CALIFORNIA

THE COMPLETION OF CONSTRUCTION OF OUR PLANNED ETHANOL PRODUCTION FACILITIES, OTHER THAN OUR MADERA COUNTY FACILITY, WILL REQUIRE SIGNIFICANT ADDITIONAL FUNDING, WHICH WE EXPECT TO RAISE THROUGH DEBT FINANCING. WE MAY NOT BE SUCCESSFUL IN RAISING ADEQUATE CAPITAL WHICH MAY FORCE US TO ABANDON CONSTRUCTION OF ONE OR MORE, OR EVEN ALL, OF OUR PLANNED ETHANOL PRODUCTION FACILITIES, OTHER THAN OUR MADERA COUNTY FACILITY.

In order to complete the construction of the various planned ethanol production facilities, other than our Madera County facility, we will require significant additional funding. Any prospective debt financing transaction will be subject to the negotiation of definitive documents and any closing under those documents will be subject to the satisfaction of numerous conditions, many of which are likely to be beyond our control. We may not be able to obtain any funding from one or more lenders, or if funding is obtained, that it will be on terms that we have anticipated or that are otherwise acceptable to us. If we are unable to secure adequate debt financing, or debt financing on acceptable terms is unavailable for any reason, we may be forced to abandon our construction of one or more, or even all, of our planned ethanol production facilities, other than our Madera County facility.

PEI CALIFORNIA HAS NOT CONDUCTED ANY SIGNIFICANT BUSINESS OPERATIONS AND HAS BEEN UNPROFITABLE TO DATE. IF PEI CALIFORNIA FAILS TO COMMENCE SIGNIFICANT BUSINESS OPERATIONS, IT WILL BE UNSUCCESSFUL, WILL DECREASE OUR OVERALL PROFITABILITY AND WE WILL HAVE FAILED TO ACHIEVE ONE OF OUR SIGNIFICANT GOALS.

PEI California has not conducted any significant business operations and has been unprofitable to date. Accordingly, there is no prior operating history by which to evaluate the likelihood of PEI California's success or its contribution to our overall profitability. PEI California may never complete construction of an ethanol production facility and commence significant operations or, if PEI California does complete the construction of an ethanol production facility, PEI California may not be successful or contribute positively to our profitability. If PEI California fails to commence significant business operations, it will be unsuccessful and will decrease our overall profitability and we will have failed to achieve one of our significant goals.

THE MARKET PRICE OF ETHANOL IS VOLATILE AND SUBJECT TO SIGNIFICANT FLUCTUATIONS, WHICH MAY CAUSE OUR PROFITABILITY TO FLUCTUATE SIGNIFICANTLY.

The market price of ethanol is dependent on many factors, including on the price of gasoline, which is in turn dependent on the price of petroleum. Petroleum prices are highly volatile and difficult to forecast due to frequent changes in global politics and the world economy. The distribution of petroleum throughout the world is affected by incidents in unstable political environments, such as Iraq, Iran, Kuwait, Saudi Arabia, the former U.S.S.R. and other countries and regions. The industrialized world depends critically on oil from these areas, and any disruption or other reduction in oil supply can cause significant fluctuations in the prices of oil and gasoline. We cannot predict the future price of oil or gasoline and may establish unprofitable prices for the sale of ethanol due to significant fluctuations in market prices. For example, the price of ethanol declined by approximately 25% from its 2004 average price per gallon in only five months from January 2005 through May 2005. In recent years, the prices of gasoline, petroleum and ethanol have all reached historically unprecedented high levels. If the prices of gasoline and petroleum decline, we believe that the demand for and price of ethanol may be adversely affected. Fluctuations in the market price of ethanol may cause our profitability to fluctuate significantly.

We believe that the production of ethanol is expanding rapidly. There are a number of new plants under construction and planned for construction, both inside and outside California. We expect existing ethanol plants to expand by increasing production capacity and actual production. Increases in the demand for ethanol may not be commensurate with increasing supplies of ethanol. Thus, increased production of ethanol may lead to lower ethanol prices. The increased production of ethanol could also have other adverse effects. For example, increased ethanol production could lead to increased supplies of co-products from the production of ethanol, such as wet distillers grain, or WDG. Those increased supplies could lead to lower prices for those co-products. Also, the increased production of ethanol could result in increased demand for corn. This could result in higher prices for corn and cause higher ethanol production costs and, in the event that PEI California is unable to pass increases in the price of corn to its customers, will result in lower profits. We cannot predict the future price of ethanol, WDG or corn. Any material decline in the price of ethanol or WDG, or any material increase in the price of corn, will adversely affect our sales and profitability.

THE CONSTRUCTION AND OPERATION OF OUR PLANNED ETHANOL PRODUCTION FACILITIES MAY BE ADVERSELY AFFECTED BY ENVIRONMENTAL REGULATIONS AND PERMIT REQUIREMENTS.

The production of ethanol involves the emission of various airborne pollutants, including particulate matter, carbon monoxide, oxides of nitrogen and volatile organic compounds. PEI California will be subject to extensive air, water and other environmental regulations in connection with the construction and operation of our planned ethanol production facilities. PEI California also may be required to obtain various other water-related permits, such as a water discharge permit and a storm-water discharge permit, a water withdrawal permit and a public water supply permit. If for any reason PEI California is unable to obtain any of the required permits, construction costs for our planned ethanol production facilities are likely to increase; in addition, the facilities may not be fully constructed at all. It is also likely that operations at the facilities will be governed by the federal regulations of the Occupational Safety and Health Administration, or OSHA, and other regulations. Compliance with OSHA and other regulations may be time-consuming and expensive and may delay or even prevent sales of ethanol in California or in other states.

VARIOUS RISKS ASSOCIATED WITH THE CONSTRUCTION OF OUR PLANNED ETHANOL PRODUCTION FACILITIES MAY ADVERSELY AFFECT OUR SALES AND PROFITABILITY.

Delays in the construction of our planned ethanol production facilities or defects in materials and/or workmanship may occur. Any defects could delay the commencement of operations of the facilities, or, if such defects are discovered after operations have commenced, could halt or discontinue operation of a particular facility indefinitely. In addition, construction projects often involve delays in obtaining permits and encounter delays due to weather conditions, fire, the provision of materials or labor or other events. For example, PEI California experienced a fire at its Madera County site during the first quarter of 2004 which required repairs to areas and equipment damaged by the fire. In addition, changes in interest rates or the credit environment or changes in political administrations at the federal, state or local levels that result in policy change towards ethanol or our project in particular, could cause construction and operation delays. Any of these events may adversely affect our sales and profitability.

PEI California may encounter hazardous conditions at or near each of its planned facility sites, including the Madera County site that may delay or prevent construction of a particular facility. If PEI California encounters a hazardous condition at or near a site, work may be suspended and PEI California may be required to correct the condition prior to continuing construction. The presence of a hazardous condition would likely delay construction of a particular facility and may require significant expenditure of resources to correct the condition. For example, W.M. Lyles Co., the company we have selected to construct our Madera County ethanol production facility, may be entitled to an increase in its fees and afforded additional time for performance if it has been adversely affected by the hazardous condition. If PEI Madera encounters any hazardous condition during construction, our sales and profitability may be adversely affected.

We have based our estimated capital resource needs on a design for our first ethanol production facility in Madera County that we estimate will cost $55.3 million to complete. The estimated cost of completion of the facility is based on estimates, but the final construction cost of the facility may be significantly higher. Any significant increase in the final construction cost of the facility will adversely affect our profitability, liquidity and available capital resources.

PEI MADERA'S DEPENDENCE ON AND AGREEMENTS WITH W.M. LYLES CO. FOR THE CONSTRUCTION OF OUR ETHANOL PRODUCTION FACILITY IN MADERA COUNTY COULD ADVERSELY AFFECT OUR LIQUIDITY AND AVAILABLE CAPITAL RESOURCES, OUR SALES AND OUR PROFITABILITY.

PEI Madera will be highly dependent upon W.M. Lyles Co. to design and build our ethanol production facility in Madera County. PEI Madera has entered

into agreements with W.M. Lyles Co. for the construction of this facility. These agreements contain a number of provisions that are favorable to W.M. Lyles Co. and unfavorable to PEI Madera. These agreements also include a provision that requires PEI Madera to pay a termination fee of $5.0 million to W.M. Lyles Co. in addition to payment of all costs incurred by W.M. Lyles Co. for services rendered through the date of termination, if PEI Madera terminates it in favor of another contractor. Consequently, if PEI Madera terminates these agreements, the requirement that it pay the termination fee and costs could adversely affect our liquidity and available capital resources. In addition, if W.M. Lyles Co. has entered into or enters into a construction contract with one or more other parties, it may be under pressure to complete another project or projects and may prioritize the completion of another project or projects ahead of our Madera County facility. As a result, PEI Madera's ability to commence production of and sell ethanol would be delayed, which would adversely affect our overall sales and profitability.

THE RAW MATERIALS AND ENERGY NECESSARY TO PRODUCE ETHANOL MAY BE UNAVAILABLE OR MAY INCREASE IN PRICE, ADVERSELY AFFECTING OUR SALES AND PROFITABILITY.

The production of ethanol requires a significant amount of raw materials and energy, primarily corn, water, electricity and natural gas. In particular, we estimate that our Madera County ethanol production facility will require approximately 12.5 million bushels or more of corn each year and significant and uninterrupted supplies of water, electricity and natural gas. The prices of corn, electricity and natural gas have fluctuated significantly in the past and may fluctuate significantly in the future. In addition, droughts, severe winter weather in the Midwest, where we expect to source corn, and other problems may cause delays or interruptions of various durations in the delivery of corn to California, reduce corn supplies and increase corn prices. Local water, electricity and gas utilities may not be able to reliably supply the water, electricity and natural gas that our Madera County facility will need or may not be able to supply such resources on acceptable terms. In addition, if there is an interruption in the supply of water or energy for any reason, we may be required to halt ethanol production. We may not be able to successfully anticipate or mitigate fluctuations in the prices of raw materials and energy through the implementation of hedging and contracting techniques. PEI California's hedging and contracting activities may not lower its prices of raw materials and energy, and in a period of declining raw materials or energy prices, these hedging and contracting strategies may result in PEI California paying higher prices than its competitors. In addition, PEI California may be unable to pass increases in the prices of raw materials and energy to its customers. Higher raw materials and energy prices will generally cause lower profit margins and may even result in losses. Accordingly, our sales and profitability may be significantly and adversely affected by the prices and supplies of raw materials and energy.

RISKS RELATED TO OUR COMMON STOCK

AS A RESULT OF OUR ISSUANCE OF SHARES OF SERIES A PREFERRED STOCK TO CASCADE, COMMON STOCKHOLDERS MAY EXPERIENCE NUMEROUS NEGATIVE EFFECTS AND MOST OF THE RIGHTS OF OUR COMMON STOCKHOLDERS WILL BE SUBORDINATE TO THE RIGHTS OF CASCADE.

As a result of our issuance of shares of Series A Preferred Stock to Cascade, common stockholders may experience numerous negative effects, including substantial dilution. The 5,250,000 shares of Series A Preferred Stock issued to Cascade is immediately be convertible into 10,500,000 shares of our common stock, which amount, when issued, would, based upon the number of shares of our common stock outstanding as of April 14, 2006, represent approximately 25.5% of our shares outstanding and, in the event that we are profitable, would likewise result in a decrease in our earnings per share by approximately 25.5%, without taking into account cash or stock payable as a dividend on the Series A Preferred Stock. In addition, income available to common stockholders will be reduced during the second quarter of 2006 to the extent that the market price of our common stock is in excess of the $8 per share purchase price, on an as-converted basis, at which we issued the Series A Preferred Stock. This reduction will be calculated based on the number of shares of common stock deemed issued, on an as-converted basis, multiplied by the difference in the market price of our common stock and the $8 per share purchase price.

Other negative effects to our common stockholders will include potential additional dilution from dividends paid in Series A Preferred Stock and certain antidilution adjustments. In addition, rights in favor of holders of our Series A Preferred Stock include: seniority in liquidation and dividend preferences; substantial voting rights; numerous protective provisions; the right to appoint two persons to our board of directors and periodically nominate two persons for election by our stockholders to our board of directors; preemptive rights; and redemption rights. Also, the Series A Preferred Stock could have the effect of delaying, deferring and discouraging another party from acquiring control of Pacific Ethanol. In addition, based on our current number of shares of common stock outstanding, Cascade would, on an as-converted basis, initially have approximately 25.5% of all outstanding voting power as compared to approximately 30.0% of all outstanding voting power held in aggregate by our current executive officers and directors. Any of the above factors may materially and adversely affect our common stockholders and the values of their investments in our common stock.

OUR COMMON STOCK HAS A SMALL PUBLIC FLOAT AND SHARES OF OUR COMMON STOCK ELIGIBLE FOR PUBLIC SALE COULD CAUSE THE MARKET PRICE OF OUR STOCK TO DROP, EVEN IF OUR BUSINESS IS DOING WELL, AND MAKE IT DIFFICULT FOR US TO RAISE ADDITIONAL CAPITAL THROUGH SALES OF EQUITY SECURITIES.

As of March 31, 2006, we had outstanding approximately 30.5 million shares of our common stock. Approximately 16.8 million of these shares were restricted under the Securities Act of 1933, including approximately 9.3 million shares beneficially owned, in the aggregate, by our executive officers, directors and 10% stockholders. Accordingly, our common stock has a public float of approximately 11.9 million shares held by a relatively small number of public investors.

We have registered for resale approximately 11.8 million shares of our common stock, including shares of our common stock underlying warrants. Of this amount, as of March 31, 2006, approximately 3.2 million shares of our common stock, including shares of our common stock underlying warrants, remained registered for resale and unsold. Holders of these remaining shares are permitted, subject to few limitations, to freely sell these shares of common stock. As a result of our small public float, sales of substantial amounts of common stock, including shares issued upon the exercise of stock options or warrants, or an anticipation that such sales could occur, may materially and adversely affect prevailing market prices for our common stock. Any adverse effect on the market price of our common stock could make it difficult for us to raise additional capital through sales of equity securities at a time and at a price that we deem appropriate.

OUR STOCK PRICE IS HIGHLY VOLATILE, WHICH COULD RESULT IN SUBSTANTIAL LOSSES FOR INVESTORS PURCHASING SHARES OF OUR COMMON STOCK AND IN LITIGATION AGAINST US.

The market price of our common stock has fluctuated significantly in the past and may continue to fluctuate significantly in the future. The market price of our common stock may continue to fluctuate in response to one or more of the following factors, many of which are beyond our control:

- the volume and timing of the receipt of orders for ethanol from major customers;

- competitive pricing pressures;
- our ability to produce, sell and deliver ethanol on a cost-effective and timely basis;
- our inability to obtain construction, acquisition, capital equipment and/or working capital financing;
- the introduction and announcement of one or more new alternatives to ethanol by our competitors;
- changing conditions in the ethanol and fuel markets;
- changes in market valuations of similar companies;
- stock market price and volume fluctuations generally;
- regulatory developments or increased enforcement;
- fluctuations in our quarterly or annual operating results;
- additions or departures of key personnel; and
- future sales of our common stock or other securities.

Furthermore, we believe that the economic conditions in California and other states, as well as the United States as a whole, could have a negative impact on our results of operations. Demand for ethanol could also be adversely affected by a slow-down in overall demand for oxygenate and gasoline additive products. The levels of our ethanol production and purchases for resale will be based upon forecasted demand. Accordingly, any inaccuracy in forecasting anticipated revenues and expenses could adversely affect our business. Furthermore, we recognize revenues from ethanol sales at the time of delivery. The failure to receive anticipated orders or to complete delivery in any quarterly period could adversely affect our results of operations for that period. Quarterly results are not necessarily indicative of future performance for any particular period, and we may not experience revenue growth or profitability on a quarterly or an annual basis.

The price at which you purchase shares of our common stock may not be indicative of the price that will prevail in the trading market. You may be unable to sell your shares of common stock at or above your purchase price, which may result in substantial losses to you and which may include the complete loss of your investment. In the past, securities class action litigation has often been brought against a company following periods of stock price volatility. We may be the target of similar litigation in the future. Securities litigation could result in substantial costs and divert management's attention and our resources away from our business. Any of the risks described above could adversely affect our sales and profitability and also the price of our common stock.

ITEM 7. FINANCIAL STATEMENTS.

Our consolidated financial statements are included in this Form 10-KSB beginning on page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 8A. CONTROLS AND PROCEDURES.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We conducted an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of December 31, 2005, to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities Exchange Commission's rules and forms, including to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated and communicated to management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2005, our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weakness described below.

UNREMEDIATED MATERIAL WEAKNESS

A material weakness is a control deficiency (within the meaning of the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2) or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

On April 7, 2006, in connection with its audit of our consolidated financial statements for the year ended December 31, 2005, Hein & Associates LLP, our independent registered public accounting firm ("Hein"), advised management and our audit committee of the following matter that Hein considered to be a material weakness: The current organization of our accounting department does not provide us with the appropriate resources and adequate technical skills to accurately account for and disclose our activities.

Hein stated that this matter is evidenced by the following issues encountered in connection with its audit of our consolidated financial statements for the year ended December 31, 2005: (i) we were unable to provide accurate accounting for and disclosure of the Share Exchange Transaction, (ii) our closing procedures were not adequate and resulted in significant accounting adjustments, and (iii) we were unable to adequately perform the financial reporting process as evidenced by a significant number of suggested revisions and comments by Hein to our consolidated financial statements and related disclosures for the year ended December 31, 2005.

As a result of the identification of this matter by Hein, management evaluated, with consultation from our audit committee, in the second quarter of 2006 and as of December 31, 2005, the impact of our lack of appropriate resources and adequate technical skills in our accounting department and concluded, in the second quarter of 2006 and as of December 31, 2005, that the control deficiency that resulted in our lack of appropriate resources and adequate technical skills in our accounting department represented a material weakness and concluded that, as of December 31, 2005, our disclosure controls and procedures were not effective at the reasonable assurance level.

To initially address this material weakness, management performed additional analyses and other procedures to ensure that the financial statements included herein fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented.

REMEDIATION OF MATERIAL WEAKNESS

To remediate the material weakness in our disclosure controls and procedures identified above, we have done or intend to do the following subsequent to December 31, 2005, in the periods specified below:

In the second quarter of 2006, we developed plans to alter the current organization of our accounting department to hire additional personnel to assist in our financial reporting processes, including a Director of Financial Reporting who has expertise in public company financial reporting compliance and at least one additional accounting supervisory support staff member who will report to our Controller and/or our Director of Financial Reporting. Our plans also include exploring the advisability of seeking guidance from financial consultants who are certified public accountants with the requisite background and experience to assist us in identifying and evaluating complex accounting and reporting matters. In addition, we intend to define new internal processes for identifying and disclosing both routine and non-routine transactions and for researching and determining proper accounting treatment for those transactions. We plan to assign individuals with appropriate knowledge and skills to perform these processes and plan to provide those individuals with adequate technical and other resources to help ensure the proper application of accounting principles and the timely and appropriate disclosure of routine and non-routine transactions. We also intend to hire a General Counsel who has expertise in public company reporting compliance who will work with our Chief Financial Officer and Director of Financial Reporting to help ensure that our disclosures are timely and appropriate.

We believe that the new position of Director of Financial Reporting, once

it is filled with a suitable candidate, and our additional accounting supervisory support staff member, once hired, will contribute additional expertise to our team of finance and accounting personnel. We also believe that our new position of General Counsel, once it is filled with a suitable candidate, will contribute additional expertise to help ensure that our reporting obligations are satisfied.

Management is unsure, at the time of the filing of this report, when the actions described above will remediate the material weakness also described above. Although management intends to hire the personnel identified above as soon as practicable, it may take an extended period of time until suitable candidates can be located and hired. Management is, however, optimistic that the personnel identified above can be located and hired by the third quarter of 2006 and that the material weakness described above can be fully remediated by the fourth quarter of 2006. In the interim period between the filing of this report and the hiring of the accounting personnel identified above, management intends to explore the advisability of hiring outside consultants to assist us in satisfying our financial reporting obligations.

Management believes that suitable candidates for its new positions of Director of Financial Reporting and General Counsel will have annual base salaries in the range of $90,000 to $125,000 and $150,000 to $200,000, respectively, not including benefits and other costs of employment. Management also believes that a suitable candidate for our additional accounting supervisory support staff member will have an annual base salary in the range of $40,000 to $50,000, not including benefits and other costs of employment. Management is unable, however, to estimate our expenditures related to fees, if any, that may be paid to financial consultants in connection with their guidance in identifying and evaluating complex accounting and reporting matters. In addition, Management is unable to estimate our expenditures related to the hiring of outside consultants to assist us in satisfying our financial reporting obligations. Management is also unable to estimate our expenditures related to the development of new internal processes for identifying and disclosing both routine and non-routine transactions and for researching and determining proper accounting treatment for those transactions. In addition, management is unable to estimate our expenditures related to higher fees to be paid to our independent auditors in connection with their review of this remediation.

PREVIOUSLY REMEDIATED MATERIAL WEAKNESS

In conjunction with the preparation of our Registration Statement on Form S-1, and after receiving comments from the Staff of the Securities and Exchange Commission relating to our Registration Statement on Form S-1, management reviewed, during the third and fourth quarters of 2005, our purchase accounting methodology for the acquisition of ReEnergy. As a result of this review, management concluded, during the fourth quarter of 2005, that our controls over the selection of appropriate assumptions and factors affecting our purchase accounting methodology for the acquisition of ReEnergy were not in accordance with generally accepted accounting principles. Based upon the foregoing, management and our audit committee decided, in the fourth quarter of 2005, to restate our financial statements as of and for the three months ended March 31, 2005 and the six months ended June 30, 2005 to reflect the correction in our purchase accounting methodology. Management evaluated, in the fourth quarter of 2005 and as of September 30, 2005, the impact of this restatement on our assessment of our disclosure controls and procedures and concluded, as of September 30, 2005, that the control deficiency that resulted in the use of an incorrect purchase accounting methodology represented a material weakness.

To remediate the material weakness in our disclosure controls and procedures identified above, we revised our purchase accounting methodology as it relates to the acquisition of ReEnergy. We determined that we made an error in our application of the relevant accounting principles under SFAS No. 141, paragraph 9 (with reference to EITF Issue No. 98-3) and determined that we should have expensed $852,250 and capitalized $120,000 of the $972,250 purchase price for ReEnergy. The revision of our purchase accounting methodology as it relates to the acquisition of ReEnergy was completed in the fourth quarter of 2005. In addition, management resolved to use more care in the selection of appropriate assumptions and factors affecting our purchase accounting methodology for future acquisitions, if any.

Management believes that the remediation described above has remediated the material weakness also described above. Management believes that our expenditures associated with this remediation, not including the reclassification as an expense of part of the purchase price for ReEnergy, totaled approximately $20,000. These expenditures consisted primarily of legal and accounting fees related to the filing of amendments to our Forms 10-QSB for the quarterly periods ended March 31, 2005 and June 30, 2005.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The changes in our controls over the selection of appropriate assumptions and factors affecting our purchase accounting methodology for the acquisition of ReEnergy and our commitment to use more care in the selection of appropriate assumptions and factors affecting our purchase accounting methodology for future acquisitions, if any, are the only changes during our most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

ITEM 8B. OTHER INFORMATION.

None.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

DIRECTORS AND EXECUTIVE OFFICERS

The names, ages and positions held by our directors and executive officers as of April 13, 2006 are as follows:

NAME	AGE	POSITIONS HELD
William L. Jones.....	56	Chairman of the Board and Director
Neil M. Koehler.....	48	Chief Executive Officer, President and Director
Ryan W. Turner.....	31	Chief Operating Officer and Secretary
William G. Langley.....	56	Chief Financial Officer
Frank P. Greinke.....	51	Director
Douglas L. Kieta (1)....	63	Director
John L. Prince (2).....	63	Director
Terry L. Stone (3).....	56	Director
Robert P. Thomas (4)....	28	Director

(1) Member of the nominating and governance committee.
(2) Member of the audit committee.
(3) Member of the audit, nominating and governance, and compensation committees.
(4) Member of the audit and compensation committees.

WILLIAM L. JONES has served as Chairman of the Board and as a director since March 2005. Mr. Jones is a co-founder of PEI California and served as Chairman of the Board of PEI California since its formation in January 2003 through March 2004, when he stepped off the board of PEI California to focus on his candidacy for one of California's United States Senate seats. Mr. Jones was California's Secretary of State from 1995 to 2003. Since May 2002, Mr. Jones has also been the owner of Tri-J Land & Cattle, a diversified farming and cattle company in Fresno County, California. Mr. Jones has a B.A. degree in Agribusiness and Plant Sciences from California State University, Fresno.

NEIL M. KOEHLER has served as Chief Executive Officer, President and as a director since March 2005. Mr. Koehler served as Chief Executive Officer of PEI California since its formation in January 2003 and as Chairman of the Board since March 2004. Prior to his association with PEI California, Mr. Koehler was the co-founder and General Manager of Parallel Products, one of the first ethanol production facilities in California (and one of only two currently existing ethanol production facilities in California), which was sold to a public company in 1997. Mr. Koehler was also the sole manager and sole limited liability company member of Kinergy, which he founded in September 2000. Mr. Koehler has over 20 years of experience in the ethanol production, sales and marketing industry in the Western United States. Mr. Koehler is the Director of the California Renewable Fuels Partnership and a speaker on the issue of renewable fuels and ethanol production in California. Mr. Koehler has a B.A. degree in Government, from Pomona College.

RYAN W. TURNER has served as Chief Operating Officer and Secretary since March 2005 and served as a director from March 2005 until July 2005. Mr. Turner is a co-founder of PEI California and served as its Chief Operating Officer and Secretary and as a director and led the business development efforts of PEI California since its inception in January 2003. Prior to co-founding and joining PEI California, Mr. Turner served as Chief Operating Officer of Bio-Ag, LLC from March 2002 until January 2003. Prior to joining Bio-Ag, LLC, Mr. Turner served as General Manager of J & J Farms, a large-scale, diversified agriculture operation on the west side of Fresno County, California from June 1997 to March 2002, where he guided the production of corn, cotton, tomatoes, melons, alfalfa and asparagus crops and operated a custom beef lot. Mr. Turner has a B.A. degree in Public Policy from Stanford University, an M.B.A. from Fresno State University and was a member of Class XXIX of the California Agricultural Leadership Program.

WILLIAM G. LANGLEY has served as Chief Financial Officer since April 2005. Mr. Langley has been a partner in Tatum CFO Partners, LLP ("Tatum"), a national partnership of more than 350 professional highly-experienced chief financial officers, since November 2002. During this time, Mr. Langley has acted as the full-time Chief Financial Officer for Ensequence, Inc., an inter-active television software company, Norton Motorsports, Inc., a motorcycle

manufacturing and marketing company and Auctionpay, Inc., a software and fundraising management company. From 2001 to 2002, Mr. Langley served as the President, Chief Financial Officer and Chief Operating Officer for Laservia Company, which specializes in advanced laser system technology. From 2000 to 2001, Mr. Langley acted as the Chief Financial Officer of Rulespace, Inc., a developer of artificial intelligence software. Mr. Langley has prior public company experience, is licensed both as an attorney and C.P.A. and will remain a partner in Tatum during his employment with Pacific Ethanol. Mr. Langley has a B.A. degree in accounting and political science from Albertson College, a J.D. degree from Lewis & Clark School of Law and an LL.M. degree from the New York University School of Law.

FRANK P. GREINKE has served as a director since March 2005. Mr. Greinke served as a director of PEI California commencing in October 2003. Mr. Greinke is currently, and has been for at least the past five years, the CEO and sole owner of Southern Counties Oil Co., a petroleum distribution group. Mr. Greinke is also a director of the Society of Independent Gasoline Marketers of America, the Chairman of the Southern California Chapter of the Young Presidents Organization and serves on the Board of Directors of The Bank of Hemet and on the Advisory Board of Solis Capital Partners, Inc.

DOUGLAS L. KIETA has served as a director since April 2006. From April 1999 to April 2006, Mr. Kieta was employed at Calpine Corporation. At the time of his retirement in April 2006, Mr. Kieta was the Senior Vice President of Construction and Engineering with Calpine Corporation. Calpine Corporation is a major North American power company which leases and operates integrated systems of fuel-efficient natural gas-fired and renewable geothermal power plants and delivers clean, reliable and fuel-efficient electricity to customers and communities in 21 U.S. states and three Canadian provinces. Mr. Kieta has a B.S. degree in civil engineering from Clarkson University and a master's degree in civil engineering from Cornell University.

JOHN L. PRINCE has served as a director since July 2005. Mr. Prince is retired but also works as a consultant to Land O' Lakes, Inc. and other companies. Mr. Prince was an Executive Vice President with Land O' Lakes, Inc. from July 1998 until his retirement in 2004. Prior to that time, Mr. Prince was President and Chief Executive Officer of Dairyman's Cooperative Creamery Association, or the DCCA, located in Tulare, California, until its merger with Land O' Lakes, Inc. in July 1998. Land O' Lakes, Inc. is a farmer-owned, national branded organization based in Minnesota with annual sales in excess of $6 billion and membership and operations in over 30 states. Prior to joining the DCCA, Mr. Prince was President and Chief Executive Officer for nine years until 1994, and was Operations Manager for the preceding ten years commencing in 1975, of the Alto Dairy Cooperative in Waupun, Wisconsin. Mr. Prince has a B.A. degree in Business Administration from the University of Northern Iowa.

TERRY L. STONE has served as a director since March 2005. Mr. Stone is a Certified Public Accountant with over thirty years of experience in accounting and taxation. He has been the owner of his own accountancy firm since 1990 and has provided accounting and taxation services to a wide range of industries, including agriculture, manufacturing, retail, equipment leasing, professionals and not-for-profit organizations. Mr. Stone has served as a part-time instructor at California State University, Fresno teaching classes in taxation, auditing, and financial and management accounting. Mr. Stone is also a financial advisor and franchisee of Ameriprise Financial Services, Inc. Mr. Stone has a B.S. in Accounting from California State University, Fresno.

ROBERT P. THOMAS has served as a director since April 2006. Since July 1999, Mr. Thomas has held various positions and is currently a portfolio manager with the William H. Gates III investment group which oversees Mr. Gates' personal investments through Cascade Investment, L.L.C. and the investment assets of the Bill and Melinda Gates Foundation. Mr. Thomas is a graduate of Claremont McKenna College.

Our business, property and affairs are managed under the direction of our board of directors. Our directors are kept informed of our business through discussions with our executive officers, by reviewing materials provided to them and by participating in meetings of our board of directors and its committees. During 2005, our board of directors held 9 meetings attended by members of the board of directors either in person or via telephone, and on 11 occasions approved resolutions by unanimous written consent in lieu of a meeting.

Our officers are appointed by and serve at the discretion of our board of directors. There are no family relationships among our executive officers and directors, except that William L. Jones is the father-in-law of Ryan W. Turner.

BOARD COMMITTEES

Our board of directors currently has an audit committee, a compensation committee and a nominating and governance committee. Our board of directors has determined that Terry L. Stone, John L. Prince, Douglas L. Kieta and Robert Thomas, each of whom is a member of one or more of these committees, are "independent" as defined in NASD Marketplace Rule 4200(a)(15) and that Messrs. Stone, Thomas and Prince meet the other criteria contained in NASD Marketplace Rule 4350 relating to audit committee members.

The audit committee selects our independent auditors, reviews the results and scope of the audit and other services provided by our independent auditors, and reviews our financial statements for each interim period and for our year end. From March 23, 2005 to April 13, 2006, this committee consisted of Terry L. Stone, John L. Prince and Kenneth J. Friedman. Concurrent with Mr. Friedman's

resignation from the board on April 13, 2006, Mr. Thomas was appointed as a member of the audit committee. The audit committee operates pursuant to a charter approved by our board of directors and our audit committee. Our board of directors has determined that Mr. Stone is an "audit committee financial expert."

The compensation committee is responsible for establishing and administering our policies involving the compensation of all of our executive officers and establishing and recommending to our board of directors the terms and conditions of all employee and consultant compensation and benefit plans. Our entire board of directors also may perform these functions with respect to our employee stock option plans. From March 23, 2005 to April 13, 2006, this committee consisted of Messrs. Stone and Friedman. Concurrent with Mr. Friedman's resignation from the board on April 13, 2006, Mr. Thomas was appointed as a member and chairman of the compensation committee. The compensation committee operates pursuant to a charter approved by our board of directors and compensation committee.

The nominating committee selects nominees for the board of directors. From March 23, 2005 to April 13, 2006, the nominating and governance committee has consisted of Messrs. Stone and Friedman. Concurrent with Mr. Friedman's resignation from the board on April 13, 2006, Mr. Kieta was appointed a member of the nominating committee. The nominating and governance committee utilizes a variety of methods for identifying and evaluating nominees for director. Candidates may also come to the attention of the nominating and governance committee through current board members, professional search firms and other persons. The nominating and governance committee operates pursuant to a charter approved by our board of directors and our nominating and governance committee.

During the period commencing on March 23, 2005, the closing of the Share Exchange Transaction, and ending on December 31, 2005, all directors, other than Messrs. Kieta and Thomas who were appointed as members of the board of directors on April 13, 2006, attended at least 75% of the aggregate of the meetings of the board of directors and of the committees on which they served, or that were held during the period they were directors or committee members.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who beneficially own more than 10% of a registered class of our common stock, to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission ("Commission"). These officers, directors and stockholders are required by the Commission regulations to furnish us with copies of all reports that they file.

Based solely upon a review of copies of the reports furnished to us during the year ended December 31, 2005 and thereafter, or any written representations received by us from directors, officers and beneficial owners of more than 10% of our common stock ("reporting persons") that no other reports were required, we believe that, during 2005, except as set forth below, all Section 16(a) filing requirements applicable to our reporting persons were met.

The following individuals did not timely file the following numbers of Forms 4 to report the following numbers of transactions: John Pimentel -- 1 report, 1 transaction; William Jones -- 2 reports, 2 transactions; Terry Stone - -- 1 report, 1 transaction; Kenneth Friedman -- 1 report, 1 transaction; Frank Greinke -- 1 report, 1 transaction; John L. Prince -- 1 report, 1 transaction; Charles W. Bader -- 1 report, 1 transaction; William G. Langley -- 1 report, 1 transaction; Barry Siegel -- 7 reports, 31 transactions; Philip Kart -- 8 reports, 36 transactions.

The following individuals did not timely file Forms 3 upon becoming directors or executive officers of Pacific Ethanol: William Jones, John L. Prince, Charles W. Bader and William G. Langley.

We believe that each of the foregoing persons have prepared and filed all required Forms 3 and 4 to report their respective transactions.

CODES OF ETHICS

Our board of directors has adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees and an additional Code of Business Ethics that applies to our Chief Executive Officer and senior financial officers.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers from provisions of these codes that relate to one or more of the items set forth in Item 406(b) of Regulation S-B, by describing on our Internet website, located at http://www.pacificethanol.net, within four business days following the date of a waiver or a substantive amendment, the date of the waiver or amendment, the nature of the amendment or waiver, and the name of the person to whom the waiver was granted.

Information on our Internet website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the

Commission.

ITEM 10. EXECUTIVE COMPENSATION.

COMPENSATION OF EXECUTIVE OFFICERS

The following table shows for the period commencing on the closing of the Share Exchange Transaction on March 23, 2005 through December 31, 2005, compensation awarded or paid to, or earned by, our current Chief Executive Officer and each of our other most highly compensated executive officers who earned more than $100,000 in salary during that period, or the Named Executive Officers. Mr. Siegel resigned his positions in connection with the Share Exchange Transaction that was consummated on March 23, 2005. Information for Mr. Siegel is provided for the years ended December 31, 2004 and 2003 and the period from January 1, 2005 through March 23, 2005.

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG-TERM COMPENSATION	
				AWARDS	
		SALARY ($)	BONUS ($)	RESTRICTED STOCK AWARDS ($)	SECURITIES UNDERLYING OPTIONS/ SARS (#)
<S>	<C>	<C>	<C>	<C>	<C>
Neil M. Koehler President and Chief Executive Officer	2005	154,615(1)	300,000	--	--
Ryan W. Turner Chief Operating Officer and Secretary	2005	109,135(1)	--	--	--
William G. Langley Chief Financial Officer	2005	149,375(1)	--	--	425,000
Barry Siegel	2005	67,397(1)	--	3,620,000(2)	--
Former Chairman of the Board,	2004	300,000	--	--	--
President and Chief Executive Officer	2003	300,000	--	--	--

</TABLE>

(1) Messrs. Koehler, Turner and Langley each became executive officers, and Mr. Siegel ceased to be an executive officer, of Pacific Ethanol on March 23, 2005.

(2) On March 23, 2005, we issued 400,000 shares of common stock to Mr. Siegel in connection with his execution of a Confidentiality, Non-Competition, Non-Solicitation and Consulting Agreement dated March 23, 2005. These shares vested immediately and were not subject to forfeiture. Mr. Siegel was eligible to receive dividends on these shares. As of December 31, 2005, Mr. Siegel held none of these shares.

OPTION GRANTS IN LAST FISCAL YEAR

The following table provides information regarding options granted in 2005 to the Named Executive Officers. We have never granted any stock appreciation rights.

<TABLE>
<CAPTION>

NAME	GRANT DATE	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR (2)	EXERCISE PRICE PER SHARE	EXPIRATION DATE
<S>	<C>	<C>	<C>	<C>	<C>
Neil M. Koehler	--	--	--	--	--
Ryan W. Turner	--	--	--	--	--
William L. Langley	8/10/05	425,000	70.5%	$8.03	8/10/15
Barry Siegel	--	--	--	--	--

</TABLE>

(1) Option vested as to 20% of the shares on the date of grant and will vest as to 20% of the shares on each of the first, second, third and fourth anniversaries of the date of grant.

(2) Based on options to purchase 602,500 shares granted to our employees during 2005.

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES

The following table provides information regarding the number of shares of our common stock underlying exercisable and unexercisable in-the-money stock options held by the Named Executive Officers and the values of those options at fiscal year-end. An option is "in-the-money" if the fair market value for the underlying securities exceeds the exercise price of the option. The Named Executive Officers did not hold any stock appreciation rights.

<TABLE>
<CAPTION>

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FY-END (#) EXERCISABLE/UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/SARS AT FY-END ($) EXERCISABLE/UNEXERCISABLE(1)
<S>	<C>	<C>	<C>	<C>
Neil M. Koehler.....	--	--	--	--
Ryan W. Turner.....	--	--	--	--
William G. Langley.....	--	--	85,000/340,000	237,150/948,600
Barry Siegel.....	116,667(2)	472,668	0/0	--

</TABLE>

_____

(1) Based on the $10.82 closing price of our common stock on the Nasdaq National Market on December 30, 2005, the last trading day of fiscal 2005, less the exercise price of the options.

(2) Mr. Siegel tendered 76,712 shares of our common stock in connection with a cashless exercise of this option.

LONG-TERM INCENTIVE PLAN AWARDS

In 2005, no awards were given to the Named Executive Officers under long-term incentive plans.

REPORT ON REPRICING OF OPTIONS/SARS

No adjustments to or amendments of the exercise price of stock options or stock appreciation rights previously awarded to the Named Executive Officers occurred in 2005.

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

EXECUTIVE EMPLOYMENT AGREEMENTS DATED MARCH 23, 2005 WITH EACH OF NEIL M. KOEHLER AND RYAN W. TURNER

The Executive Employment Agreement with Neil M. Koehler provides for a three-year term and automatic one-year renewals thereafter, unless either the employee or Pacific Ethanol provides written notice to the other at least 90 days prior to the expiration of the then-current term. The Executive Employment Agreement with Ryan W. Turner provides for a one-year term and automatic one-year renewals thereafter, unless either the employee or Pacific Ethanol provides written notice to the other at least 90 days prior to the expiration of the then-current term.

Neil M. Koehler is to receive a base salary of $200,000 per year and is entitled to receive a cash bonus not to exceed 50% of his base salary to be paid based upon performance criteria set by the board on an annual basis and an additional cash bonus not to exceed 50% of the net free cash flow (defined as revenues of Kinergy, less his salary and performance bonus, less capital expenditures and all expenses incurred specific to Kinergy), subject to a maximum of $300,000 in any given year; provided that such bonus will be reduced by ten percentage points each year, such that 2009 will be the final year of such bonus at 10% of net free cash flow.

Ryan W. Turner is to receive a base salary of $125,000 per year and is entitled to receive a cash bonus not to exceed 50% of his base salary to be paid based upon performance criteria set by the board on an annual basis. Effective as of October 1, 2005, the compensation committee of our board of directors increased Mr. Turner's base salary to $175,000 per year.

We are also required to provide an office and administrative support to each of Messrs. Koehler and Turner and certain benefits, including medical insurance (or, if inadequate due to location of permanent residence, reimbursement of up to $1,000 per month for obtaining health insurance coverage), three weeks of paid vacation per year, participation in the stock option plan to be developed in relative proportion to the position in the organization, and participation in benefit plans on the same basis and to the same extent as other executives or employees.

Each of Messrs. Koehler and Turner are also entitled to reimbursement for all reasonable business expenses incurred in promoting or on behalf of the business of Pacific Ethanol, including expenditures for entertainment, gifts and travel. Upon termination or resignation for "good reason," the terminated employee is entitled to receive severance equal to three months of base salary during the first year after termination or resignation and six months of base salary during the second year after termination unless he is terminated for cause or voluntarily terminates his employment without providing the required written notice. If the employee is terminated (other than for cause) or terminates for good reason following, or within the 90 days preceding, any change in control, in lieu of further salary payments to the employee, we may elect to pay a lump sum severance payment equal to the amount of his annual base salary.

The term "for good reason" is defined in each of the Executive Employment Agreements as (i) a general assignment by us for the benefit of creditors or filing by us of a voluntary bankruptcy petition or the filing against us of any involuntary bankruptcy which remains undismissed for 30 days or more or if a trustee, receiver or liquidator is appointed, (ii) any material changes in the

employee's titles, duties or responsibilities without his express written consent, or (iii) the employee is not paid the compensation and benefits required under the Executive Employment Agreement.

The term "for cause" is defined in each of the Executive Employment Agreements as (i) any intentional misapplication by the employee of Pacific Ethanol funds or other material assets, or any other act of dishonesty injurious to Pacific Ethanol committed by the employee; or (ii) the employee's conviction of (a) a felony or (b) a crime involving moral turpitude; or (iii) the employee's use or possession of any controlled substance or chronic abuse of alcoholic beverages, which use or possession the board reasonably determines renders the employee unfit to serve in his capacity as a senior executive of Pacific Ethanol; or (iv) the employee's breach, nonperformance or nonobservance of any of the terms of his Executive Employment Agreement with us, including but not limited to the employee's failure to adequately perform his duties or comply with the reasonable directions of the board. However, we may not terminate the employee unless the board first provides the employee with a written memorandum describing in detail how his performance is not satisfactory and the employee is given a reasonable period of time (not less than 30 days) to remedy the unsatisfactory performance related by the board to the employee in that memorandum. A determination of whether the employee has satisfactorily remedied the unsatisfactory performance shall be promptly made by a majority of the disinterested directors of the board (or the entire board, but not including the employee, if there are no disinterested directors) at the end of the period provided to the employee for remedy, and the board's determination shall be final.

A "change in control" of Pacific Ethanol is deemed to have occurred if, in a single transaction or series of related transactions: (i) any person (as such term is used in Section 13(d) and 14(d) of the Exchange Act, other than a trustee or fiduciary holding securities under an employment benefit program is or becomes a "beneficial owner" (as defined in Rule 13-3 under the Exchange Act), directly or indirectly of securities of Pacific Ethanol representing 51% or more of the combined voting power of Pacific Ethanol, (ii) there is a merger (other than a reincorporation merger) or consolidation in which Pacific Ethanol does not survive as an independent company, or (iii) the business of Pacific Ethanol is disposed of pursuant to a sale of assets.

EXECUTIVE EMPLOYMENT AGREEMENT DATED AUGUST 10, 2005 WITH WILLIAM G. LANGLEY

The Executive Employment Agreement with William G. Langley provides for a four-year term and automatic one-year renewals thereafter, unless either the employee or Pacific Ethanol provides written notice to the other at least 90 days prior to the expiration of the then-current term. Mr. Langley is to receive a base salary of $185,000 per year. All other terms and conditions of Mr. Langley's Executive Employment Agreement are substantially the same as those contained in Mr. Turner's Executive Employment Agreement, except that Mr. Langley is entitled to six months of severance pay during the entire term of his agreement and is also entitled to reimbursement of his costs associated with his relocation to Fresno, California.

COMPENSATION OF DIRECTORS

The Chairman of our board of directors receives annual compensation of $80,000. Each member of our board of directors, including the Chairman, receives $1,500 for each board meeting attended, whether attended in person or telephonically. The Chairman of our audit committee receives an additional $3,500 per quarterly period. In addition, non-employee directors are reimbursed for certain reasonable and documented expenses in connection with attendance at meetings of our board of directors and committees.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the board of directors has a relationship that would constitute an interlocking relationship with executive officers and directors of another entity.

STOCK OPTION PLANS

We currently have two stock option plans: an Amended 1995 Incentive Stock Plan and a 2004 Stock Option Plan. These plans are administered by our compensation committee, which currently consists of Messrs. Stone and Thomas.

The Amended 1995 Incentive Stock Plan authorizes the issuance of incentive stock options, commonly known as ISOs, and non-qualified stock options, commonly known as NQOs, to our employees, directors or consultants for the purchase of up to 1,200,000 shares of our common stock. The Amended 1995 Incentive Stock Plan terminated in 2005. As of March 31, 2006, options to purchase up to 105,000 shares of common stock were outstanding under the Amended 1995 Incentive Stock Plan.

The 2004 Stock Option Plan authorizes the issuance of ISOs and NQOs to our officers, directors or key employees or to consultants that do business with Pacific Ethanol for up to an aggregate of 2,500,000 shares of common stock. The 2004 Stock Option Plan terminates on November 4, 2014. Our board of directors'

adoption of the 2004 Stock Option Plan was ratified by our stockholders at our 2004 annual meeting of stockholders that was initially convened on December 28, 2004, adjourned to February 1, 2004 and further adjourned to and completed on February 28, 2005. The 2004 Stock Option Plan was amended on January 24, 2006 and further amended on April 12, 2006.

As of March 31, 2006, we had approximately 22 employees and officers and 6 non-employee directors eligible to receive options under the 2004 Stock Option Plan. As of that date, options to purchase up to 795,000 shares of common stock were outstanding under the 2004 Stock Option Plan and 1,705,500 shares remained available for grants under this plan. The following is a description of some of the key terms of the 2004 Stock Option Plan.

SHARES SUBJECT TO THE 2004 STOCK OPTION PLAN

A total of 2,500,000 shares of our common stock are authorized for issuance under the 2004 Stock Option Plan. Any shares of common stock that are subject to an award but are not used because the terms and conditions of the award are not met, or any shares that are used by participants to pay all or part of the purchase price of any option, may again be used for awards under the 2004 Stock Option Plan.

ADMINISTRATION

It is the intent of the 2004 Stock Option Plan that it be administered in a manner such that option grants and exercises would be "exempt" under Rule 16b-3 of the Exchange Act. The compensation committee is empowered to select those eligible persons to whom options shall be granted under the 2004 Stock Option Plan; to determine the time or times at which each option shall be granted, whether options will be ISOs or NQOs and the number of shares to be subject to each option; and to fix the time and manner in which each option may be exercised, including the exercise price and option period, and other terms and conditions of options, all subject to the terms and conditions of the 2004 Stock Option Plan. The compensation committee has sole discretion to interpret and administer the 2004 Stock Option Plan, and its decisions regarding the 2004 Stock Option Plan are final, except that our board of directors can act in place of the compensation committee as the administrator of the 2004 Stock Option Plan at any time or from time to time, in its discretion.

OPTION TERMS

ISOs granted under the 2004 Stock Option Plan must have an exercise price of not less than 100% of the fair market value of a share of common stock on the date the ISO is granted and must be exercised, if at all, within ten years from the date of grant. In the case of an ISO granted to an optionee who owns more than 10% of the total voting securities of Pacific Ethanol on the date of grant, the exercise price may be not less than 110% of fair market value on the date of grant, and the option period may not exceed five years. NQOs granted under the 2004 Stock Option Plan must have an exercise price of not less than 85% of the fair market value of a share of common stock on the date the NQO is granted.

Options may be exercised during a period of time fixed by the committee except that no option may be exercised more than ten years after the date of grant. In the discretion of the committee, payment of the purchase price for the shares of stock acquired through the exercise of an option may be made in cash, shares of our common stock, a combination of cash and shares of our common stock, through net exercise or a combination of cash and net exercise.

AMENDMENT AND TERMINATION

The 2004 Stock Option Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time and from time to time by our board of directors. However, our board of directors may not materially impair any outstanding options without the express consent of the optionee or materially increase the number of shares subject to the 2004 Stock Option Plan, materially increase the benefits to optionees under the 2004 Stock Option Plan, materially modify the requirements as to eligibility to participate in the 2004 Stock Option Plan or alter the method of determining the option exercise price without stockholder approval. No option may be granted under the 2004 Stock Option Plan after November 4, 2014.

FEDERAL INCOME TAX CONSEQUENCES

NQOS. Holders of NQOs do not realize income as a result of a grant or vesting of an option in the event that the stock option is granted at an exercise price at or above the fair market value of the underlying shares of our stock on the date of grant, but realize compensation income upon exercise of an NQO to the extent that the fair market value of the shares of common stock on the date of exercise of the NQO exceeds the exercise price paid. We will be required to withhold taxes on ordinary income realized by an optionee upon the exercise of an NQO.

In the event of the grant of an NQO with a per share exercise price that is less than the fair market value per share of our underlying common stock on the date of grant, the grant is treated as deferred compensation. Except in certain limited circumstances, such a grant results in ordinary income, to the same extent applicable to an option grant with an exercise price at or above fair market value, realized by the optionee at vesting of the option, as opposed to upon its exercise, plus as an additional tax of 20% payable by the optionee.

In the case of an optionee subject to the "short-swing" profit recapture

provisions of Section 16(b) of the Exchange Act, the optionee realizes income only upon the lapse of the six-month period under Section 16(b), unless the optionee elects to recognize income immediately upon exercise of his or her option.

ISOS. Holders of ISOs will not be considered to have received taxable income upon either the grant of the option or its exercise. Upon the sale or other taxable disposition of the shares, long-term capital gain will normally be recognized on the full amount of the difference between the amount realized and the option exercise price paid if no disposition of the shares has taken place within either two years from the date of grant of the option or one year from the date of transfer of the shares to the optionee upon exercise. If the shares are sold or otherwise disposed of before the end of the one-year or two-year periods, the holder of the ISO must include the gain realized as ordinary income to the extent of the lesser of the fair market value of the option stock minus the option price, or the amount realized minus the option price. Any gain in excess of these amounts, presumably, will be treated as capital gain. We will be entitled to a tax deduction in regard to an ISO only to the extent the optionee has ordinary income upon the sale or other disposition of the option shares.

Upon the exercise of an ISO, the amount by which the fair market value of the purchased shares at the time of exercise exceeds the option price will be an "item of tax preference" for purposes of computing the optionee's alternative minimum tax for the year of exercise. If the shares so acquired are disposed of prior to the expiration of the one-year or two-year periods described above, there should be no "item of tax preference" arising from the option exercise.

POSSIBLE ANTI-TAKEOVER EFFECTS

Although not intended as an anti-takeover measure by our board of directors, one of the possible effects of the 2004 Stock Option Plan could be to place additional shares, and to increase the percentage of the total number of shares outstanding, in the hands of the directors and officers of Pacific Ethanol. Those persons may be viewed as part of, or friendly to, incumbent management and may, therefore, under some circumstances be expected to make investment and voting decisions in response to a hostile takeover attempt that may serve to discourage or render more difficult the accomplishment of the attempt.

In addition, options may, in the discretion of the committee, contain a provision providing for the acceleration of the exercisability of outstanding, but unexercisable, installments upon the first public announcement of a tender offer, merger, consolidation, sale of all or substantially all of our assets, or other attempted changes in the control of Pacific Ethanol. In the opinion of our board of directors, this acceleration provision merely ensures that optionees under the 2004 Stock Option Plan will be able to exercise their options as intended by the board of directors and stockholders prior to any extraordinary corporate transaction which might serve to limit or restrict that right. Our board of directors is, however, presently unaware of any threat of hostile takeover involving Pacific Ethanol.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law permits a corporation to indemnify its directors and officers against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with a pending or completed action, suit or proceeding if the officer or director acted in good faith and in a manner the officer or director reasonably believed to be in the best interests of the corporation.

Our certificate of incorporation provides that, except in certain specified instances, our directors shall not be personally liable to us or our stockholders for monetary damages for breach of their fiduciary duty as directors, except liability for the following:

- any breach of their duty of loyalty to our company or our stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; and
- any transaction from which the director derived an improper personal benefit.

In addition, our certificate of incorporation and bylaws obligate us to indemnify our directors and officers against expenses and other amounts reasonably incurred in connection with any proceeding arising from the fact that such person is or was an agent of ours. Our bylaws also authorize us to purchase and maintain insurance on behalf of any of our directors or officers against any liability asserted against that person in that capacity, whether or not we would have the power to indemnify that person under the provisions of the Delaware General Corporation Law. We have entered and expect to continue to enter into agreements to indemnify our directors and officers as determined by our board of directors. These agreements provide for indemnification of related expenses

including attorneys' fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these bylaw provisions and indemnification agreements are necessary to attract any retain qualified persons as directors and officers. We also maintain directors' and officers' liability insurance.

The limitation of liability and indemnification provisions in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions. At present, there is no pending litigation or proceeding involving any of our directors, officers or employees regarding which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.

Insofar as the provisions of our certificate of incorporation or bylaws provide for indemnification of directors or officers for liabilities arising under the Securities Act of 1933, as amended, or the Securities Act, we have been informed that in the opinion of the Commission this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth information with respect to the beneficial ownership of our common stock as of April 14, 2006, the date of the table, by:

- each person known by us to beneficially own more than 5% of the outstanding shares of our common stock;
- each of our directors;
- each of our current executive officers identified at the beginning of the "Management" section of this report; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Commission, and includes voting or investment power with respect to the securities. To our knowledge, except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Shares of common stock underlying derivative securities, if any, that currently are exercisable or convertible or are scheduled to become exercisable or convertible for or into shares of common stock within 60 days after the date of the table are deemed to be outstanding in calculating the percentage ownership of each listed person or group but are not deemed to be outstanding as to any other person or group. Percentage of beneficial ownership is based on 30,601,880 shares of common stock outstanding as of the date of the table.

<TABLE>
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER (1)	TITLE OF CLASS	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
<S>	<C>	<C>	<C>
William L. Jones	Common	2,500,000(2)	8.17%
Neil M. Koehler	Common	4,188,139	13.69%
Ryan W. Turner	Common	914,166(3)	2.99%
William G. Langley	Common	85,000(4)	*
Frank P. Greinke	Common	1,500,000(5)	4.90%
Douglas L. Kieta	Common	--	--
John L. Prince	Common	--	--
Terry L. Stone	Common	--	--
Robert Thomas	Common	--	--
Lyles Diversified, Inc.	Common	2,000,000(6)	6.55%
Cascade Investment, L.L.C.	Common	10,500,000(7)	25.55%
	Series A Preferred	5,250,000(7)	100.00%
All executive officers and directors as a group (9 persons)	Common	9,187,305(8)	30.00%

</TABLE>

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* Less than 1.00%

(1) Messrs. Jones, Koehler, Greinke, Prince, Stone, Kieta and Thomas are directors of Pacific Ethanol. Messrs. Koehler, Turner and Langley are executive officers of Pacific Ethanol. The address of each of these persons, unless otherwise indicated below, is c/o Pacific Ethanol, Inc., 5711 N. West Avenue, Fresno, California 93711.

(2) Represents shares held by William L. Jones and Maurine Jones, husband and wife, as community property.

(3) Represents shares held by Ryan W. Turner and Wendy Turner, husband and wife, as community property.

(4) Represents shares of common stock underlying options.

(5) Represents shares held by the Greinke Personal Living Trust. Mr. Greinke is a trustee of the Greinke Personal Living Trust. Mr. Greinke has sole voting and sole investment power over the shares held by the trust.

(6) Based on information included by Lyles Diversified, Inc. in a Schedule 13D for May 27, 2005. Lyles Diversified, Inc. reported that it holds sole voting and dispositive power over 2,000,000 shares. The Schedule 13D was executed by William M. Lyles IV, as Vice-President of Lyles Diversified, Inc. The address for Lyles Diversified, Inc. is P.O. Box 4376, Fresno, CA 93744.

(7) Amount of common stock represents shares of common stock underlying our Series A Preferred Stock. All Series A Preferred Stock held by Cascade may be deemed to be beneficially owned by Mr. William H. Gates III as the sole member of Cascade. The address for Cascade Investment, L.L.C is 2365 Carillon Point, Kirkland, Washington 98033.

(8) Includes 85,000 shares underlying options.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information about our common stock that may be issued upon the exercise of options, warrants, and rights under all of our existing equity compensation plans as of December 31, 2005.

<TABLE>
<CAPTION>

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING, OPTIONS, WARRANTS OR STOCK RIGHTS	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS
<S>	<C>	<C>	<C>
EQUITY COMPENSATION PLANS APPROVED BY SECURITY HOLDERS:			
1995 Plan.....	377,667	$5.53	822,333
2004 Plan.....	822,500	$7.78	1,677,500

</TABLE>

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

TRANSACTIONS BETWEEN ACCESSITY AND ITS RELATED PARTIES PRIOR TO THE SHARE EXCHANGE TRANSACTION

We were a party to an Employment Agreement with Barry Siegel, our former Chairman of the Board, President and Chief Executive Officer, that commenced on January 1, 2002, and initially expired on December 31, 2004 and which expiration date was extended to December 31, 2007. Mr. Siegel's annual salary was $300,000, and was granted stock options, under our Amended 1995 Incentive Stock Plan, to purchase 60,000 shares of our common stock, in addition to certain other perquisites. The Employment Agreement provided that following a change of control, which included the Share Exchange Transaction, we would be required to pay Mr. Siegel (i) a severance payment of 300% of his average annual salary for the past five years, less $100, (ii) the cash value of his outstanding but unexercised stock options, and (iii) other perquisites should he be terminated for various reasons specified in the agreement. The agreement specified that in no event would any severance payments exceed the amount we could deduct under the provisions of the Internal Revenue Code. In recognition of the sale of one of our divisions, Mr. Siegel was also awarded a $250,000 bonus, which was paid in February 2002, and an additional grant of options to purchase 50,000 shares of our common stock. In connection with the Share Exchange Transaction and the Confidentiality, Non-Competition, Non-Solicitation and Consulting Agreement dated March 23, 2005 between us and Mr. Siegel, Mr. Siegel's Employment Agreement was terminated and he waived the payments that otherwise would have been due to him under the change of control provisions of his Employment Agreement.

We were a party to an Employment Agreement with Philip B. Kart, our former Senior Vice President, Secretary, Treasurer and Chief Financial Officer, that commenced on January 1, 2002, and initially expired on January 1, 2004 and which expiration date, under the amendments referenced above, was extended first to December 31, 2004 and subsequently to December 31, 2005. Mr. Kart's annual salary was $155,000 per annum and he was granted stock options, under our Amended 1995 Incentive Stock Plan, providing the right to purchase 30,000 shares of the our common stock, in addition to certain other perquisites. The Employment Agreement provided that following a change of control, which included the Share Exchange Transaction, we would be required to pay Mr. Kart a severance payment of 100% of his annual salary. The Employment Agreement also provided that following a change in control, all stock options previously granted to him would immediately become fully exercisable. The amendment to the Employment Agreement dated November 15, 2002 also provided for relocation expense payments that were conditioned upon Mr. Kart's relocation to our former headquarters in Florida, which occurred in early 2003. In connection with the Share Exchange Transaction and the Confidentiality, Non-Competition, Non-Solicitation and Consulting Agreement dated March 23, 2005 between us and Mr. Kart, Mr. Kart's Employment Agreement was terminated and he waived the payments that otherwise would have been due to him under the change of control provisions of his Employment Agreement.

Under an agreement with our formerly wholly-owned subsidiary, Sentaur Corp., we were party to an employment agreement with Steven DeLisi that commenced on September 3, 2002 and expired on December 31, 2004. Mr. DeLisi's annual salary was $175,000 per annum and he was granted stock options under our 1995 Incentive Stock Option Plan to purchase up to 50,000 shares of our common stock. Mr. DeLisi also participated in a bonus program that provided a bonus of 50% of his salary upon the achievement of $25,000 in profits for three consecutive months. During the first twelve months of his employment, Mr. DeLisi received an interim bonus of $5,000 for each signed customer contract.

In May 2002 we signed a five and a half year lease to occupy a 7,300 square foot building in Coral Springs, Florida. We terminated this lease on January 14, 2005, and the building was sold, concurrently, by the landlord. This property was owned and operated by B&B Lakeview Realty Corp., one shareholder of which, Barry Siegel, was our former Chairman of the Board, President and Chief Executive Officer, another shareholder of which, Kenneth J. Friedman, was a member of our Board of Directors and another shareholder of which, Barry Spiegel, was formerly a member of our Board of Directors. The terms of the lease required net rentals increasing in annual amounts from $127,000 to $168,000 plus real estate taxes, insurance and other operating expenses. The lease period commenced in October 2002 and was to terminate five years and six months thereafter. We and the landlord each expended approximately $140,000 to complete the interior space. In addition, during July 2002, we pledged $300,000 in an interest bearing account initially as a certificate of deposit, with a Florida bank (the mortgage lender to B&B Lakeview Realty Corp.) as security for our future rental commitments for the benefit of the landlord's mortgage lender. The certificate of deposit was to decline in $100,000 increments on the 36th month, 48th month, and 60th month, as the balance of the rent commitment declined. These funds, along with unpaid and earned interest, were returned to us in January 2005 upon the consummation of the sale of the building. We also had a security deposit of $22,000 held by the related party which was also repaid at that time. At our request, the Landlord agreed to sell the building and permit us to terminate this lease early, in exchange for our reimbursing the Landlord for the prepayment penalty that the Landlord incurred due to the early pay off of its mortgage loan. These fees paid to the Landlord equaled far less than our liabilities pursuant to the lease. During 2004, we paid B&B Lakeview Realty rent payments of $145,000. Operating expenses, insurance and taxes, as required by the lease, were generally paid directly to the providers by us.

In December 2004, we sold certain fully depreciated personal property assets, which we anticipated would be transferred to Mr. Siegel upon consummation of the Share Exchange Transaction. The proceeds, equal to approximately $14,000, were advanced to Mr. Siegel in anticipation of the transaction being completed. Upon learning that this advance was prohibited under Section 402 of the Sarbanes-Oxley Act of 2002, Mr. Siegel repaid the advance in February 2005.

TRANSACTIONS BETWEEN OUR NOW-WHOLLY-OWNED SUBSIDIARIES AND THEIR RELATED PARTIES PRIOR TO THE SHARE EXCHANGE TRANSACTION

Please note that the Certain Relationships and Related Transactions set forth below are with regard to PEI California, Kinergy and ReEnergy, which became our wholly-owned subsidiaries in connection with the Share Exchange Transaction.

TRANSACTIONS BETWEEN PEI CALIFORNIA AND ITS RELATED PARTIES

Neil M. Koehler, our President and Chief Executive Officer and a director is also the Chief Executive Officer of PEI California and was the sole manager and sole limited liability company member of Kinergy and a limited liability company member of Kinergy Resources, LLC, which was a member of ReEnergy. Mr. Koehler did not receive compensation from PEI California.

Tom Koehler, our Vice President, Public Policy and Markets, also held the same position with PEI California and was a limited liability company member of ReEnergy. Mr. Koehler is the brother of Neil M. Koehler and received compensation from PEI California (through Celilo Group, LLC) as an independent contractor.

PEI California and ReEnergy are parties to an Option to Purchase Land dated August 28, 2003, pursuant to which ReEnergy has agreed to sell approximately 89 acres of real property in Visalia to PEI California at a price of $12,000 per acre, with respect to which real property ReEnergy has executed an Option Agreement dated as of July 20, 2003 with Kent Kaulfuss, who was a limited liability company member of ReEnergy, and his wife, which Option Agreement grants ReEnergy an option to purchase such real property for a purchase price of $1,071,600 on or before December 15, 2005 and requires ReEnergy to lease the Wood Industries plant (comprising 35 acres) to Wood Industries (which is owned by Kent Kaulfuss and his wife) for an indefinite period of time for a monthly rental of $800. Accordingly, if the real property had been purchased by PEI California pursuant to the terms of the Option to Purchase Land dated August 28, 2003, Kent Kaulfuss and his wife would have realized a gain on sale of approximately $178,600. The option expired on December 15, 2005 without being exercised.

PEI California entered into a consulting agreement with Ryan W. Turner, our Chief Operating Officer and Secretary, and a former director, for consulting services at $6,000 per month. During 2005 and 2004, PEI California paid Mr. Turner a total of $21,000 and $72,000, respectively, pursuant to the consulting contract. This consulting agreement was terminated in connection with Mr. Turner's entry into an Executive Employment Agreement with us as described above

under "Management - Employment Contracts and Termination of Employment and Change-in-Control Arrangements."

On October 27, 2003, William and Maurine Jones, Ryan and Wendy Turner and Andrea Jones entered into an agreement with Southern Counties Oil Co., a former shareholder of PEI California, of which Frank P. Greinke, one of our directors and a director of PEI California, is the owner and CEO, to sell 1,500,000 shares of common stock of PEI California personally held by them at $1.50 per share for total proceeds of $2,250,000. In connection with the sale of the shares, the parties entered into a Voting Agreement under which William and Maurine Jones, Ryan and Wendy Turner and Andrea Jones agreed to vote a significant number of their existing shares of common stock of PEI California in favor of Mr. Greinke to be elected to the board of directors of PEI California or any successor-in-interest to PEI California, including Pacific Ethanol.

In March 2005, Barry Siegel, on the one hand, and William and Maurine Jones, Ryan and Wendy Turner and Andrea Jones, on the other, entered into a stock purchase agreement that provided for, among other things, the sale of an aggregate of 250,000 shares of common stock of PEI California to Mr. Siegel for an aggregate purchase price of $25.00.

Immediately prior to the closing of the Share Exchange Transaction, William L. Jones sold 200,000 shares of common stock of PEI California to the individual members of ReEnergy at $.01 per share, to compensate them for facilitating the closing of the Share Exchange Transaction.

Immediately prior to the closing of the Share Exchange Transaction, William L. Jones sold 300,000 shares of common stock of PEI California to Neil M. Koehler at $.01 per share to compensate Mr. Koehler for facilitating the closing of the Share Exchange Transaction.

Immediately prior to the closing of the Share Exchange Transaction, William L. Jones sold 100,000 shares of common stock of PEI California to Tom Koehler at $.01 per share to compensate Mr. Koehler for facilitating the closing of the Share Exchange Transaction.

TRANSACTIONS BETWEEN KINERGY AND ITS RELATED PARTIES

Neil M. Koehler, our President and Chief Executive Officer and one of our directors, is also the Chief Executive Officer of PEI California and was the sole manager and sole limited liability company member of Kinergy and was a limited liability company member of Kinergy Resources, LLC, which was a member of ReEnergy. Mr. Koehler did not receive compensation from PEI California and did not receive compensation in his capacity as the sole manager of Kinergy.

Neil M. Koehler is the brother of Tom Koehler, our Vice President, Public Policy and Markets. Tom Koehler was a limited liability company member of ReEnergy.

One of Kinergy's larger customers, Southern Counties Oil Co., doing business at SC Fuels, was a principal shareholder of PEI California and is one of our former stockholders. Mr. Frank P. Greinke, the Chief Executive Officer of the corporate general partner of Southern Counties Oil Co., is one of our directors and was a director of PEI California. During the years ended December 31, 2005 and 2004, Southern Counties Oil Co. accounted for approximately 10% and 13%, respectively, of the total net sales of Kinergy.

TRANSACTIONS BETWEEN REENERGY AND ITS RELATED PARTIES

Tom Koehler, our Vice President, Public Policy and Markets, also held the same position with PEI California and was a limited liability company member of ReEnergy. Mr. Koehler is the brother of Neil M. Koehler and received compensation from PEI California (through Celilo Group, LLC) as an independent contractor.

PEI California and ReEnergy are parties to an Option to Purchase Land dated August 28, 2003, pursuant to which ReEnergy has agreed to sell approximately 89 acres of real property in Visalia to PEI California at a price of $12,000 per acre, with respect to which real property ReEnergy has executed an Option Agreement dated as of July 20, 2003 with Kent Kaulfuss, who was a limited liability company member of ReEnergy, and his wife, which Option Agreement grants ReEnergy an option to purchase such real property for a purchase price of $1,071,600 on or before December 15, 2005 and requires ReEnergy to lease the Wood Industries plant (comprising 35 acres) to Wood Industries (which is owned by Kent Kaulfuss and his wife) for an indefinite period of time for a monthly rental of $800. Accordingly, if the real property had been purchased by PEI California pursuant to the terms of the Option to Purchase Land dated August 28, 2003, Kent Kaulfuss and his wife would have realized a gain on sale of approximately $178,600. The option expired on December 15, 2005 without being exercised.

TRANSACTIONS BETWEEN US AND OUR RELATED PARTIES AT THE TIME OF OR AFTER THE SHARE EXCHANGE TRANSACTION

On March 23, 2005, we issued to Philip B. Kart, our former Senior Vice President, Secretary, Treasurer and Chief Financial Officer, 200,000 shares of common stock in consideration of Mr. Kart's obligations under a Confidentiality, Non-Competition, Non-Solicitation and Consulting Agreement that was entered into in connection with the Share Exchange Transaction.

On March 23, 2005, we issued to Barry Siegel, our former Chairman of the Board, President and Chief Executive Officer, 400,000 shares of common stock in consideration of Mr. Siegel's obligations under a Confidentiality, Non-Competition, Non-Solicitation and Consulting Agreement that was entered into in connection with the Share Exchange Transaction. We also transferred DriverShield CRM Corp., one of our wholly-owned subsidiaries, to Mr. Siegel in connection with this transaction. In addition we sold Sentaur Corp., another of our wholly-owned subsidiaries, to Mr. Siegel for the cash sum of $5,000.

On March 23, 2005, in connection with the Share Exchange Transaction, we entered into Confidentiality, Non-Competition and Non-Solicitation Agreements with each of Neil M. Koehler, Tom Koehler, William L. Jones and Ryan W. Turner. The agreement is substantially the same for each of the foregoing persons, except as otherwise noted below, and provides for certain standard confidentiality protections in our favor prohibiting each of the foregoing persons, each of whom is a stockholder and our officers and/or directors, from disclosure or use of our confidential information. The agreement also provides that each of the foregoing persons is prohibited from competing with us for a period of five years; however, Neil M. Koehler's agreement provides that he is prohibited from competing with us for a period of three years. In addition, during the period during which each of the foregoing persons is prohibited from competing, they are also prohibited from soliciting our customers, employees or consultants and are further prohibited from making disparaging comments regarding us, our officers or directors, or our other personnel, products or services.

On March 23, 2005, in connection with the Share Exchange Transaction, we became the sole owner of the membership interests of Kinergy. Neil M. Koehler, our President and Chief Executive Officer and one of our directors and principal stockholders was formerly the sole owner of the membership interests of Kinergy and personally guaranteed certain obligations of Kinergy to Comerica Bank. As part of the consummation of the Share Exchange Transaction, we executed a Letter Agreement dated March 23, 2005 with Mr. Koehler that provides that we will, as soon as reasonably practical, replace Mr. Koehler as guarantor under certain financing agreements between Kinergy and Comerica Bank. Under the Letter Agreement, prior to the time that Mr. Koehler is replaced by us as guarantor under such financing agreements, we will defend and hold harmless Mr. Koehler, his agents and representatives for all losses, claims, liabilities and damages caused or arising from out of (i) our failure to pay our indebtedness under such financing agreements in the event that Mr. Koehler is required to pay such amounts to Comerica Bank pursuant to his guaranty agreement with Comerica Bank, or (ii) a breach of our duties to indemnify and defend as set forth above.

On July 26, 2005, we issued options to purchase up to 50,000 shares of our common stock to William L. Jones, options to purchase up to 20,000 shares of our common stock to Terry L. Stone, options to purchase up to 15,000 shares of our common stock to Frank P. Greinke, options to purchase up to 15,000 shares of our common stock to John Pimentel, who was then a current director and is now a former director, and options to purchase up to 15,000 shares of our common stock to Ken Freidman, who was then a current director and is now a former director. The options have an exercise price of $8.25 per share, which represents the closing price of a share of our common stock on the date of grant. The options have a term of 10-years and vest in full one year from their date of grant.

On July 26, 2005, we set the compensation and expense reimbursement policies for non-employee members of our board of directors, which policies were made retroactive to May 18, 2005. The Chairman of the Board, currently William L. Jones, is to receive annual compensation of $80,000. Each member of our board of directors, including the Chairman of the Board, is to receive $1,500 for each board or committee meeting attended, whether attended in person or telephonically. The Chairman of the audit committee, currently Terry L. Stone, is to receive an additional $2,000 for each audit committee meeting attended, whether in person or telephonically. In addition, non-employee directors are reimbursed for certain reasonable and documented expenses in connection with attendance at meetings of our board of directors and committees.

On July 28, 2005, we issued options to purchase up to 15,000 shares of our common stock to Charles W. Bader, who was then a current director and is now a former director, and options to purchase up to 15,000 shares of our common stock to John L. Prince, a director. The options have an exercise price of $8.30 per share, which represents the closing price of a share of our common stock on the date of grant. The options have a term of 10-years and vest in full one year from their date of grant.

On August 10, 2005, we issued options to purchase up to 425,000 shares of our common stock to William G. Langley, our Chief Financial Officer. The options have an exercise price of $8.03 per share, which represents the closing price of a share of our common stock on the date immediately preceding the date of grant. The options have a term of 10-years. The options vested immediately as to 85,000 shares and vest as to an additional 85,000 shares on each of the first, second, third and fourth anniversaries of the date of grant.

On September 19, 2005, we issued 3,000 shares of common stock to Kenneth J. Friedman, who was then a current director and is now a former director, upon exercise of outstanding options with an exercise price of approximately $5.63 per share for total gross proceeds of approximately $16,875.

On November 3, 2005, William L. Jones, our Chairman, executed a Continuing Guaranty in favor of W.M. Lyles Co. Under the Guaranty, Mr. Jones guarantees to W.M. Lyles Co. the payment obligations of PEI California under a certain Letter Agreement between PEI California and W.M. Lyles Co. The Letter Agreement relates to a Phase 2 Design-Build Agreement between PEI Madera and W.M. Lyles Co. relating to the construction of our ethanol production facility in Madera County. The Letter Agreement provides that, if W.M. Lyles Co. pays performance liquidated damages to PEI Madera as a result of a defect attributable to Delta-T Corporation, the engineer for the ethanol production facility in Madera County, or if W.M. Lyles Co. pays liquidated damages to PEI Madera under the Phase 2 Design-Build Agreement as a result of a delay that is attributable to Delta-T Corporation, then PEI California agrees to reimburse W.M. Lyles Co. for such liquidated damages. However, PEI California is not responsible for the first $2.0 million of reimbursement. In addition, in the event that W.M. Lyles Co. recovers amounts from Delta-T Corporation for such defect or delay, then W.M. Lyles Co. is to not seek reimbursement from PEI California. The aggregate reimbursement obligations of PEI California under the Letter Agreement are not to exceed $8.1 million. Under the Guaranty, W.M. Lyles Co. is to seek payment on a pro rata basis from Mr. Jones and Neil M. Koehler (as described below), but in the event that Mr. Koehler fails to make payment, then Mr. Jones is responsible for any shortfall. However, the full extent of Mr. Jones' liability under his Guaranty, including for any shortfall for non-payment by Mr. Koehler, is limited to $4.0 million plus any attorneys' fees, costs and expenses.

On November 3, 2005, Neil M. Koehler, a director and our President and Chief Executive Officer, executed a Continuing Guaranty in favor of W.M. Lyles Co. Under the Guaranty, Mr. Koehler guarantees to W.M. Lyles Co. the payment obligations of PEI California under the Letter Agreement described above. Under the Guaranty, W.M. Lyles Co. is to seek payment on a pro rata basis from Messrs. Jones (as described above) and Koehler, but in the event that Mr. Jones fails to make payment, then Mr. Koehler is responsible for any shortfall. However, the full extent of Mr. Koehler's liability under his Guaranty, including for any shortfall for non-payment by Mr. Jones, is limited to $4.0 million plus any attorneys' fees, costs and expenses.

On November 14, 2005, William L. Jones, Neil M. Koehler, Ryan W. Turner, Kenneth J. Friedman and Frank P. Greinke, each of whom is a stockholder and one of our directors and/or executive officers, or the Stockholders, and us, entered into a Voting Agreement, or the Voting Agreement, with Cascade (other than Mr. Friedman who was then a current director and is now a former director). The Stockholders collectively hold an aggregate of approximately 9.2 million shares of our common stock. The Voting Agreement provides that the Stockholders may not transfer their shares of our common stock, and must keep their shares free of all liens, proxies, voting trusts or agreements until the Voting Agreement is terminated. The Voting Agreement provides that the Stockholders will each vote or execute a written consent in favor of Cascade's purchase of 5,250,000 shares of our Series A Preferred Stock for an aggregate purchase price of $84.0 million. In addition, under the Voting Agreement, each Stockholder grants an irrevocable proxy to Neil M. Koehler, a director and our President and Chief Executive Officer, to act as such Stockholder's proxy and attorney-in-fact to vote or execute a written consent in favor of the sale of the preferred stock. The Voting Agreement is effective until the earlier of the approval of the sale of the preferred stock by our stockholders or the termination of the purchase agreement under which the preferred stock is to be sold in accordance with its terms.

On April 13, 2006 Robert P. Thomas was appointed to our board of directors. Mr. Thomas has held various positions and is currently a portfolio manager with the William H. Gates III investment group which oversees Mr. Gates' personal investments through Cascade Investment, L.L.C. and the investment assets of the Bill and Melinda Gates Foundation. Immediately preceding his appointment as a director of Pacific Ethanol, we issued 5,250,000 shares of our Series A Preferred Stock to Cascade Investment, L.L.C.

We are or have been a party to employment and compensation arrangements with related parties, as more particularly described above under the headings "Compensation of Executive Officers," "Employment Contracts and Termination of Employment and Change-in-Control Arrangements" and "Compensation of Directors."

We have entered into an indemnification agreement with each of our directors and executive officers. The indemnification agreements and our certificate of incorporation and bylaws require us to indemnify our directors and officers to the fullest extent permitted by Delaware law.

ITEM 13. EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
2.1	Agreement and Plan of Merger dated March 23, 2005 between the Registrant and Accessity Corp. (1)
2.2	Share Exchange Agreement dated as of May 14, 2004 by and among Accessity Corp., Pacific Ethanol, Inc., Kinergy Marketing, LLC, ReEnergy, LLC and the other parties named therein (1)
2.3	Amendment No. 1 to Share Exchange Agreement dated as of July 29, 2004 by and among Accessity Corp., Pacific Ethanol, Inc., Kinergy Marketing, LLC, ReEnergy, LLC and the other parties named therein

(1)

2.4 Amendment No. 2 to Share Exchange Agreement dated as of October 1, 2004 by and among Accessity Corp., Pacific Ethanol, Inc., Kinergy Marketing, LLC, ReEnergy, LLC and the other parties named therein (1)

2.5 Amendment No. 3 to Share Exchange Agreement dated as of January 7, 2005 by and among Accessity Corp., Pacific Ethanol, Inc., Kinergy Marketing, LLC, ReEnergy, LLC and the other parties named therein (1)

2.6 Amendment No. 4 to Share Exchange Agreement dated as of February 16, 2005 by and among Accessity Corp., Pacific Ethanol, Inc., Kinergy Marketing, LLC, ReEnergy, LLC and the other parties named therein (1)

EXHIBIT NUMBER	DESCRIPTION
2.7	Amendment No. 5 to Share Exchange Agreement dated as of March 3, 2005 by and among Accessity Corp., Pacific Ethanol, Inc., Kinergy Marketing, LLC, ReEnergy, LLC and the other parties named therein (1)
3.1	Certificate of Incorporation of the Registrant (1)
3.2	Certificate of Designations, Powers, Preferences and Rights of the Series A Cumulative Redeemable Convertible Preferred Stock
3.3	Bylaws of the Registrant (1)
10.1	Confidentiality, Non-Competition, Non-Solicitation and Consulting Agreement dated March 23, 2005 between the Registrant and Barry Siegel (1)
10.2	Confidentiality, Non-Competition, Non-Solicitation and Consulting Agreement dated March 23, 2005 between the Registrant and Philip B. Kart (1)
10.3	Form of Confidentiality, Non-Competition and Non-Solicitation Agreement dated March 23, 2005 between the Registrant and each of Neil M. Koehler, Tom Koehler, William L. Jones, Andrea Jones and Ryan W. Turner (1)
10.4	Confidentiality, Non-Competition and Non-Solicitation Agreement dated March 23, 2005 between the Registrant and Neil M. Koehler (1)
10.5	Form of Indemnification Agreement between the Registrant and each of its Executive Officers and Directors (#)
10.6	Executive Employment Agreement dated March 23, 2005 between the Registrant and Neil M. Koehler (#)(1)
10.7	Executive Employment Agreement dated March 23, 2005 between the Registrant and Ryan W. Turner (#)(1)
10.8	Stock Purchase Agreement and Assignment and Assumption Agreement dated March 23, 2005 between the Registrant and Barry Siegel (1)
10.9	Letter Agreement dated March 23, 2005 between the Registrant and Neil M. Koehler (1)
10.10	Ethanol Purchase and Marketing Agreement dated March 4, 2005 between Kinergy Marketing, LLC, Phoenix Bio-Industries, LLC, Pacific Ethanol, Inc. and Western Milling, LLC (2)
10.11	Pacific Ethanol Inc. 2004 Stock Option Plan (3)
10.12	First Amendment to Pacific Ethanol, Inc. 2004 Stock Option Plan (14)
10.13	Amended 1995 Stock Option Plan (4)
10.14	Warrant dated March 23, 2005 issued by the Registrant to Liviakis Financial Communications, Inc. (1)
10.15	Form of Registration Rights Agreement dated effective March 23, 2005 between Pacific Ethanol, Inc., a California corporation and the investors who are parties thereto (1)
10.16	Form of Warrant dated March 23, 2005 issued by the Registrant to subscribers to a private placement of securities by Pacific Ethanol, Inc., a California corporation (1)
10.17	Form of Placement Warrant dated March 23, 2005 issued by the Registrant to certain placement agents (1)

EXHIBIT NUMBER	DESCRIPTION
10.18	Executive Employment Agreement dated August 10, 2005 between the Registrant and William G. Langley (#)(5)
10.19	Form of Registration Rights Agreement of various dates between Pacific Ethanol, Inc., a California corporation and the investors who are parties thereto (7)
10.20	Form of Placement Warrant dated effective of various dates issued by Pacific Ethanol, Inc., a California corporation, to certain placement agents (7)
10.21	Form of Registration Rights Agreement dated effective May 14, 2004 between Pacific Ethanol, Inc., a California corporation and the investors who are parties thereto (6)
10.22	Form of Placement Warrant dated effective May 14, 2004 issued by Pacific Ethanol, Inc., a California corporation, to certain placement agents (7)
10.23	Form of Registration Rights Agreement of various dates between Pacific Ethanol, Inc., a California corporation and the investors who are parties thereto (6)
10.24	Form of Warrant of various dates issued to subscribers to a private placement of securities of Pacific Ethanol, Inc., a California corporation (7)
10.25	Warrant dated March 23, 2005 issued by the Registrant to Jeffrey H. Manternach (7)
10.26	Warrant dated June 15, 2001 issued to Rotom Enterprises, Inc. (9)
10.27	Warrant dated February 8, 2002 issued to Rotom Enterprises, Inc. (9)
10.28	Warrant dated June 15, 2001 issued to Colin Winthrop & Co., Inc. (9)
10.29	Ethanol Marketing Agreement dated as of August 31, 2005 by and between Kinergy Marketing, LLC and Front Range Energy, LLC (8)
10.30	Master Revolving Note dated September 24, 2004 of Kinergy Marketing, LLC in favor of Comerica Bank (10)
10.31	Loan Revision/Extension Agreement dated October 4, 2005 and effective as of June 20, 2005 between Kinergy Marketing, LLC and Comerica Bank (10)
10.32	Letter Agreement dated as of October 4, 2005 between Kinergy Marketing, LLC and Comerica Bank (10)
10.33	Guaranty dated October 4, 2005 by Pacific Ethanol, Inc. in favor of Comerica Bank (10)
10.34	Security Agreement dated as of September 24, 2004 executed by Kinergy Marketing, LLC in favor of Comerica Bank (13)
10.35	Amended and Restated Phase 1 Design-Build Agreement dated November 2, 2005 by and between Pacific Ethanol Madera LLC and W.M. Lyles Co. (11)
10.36	Phase 2 Design-Build Agreement dated November 2, 2005 by and between Pacific Ethanol Madera LLC and W.M. Lyles Co. (11)
10.37	Letter Agreement dated November 2, 2005 by and between Pacific Ethanol California, Inc. and W.M. Lyles Co. (11)
10.38	Continuing Guaranty dated as of November 3, 2005 by William L. Jones in favor of W.M. Lyles Co. (11)
10.39	Continuing Guaranty dated as of November 3, 2005 by Neil M. Koehler in favor of W.M. Lyles Co. (11)

EXHIBIT NUMBER	DESCRIPTION
10.40	Description of Non-Employee Director Compensation (12)
10.41	Purchase Agreement dated November 14, 2005 between Pacific Ethanol, Inc. and Cascade Investment, L.L.C. (12)
10.42	Deposit Agreement dated April 13, 2006 by and between Pacific Ethanol, Inc. and Comerica Bank
10.43	Registration Rights and Stockholders Agreement dated as of April 13,

	2006 by and between Pacific Ethanol, Inc. and Cascade Investment, L.L.C.
10.44	Amendment No. 1 to Ethanol Purchase and Marketing Agreement dated effective as of March 4, 2005 between Kinergy Marketing, LLC, Phoenix Bio-Industries, LLC, Pacific Ethanol, Inc. and Western Milling, LLC
10.45	Construction and Term Loan Agreement dated April 10, 2006 by and among Pacific Ethanol Madera LLC, Comerica Bank and Hudson United Capital, a division of TD Banknorth, N.A.
10.46	Construction Loan Note dated April 13, 2006 by Pacific Ethanol Madera LLC in favor of Comerica Bank
10.47	Construction Loan Note dated April 13, 2006 by Pacific Ethanol Madera LLC in favor of Hudson United Capital, a division of TD Banknorth, N.A.
10.48	Assignment and Security Agreement dated April 13, 2006 by and between Pacific Ethanol Madera LLC and Hudson United Capital, a division of TD Banknorth, N.A.
10.49	Member Interest Pledge Agreement dated April 13, 2006 by Pacific Ethanol Madera LLC in favor of Hudson United Capital, a division of TD Banknorth, N.A.
10.50	Intercreditor and Collateral Sharing Agreement dated April 13, 2006 by and among Hudson United Capital, a division of TD Banknorth, N.A., Lyles Diversified, Inc. and Pacific Ethanol Madera LLC
10.51	Disbursement Agreement dated April 13, 2006 by and among Pacific Ethanol Madera LLC, Hudson United Capital, a division of TD Banknorth, N.A., Comerica Bank and Wealth Management Group of TD Banknorth, N.A.
10.52	Amended and Restated Term Loan Agreement effective as of April 13, 2006 by and between Lyles Diversified, Inc. and Pacific Ethanol Madera LLC
10.53	Letter Agreement dated as of April 13, 2006 by and among Pacific Ethanol California, Inc., Lyles Diversified, Inc. and Pacific Ethanol Madera LLC.
14.1	Code of Ethics (1)
14.2	Code of Ethics for Chief Executive Officer and Senior Financial Officers (1)
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Principal Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

EXHIBIT NUMBER	DESCRIPTION
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

_____

(#) Management contract or compensatory plan, contract or arrangement required to be filed as an exhibit.

(1) Filed as an exhibit to the Registrant's current report on Form 8-K for March 23, 2005 filed with the Securities and Exchange Commission on March 29, 2005 and incorporated herein by reference.

(2) Filed as an exhibit to the Registrant's quarterly report on Form 10-QSB for March 31, 2005 (File No. 0-21467) filed with the Securities and Exchange Commission on May 23, 2005 and incorporated herein by reference.

(3) Filed as an exhibit to the Registrant's Registration Statement on Form S-8 (Reg. No. 333-123538) filed with the Securities and Exchange Commission on March 24, 2005 and incorporated herein by reference.

(4) Filed as an exhibit to the Registrant's annual report Form 10-KSB for December 31, 2002 (File No. 0-21467) filed with the Securities and Exchange Commission on March 31, 2003 and incorporated herein by reference.

(5) Filed as an exhibit to the Registrant's current report on Form 8-K for August 10, 2005 filed with the Securities and Exchange Commission on August 16, 2005 and incorporated herein by reference.

(6) The Form of the Registration Rights Agreement was filed as Exhibit 4.4 to the Registrant's Registration Statement on Form S-1 (Reg. No. 333-127714) filed with the Securities and Exchange Commission on August 19, 2005 and incorporated herein by reference.

(7) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (Reg. No. 333-127714) filed with the Securities and Exchange Commission on August 19, 2005 and incorporated herein by reference.

(8) Filed as an exhibit to the Registrant's current report on Form 8-K for August 31, 2005 filed with the Securities and Exchange Commission on September 7, 2005 and incorporated herein by reference.

(9) Filed as an exhibit to the Registrant's Amendment No. 1 to Registration Statement on Form S-1 (Reg. No. 333-127714) filed with the Securities and Exchange Commission on November 1, 2005 and incorporated herein by reference.

(10) Filed as an exhibit to the Registrant's current report on Form 8-K for November 1, 2005 filed with the Securities and Exchange Commission on November 7, 2005 and incorporated herein by reference.

(11) Filed as an exhibit to the Registrant's current report on Form 8-K for November 2, 2005 filed with the Securities and Exchange Commission on November 8, 2005 and incorporated herein by reference.

(12) Filed as an exhibit to the Registrant's current report on Form 8-K for November 10, 2005 filed with the Securities and Exchange Commission on November 15, 2005 and incorporated herein by reference.

(13) Filed as an exhibit to the Registrant's Amendment No. 2 to Registration Statement on Form S-1 (Reg. No. 333-127714) filed with the Securities and Exchange Commission on November 22, 2005 and incorporated herein by reference.

(14) Filed as an exhibit to the Registrant's current report on Form 8-K for January 26, 2006 filed with the Securities and Exchange Commission on February 1, 2006 and incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table presents fees for professional audit services rendered by Hein & Associates LLP for the year ended December 31, 2005 and Nussbaum Yates & Wolpow, P.C. for the year ended December 31, 2004.

	2005	2004
Audit Fees	$ 395,189	$ 67,500
Audit-Related Fees	98,938	--
Tax Fees	6,296	--
All Other Fees	--	40,726
Total	$ 500,423	$ 108,226

AUDIT FEES. Consist of amounts billed for professional services rendered for the audit of our annual consolidated financial statements included in our Annual Reports on Forms 10-KSB, and reviews of our interim consolidated financial statements included in our Quarterly Reports on Forms 10-QSB and our Registration Statement on Form S-1, including amendments thereto.

AUDIT-RELATED FEES. Consist of amounts billed for professional services performed in connection with mergers and acquisitions.

TAX FEES. Consists of amounts billed for professional services rendered for tax return preparation, tax planning and tax advice.

ALL OTHER FEES. Consists of amounts billed for services other than those noted above. In 2004, these services were primarily related to assistance and review of our proxy statement that was filed with the Commission in the fourth quarter of 2004 and matters related to the review of the Share Exchange Agreement in connection with the Share Exchange Transaction that ultimately occurred in March 2005. In 2005, these services were primarily related to document review.

Our audit committee is responsible for approving all audit, audit-related, tax and other services. The audit committee pre-approves all auditing services and permitted non-audit services, including all fees and terms to be performed for us by our independent auditor at the beginning of the fiscal year. Non-audit services are reviewed and pre-approved by project at the beginning of the fiscal year. Any additional non-audit services contemplated by Pacific Ethanol after the beginning of the fiscal year are submitted to the audit committee chairman for pre-approval prior to engaging the independent auditor for such services. Such interim pre-approvals are reviewed with the full audit committee at its next meeting for ratification.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Pacific Ethanol, Inc.
Fresno, California

We have audited the consolidated balance sheets of Pacific Ethanol, Inc. (the "Company") as of December 31, 2005 and 2004 and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pacific Ethanol, Inc., as of December 31, 2005 and 2004 and the consolidated results of its operations and its cash flows for the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ HEIN & ASSOCIATES LLP
Irvine, California
April 14, 2006

PACIFIC ETHANOL, INC.

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2004

<TABLE>

ASSETS	2005	2004
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,521,111	$ 42
Investments in marketable securities	2,750,000	--
Accounts receivable (including $937,713 and $0 as of December 31, 2005 and 2004, respectively, from a related party)	4,947,538	8,464
Notes receivable - related party	135,995	5,286
Inventories	362,972	--
Prepaid expenses	626,575	--

Prepaid inventory	1,349,427	293,115
Other current assets	86,054	479,199
Total current assets	14,779,672	786,106
PROPERTY AND EQUIPMENT, NET	23,208,248	6,324,824
OTHER ASSETS:		
Debt issuance costs, net	48,333	68,333
Deposits	14,086	--
Goodwill	2,565,750	--
Intangible assets, net	7,568,723	--
Total other assets	10,196,892	68,333
TOTAL ASSETS	$ 48,184,812	$ 7,179,263

The accompanying notes are an integral part of these consolidated financial statements.

PACIFIC ETHANOL, INC.

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2005 AND 2004 (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY	2005	2004
CURRENT LIABILITIES:		
Current portion - related party note payable	$ 1,200,000	$ --
Accounts payable - trade	4,755,235	383,012
Accounts payable - related party	6,411,618	846,211
Accrued retention - related party	1,450,500	--
Accrued payroll	433,887	18,963
Accrued interest payable - related party	--	30,864
Other accrued liabilities	3,422,565	531,803
Total current liabilities	17,673,805	1,810,853
RELATED-PARTY NOTES PAYABLE, NET OF CURRENT PORTION	1,995,576	4,012,678
TOTAL LIABILITIES (NOTE 11)	19,669,381	5,823,531
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding as of December 31, 2005 and 2004	--	--
Common stock, $0.001 par value; 100,000,000 shares authorized, 28,874,442 and 13,445,866 shares issued and outstanding as of December 31, 2005 and 2004, respectively	28,874	13,446
Additional paid-in capital	43,697,486	5,071,632
Unvested consulting expense	(1,625,964)	--
Due from stockholders	(600)	(68,100)
Accumulated deficit	(13,584,365)	(3,661,246)
Total stockholders' equity	28,515,431	1,355,732
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 48,184,812	$ 7,179,263

The accompanying notes are an integral part of these consolidated financial statements.

PACIFIC ETHANOL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Net sales (including $9,060,273 and $0 for the years ended December 31, 2005 and 2004, respectively, to a related party)	$ 87,599,012	$ 19,764
Cost of goods sold	84,444,183	12,523

Gross profit	3,154,829	7,241
Operating expenses:		
Selling, general and administrative expenses (including $2,063,276 and $1,207,500 of non-cash compensation expense for the years ended December 31, 2005 and 2004, respectively)	10,994,630	2,277,510
Feasibility study expensed in connection with acquisition of ReEnergy	852,250	--
Acquisition cost expense in excess of cash received	480,948	--
Discontinued design of cogeneration facility	310,522	--
Loss from operations	(9,483,521)	(2,270,269)
Other expense:		
Other expense	(270,783)	(2,166)
Interest expense	(163,215)	(528,532)
Loss before provision for income taxes	(9,917,519)	(2,800,967)
Provision for income taxes	5,600	1,600
Net loss	$ (9,923,119)	$ (2,802,567)
Net loss per share, basic and diluted	$ (0.40)	$ (0.23)
Weighted-average shares outstanding, basic and diluted	25,065,872	12,396,895

The accompanying notes are an integral part of these consolidated financial statements.

PACIFIC ETHANOL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Common Stock		Additional Paid-In	Due from	Unvested Consulting	Accumulated	
	Shares	Amount	Capital	Stockholders	Expense	Deficit	Total
BALANCES, January 1, 2004	11,733,200	$11,733	$ 2,215,774	$ (1,000)	$ --	$ (858,679)	$ 1,367,828
Issuance of common stock to friends and family, net of offering costs of $7,127	19,000	19	21,354	--	--	--	21,373
Issuance of warrants to purchase 920,000 shares of common stock for non-cash compensation to non-employee for services	--	--	1,380,000	--	--	--	1,380,000
Exercise of warrants	920,000	920	(828)	--	--	--	92
Collection of shareholder receivable	--	--	--	400	--	--	400
Issuance of common stock in working capital round, net of offering costs of $107,418	500,000	500	892,082	(67,500)	--	--	825,082
Issuance of common stock in working capital round, net of offering costs of $2,475	103,666	104	308,420	--	--	--	308,524
Conversion of LDI debt	170,000	170	254,830	--	--	--	255,000
Net loss	--	--	--	--	--	(2,802,567)	(2,802,567)
BALANCES, December 31, 2004	13,445,866	$13,446	$ 5,071,632	$ (68,100)	$ --	$ (3,661,246)	$ 1,355,732

The accompanying notes are an integral part of these consolidated financial statements.

PACIFIC ETHANOL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (CONTINUED)

	Common Stock		Additional Paid-In	Due from	Unvested Consulting	Accumulated	
	Shares	Amount	Capital	Stockholders	Expense	Deficit	Total
BALANCES, January 1, 2005	13,445,866	$13,446	$ 5,071,632	$ (68,100)	$ --	$ (3,661,246)	$ 1,355,732
Amounts received from shareholder	--	--	--	67,500	--	--	67,500
Issuance of shares in private placement, net of offering costs of $2,124,815	7,000,000	7,000	18,868,185	--	--	--	18,875,185
Share Exchange	7,089,452	7,089	13,576,936	--	--	--	13,584,025
Acquisition costs in excess of cash acquired	--	--	480,948	--	--	--	480,948
Compensation expense related to issuance of warrants for consulting services	--	--	2,553,000	--	(1,625,964)	--	927,036
Stock issued for exercise of warrants for cash	237,249	237	489,772	--	--	--	490,009
Stock issued in cashless exercise of warrants	34,413	34	(34)	--	--	--	--
Compensation expense for options issued to employees	--	--	80,490	--	--	--	80,490
Compensation expense for employee option converted into a warrant	--	--	232,250	--	--	--	232,250
Stock issued for exercise of stock options for cash	78,000	78	449,297		--		449,375
Stock issued for cashless exercise of stock options	89,462	89	(89)				--
Issuance of stock to employees	70,000	70	650,930				651,000
Conversion of LDI debt	830,000	830	1,244,170	--	--	--	1,245,000
Net loss	--	--	--	--	--	(9,923,119)	(9,923,119)
BALANCES, December 31, 2005	28,874,442	$28,874	$43,697,486	$ (600)	$(1,625,964)	$(13,584,365)	$28,515,431

The accompanying notes are an integral part of
these consolidated financial statements.

PACIFIC ETHANOL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004
Net loss	$ (9,923,119)	$ (2,802,567)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization of intangibles	766,525	78,743
Amortization of debt issuance costs	20,000	20,000
Interest expense relating to amortization of debt discount	427,898	240,536
Discontinued design of cogeneration facility	310,522	--
Non-cash compensation expense	963,740	--
Non-cash consulting expense	1,099,536	1,207,500
Expiration of option acquired in acquisition of ReEnergy	120,000	--
Feasibility study expensed in connection with acquisition of ReEnergy	852,250	--
Acquisition cost expense in excess of cash received	480,948	--
(Increase) decrease in:		
Accounts receivable	(2,427,415)	15,724
Notes receivable, related party	(130,709)	(5,286)
Inventories	218,593	1,734
Prepaid expenses and other assets	(514,874)	(98,938)
Prepaid inventory	(1,041,865)	--

Other receivable	(21,848)	261,850
Increase (decrease) in:		
Accounts payable	2,496,109	87,055
Accounts payable, related party	5,565,407	396,190
Accrued retention, related party	1,450,500	--
Accrued payroll	414,924	5,604
Accrued interest payable	(31,315)	(121,316)
Accrued liabilities	2,911,204	258,656
Net cash provided by (used in) operating activities	4,007,011	(454,515)
Cash flows from Investing Activities:		
Additions to property and equipment	(17,272,971)	(739,354)
Proceeds from sales of available-for-sale investments	(15,000,000)	
Purchases of available-for-sale investments	12,250,000	--
Payment on related party notes receivable	--	199,749
Payment on deposit	(14,086)	--
Net cash acquired in acquisition of Kinergy, ReEnergy and Accessity	3,326,924	--
Cash payments in connection with share exchange transaction	(540,825)	(430,393)
Net cash used in investing activities	(17,250,958)	(969,998)
Cash flows from Financing Activities:		--
Proceeds from sale of stock, net	18,875,185	1,155,379
Payment on notes payable, Kinergy and ReEnergy	(2,097,053)	--
Proceeds from notes payable, related party	280,000	20,000
Payment on notes payable, related party	(300,000)	--
Proceeds from exercise of stock options	939,384	92
Receipt of stockholder receivable	67,500	--
Net cash provided by financing activities	17,765,016	1,175,471
Net increase (decrease) in cash and cash equivalents	4,521,069	(249,042)
Cash and cash equivalents at beginning of period	42	249,084
Cash and cash equivalents at end of period	$ 4,521,111	$ 42

The accompanying notes are an integral part of
these consolidated financial statements.

PACIFIC ETHANOL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (CONTINUED)

	2005	2004
Supplemental Information:		
Interest paid	$ 386,854	$ 422,233
Income taxes paid	$ 5,600	$ 2,400
Non-Cash Financing and Investing activities:		
Conversion of debt to equity	$ 1,245,000	$ 255,000
Issuance of stock for receivable	$ --	$ 67,100
Purchase of ReEnergy with stock	$ 316,250	$ --
Shares contributed by stockholder in purchase of ReEnergy	$ 506,000	$ --
Shares contributed by stockholder in purchase of Kinergy	$ 1,012,000	$ --
Purchase of Kinergy with stock	$ 9,803,750	$ --

The accompanying notes are an integral part of
these consolidated financial statements.

</TABLE>

PACIFIC ETHANOL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ORGANIZATION AND BUSINESS - These consolidated financial statements include the accounts of Pacific Ethanol, Inc., a Delaware corporation, and its wholly-owned subsidiaries Pacific Ethanol California, Inc., a California corporation that was incorporated on January 30, 2003 ("PEI California"), Kinergy Marketing, LLC, an Oregon limited liability company that was organized on September 13, 2000 ("Kinergy"), and ReEnergy, LLC, a California limited liability company that was organized on March 7, 2001 ("ReEnergy") (collectively, the "Company"). The Company is engaged in the business of marketing ethanol in the Western United States and is in the process of constructing an ethanol production facility in Madera County, California.

On March 23, 2005, the Company completed a share exchange transaction with the shareholders of PEI California and the holders of the membership interests of each of Kinergy and ReEnergy, pursuant to which the Company acquired all of the issued and outstanding capital stock of PEI California and all of the outstanding membership interests of Kinergy and ReEnergy (the "Share Exchange Transaction"). Immediately prior to the consummation of the Share Exchange Transaction, the Company's predecessor, Accessity Corp., a New York corporation ("Accessity"), reincorporated in the State of Delaware under the name "Pacific Ethanol, Inc" through a merger of Accessity with and into its then-wholly-owned Delaware subsidiary named Pacific Ethanol, Inc., which was formed for the purpose of effecting the reincorporation (the "Reincorporation Merger"). In connection with the Reincorporation Merger, the shareholders of Accessity became stockholders of the Company and the Company succeeded to the rights, properties and assets and assumed the liabilities of Accessity. (See Note 2.)

The Share Exchange Transaction has been accounted for as a reverse acquisition whereby PEI California is deemed to be the accounting acquiror. The Company has consolidated the results of PEI California, Kinergy and ReEnergy beginning March 23, 2005, the date of the Share Exchange Transaction. Accordingly, the Company's results of operations for the year ended December 31, 2004 consist only of the operations of PEI California and the Company's results of operations for the year ended December 31, 2005 consist of the operations of PEI California for the twelve month period and the operations of Kinergy and ReEnergy from March 23, 2005 through December 31, 2005. (See Note 2.)

BASIS OF PRESENTATION - These consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America and include the accounts of Pacific Ethanol, Inc. and each of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

LIQUIDITY - The Company believes that current and future available capital resources, revenues generated from operations, and other existing sources of liquidity, including the credit facilities the Company has and the remaining proceeds the Company has from PEI California's March 2005 private offering, the Company's offering of Series A Preferred Stock and the available proceeds from the Debt Financing, will be adequate to meet the Company's anticipated working capital and capital expenditure requirements for at least the next twelve months. If, however, the Company's capital requirements or cash flow vary materially from the Company's current projections, if unforeseen circumstances occur, or if the Company requires a significant amount of cash to fund future acquisitions, the Company may require additional financing. The Company's failure to raise capital, if needed, could restrict its growth or hinder its ability to compete. (See "Preferred Stock Financing and Debt Financing" in Note 13.)

CASH AND CASH EQUIVALENTS - For financial statement purposes, the Company considers all highly liquid investments with an original maturity of three months or less, to be cash equivalents.

MARKETABLE SECURITIES- The Company's short-term investments consist primarily of Auction Rate Securities ("ARS"), which represent funds available for current operations. In accordance with SFAS No. 115, ACTING FOR CERTAIN INVESTMENTS IN DEBT AND EQUITY SECURITIES, these short-term investments are classified as available-for-sale and are carried at cost or par value, which approximates the fair market value. These securities have stated maturities beyond three months but are priced and traded as short-term instruments.

ALLOWANCE FOR DOUBTFUL ACCOUNTS - The Company does business and extends credit based on an evaluation of the customers' financial condition generally without requiring collateral. Exposure to losses on trade receivables is expected to vary by customer due to the financial condition of each customer. The Company monitors exposure to credit losses and maintains allowances for anticipated losses considered necessary under the circumstances.

Delinquent accounts receivable are charged against the allowance for doubtful accounts once uncollectibility has been determined. The allowance is determined through an analysis of the aging of accounts receivable and

assessments of risk that are based on historical trends and an evaluation of the impact of current and projected economic conditions. The Company evaluates the past-due status of its receivables based on contractual terms of sale. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of ability to make payments, additional allowances may be required.

At December 31, 2005 and 2004, management of the Company believed that all receivables were collectible, and therefore has not established an allowance for bad debt. The Company has had no material bad debt expense for the period from January 1, 2004 to December 31, 2005.

CONCENTRATIONS OF CREDIT RISK - Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions described below.

Financial instruments that subject the Company to credit risk consist of cash balances maintained in excess of federal depository insurance limits and accounts receivable, which have no collateral or security. The accounts maintained by the Company at the financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At December 31, 2005, the uninsured balance was $4,048,476 and at December 31, 2004, the uninsured balance was $0. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk of loss on cash.

During 2004 and the beginning of 2005, the Company received a handling fee from its trans-loading capabilities. From March 23, 2005 (acquisition of Kinergy) to December 31, 2005, the Company received proceeds from sales of fuel grade ethanol to its customers. During the years ended December 31, 2005 and December 31, 2004, the Company had sales from customers representing 10% or more of total sales as follows:

	2005	2004
Customer A	18%	0%
Customer B	11%	0%
Customer C	10%	0%
Customer D	0%	36%
Customer E	0%	25%
Customer F	0%	22%
Customer G	0%	15%

As of December 31, 2005, the Company had receivables of approximately $2,203,759 from these customers, representing 45% of total accounts receivable.

From March 23, 2005 (acquisition of Kinergy) to December 31, 2005, the Company purchased fuel grade ethanol from its suppliers. During the year ended December 31, 2005, the Company had purchases from vendors representing 10% or more of total purchases as follows:

	2005
Vendor A	22%
Vendor B	20%
Vendor C	17%

INVENTORIES - Inventories consist of bulk ethanol fuel and is valued at the lower of cost or market; cost being determined on a first-in, first-out basis. Shipping and handling costs are classified as a component of cost of goods sold in the accompanying statements of operations and stockholders' equity.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Facilities	10 - 25 years
Equipment and vehicles	7 years
Office furniture, fixtures and equipment	5 - 10 years

The cost of normal maintenance and repairs is charged to operations as incurred. Material expenditures that increase the life of an asset are capitalized and depreciated over the estimated remaining useful life of the asset. The cost of fixed assets sold, or otherwise disposed of, and the related accumulated depreciation or amortization are removed from the accounts, and any resulting gains or losses are reflected in current operations.

NET INCOME (LOSS) PER SHARE - Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock and common stock equivalents outstanding during the period. There were 3,832,318 and 979,587 of stock options, common stock warrants, and convertible securities outstanding as of December 31, 2005 and 2004, respectively. These options and warrants were not considered in calculating diluted net loss per common share as their effect would be anti-dilutive. As a result, for all periods presented, the Company's basic and diluted net loss per share are the same.

The following table computes basic and diluted net loss per share:

	Year Ended December 31,	
	2005	2004
Numerator (basic and diluted):		
Net loss	$ (9,923,119)	$ (2,802,567)
Denominator:		
Weighted average common shares outstanding - basic and diluted	25,065,872	12,396,895
Net loss per share - basic and diluted	$ (0.40)	$ (0.23)

FINANCIAL INSTRUMENTS - Statement of Financial Accounting Standards ("SFAS") No. 107, DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS, requires all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized on the balance sheet, for which it is practicable to estimate fair value. This statement defines fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. As of December 31, 2005 and 2004, the fair value of all financial instruments approximated carrying value.

The carrying amount of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value because of the short maturity of these items. The Company believes the carrying amounts of its notes payable and long-term debt approximate fair value because the interest rates on these instruments are variable.

DEFERRED FINANCING COSTS - Deferred financing costs are costs incurred to obtain debt financing, including all related fees, and are included in the accompanying consolidated balance sheets and are amortized as interest expense over the term of the related financing, using the straight-line method which approximates the interest rate method.

IMPAIRMENT OF LONG-LIVED ASSETS - The Company evaluates impairment of long-lived assets in accordance with SFAS No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSET. The Company assesses the impairment of long-lived assets, including property and equipment and purchased intangibles subject to amortization, which are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The asset impairment review assesses the fair value of the assets based on the future cash flows the assets are expected to generate. An impairment loss is recognized when estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from the disposition of the asset (if any) are less than the related asset's carrying amount. Impairment losses are measured as the amount by which the carrying amounts of the assets exceed their fair values. Estimates of future cash flows are judgments based on management's experience and knowledge of the Company's operations and the industries in which the Company operates. These estimates can be significantly affected by future changes in market conditions, the economic environment, and capital spending decisions of the Company's customers and inflation.

ReEnergy held an option to purchase real property that was recorded as an asset at a fair value of $120,000. Upon expiration of this option on December 15, 2005, the Company expensed the $120,000 fair value of the option.

The Company had recorded $310,522 as construction in progress related to the design of an energy cogeneration facility at the Madera ethanol production facility. Based on various factors including increased project complexity and rising natural gas costs, making construction less favorable, further development was not pursued and the Company expensed the full amount at December 31, 2005.

The Company believes the future cash flows to be received from its long-lived assets, net of these impairments, will exceed the assets' carrying value, and, accordingly, the Company has not recognized any other impairment losses through December 31, 2005.

GOODWILL - Goodwill represents the excess of cost of an acquired entity over the net of the amounts assigned to net assets acquired and liabilities assumed. The Company accounts for its goodwill in accordance with SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, which requires an annual review for impairment or more frequently if impairment indicators arise. This review would include the determination of each reporting unit's fair value using market multiples and discounted cash flow modeling. Separable intangible assets that have finite lives continue to be amortized over their estimated useful lives. The Company has adopted SFAS No. 142 guidelines for annual review of impairment of goodwill and intends to perform the annual review analysis on the anniversary of its Share Exchange Transaction. (See Note 5.)

STOCK-BASED COMPENSATION - The Company accounts for stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. Under the intrinsic-value method prescribed by APB Opinion No. 25, compensation cost is the excess, if any, of the quoted market price of the stock on the grant date of the option over the exercise price of the option.

Pro forma information regarding net loss and loss per share is required by SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. In December 2002, the Financial Accounting Statements Board ("FASB") issued SFAS No. 148, ACCOUNTING FOR STOCK-BASED COMPENSATION--TRANSITION AND DISCLOSURE. SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

In accordance with SFAS No. 148, the following table illustrates the effect on the Company's net loss and loss per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to its stock-based employee compensation awards, and recognized expense over the applicable award vesting period:

<TABLE>
<CAPTION>

	Year Ended December 31,	
	2005	2004
<S>	<C>	<C>
Net loss, as reported	$ (9,923,119)	$ (2,802,567)
Add: stock-based employee compensation expense (reversal) included in reported net loss	312,740	--
Less: Stock-based employee compensation (expense) reversal determined under fair value based method for all awards, net of related tax effects	(1,305,943)	--
Pro forma net loss	$(10,916,322)	$ (2,802,567)
Basic and diluted net loss per share, as reported	$ (0.40)	$ (0.23)
Pro forma basic and diluted net loss per share	$ (0.44)	$ (0.23)

</TABLE>

The Company's assumptions made for purposes of estimating the fair value

of its stock options, as well as a summary of the activity under the Company's stock option plan are included in Note 10.

The Company accounts for the stock options granted to non-employees in accordance with Emerging Issues Task Force ("EITF") Issue No. 96-18, ACCOUNTING FOR EQUITY INSTRUMENTS THAT ARE ISSUED TO OTHER THAN EMPLOYEES FOR ACQUIRING, OR IN CONJUNCTION WITH SELLING, GOODS OR SERVICES and SFAS No. 123. Options granted to non-employees are analyzed under the guidelines of EITF Issue No. 96-18 to determine the appropriate date of measurement of fair value and method of recording the non-cash equity compensation expense.

REVENUE RECOGNITION - The Company derives revenue primarily from sales of ethanol. The Company's sales are based upon written agreements or purchase orders that identify the amount of ethanol to be purchased and the purchase price. Shipments are made to customers, either, directly from suppliers or from the Company's inventory to the Company's customers by truck or rail. Ethanol that is shipped by rail originates primarily in the Midwest and takes from 10 to 14 days from date of shipment to be delivered to the customer or to one of four terminals in California and Oregon. For local deliveries the product is shipped by truck and delivered the same day as shipment. Revenue is recognized upon delivery of ethanol to a customer's designated ethanol tank in accordance with Staff Accounting Bulletin ("SAB") No. 104, REVENUE RECOGNITION, and the related EITF Issue No. 99-19, REPORTING REVENUE GROSS AS A PRINCIPAL VERSUS NET AS AN AGENT.

Revenues on the sale of ethanol that are shipped from the Company's stock of inventory are recognized when the ethanol has been delivered to the customer provided that appropriate signed documentation of the arrangement, such as a signed contract, purchase order or letter of agreement, has been received, the fee is fixed or determinable and collectibility is reasonably assured.

In accordance with EITF Issue No. 99-19, revenue from drop shipments of third-party ethanol sales are recognized upon delivery, and recorded at the gross amount when the Company is responsible for fulfillment of the customer order, has latitude in pricing, incurs credit risk on the receivable and has discretion in the selection of the supplier. Shipping and handling costs are included in cost of goods sold.

The Company has entered into certain contracts under which the Company may pay the owner of the ethanol the gross payments received by the Company from third parties for forward sales of ethanol less certain transaction costs and fees. From the gross payments, the Company may deduct transportation costs and expenses incurred by or on behalf of the Company in connection with the marketing of ethanol pursuant to the agreement, including truck, rail and terminal fees for the transportation of the facility's ethanol to third parties and may also deduct and retain a marketing fee calculated after deducting these costs and expenses. (See Note 11.) During 2005, the Company has not recorded revenues under these terms. If and when the Company does purchase and sell ethanol under these terms, the Company will evaluate the proper recording of the sales under EITF Issue No. 99-19.

INCOME TAXES - Income taxes are accounted for under SFAS No. 109, ACCOUNTING FOR INCOME TAXES. Under SFAS No. 109, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using enacted tax rates and laws that are expected to be in effect when the differences reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

ESTIMATES AND ASSUMPTIONS - The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are required as part of determining allowance for doubtful accounts, estimated lives of property and equipment and intangibles, goodwill and long-lived asset impairments, valuation allowances on deferred income taxes, and the potential outcome of future tax consequences of events recognized in the Company's financial statements or tax returns. Actual results and outcomes may materially differ from management's estimates and assumptions.

RECLASSIFICATIONS - Certain prior year amounts have been reclassified to conform to the current presentation. Such reclassification had no effect on net loss.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS - In December 2004, the FASB issued SFAS No. 123R (revised 2004), SHARE-BASED PAYMENT. SFAS No. 123R replaced SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, and superseded APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. In March 2005, the United States Securities and Exchange Commission (SEC) issued SAB No. 107, VALUATION OF SHARE-BASED PAYMENT ARRANGEMENT FOR PUBLIC COMPANIES, which expresses views of the SEC staff regarding the interaction between SFAS No. 123R and certain SEC rules and regulations, and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. SFAS No. 123R will require compensation cost related to share-based payment transactions to be recognized in the financial statements. SFAS No. 123R required public companies to apply SFAS No. 123R in the first interim or annual reporting period beginning after June 15, 2005. In April 2005, the SEC approved a new rule that delays the effective date, requiring public companies to apply SFAS No. 123R in their next fiscal year, instead of the next interim reporting period, beginning after June 15, 2005. As permitted by SFAS No. 123, the Company elected to follow the guidance of APB Opinion No. 25, which allowed companies to use the intrinsic value method of accounting to value their share-based payment transactions with employees. SFAS No. 123R requires measurement of the cost of share-based payment transactions to employees at the fair value of the award on the grant date and recognition of expense over the requisite service or vesting period. SFAS No. 123R requires implementation using a modified version of prospective application, under which compensation expense of the unvested portion of previously granted awards and all new awards will be recognized on or after the date of adoption. SFAS No. 123R also allows companies to adopt SFAS No. 123R by restating previously issued statements, basing the amounts on the expense previously calculated and reported in their pro forma footnote disclosures required under SFAS No. 123. The Company will adopt SFAS No. 123R using the modified prospective method in the first interim period of fiscal 2006 and is currently evaluating the impact that the adoption of SFAS No. 123R will have on its consolidated results of operations and financial position.

In May 2005, the FASB issued SFAS No. 154, ACCOUNTING CHANGES AND ERROR CORRECTIONS, which addresses the accounting and reporting for changes in accounting principles. SFAS No. 154 replaces APB Opinion No. 20 and FIN 20 and is effective for accounting changes in fiscal years beginning after December 31, 2005. This Statement applies to all voluntary changes in accounting principle. This Statement defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. This Statement redefines restatement as the revising of previously issued financial statements to reflect the correction of an error.

In September 2005, the FASB reached a final consensus on EITF Issue No. 04-13, ACCOUNTING FOR PURCHASES AND SALES OF INVENTORY WITH THE SAME COUNTERPARTY. EITF Issue No. 04-13 concludes that two or more legally separated exchange transactions with the same counterparty should be combined and considered as a single arrangement for purposes of applying APB Opinion No. 29, ACCOUNTING FOR NONMONETARY TRANSACTIONS, when the transactions were entered into "in contemplation" of one another. The consensus contains several indicators to be considered in assessing whether two transactions are entered into in contemplation of one another. If, based on consideration of the indicators and the substance of the arrangement, two transactions are combined and considered a single arrangement, an exchange of finished goods inventory for either raw material or work-in-process should be accounted for at fair value. The provisions of EITF Issue No. 04-13 are applied to transactions completed in reporting periods beginning after March 15, 2006. The Company does not expect this statement to have a material impact on its financial condition or its results of operations.

In February 2006, the FASB issued SFAS No. 155, ACCOUNTING FOR CERTAIN HYBRID FINANCIAL INSTRUMENTS which amends SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES and SFAS No. 140, ACCOUNTING OR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. Specifically, SFAS No. 155 amends SFAS No. 133 to permit fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided the whole instrument is accounted for on a fair value basis. Additionally, SFAS No. 155 amends SFAS No. 140 to allow a qualifying special purpose entity to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 applies to all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, with early application allowed. The adoption of SFAS No. 155 is not expected to have a material impact on the Company's results of operations or financial position.

2. SHARE EXCHANGE TRANSACTION:

On March 23, 2005, the shareholders of PEI California and Accessity, and the holders of the membership interests of each of Kinergy and ReEnergy, completed a stock-for-stock share exchange (the "Share Exchange Transaction"). The Share Exchange Transaction has been accounted for as a reverse acquisition whereby PEI California is deemed to be the accounting acquiror.

The following table summarizes the assets acquired and liabilities assumed in connection with the Share Exchange Transaction:

<TABLE>
<CAPTION>

	Accessity March 23, 2005	Kinergy March 23, 2005	ReEnergy March 23, 2005	Total
<S>	<C>	<C>	<C>	<C>
Current Assets				
Cash	$ 2,870,270	$ 454,099	$ 2,555	$ 3,326,924
Other current assets	--	3,407,272	--	3,407,272
Total Current Assets	2,870,270	3,861,371	2,555	6,734,196
Property and Equipment	--	6,224	--	6,224
Other Assets				
Land option	--	--	120,000	120,000
Intangible Assets				
Distribution backlog	--	136,000	--	136,000
Customer relations	--	4,741,000	--	4,741,000
Non-compete	--	695,000	--	695,000
Trade name	--	2,678,000	--	2,678,000
Goodwill	--	2,565,750	--	2,565,750
Total Intangible Assets	--	10,815,750	--	10,815,750
Total Assets	2,870,270	14,683,345	122,555	17,676,170
Current Liabilities				
Accounts payable and accrued expenses	138,978	1,771,981	1,116	1,912,075
Amount due to Cagan McAfee	83,017	--	--	83,017
Due to Kinergy/ReEnergy Members	--	2,095,614	1,439	2,097,053
Total Current Liabilities	221,995	3,867,595	2,555	4,092,145
Net Assets	$ 2,648,275	$ 10,815,750	$ 120,000	$ 13,584,025
Expense for services rendered in connection with feasibility study	$ --	$ --	$ 852,250	$ 852,250
Stock Issued	2,339,452	3,875,000	125,000	6,339,452
Stock issued to Accessity officers	600,000	--	--	600,000
Stock Issued as finders fee	150,000	--	--	150,000
Total Stock Issued	3,089,452	3,875,000	125,000	7,089,452

</TABLE>

REVERSE ACQUISITION - Immediately prior to the consummation of the Share Exchange Transaction, the Company's predecessor, Accessity, reincorporated in the State of Delaware under the name "Pacific Ethanol, Inc" through a merger of Accessity with and into its then-wholly-owned Delaware subsidiary named Pacific Ethanol, Inc., which was formed for the purpose of effecting the reincorporation (the "Reincorporation Merger"). In connection with the Reincorporation Merger, the shareholders of Accessity became stockholders of the Company and the Company succeeded to the rights, properties and assets and assumed the liabilities of Accessity.

In addition, Accessity divested its two operating subsidiaries. Accordingly, effective as of the closing of the Share Exchange Transaction, Accessity did not have any ongoing business operations. Assets consisting primarily of cash and cash equivalents totaling $2,870,270 were acquired and certain current liabilities of $221,995 were assumed from Accessity. Because Accessity had no operations and only net monetary assets, the Share Exchange Transaction is being treated as a capital transaction, whereby PEI California acquired the net monetary assets of Accessity, accompanied by a recapitalization of PEI California. As such, no fair value adjustments were necessary for any of the assets acquired or liabilities assumed.

The former shareholders of Accessity, who collectively held 2,339,452 shares of common stock of Accessity, became the stockholders of an equal number of shares of common stock of the Company and holders of options and warrants to acquire shares of common stock of Accessity, who collectively held options and warrants to acquire 402,667 shares of common stock of Accessity, became holders of options and warrants to acquire an equal number of shares of common stock of the Company.

In connection with the reverse acquisition, the Company issued to Accessity's and the Company's former Chairman of the Board, President and Chief Executive Officer, 400,000 shares of the Company's common stock in consideration of his obligations under a Confidentiality, Non-Competition, Non-Solicitation and Consulting Agreement that was entered into with the Company in connection with the Share Exchange Transaction. These shares, valued at $1,012,000, are accounted for as transaction costs of the reverse acquisition.

In connection with the reverse acquisition, the Company issued to Accessity's and the Company's former Senior Vice President, Secretary, Treasurer and Chief Financial Officer, 200,000 shares of the Company's common stock in consideration of his obligations under a Confidentiality, Non-Competition, Non-Solicitation and Consulting Agreement that was entered into with the Company in connection with the Share Exchange Transaction. These shares, valued at $506,000, are accounted for as transaction costs of the reverse acquisition.

On March 23, 2005, the Company issued 150,000 shares of common stock to an independent contractor for services rendered by her as a finder in connection with the Share Exchange Transaction. These shares, valued at $379,500, are accounted for as transaction costs of the reverse acquisition.

Immediately prior to the closing of the Share Exchange Transaction, certain shareholders of PEI California sold an aggregate of 250,000 shares of PEI California's common stock owned by them to the then-Chief Executive Officer of Accessity at $0.01 per share to compensate him for facilitating the closing of the Share Exchange Transaction. These shares, valued at $632,500, are accounted for as transaction costs of the reverse acquisition.

In addition to the value of the shares transferred as discussed above totaling $2,530,000, the Company incurred $821,218 in legal fees, finder's fees and valuation services in connection with the reverse acquisition, resulting in total transaction costs of $3,351,218. The Company has recorded an expense with a corresponding increase in paid in capital in the amount of $480,948 for transaction costs incurred in excess of the cash acquired from Accessity.

KINERGY ACQUISITION - In connection with the Share Exchange Transaction, the Company issued 3,875,000 shares of common stock to the sole limited liability company member of Kinergy to acquire Kinergy. This stock was valued at $9,803,750.

Immediately prior to the closing of the Share Exchange Transaction, the Chairman of the Board of Directors of the Company and PEI California sold 300,000 shares of PEI California's common stock to the sole member of Kinergy and an officer and director of the Company and PEI California, at $0.01 per share to compensate him for facilitating the closing of the Share Exchange Transaction. The transfer of these shares resulted in additional purchase price of $759,000.

Immediately prior to the closing of the Share Exchange Transaction, the Chairman of the Board of Directors of the Company and PEI California sold 100,000 shares of PEI California's common stock to a member of ReEnergy and a related party of the sole member of Kinergy, at $0.01 per share to compensate him for facilitating the closing of the Share Exchange Transaction. The transfer of these shares resulted in additional purchase price of $253,000.

The transfer of these shares increased the purchase price by $1,012,000, resulting in a total purchase price for Kinergy of $10,815,750.

Pursuant to the terms of the Share Exchange Transaction, Kinergy

distributed to its sole member in the form of a promissory note in the amount of $2,095,614, Kinergy's net worth as set forth on Kinergy's balance sheet prepared in accordance with generally accepted accounting principles, as of March 23, 2005. As a result, there was no value to the net assets acquired, resulting in a significant premium paid to acquire Kinergy. In deciding to pay this premium, the Company considered various factors, including the value of Kinergy's trade name, Kinergy's extensive market presence and history, Kinergy's industry knowledge and expertise, Kinergy's extensive customer relationships and expected synergies among Kinergy's businesses and assets and the Company's planned entry into the ethanol production business. The purchase price has been allocated as follows:

Backlog	$ 136,000
Customer relationships	4,741,000
Non-compete	695,000
Kinergy trade name	2,678,000
Goodwill	2,565,750
Total assets acquired	$ 10,815,750

The Company has determined that the Kinergy trade name has an indefinite life and therefore, rather than being amortized, it will be periodically tested for impairment. The distribution backlog had an estimated life of six months, the customer relationships were estimated to have a ten-year life and the non-compete had an estimated life of three years and, as a result, will be amortized accordingly, unless otherwise impaired at an earlier time.

REENERGY ACQUISITION - The Company made a $150,000 cash payment and issued 125,000 shares of stock valued at $316,250 for the acquisition of ReEnergy. In addition, immediately prior to the closing of the Share Exchange Transaction, the Company's and PEI California's Chairman of the Board of Directors, sold 200,000 shares of PEI California's common stock to the individual members of ReEnergy at $0.01 per share, to compensate them for facilitating the closing of the Share Exchange Transaction. The contribution of these shares increased the purchase price by $506,000 for a total of $972,250. Of this amount, $120,000 was recorded as an asset for an option to acquire land and because the acquisition of ReEnergy was not deemed to be an acquisition of a business, the remaining purchase price of $852,250 was recorded as an expense for services rendered in connection with a feasibility study. Upon expiration of ReEnergy's option on December 15, 2005, the Company expensed the $120,000 asset associated with the fair value of the option.

The following table summarizes, on an unaudited pro forma basis, the combined results of operations of the Company, as though the acquisitions occurred as of January 1, 2004. The pro forma amounts give effect to appropriate adjustments for amortization of intangible assets and income taxes. The pro forma amounts presented are not necessarily indicative of future operating results.

	Year Ended December 31,	
	2005	2004
Net sales	$111,186,711	$ 82,810,168
Net loss	$ (9,829,336)	$ (3,706,158)
Loss per share of common stock Basic and diluted	$ (0.35)	$ (0.13)

3. RELATED PARTY NOTES RECEIVABLE:

On December 30, 2005, a management employee was advanced $39,520 at 5% interest, due and payable on or before June 30, 2006, for the withholding taxes due on the reportable gross taxable income related to a stock grant of 25,000 shares on June 23, 2005.

On December 30, 2005, a management employee was advanced $96,475 at 5% interest, due and payable on or before June 30, 2006, for the withholding taxes due on the reportable gross taxable income related to a stock grant of 45,000 shares on June 23, 2005.

4. PROPERTY AND EQUIPMENT:

In June 2003, the Company acquired a grain facility in Madera County, California for approximately $5,100,000. (See Note 9.) The Company is in the process of constructing an ethanol plant at the grain facility. On November 2, 2005, Pacific Ethanol Madera LLC ("PEI Madera"), a second-tier subsidiary of PEI California that was formed in April 2005 as the holding company for the Company's Madera County facility, entered into an Amended and Restated Phase 1 Design-Build Agreement (the "Amended Agreement") with W.M. Lyles Co., a subsidiary of Lyles Diversified, Inc. ("LDI"), a significant shareholder of the Company. The Amended Agreement amended and restated that certain Standard Form of Design-Build Agreement and General Conditions dated July 7, 2003 between W.M. Lyles Co. and PEI California. The Amended Agreement provides for design and build services to be rendered by W.M. Lyles Co. to PEI Madera with respect to the Madera County facility (the "Project"). In addition, on November 2, 2005, PEI Madera entered into a Phase 2 Design-Build Agreement (the "Phase 2 Agreement") with W.M. Lyles Co. The Phase 2 Agreement covers additional work to be performed by W.M. Lyles Co. for the completion of the Project. (See Note 11.)

As of December 31, 2005 and 2004, the Company had incurred costs of $17,917,253 and $1,306,926, respectively, under the design-build contract with W.M. Lyles Co., which has been included in construction in progress at December 31, 2005 and 2004, respectively. Included in this amount is a total of $853,173 and $453,325 related to the construction management fee of W.M. Lyles Co., of which $195,901 and $236,259 had not been paid at December 31, 2005 and 2004, respectively. As of December 31, 2005 and 2004, the Company had accounts payable related to the construction in progress of an ethanol plant due to W.M. Lyles Co. for $6,411,618 and $836,211, respectively. The Company accrued retention due to W.M. Lyles Co. related to the construction in progress of an ethanol plant for $1,450,500 and $0 as of December 31, 2005 and 2004, respectively. Included in construction in progress at December 31, 2005 and 2004 is capitalized interest of $343,793 and $45,995, respectively. The total cost of construction of the Madera County ethanol production facility is currently estimated to be $55.3 million, which does not include up to $10.2 million in additional funding required for capital raising expenses, interest during construction, and working capital.

Property and equipment consist of the following:

	December 31,	
	2005	2004
Land	$ 515,298	$ 515,298
Facilities	4,234,703	4,234,703
Equipment and vehicles	373,520	350,000
Office furniture, fixtures and equipment	378,149	43,324
	5,501,670	5,143,325
Accumulated depreciation	(210,675)	(125,427)
	5,290,995	5,017,898
Construction in progress	17,917,253	1,306,926
	$ 23,208,248	$ 6,324,824

As of December 31, 2005 and 2004, property and equipment totaling $4,114,391 and $3,897,328 had not been placed in service. Depreciation expense was $85,250 for the year ended December 31, 2005 and $78,743 for the year ended December 31, 2004.

In January 2004, canola stored in one of the silos at the Company's Madera County, California facility caught on fire. The facility was fully insured with $10 million of property and general liability insurance. The canola was owned by a third party who was also insured. As of December 31, 2005, the Company has received gross insurance proceeds of $4,089,512. The Company is proceeding with the restoration. (See Note 7.)

5. GOODWILL AND OTHER ACQUISITION-RELATED INTANGIBLE ASSETS:

Information regarding the Company's acquisition-related intangible assets is as follows:

<TABLE>
<CAPTION>

		December 31, 2005			December 31, 2004	
	Useful Life (Years)	Gross	Accumulated Amortization /Impairment	Net Book Value	Gross	Accumulated Amortization	Net Book Value

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Non-Amortizing:							
Goodwill		$ 2,565,750	$ --	$ 2,565,750	$ --	$ --	$ --
Trade name		2,678,000	--	2,678,000	--	--	--
Amortizing:							
Customer relationship, non-compete and backlog	0 - 10	5,572,000	681,277	4,890,723	--	--	--
Total intangible asset		$10,815,750	$ 681,277	$10,134,473	$ --	$ --	$ --

</TABLE>

During the year ended December 31, 2005, the Company recorded $2,565,750 of goodwill, $2,678,000 of indefinite life intangibles and $5,572,000 of amortizing intangible assets associated with the Company's acquisition of Kinergy and ReEnergy. (See Note 2.) The fair value of the intangible assets acquired as part of the acquisition, which were given useful lives that range from less than one year to ten years, were determined by management, which considered a number of factors including an evaluation by an independent appraiser. The goodwill was recorded as the excess of the total consideration paid for Kinergy, less the net assets identified.

Amortization expense of intangible assets was approximately $681,277 and $0 for 2005 and 2004, respectively. Amortization expense related to intangible assets at December 31, 2005 in each of the next five fiscal years and beyond is expected to be as follows:

2006	$ 705,767
2007	705,767
2008	526,780
2009	474,100
2010	474,100
Thereafter	2,004,209
	$ 4,890,723

6. LINE OF CREDIT:

On November 1, 2005, Kinergy executed a Loan Revision/Extension Agreement (the "Agreement") dated October 4, 2005 with Comerica Bank. The Agreement is effective as of June 20, 2005 and relates to a Master Revolving Note dated September 24, 2004 in the amount of $2.0 million, reduced by an Irrevocable Standby Letter of Credit in the amount of $400,000, leaving funds available of $1.6 million on the line of credit, as further described below. Under the Agreement, the maturity date of the Master Revolving Note was extended from October 5, 2005 to October 5, 2006. As of the execution date of the Agreement, no amounts were owed to Comerica under the Master Revolving Note. Principal amounts outstanding under the Note accrue interest, on a per annum basis, at the prime rate of interest plus 1.0% (8.25% at December 31, 2005). There were no balances outstanding under the Master Revolving Note as of December 31, 2005.

On October 1, 2005, the Company was issued an Irrevocable Standby Letter of Credit by Comerica Bank, for any sum not to exceed a total of $400,000. The designated beneficiary is a vendor of the Company, and the letter is valid through March 31, 2006. On April 4, 2006, the Irrevocable Standby Letter of Credit was extended through September 30, 2006.

In connection with the Agreement, certain other agreements were also entered into with Comerica by Kinergy and the Company. A Letter Agreement provides for the delivery by Kinergy of certain financial documents and includes certain financial covenants and limitations. In addition, Kinergy is obligated to provide to Comerica annual audited financial statements of the Company and quarterly financial statements of the Company and Kinergy as well as quarterly accounts receivable and accounts payable ageing reports of Kinergy. A Guaranty dated October 4, 2005 in favor of Comerica was executed by the Company and relates to the Agreement and the Master Revolving Note described above and any other obligations of Kinergy to Comerica. Under the Guaranty, the Company guarantees payment and performance of all indebtedness and obligations of Kinergy to Comerica. A Security Agreement dated as of September 24, 2004 was executed by Kinergy in favor of Comerica in connection with Kinergy's indebtedness and obligations under the Master Revolving Note and other agreements with Comerica. The Security Agreement grants a continuing security interest and lien to Comerica in certain collateral comprising essentially all of Kinergy's assets. Kinergy is obligated to keep the collateral free of all liens, claims and encumbrances other than those in favor of Comerica.

7. ACCRUED EXPENSES:

Accrued expenses as of December 31, 2005 and 2004 consisted of the following:

<TABLE>
<CAPTION>

	2005	2004
<S>	<C>	<C>
Fire damage claim liability (See Notes 4 and 7.)	$ 3,157,969	$ 419,626
Insurance policy premium financing	209,469	73,195
Other accrued expenses	55,127	38,982
Total accrued expenses	$ 3,422,565	$ 531,803

</TABLE>

No other individual item represented more than 5% of total current liabilities.

8. INCOME TAXES:

The Company files a consolidated U.S. federal income tax return. This return includes all companies 80% or more owned by the Company. State tax returns are filed on a consolidated, combined or separate basis depending on the applicable laws relating to the Company and its subsidiaries.

Income tax expense (benefit) consists of the following:

<TABLE>
<CAPTION>

	2005	2004
<S>	<C>	<C>
Current		
Federal	$ --	$ --
State	5,600	--
Total Current	$ 5,600	$ --
Deferred		
Federal	$ --	$ --
State	--	--
Total Deferred	$ --	$ --
Total		
Federal	$ --	$ --
State	5,600	--
Total	$ 5,600	$ --

</TABLE>

Income tax rate (benefit) differs from the statutory federal income tax rate of 35% to income (loss) from continuing operations before income taxes as follows:

<TABLE>
<CAPTION>

	2005	2004
<S>	<C>	<C>
Tax expense (benefit) at U.S. federal statutory rate	(35.0)%	(35.0)%
State taxes, net of federal income tax benefit	(5.7)	--
Nondeductible acquisition costs	10.7	(0.1)
Stock option exercised	(4.7)	35.0
Change in valuation allowance	34.8	--
Effective rate	0.1%	--

</TABLE>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

<TABLE>
<CAPTION>

	2005	2004
<S>	<C>	<C>
Deferred tax assets:		
Depreciation	$ --	$ (29,010)
Other accrued liabilities	139,797	--
Stock option compensation	505,159	--
Net operating loss carryforwards	5,714,740	1,488,430
Total deferred tax assets	6,359,696	1,459,420
Valuation allowance for deferred tax assets	(6,359,696)	(1,459,420)
Net deferred tax assets	$ --	$ --

</TABLE>

The Company had federal and state net operating loss carryforwards of approximately $13,748,000 and $10,213,000 as of December 31, 2005, respectively, that expire at various dates beginning in 2013.

The net change in the total valuation allowance for the years ended December 31, 2005 and 2004 was an increase of $4,900,276 and $1,459,420, respectively.

In assessing if the deferred tax assets are realizable, SFAS No. 109 establishes a more likely than not standard. If it is determined that it is more likely than not that deferred tax assets will not be realized, a valuation allowance must be established against the deferred tax assets. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the associated temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

As of December 31, 2005, a valuation allowance of $6,359,696 has been provided based on the Company's assessment of the future realizability of certain deferred assets. The valuation allowance on deferred tax assets related to future deductible temporary differences and net operating loss carryforwards for which the Company has concluded it is more likely than not these items will not be realized in the ordinary course of operations.

Although the Company anticipates future sustained profitability, SFAS No. 109 requires that recent historical operating performance and income projections be considered in assessing if the deferred tax assets are realizable. The more likely than not assessment was principally based upon the tax losses generated during 2005 and 2004.

As a result of the Share Exchange Transaction, the Company experienced a more than 50% ownership change for federal income tax purposes. As a result, an annual limitation could be placed upon the Company's ability to realize the benefit of its net operating loss carryforwards. The amount of this annual limitation has been assessed pursuant to Section 382 of the Internal Revenue Code and determined to be $999,304 on $3,499,182 of the total net operating loss carryforward of $7,218,981.

9. RELATED PARTY NOTES PAYABLE:

On December 28, 2004, January 10, 2005 and February 22, 2005, the chairman of the board of directors of the Company and PEI California advanced the Company $20,000, $60,000 and $20,000, respectively, at 5% interest, due and payable upon the closing of the Share Exchange Transaction. The accumulated principal due was repaid on March 24, 2005 and the related interest of $921 was paid on April 15, 2005.

On January 10, 2005, a shareholder and officer of PEI California advanced the Company $100,000 at 5% interest, due and payable upon the closing of the Share Exchange Transaction. The principal was repaid on March 24, 2005 and the related interest or $1,003 was paid on April 15, 2005.

On January 31, 2005, a principal of Cagan-McAfee Capital Partners, LLC ("CMCP"), a founding shareholder of PEI California, advanced the Company $100,000 at 5% interest, due and payable upon close of the Share Exchange Transaction. The principal was repaid on March 24, 2005 and the related interest of $714 was paid on April 15, 2005.

LDI TERM LOAN - In connection with the acquisition of the grain facility in March 2003, on June 16, 2003 PEI California entered into a Term Loan Agreement (the "Loan Agreement") with LDI whereby LDI loaned PEI California $5,100,000. In addition, PEI California agreed to engage LDI at the appropriate time, on mutually acceptable terms substantially similar to the Design-Build Agreement for the Madera facility, on a design-build agreement for a second ethanol production facility. (See Note 13.) On

March 23, 2005 the Loan Agreement was assigned by PEI California to the Company. On April 13, 2006, PEI Madera and LDI entered into an Amended and Restated Loan Agreement (the "Amended and Restated Loan Agreement") whereby the Loan Agreement was assigned by the Company to PEI Madera.

The Amended and Restated Loan Agreement provides for a fixed interest rate of 5% per annum on the unpaid principal balance through June 19, 2004, at which time it converted to a variable interest rate based on THE WALL STREET JOURNAL PRIME RATE (7.25% as of December 31, 2005) plus 2%. The first payment, consisting of interest only, was due June 19, 2004, after which interest is due and payable monthly. Principal payments are due annually in three equal installments beginning June 20, 2006 and ending June 20, 2008. Should the construction costs of the ethanol production facility be less than $42,600,000, the Company must prepay principal owing under the loan equal to the difference between the actual construction cost and $42,600,000. Construction costs are currently estimated to exceed $42,600,000. (See Notes 4 and 11.)

In addition, should the Company obtain construction funding for a future ethanol project in the State of California, all principal and accrued interest outstanding at the time becomes due. The amounts owing under the Amended Loan Agreement are collateralized by a lien created by a deed of trust on the grain facility. LDI had the option to convert up to $1,500,000 of the debt into PEI California's and/or the Company's common stock, as the case may be, at a purchase price of $1.50 per share originally through March 31, 2005. On December 28, 2004, the Company and LDI amended the Loan Agreement to extend this option until June 30, 2005. During 2004, LDI converted $255,000 of debt into 170,000 shares of common stock, at a conversion price equal to $1.50 per share. Prior to June 30, 2005, LDI converted $1,245,000 of debt into 830,000 shares of the Company's common stock, at a conversion price equal to $1.50 per share.

In partial consideration for entering into the Loan Agreement, PEI California issued 1,000,000 shares of common stock to LDI. The fair value of the common stock on the date of issuance, $1,202,682, was recorded as a debt discount and is being amortized over the life of the loan and recorded as interest expense. As of December 31, 2005 and 2004, the unamortized debt discount was $404,424 and $832,322, respectively. PEI California also incurred fees to obtain the loan in the amount of $100,000, which is also being expensed over the life of the loan. These fees were paid to CMCP.

The aggregate maturities of the note at December 31, 2005 are as follows:

Year ending December 31,	
2006	$ 1,200,000
2007	1,200,000
2008	1,200,000
	3,600,000
Less: Unamortized original issuance discount	(404,424)
	$ 3,195,576

10. STOCKHOLDERS' EQUITY:

PREFERRED STOCK - The Company has 10,000,000 shares of preferred stock authorized, 7,000,000 of which have been designated Series A Cumulative Redeemable Convertible Preferred Stock. (See Note 13.) As of December 31, 2005, no shares of preferred stock were issued and outstanding.

COMMON STOCK - From January 2004 through February 2004, the Company sold 19,000 shares of common stock at $1.50 per share for net proceeds of $21,373. In connection with the sale of these shares, the Company paid offering costs of $7,127, including a finder's fee of $2,850. The Company also issued warrants to purchase 1,900 shares of common stock to the finder with an exercise price of $1.50 per share and an expiration date nine years from the date of issuance.

From April 2004 through June 2004, the Company sold 500,000 shares of common stock at $2.00 per share for net proceeds of $892,582. (Of this amount, $67,500 was included in subscriptions receivable in the equity section as of December 31, 2004 and was received by the Company in 2005). In connection with the sale of these shares, the Company paid offering

costs of $107,418 including a finder's fee of $100,000 to CMCP. The Company also issued warrants to purchase 50,000 shares of common stock to CMCP with an exercise price of $2.00 per share and an expiration date nine years from the date of issuance.

From October 2004 through December 2004, the Company sold 103,666 shares of common stock in a third working capital round at $3.00 per share for net proceeds of $308,524. In connection with the sale of these shares, the Company paid offering costs of $2,475.

PRIVATE OFFERING - On March 23, 2005, PEI California issued to 63 accredited investors in a private offering an aggregate of 7,000,000 shares of common stock at a purchase price of $3.00 per share, two-year investor warrants to purchase 1,400,000 shares of common stock at an exercise price of $3.00 per share and two-year investor warrants to purchase 700,000 shares of common stock at an exercise price of $5.00 per share, for total gross proceeds of approximately $21,000,000. PEI California paid cash placement agent fees and expenses of approximately $1,850,400 and issued five-year placement agent warrants to purchase 678,000 shares of common stock at an exercise price of $3.00 per share in connection with the offering. Additional costs related to the financing include legal, accounting, consulting, and stock certificate issuance fees that totaled approximately $274,415.

On April 1, 2004, certain founders of the Company agreed to sell an aggregate of 500,000 shares of the Company's common stock owned by them to CMCP at $0.01 per share for securing financing to close the Share Exchange Transaction on or prior to March 31, 2005. (See Note 2.) Immediately prior to the closing of the Share Exchange Transaction, the founders sold these shares at the agreed upon price to CMCP. The contribution of these shares is accounted for as a capital contribution. However, because the shares were issued as a finder's fee in a private offering the related expense is offset against the proceeds received, resulting in no effect on equity.

The Company was obligated under a Registration Rights Agreement to file, on the 151st day following March 23, 2005, a Registration Statement with the SEC registering for resale shares of common stock, and shares of common stock underlying investor warrants and certain of the placement agent warrants, issued in connection with the private offering. If (i) the Company did not file the Registration Statement within the time period prescribed, or (ii) the Company failed to file with the SEC a request for acceleration in accordance with Rule 461 promulgated under the Securities Act of 1933, within five trading days of the date that the Company is notified (orally or in writing, whichever is earlier) by the SEC that the Registration Statement will not be "reviewed," or is not subject to further review, or (iii) the Registration Statement filed or required to be filed under the Registration Rights Agreement was not declared effective by the SEC on or before 225 days following March 23, 2005, or (iv) after the Registration Statement is first declared effective by the SEC, it ceases for any reason to remain continuously effective as to all securities registered thereunder, or the holders of such securities are not permitted to utilize the prospectus contained in the Registration Statement to resell such securities, for more than an aggregate of 45 trading days during any 12-month period (which need not be consecutive trading days) (any such failure or breach being referred to as an "Event," and for purposes of clause (i) or (iii) the date on which such Event occurs, or for purposes of clause (ii) the date on which such five-trading day period is exceeded, or for purposes of clause (iv) the date on which such 45-trading day-period is exceeded being referred to as "Event Date"), then in addition to any other rights the holders of such securities may have under the Registration Statement or under applicable law, then, on each such Event Date and on each monthly anniversary of each such Event Date (if the applicable Event shall not have been cured by such date) until the applicable Event is cured and except as disclosed below, the Company is required to pay to each such holder an amount in cash, as partial liquidated damages and not as a penalty, equal to 2.0% of the aggregate purchase price paid by such holder pursuant to the Securities Purchase Agreement relating to such securities then held by such holder. If the Company fails to pay any partial liquidated damages in full within seven days after the date payable, the Company is required to pay interest thereon at a rate of 18% per annum (or such lesser maximum amount that is permitted to be paid by applicable law) to such holder, accruing daily from the date such partial liquidated damages are due until such amounts, plus all such interest thereon, are paid in full. The partial liquidated damages are to apply on a daily pro-rata basis for any portion of a month prior to the cure of an Event.

The Registration Rights Agreement also provides for customary piggy-back registration rights whereby holders of shares of the Company's common stock, or warrants to purchase shares of common stock, can cause the Company to register such shares for resale in connection with the Company's filing of a Registration Statement with the SEC to register shares in another offering. The Registration Rights Agreement also contains customary representations and warranties, covenants and limitations.

The Company has evaluated the classification of common stock and warrants issued in the private offering in accordance with EITF Issue No. 00-19, ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS INDEXED TO, AND POTENTIALLY SETTLED IN, A COMPANY'S OWN STOCK and EITF D-98, CLASSIFICATION AND MEASUREMENT OF REDEEMABLE SECURITIES. The Company has determined, based on a valuation performed by an independent appraiser that the maximum potential liquidated damages are less than the difference in fair value between registered and unregistered shares of the Company's stock and, therefore, has classified the common stock and warrants as equity.

The Registration Statement was not declared effective by the SEC on or before 225 days following March 23, 2005. The Company endeavored to have all security holders entitled to these registration rights execute amendments to the Registration Rights Agreement reducing the penalty from 2.0% to 1.0% of the aggregate purchase price paid by such holder pursuant to the Securities Purchase Agreement relating to such securities then held by such holder. This penalty reduction applies to penalties accrued on or prior to January 31, 2006 as a result of the related Registration Statement not being declared effective by the SEC. Certain of the security holders executed this amendment. However, not all security holders executed this amendment and as a result, the Company paid an aggregate of $298,050 in penalties on November 8, 2005. The Registration Statement was declared effective by the SEC on December 1, 2005.

STOCK GRANTS - The Company issued an aggregate of 70,000 shares of common stock to two employees of the Company on their date of hire on June 23, 2005. A non-cash charge of $651,000 was recorded during the year ended December 31, 2005.

STOCK OPTIONS - The Company currently has two stock option plans: the Amended 1995 Incentive Stock Plan and the 2004 Stock Option Plan.

The Amended 1995 Incentive Stock Plan was carried over from Accessity as a result of the Share Exchange Transaction. The plan authorizes the issuance of incentive stock options, commonly known as ISOs, and non-qualified stock options, commonly known as NQOs, to the Company's employees, directors or consultants for the purchase of up to 1,200,000 shares of the Company's common stock. As of December 31, 2005, options to purchase up to 105,000 shares of common stock were outstanding under the Amended 1995 Incentive Stock Plan. The Company's board of directors does not intend to issue any additional options under the Amended 1995 Incentive Stock Plan.

The 2004 Stock Option Plan authorizes the issuance of ISOs and NQOs to the Company's officers, directors or key employees or to consultants that do business with Pacific Ethanol for up to an aggregate of 2,500,000 shares of common stock. The 2004 Stock Option Plan terminates on November 4, 2014, except as to options then outstanding.

As of December 31, 2005, the Company had approximately 19 employees and officers and 6 non-employee directors eligible to receive options under the 2004 Stock Option Plan. As of that date, options to purchase up to 822,500 shares of common stock were outstanding under the 2004 Stock Option Plan and 1,677,500 shares remained available for grants under this plan. Activity under the 2004 Stock Option Plan as well as options acquired as a result of the Share Exchange Transaction are summarized in the following table:

<TABLE>
<CAPTION>

	Shares Available for Grant	Number of Shares	Price Per Share	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
Balance at January 1, 2004	--	--	--	--
2004 Stock Option Plan effective November 4, 2004	2,500,000	--	--	--
Options granted	(25,000)	25,000	$0.01	$ 0.01
Options exercised	--	--		
Options forfeited	--	--	--	--
Balance at December 31, 2004	2,475,000	25,000(1)	$0.01	$ 0.01
Options granted	(822,500)	822,500(2)	6.63 - 8.30	7.78
Options acquired in Share Exchange				

Transaction	--	377,667	1.56 - 10.63	5.98
Options exercised	--	(269,667)	1.56 - 8.00	6.10
Options canceled	25,000	(25,000)(1)	0.01	0.01
Options forfeited	--	(3,000)	--	--
Balance at December 31, 2005	1,677,500	927,500	$3.75 - 8.30	$ 7.53

</TABLE>

_____

(1) One outstanding option granted to an employee of the Company to acquire 25,000 shares of common stock vested on March 23, 2005 and was converted into a warrant. A non-cash charge of $232,250 to compensation expense was recorded in the year ended December 31, 2005.

(2) On July 26, 2005, the Company issued options to purchase an aggregate of 17,500 shares of the Company's common stock at an exercise price equal to $7.01 per share, which exercise price equals 85% of the closing price per share of the Company's common stock on that date. The options vested upon issuance and expire 10 years following the date of grant. A non-cash charge of $21,656 to compensation expense was recorded during the year ended December 31, 2005.

On July 26, 2005, the Company granted options to purchase an aggregate of 115,000 shares of the Company's common stock at an exercise price equal to $8.25, the closing price per share of the Company's common stock on that date, to various non-employee directors. The options vest one year following the date of grant and expire 10 years following the date of grant. Since the options were granted at par with the market price of the stock, no non-cash charge was recorded.

On July 28, 2005, the Company granted options to purchase an aggregate of 30,000 shares of the Company's common stock at an exercise price equal to $8.30, the closing price per share of the Company's common stock on that date, to two new non-employee directors. The options vest one year following the date of grant and expire 10 years following the date of grant. Since the options were granted at par with the market price of the stock, no non-cash charge was recorded.

On August 10, 2005, the Company granted options to purchase an aggregate of 425,000 shares of the Company's common stock at an exercise price equal to $8.03, the closing price per share of the Company's common stock on the day immediately preceding that date, to its Chief Financial Officer. The options vested as to 85,000 shares immediately and 85,000 shares will vest on each of the next four anniversaries of the date of grant.

The options expire 10 years following the date of grant. Since the options were granted at par with the market price of the stock, no non-cash charge was recorded.

On August 10, 2005, the Company granted options to purchase an aggregate of 75,000 shares of the Company's common stock at an exercise price equal to $8.03, the closing price per share of the Company's common stock on the day immediately preceding that date, to a consultant. The options vested as to 15,000 shares immediately and 15,000 shares will vest on each of the next four anniversaries of the date of grant. The options expire 10 years following the date of grant. Under the guidelines of EITF Issue No. 96-18, the Company has determined that the grant date of the option is the same date upon which the counterparty earned the equity instruments via completion of its performance commitment. Therefore, the measurement date to determine the fair value of the Consultant Options is the same date as the grant date. The fair value of the options will be amortized on a straight line basis over a four year vesting period, with the amortization expense reflected as non-cash equity compensation expense. The fair value of the consultant options was determined to be $414,000 based on the Black-Scholes method with inputs of: an exercise price of $8.03, a stock price of $8.03 on the date of measurement, a contractual term of 10 years, and volatility of 53.6%. The fair value is being amortized over five years, resulting in non-cash expense of $104,400 during the period from August 10, 2005 to December 31, 2005. The unvested warrants in the amount of $309,600 will vest ratably at $21,600 per quarter over the remainder of the four year period.

On September 1, 2005, the Company granted options to purchase an aggregate of 160,000 shares of the Company's common stock at an exercise price equal to $6.63 per share, which exercise price equals 85% of the closing price per share of the Company's common stock on the day immediately preceding that date. The options expire 10 years following the date of grant. A non-cash charge of $58,834 was recorded to compensation expense during the year ended December 31, 2005. The options will be amortized ratably over

the dates of additional vesting occurring on each of the next three anniversaries of the date of grant.

As discussed in Note 1, the Company has elected to follow APB Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES (AS PERMITTED UNDER SFAS NO. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION), in accounting for stock-based awards to its employees and directors. Accordingly, the Company accounts for grants of stock options to its employees and directors according to the intrinsic value method and, thus, recognizes no stock-based compensation expense for options granted with exercise prices equal to or greater than the fair value of the Company's common stock on the date of grant. The Company records deferred stock-based compensation when the market price of the Company's common stock exceeds the exercise price of the stock options or purchase rights on the measurement date (generally, the date of grant). Any such deferred stock-based compensation is amortized ratably over the vesting period of the individual options.

In accordance with SFAS No. 148, the Company must estimate the fair value of stock-based compensation awards under the provisions of SFAS No. 123. To estimate the fair value of options granted to employees and directors, the Company uses the Black-Scholes Option Valuation model. The assumptions and inputs for the Black-Scholes model include: the exercise price of the options, the price of the stock on the date of grant, the expected term, and volatility and risk free rate commensurate with the expected term. The expected term is the employee's or director's anticipated holding period (estimated in years) of the option until exercise and thus is after vesting but generally prior to the expiration date of the option. SFAS No. 123 allows companies to make a reasonable estimate for the expected term, generally based on historical observations of stock option holding periods. Since limited historical observations are available for the Company's options, the Company has elected to use the simplified method in accordance with SAB No. 107. Under the SAB No. 107 guidelines, the simplified method estimates the expected term of the option as the average between the weighted average vesting period and the contractual term (expiration date). The expected term of the Company's employee and director options range from 5.5 to 6.0 years. Volatility for the model has been estimated based on an appropriately similar proxy company and ranges from 53.6% to 55.0% depending on the expected term of the option being valued. The risk free rate is based on U.S. Treasury Separate Trading of Registered Interest and Principal of Securities (STRIPS) and range from 3.9% to 4.5% depending on the option being valued.

The weighted average remaining contractual life and weighted average exercise price of all options outstanding and of options exercisable as of December 31, 2005 were as follows:

<TABLE>
<CAPTION>

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted-Average Exercise Price	Weighted-Average Fair Value	Number Exercisable	Weighted Average Exercise Price	Weighted-Average Fair Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
$3.75 - 7.45	105,000	2.28	$ 5.53	$ 4.33	105,000	$ 5.53	$ 4.33
6.63	160,000	9.67	6.63	4.63	40,000	6.63	4.63
7.01	17,500	9.57	7.01	4.60	17,500	7.01	4.60
8.03	500,000	9.61	8.03	4.70	100,000	8.03	4.70
8.25	115,000	9.57	8.25	4.51	--	--	4.51
8.30	30,000	9.58	8.30	4.53		--	4.53
	927,500				262,500		

</TABLE>

WARRANTS - On February 12, 2004, the Company entered into a consulting agreement with a consultant to represent the Company in investors' communications and public relations with existing shareholders, brokers, dealers and other investment professionals as to the Company's current and proposed activities. As compensation for such services, the Company issued warrants to the consultant to purchase 920,000 shares of the Company's common stock at an exercise price of $0.0001, expiring on March 12, 2009. These warrants vested upon the effective date of the agreement and were recognized at the fair value on the date of issuance in the amount of $1,380,000. The fair value was amortized over one year, resulting in non-cash expense of $172,500 and $1,207,500 for consulting services during the years ended December 31, 2005 and 2004, respectively. On September 29, 2004, the consultant exercised the warrant to acquire 920,000 shares of the Company's common stock at an aggregate exercise price of $92.

Pursuant to the consulting agreement, upon completion of the Share Exchange Transaction, the Company issued warrants to the consultant to purchase 230,000 additional shares of common stock at an exercise price of $0.0001 and expiring on March 23, 2009 that will vest ratably over a period of two years from the date of the Share Exchange Transaction. The warrants were recognized at the fair value as of the start of business on March 24, 2005 in the amount of $2,139,000 and recorded as contra-equity. The fair value is being amortized over two years, resulting in non-cash expense of $822,636 during the period from March 24, 2005 to December 31, 2005. The unvested warrants in the amount of $1,316,364 will vest ratably at $89,125 per month over the remainder of the two year period.

The following table summarizes warrant activity for 2005 and 2004:

<TABLE>
<CAPTION>

	Number of Shares	Price per Share	Weighted Average Exercise Price
<S>	<C>	<C>	<C>
Balance at January 1, 2004	41,587	$1.50	$1.50
Warrants granted	1,003,000	$0.0001 - $5.00	$0.27
Warrants exercised	(920,000)	$0.0001	$0.0001
Warrants forfeited	--	--	--
Balance at December 31, 2004	124,587	$1.50 - $5.00	$2.24
Warrants granted	3,058,000	$0.0001 - $5.00	$3.21
Warrants exercised	(277,769)	$0.0001 - $5.00	$2.01
Warrants canceled	--	--	--
Warrants forfeited	--	--	--
Balance at December 31, 2005	2,904,818	$0.0001 - $5.00	$3.26

</TABLE>

The weighted average remaining contractual life and weighted average exercise price of all warrants outstanding and of warrants exercisable as of December 31, 2005 were as follows:

<TABLE>
<CAPTION>

Warrants Outstanding				Warrants Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
<S> <C>	<C>	<C>	<C>	<C>	<C>
$0.0001	143,751	3.23	$0.0001	--	--
$0.01	25,000	0.22	$0.01	25,000	$0.01
$1.50	43,487	3.12	$1.50	43,487	$1.50
$2.00	50,000	3.37	$2.00	50,000	$2.00
$3.00	1,949,214	2.11	$3.00	1,949,214	$3.00
$4.35	5,000	0.73	$4.35	5,000	$4.35
$5.00	688,366	1.23	$5.00	688,366	$5.00
	2,904,818			2,761,067	

</TABLE>

11. COMMITMENTS AND CONTINGENCIES:

OPERATING LEASES - The Company leases shared office space in Fresno, California on a month-to-month basis at $4,132 per month. The related office rent expense was $40,276 and $24,983 for the years ended December 31, 2005 and 2004, respectively.

The Company leases office space in Davis, California at a rate of $1,100 per month. The lease term expired on November 30, 2005 and the Company continues to rent this office space on a month-to-month basis. The related office rent expense was $21,703 for the year ended December 31, 2005.

The Company entered into a lease for office space in Portland, Oregon on August 3, 2005. The term of the lease is three years, commencing December 1, 2005 through November 30, 2008 with monthly lease payments of $1,290 through May 31, 2007 and $1,362 from June 1, 2007 through the end of the

lease term. The related office rent expense was $1,290 for the year ended December 31, 2005.

TERMINAL CONTRACT - The Company is party to four terminal contracts relating to the storage of ethanol. The contracts expire on different dates, ranging from March 31, 2006 through October 31, 2006, and are renewable on a year-to-year basis at the end of the term. All four agreements are cancelable by either party at the end of the base term, or with 30 - 90 days notice prior to the end of any extended term. Fees associated with these contracts vary, and are dependent either on the volume of product in storage or on the volume of product delivered. One of the terminals charges a minimum monthly fee of $1,015 in addition to the variable rate. Storage fees paid to these terminals were $99,011 for the period from March 23, 2005 (Kinergy acquisition) to December 31, 2005, and are recorded as cost of goods sold in the accompanying consolidated statements of operations.

PURCHASE COMMITMENTS - From March 23, 2005 (Kinergy acquisition) to December 31, 2005, the Company entered into purchase contracts with its major vendors to acquire certain quantities of ethanol, at specified prices. The contracts generally run for six months from April through September, and from October through March. On October 1, 2005, the contracts were renewed and renegotiated to extend through March 31, 2006. The outstanding balance on the new contracts was $23,705,507 at December 31, 2005.

SALES COMMITMENTS - From March 23, 2005 (Kinergy acquisition) to December 31, 2005, the Company entered into sales contracts with its major customers to sell certain quantities of ethanol, at specified prices. The contracts generally run for six months from April through September, and from October through March. On October 1, 2005, the contracts were renewed and renegotiated to extend through March 31, 2006. The outstanding balance on the new contracts was $31,748,940 at December 31, 2005.

ETHANOL PURCHASE AND MARKETING AGREEMENT - On March 4, 2005 as amended in April 2006, Kinergy entered into an Ethanol Purchase and Marketing Agreement with the owner of an ethanol production facility. The agreement is effective for two years with automatic renewals for additional one-year periods. Kinergy has the exclusive right to market and sell all of the ethanol from the facility. Pursuant to the terms of the agreement, the purchase price of the ethanol may be negotiated monthly between Kinergy and the owner of the ethanol production facility without regard to the price at which Kinergy will re-sell the ethanol to its customers or Kinergy may pay the owner the gross payments received by Kinergy from third parties for forward sales of ethanol less certain transaction costs and fees and retain a 1.0% marketing fee calculated after deducting these costs and expenses. During 2005, all purchases of ethanol from this facility were based on the monthly negotiated prices.

ETHANOL MARKETING AGREEMENT - On August 31, 2005, Kinergy entered into an Ethanol Marketing Agreement with the owner of an ethanol production facility. The agreement is effective for three years with automatic renewals for additional one-year periods thereafter. Kinergy is to have the exclusive right to market and sell all of the ethanol from the facility once construction of the facility has been completed. Kinergy is to pay the owner the gross payments received by Kinergy from third parties for forward sales of ethanol less certain transaction costs and fees. Kinergy may also deduct and retain an amount equal to 1.0% of the difference between the gross payments received by Kinergy and the transaction costs and fees. As of December 31, 2005, there were no transactions completed under this agreement.

LITIGATION - GENERAL - The Company is subject to legal proceedings, claims and litigation arising in the ordinary course of business. While the amounts claimed may be substantial, the ultimate liability cannot presently be determined because of considerable uncertainties that exist. Therefore, it is possible that the outcome of those legal proceedings, claims and litigation could adversely affect the Company's quarterly or annual operating results or cash flows when resolved in a future period. However, based on facts currently available, management believes such matters will not adversely affect the Company's financial position, results of operations or cash flows.

LITIGATION - BARRY SPIEGEL - On December 23, 2005, Barry J. Spiegel, a stockholder of the Company and former director of Accessity, filed a complaint in the Circuit Court of the 17th Judicial District in and for Broward County, Florida (Case No. 05018512) (the "Spiegel Action"), against Barry Siegel, Philip Kart, Kenneth Friedman and Bruce Udell (collectively, the "Defendants"). Messrs. Siegel, Udell and Friedman are former directors of Accessity and the Company. Mr. Kart is a former executive officer of Accessity and the Company. The Spiegel Action relates to the Share Exchange Transaction and purports to state five counts against the Defendants: (i) breach of fiduciary duty, (ii) violation of Florida's Deceptive and Unfair Trade Practices Act, (iii) conspiracy to defraud, (iv) fraud, and (v) violation of Florida Securities and Investor Protection Act. Mr. Spiegel is seeking $22.0 million in damages. On March

8, 2006, Defendants filed a motion to dismiss the Spiegel Action. The Company has agreed with Messrs. Friedman, Siegel, Kart and Udell to advance the costs of defense in connection with the Spiegel Action. Under applicable provisions of Delaware law, the Company may be responsible to indemnify each of the Defendants in connection with the Spiegel Action.

LITIGATION - GERALD ZUTLER - In January 2003, DriverShield CRM Corp., or DriverShield, then a wholly-owned subsidiary of the Company's predecessor, Accessity, was served with a complaint filed by Mr. Gerald Zutler, its former President and Chief Operating Officer, alleging, among other things, that DriverShield breached his employment contract, that there was fraudulent concealment of DriverShield's intention to terminate its employment agreement with Mr. Zutler, and discrimination on the basis of age and aiding and abetting violation of the New York State Human Rights Law. The complaint was filed in the Supreme Court of the State of New York, County of Nassau, Index No.: 654/03. Mr. Zutler is seeking damages aggregating $2.225 million, plus punitive damages and reasonable attorneys' fees. DriverShield's management believes that DriverShield properly terminated Mr. Zutler's employment for cause, and intends to vigorously defend this suit. An Answer to the complaint was served by DriverShield on February 28, 2003. In 2003, Mr. Zutler filed a motion to have DriverShield's attorney removed from the case. The motion was granted by the court, but was subsequently overturned by an appellate court. DriverShield has filed a claim with its insurance carrier under its directors and officers and employment practices' liability policy. The carrier has agreed to cover certain portions of the claim as they relate to Mr. Siegel, DriverShield's former Chief Executive Officer. The policy has a $50,000 deductible and a liability limit of $3.0 million per policy year. At the present time, the carrier has agreed to cover the portion of the claim that relates to Mr. Siegel and has agreed to a fifty percent allocation of expenses.

LITIGATION - MERCATOR - In 2003, Accessity filed a lawsuit seeking damages in excess of $100 million against: (i) Presidion Corporation, f/k/a MediaBus Networks, Inc., Presidion's parent corporation, (ii) Presidion's investment bankers, Mercator Group, LLC, or Mercator, and various related and affiliated parties and (iii) Taurus Global LLC, or Taurus, (collectively referred to as the "Mercator Action"), alleging that these parties committed a number of wrongful acts, including, but not limited to tortuously interfering in a transaction between Accessity and Presidion. In 2004, Accessity dismissed this lawsuit without prejudice, which was filed in Florida state court. The Company recently refiled this action in the State of California, for a similar amount, as the Company believes that this is the proper jurisdiction. On August 18, 2005, the court stayed the action and ordered the parties to arbitration. The parties agreed to mediate the matter. Mediation took place on December 9, 2005 and was not successful. On December 5, 2005, the Company filed a Demand for Arbitration with the American Arbitration Association. On April 6, 2006, a single arbitrator was appointed. The share exchange agreement relating to the Share Exchange Transaction provides that following full and final settlement or other final resolution of the Mercator Action, after deduction of all fees and expenses incurred by the law firm representing the Company in this action and payment of the 25% contingency fee to the law firm, shareholders of record of Accessity on the date immediately preceding the closing date of the Share Exchange Transaction will receive two-thirds and the Company will retain the remaining one-third of the net proceeds from any Mercator Action recovery.

ADVISORY FEE - On April 14, 2004, the Company entered into an agreement with CMCP and Chadbourn Securities ("Chadbourn"), a related entity to CMCP, in connection with raising funding for an ethanol production facility. The agreement provided that upon raising a minimum of $15,000,000 the Company would pay CMCP a fee, through that date, equal to $10,000 per month starting from April 15, 2003. The Company paid an advisory fee to CMCP in the amount of $235,000 on March 24, 2005, pursuant to the terms of the agreement between CMCP and the Company and in connection with the private placement transaction. (See Note 10.) In addition, $83,017 was paid related to cash received from Accessity in connection with the Share Exchange Transaction. (See Note 2.) In addition, the agreement provided for payment of $25,000 per month for a minimum of 12 months upon the completion of a merger between the Company and a public company, starting from the date of close of such merger, as well as an advisory fee of 3% of any equity amount raised through the efforts of CMCP, including cash amounts received through a merger with another corporate entity.

The Company terminated the consulting agreement on November 1, 2005 pursuant to the terms of a Settlement Agreement and Release (the "Settlement Agreement") and paid CMCP $150,000 for the remainder of their contract for a total of $300,000 paid in 2005 related to this consulting agreement. In connection with the Settlement Agreement, if the Company is successful in closing its offering of Series A Cumulative Redeemable Convertible Preferred Stock , the Company has agreed to pay Chadbourn $960,000 within five business days after the closing. This amount was paid on April 13, 2006.

On January 5, 2005, the Company entered into an agreement with Northeast Securities, Inc. ("NESC") and Chadbourn, a related party, in connection with the private offering on March 23, 2005 described above. The agreement provides that upon completion of a financing within the time-frame of the engagement covered by the agreement, the Company will pay NESC 6% (plus a 1% non-accountable expense allowance) of gross proceeds received by the Company, and warrants exercisable at the offering price in an amount equal to 7% of the aggregate number of shares of common stock sold in the financing. In addition, the agreement provides that Chadbourn will receive 2% (plus a 1% non-accountable expense allowance) of gross proceeds and warrants exercisable at the offering price in an amount equal to 3% of the aggregate number of shares of common stock sold in the financing. Pursuant to the terms of the agreement and in connection with the completion of the private offering described above, the Company paid NESC $1,168,800, (net of a reduction of $183,600, as agreed on March 18, 2005), and issued to NESC placement warrants to purchase 450,800 shares of the Company's common stock exercisable at $3.00 per share. The Company also paid Chadbourn $627,600 and issued to Chadbourn placement warrants to purchase 212,700 shares of the Company's common stock exercisable at $3.00 per share. (See Note 10.)

In April 2005, the Company entered into a consulting agreement with NESC. Under the terms of the agreement, the Company paid an initial payment of $30,000 and made monthly payments of $12,500. The Company paid NESC $142,500 during the year ended December 31, 2005 and terminated the consulting agreement effective March 31, 2006.

CASUALTY LOSS - In January 2004, canola stored in one of the silos at the Company's Madera County, California facility caught on fire. The facility was fully insured with $10 million of property and general liability insurance. The canola was owned by a third party who was also insured. As of December 31, 2005, the Company has received gross insurance proceeds of $4,089,512, of which $931,543 has been expended on capital improvements at the facility. The remaining amount of $3,157,969 is included in other accrued liabilities. The Company is proceeding with the restoration and expects that such proceeds will cover the cost of restoration.

CONSULTING AGREEMENT- On April 27, 2005, the Company engaged a consulting firm to explore capital raising alternatives. The Company paid the consulting firm an initial engagement fee of $300,000 upon execution of its engagement agreement. The engagement agreement also requires an additional engagement fee, the amount of which is dependent upon the number of the Company's projects to be financed. The additional engagement fee has a range of a minimum of $300,000 and a maximum of one-half of one percent (1/2%) of the capital raised, and is payable upon the occurrence of certain events. In addition, the Company is obligated to pay to the consulting firm an arrangement fee of 3% to 3.5% of the capital raised. On April 3, 2006, the consulting firm waived any rights it may have had to be paid a fee in connection with the Closing of the Company's debt financing with Hudson United Capital and Comerica Bank. (See Note 13.)

EMPLOYMENT AGREEMENTS - On March 23, 2005, the Company entered into an Executive Employment Agreement with Neil M. Koehler, its President and Chief Executive Officer, that provides for a three-year term and automatic one-year renewals thereafter. Mr. Koehler is to receive a base salary of $200,000 per year and is entitled to receive a cash bonus not to exceed 50% of his base salary and an additional cash bonus not to exceed 50% of the net free cash flow (defined as revenues of Kinergy, less his salary and performance bonus, less capital expenditures and all expenses incurred specific to Kinergy), subject to a maximum of $300,000 in any given year; provided that such additional cash bonus will be reduced by ten percentage points each year, such that 2009 will be the final year of such bonus at 10% of net free cash flow. The terms of the additional cash bonus were met in 2005 and the Company recorded an accrual for earned compensation expense of $300,000. Upon termination or resignation for "good reason," Mr. Koehler is entitled to receive severance equal to $50,000 for three months of base salary during the first year after termination or resignation and $100,000 for six months of base salary during the second year after termination unless he is terminated for cause or voluntarily terminates his employment without providing the required written notice.

On March 23, 2005, the Company entered into an Executive Employment Agreement with Ryan W. Turner, its Chief Operating Officer, that provides for a one-year term and automatic one-year renewals thereafter. Mr. Turner is to receive a base salary of $125,000 per year and is entitled to

receive a cash bonus not to exceed 50% of his base salary. Effective as of October 1, 2005, the compensation committee of the Company's board of directors increased Mr. Turner's base salary to $175,000 per year. Upon termination or resignation for "good reason," Mr. Turner is entitled to receive severance equal to $43,750 for three months of base salary during the first year after termination or resignation and six months of base salary during the second year after termination unless he is terminated for cause or voluntarily terminates his employment without providing the required written notice.

On August 10, 2005, the Company entered into an Executive Employment Agreement with William G. Langley, its Chief Financial Officer, that provides for a four-year term and automatic one-year renewals thereafter, unless either Mr. Langley or the Company provides written notice to the other at least 90 days prior to the expiration of the then-current term. Mr. Langley is to receive a base salary of $185,000 per year. Mr. Langley is entitled to $92,500 for six months of severance pay effective throughout the entire term of his agreement and is also entitled to reimbursement of his costs associated with his relocation to Fresno, California. Mr. Langley is obligated to relocate to Fresno, California within six months of the date of his Executive Employment Agreement.

RESOURCES AGREEMENT - Effective August 10, 2005, the Company entered into a resources agreement with Tatum CFO Partners ("Tatum") relating to the Executive Employment Agreement with William G. Langley, its Chief Financial Officer, whereby the Company agreed to pay as compensation for resources to be provided by Tatum, a lump sum signing fee of $69,375 and $1,000 per month during the term of the Resources Agreement, which remains in effect for the duration of Mr. Langley's employment with the Company. In addition, on August 10, 2005, the Company granted options to purchase an aggregate of 75,000 shares of the Company's common stock at an exercise price equal to $8.03, the closing price per share of the Company's common stock on the day immediately preceding that date, to Tatum CFO Partners. (See Note 10.) The agreement requires that of the options to be issued in the future, if any, to William G. Langley, the Company's Chief Financial Officer, 15% of such options are to be issued to Tatum.

OPTION TO ACQUIRE LAND - On August 22, 2005, the Company entered into an Option Agreement to acquire approximately 60 acres of unimproved real property at a purchase price of $7,500 per acre, for the purpose of developing an ethanol plant. The Company paid $50,000 as option consideration on the grant date and an additional $100,000 will be due on the first and second anniversary dates of the grant date. This option expires on August 21, 2008.

AMENDED AND RESTATED PHASE 1 DESIGN-BUILD AGREEMENT - On November 2, 2005, PEI Madera entered into an Amended Agreement with W.M. Lyles Co. Under the Amended Agreement, W.M. Lyles Co. is to operate in a general contractor capacity and procure engineering and construction services from third parties. The Amended Agreement stipulates that the engineer for the Project is to be Delta-T Corporation. The Amended Agreement provides for a guaranteed maximum price proposal of $14.5 million. However, PEI Madera is liable for additional costs to the extent that the scope of work actually performed by W.M. Lyles Co. exceeds the scope of work that is the basis for the guaranteed maximum price.

PEI Madera may terminate the Amended Agreement but must pay W.M. Lyles Co. for all costs associated with the work on the Project. If PEI Madera terminates the Amended Agreement and selects another design-build contractor other than W.M. Lyles Co., then PEI Madera is to pay for all costs associated with the work on the Project as well as a $5.0 million premium. PEI Madera is also required to pay W.M. Lyles Co. fair compensation for all equipment retained by W.M. Lyles Co. and PEI Madera is required to assume all obligations, commitments and unsettled claims that W.M. Lyles Co. has undertaken or incurred in good faith in connection with the work on the Project. In the event that W.M. Lyles Co. fails to perform any of its material obligations under the Amended Agreement, PEI Madera may terminate the Amended Agreement without the obligation to pay the $5.0 million premium but only after such failure continues for forty-five days following receipt by W.M. Lyles Co. of written notice of such failure.

PHASE 2 DESIGN-BUILD AGREEMENT - On November 2, 2005, PEI Madera entered into a Phase 2 Agreement with W.M. Lyles Co.. The Phase 2 Agreement covers additional work to be performed by W.M. Lyles Co. for the completion of

the Project. The final completion date of the work contemplated by the Phase 2 Agreement is 545 days after PEI Madera's final notice to W.M. Lyles Co. to proceed. On April 13, 2006, PEI Madera delivered its notice to proceed to W.M. Lyles Co.. The Phase 2 Agreement provides for a guaranteed maximum price proposal of approximately $36.2 million. However, PEI Madera is liable for additional costs to the extent that the scope of work actually performed by W.M. Lyles Co. exceeds the scope of work that is the basis for the guaranteed maximum price. In the event that the total costs and fees for Phase 2 of the Project are less than the guaranteed maximum price of approximately $36.2 million, then W.M. Lyles Co. and PEI Madera are to share such difference equally.

Delays in work beyond the substantial completion date not caused by PEI Madera or force majeure events will result in PEI Madera being entitled to delay liquidated damages. These liquidated damages are to be calculated as $23,000 per day multiplied by one minus the daily operating rate for such day. The daily operating rate is calculated based on the actual operating capacity for that day (expressed in millions of gallons per year) divided by thirty-five million gallons. As an incentive bonus for achieving substantial completion prior to the specified date, PEI Madera is to pay to W.M. Lyles Co. $12,500 per day for each day in advance of such date. Fifty percent of any bonus is payable within thirty days after substantial completion and the remaining fifty percent is payable once final completion is achieved. The aggregate amount of any delay liquidated damages or incentive bonus is not to exceed $2.5 million.

LETTER AGREEMENT - On November 2, 2005, PEI California entered into a Letter Agreement (the "Letter Agreement") with W.M. Lyles Co. The Letter Agreement relates to the Amended Agreement and the Phase 2 Agreement described above. Under the Letter Agreement, if W.M. Lyles Co. pays liquidated damages to PEI Madera under the Phase 2 Agreement as a result of a defect attributable to Delta-T Corporation, the engineer for the Project, or if W.M. Lyles Co. pays liquidated damages to PEI Madera under the Phase 2 Agreement as a result of a delay that is attributable to Delta-T Corporation, then PEI California agrees to reimburse W.M. Lyles Co. for such liquidated damages. However, PEI California is not responsible for the first $2.0 million of reimbursement. In addition, in the event that W.M. Lyles Co. recovers amounts from Delta-T Corporation for such defect or delay, then W.M. Lyles Co. will not seek reimbursement from PEI California. The aggregate reimbursement obligations of PEI California under the Letter Agreement are not to exceed $8.1 million.

JONES CONTINUING GUARANTY - On November 3, 2005, William L. Jones, a related party and the Chairman of the Board of Directors of the Company, executed a Continuing Guaranty (the "Jones Guaranty") in favor of W.M. Lyles Co.. Under the Jones Guaranty, Mr. Jones guarantees to W.M. Lyles Co. the payment obligations of PEI California under the Letter Agreement. Under the Jones Guaranty, W.M. Lyles Co. is to seek payment on a pro rata basis from Mr. Jones and Neil M. Koehler (as described below), but in the event that Mr. Koehler fails to make payment, then Mr. Jones is responsible for any shortfall. However, the full extent of Mr. Jones' liability under the Jones Guaranty, including for any shortfall for non-payment by Mr. Koehler, is limited to $4.0 million plus any attorneys' fees, costs and expenses.

KOEHLER CONTINUING GUARANTY - On November 3, 2005, Neil M. Koehler, a related party and Chief Executive Officer and President and a member of the Board of Directors of the Company, executed a Continuing Guaranty (the "Koehler Guaranty") in favor of W.M. Lyles Co.. Under the Koehler Guaranty, Mr. Koehler guarantees to W.M. Lyles Co. the payment obligations of PEI California under the Letter Agreement. Under the Koehler Guaranty, W.M. Lyles Co. is to seek payment on a pro rata basis from Messrs. Jones (as described above) and Koehler, but in the event that Mr. Jones fails to make payment, then Mr. Koehler is responsible for any shortfall. However, the full extent of Mr. Koehler's liability under the Koehler Guaranty, including for any shortfall for non-payment by Mr. Jones, is limited to $4.0 million plus any attorneys' fees, costs and expenses.

12. RELATED PARTY TRANSACTIONS:

The Company entered into a consulting contract with a shareholder of the Company for consulting services related to the development of the ethanol plan at $6,000 per month. The Company paid a total of $21,000 and $72,000 for the years ended December 31, 2005 and December 31, 2004, respectively.

The Company entered into a consulting agreement for $3,000 per month with a company owned by a member of ReEnergy, LLC for consulting services related to environmental regulations and permitting. The Company paid a total of $8,270 and $40,542 for the years ended December 31, 2005 and 2004.

VOTING AGREEMENT - On November 14, 2005, William L. Jones, Neil M. Koehler, Ryan W. Turner, Kenneth J. Friedman and Frank P. Greinke, each of whom is a director and/or executive officer of the Company (the "Stockholders"), and the Company, entered into a Voting Agreement (the "Voting Agreement") with Cascade Investment, L.L.C. ("Purchaser"). The

Stockholders collectively hold an aggregate of 9,162,704 shares of the Company's common stock. The Voting Agreement provides that the Stockholders may not transfer their shares of the Company's common stock, and must keep their shares free of all liens, proxies, voting trusts or agreements, until the Voting Agreement is terminated. The Voting Agreement provides that the Stockholders will each vote or execute a written consent in favor of the transactions contemplated by the Purchase Agreement between the Company and Purchaser (the "Transactions"). In addition, under the Voting Agreement, each Stockholder grants an irrevocable proxy to Neil M. Koehler to act as such Stockholder's proxy and attorney-in-fact to vote or execute a written consent in favor of the Transactions. The Voting Agreement is effective until the earlier of the approval of the Transactions by the Company's stockholders or the termination of the Purchase Agreement in accordance with its terms. The Transactions were approved by the stockholders on December 30, 2005. (See Note 13.)

RELATED CUSTOMER - On August 10, 2005, the Company entered into a 6-month sales contract with Southern Counties Oil Co., a company owned by a director and significant stockholder of the Company. The contract period is from October 1, 2005 through March 31, 2006 for 5,544,000 gallons of fuel grade ethanol to be delivered ratably at approximately 924,000 gallons per month at varying prices based on delivery destinations in Arizona, Nevada and California. During the period from March 23, 2005 (Kinergy acquisition) to December 31, 2005, sales to Southern Counties Oil Co. totaled $9,060,273 and accounts receivable from Southern Counties Oil Co. at December 31, 2005 totaled $937,713.

RELATED VENDOR - The Company purchased 45,708 gallons of fuel grade ethanol from Southern Counties Oil Co., a company owned by a director and significant stockholder of the Company. During the period from March 23, 2005 (Kinergy acquisition) to December 31, 2005, purchases from Southern Counties Oil Co. totaled $73,665 and accounts payable to Southern Counties Oil Co. at December 31, 2005 totaled $0

13. SUBSEQUENT EVENTS:

RELATED CUSTOMER - On January 14, 2006, the Company entered into a 6-month sales contract with Southern Counties Oil Co. The contract period is from April 1, 2006 through September 30, 2006 for 2,100,000 gallons of fuel grade ethanol to be delivered ratably at approximately 350,000 gallons per month at varying prices based on delivery destinations in California.

RELATED PARTY NOTE RECEIVABLE - On January 19, 2006, a management employee was advanced $91,699 at 5% interest, due and payable on or before July 19, 2006, for the withholding taxes due on the reportable gross taxable income related to a warrant exercise of 25,000 shares.

AMENDMENT TO LDI TERM LOAN - On April 13, 2006, PEI Madera and LDI entered into an Amended and Restated Loan Agreement whereby the Loan Agreement was assigned by the Company to PEI Madera. The lien created by a deed of trust on PEI Madera's grain facility is subject and subordinate to the lien created by a deed of trust in favor of the lender under the construction loan with Hudson United Capital and Comerica Bank described below. (See Note 9.)

WARRANT EXERCISES - From January 1, 2006 through April 14, 2006, the Company has issued 1,679,937 shares of common stock for the exercise of warrants and has received proceeds of $5,602,691. Of these shares, 43,038 shares were issued pursuant to cashless exercises.

OPTION EXERCISES - From January 1, 2006 through April 14, 2006, the Company has issued 47,500 shares of common stock for the exercise of options and has received proceeds of $283,075. None of these shares were issued pursuant to cashless exercises.

ADVISORY FEE - On April 14, 2004, the Company entered into an agreement with CMCP and Chadbourn, a related entity to CMCP, in connection with raising funding for an ethanol production facility. The Company terminated the consulting agreement on November 1, 2005 and pursuant to the terms of the Settlement Agreement; the Company paid Chadbourn $960,000 on April 13, 2006 in connection with the closing of the Company's offering of Series A Cumulative Redeemable Convertible Preferred Stock.

PREFERRED STOCK FINANCING - On April 13, 2006, the Company issued to one investor, Cascade Investment, L.L.C., ("Cascade"), 5,250,000 shares of the Company's Series A Cumulative Redeemable Convertible Preferred Stock (the "Series A Preferred Stock"), at a price of $16.00 per share, for an aggregate purchase price of $84.0 million. Of the $84.0 million aggregate purchase price, $4.0 million was paid to the Company at closing and $80.0 million was deposited into a restricted cash account and will be disbursed in accordance with the Deposit Agreement described below. The Company is entitled to use the initial $4.0 million of proceeds for general working capital and must use the remaining $80.0 million for the construction or acquisition of one or more ethanol production facilities in accordance with the terms of the Deposit Agreement.

PACIFIC ETHANOL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

The Certificate of Designations, Powers, Preferences and Rights of the Series A Cumulative Redeemable Convertible Preferred Stock (the "Certificate of Designations"), provides for 7,000,000 shares of the Company's preferred stock to be designated as Series A Cumulative Redeemable Convertible Preferred Stock. The Series A Preferred Stock ranks senior in liquidation and dividend preferences to the Company's common stock. Holders of Series A Preferred Stock are entitled to quarterly cumulative dividends payable in arrears in cash in an amount equal to 5% of the purchase price per share of the Series A Preferred Stock; however, such dividends may, at the Company's option, be paid in additional shares of Series A Preferred Stock based on the value of the purchase price per share of the Series A Preferred Stock. The holders of Series A Preferred Stock have a liquidation preference over the holders of the Company's common stock equivalent to the purchase price per share of the Series A Preferred Stock plus any accrued and unpaid dividends on the Series A Preferred Stock. A liquidation will be deemed to occur upon the happening of customary events, including transfer of all or substantially all of the Company's capital stock or assets or a merger, consolidation, share exchange, reorganization or other transaction or series of related transaction, unless holders of 66 2/3% of the Series A Preferred Stock vote affirmatively in favor of or otherwise consent to such transaction.

The holders of the Series A Preferred Stock have conversion rights initially equivalent to two shares of common stock for each share of Series A Preferred Stock. The conversion ratio is subject to customary antidilution adjustments. In addition, antidilution adjustments are to occur in the event that the Company issues equity securities at a price equivalent to less than $8.00 per share, including derivative securities convertible into equity securities (on an as-converted or as-exercised basis). Certain specified issuances will not result in antidilution adjustments. The shares of Series A Preferred Stock are also subject to forced conversion upon the occurrence of a transaction that would result in an internal rate of return to the holders of the Series A Preferred Stock of 25% or more. Accrued but unpaid dividends on the Series A Preferred Stock are to be paid in cash upon any conversion of the Series A Preferred Stock.

The holders of Series A Preferred Stock vote together as a single class with the holders of the Company's common stock on all actions to be taken by the Company's stockholders. Each share of Series A Preferred Stock entitles the holder to the number of votes equal to the number of shares of the Company's common stock into which each share of Series A Preferred Stock is convertible. However, the number of votes for each share of Series A Preferred Stock may not exceed the number of shares of common stock into which each share of Series A Preferred Stock would be convertible if the applicable conversion price were $8.99. In addition, the holders of Series A Preferred Stock are afforded numerous customary protective provisions with respect to certain actions that may only be approved by holders of a majority of the shares of Series A Preferred Stock. In addition, the holders of the Series A Preferred Stock are afforded preemptive rights with respect to certain securities offered by the Company and are entitled to certain redemption rights.

PACIFIC ETHANOL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

The Deposit Agreement between the Company and Comerica Bank provides for a restricted cash account into which $80.0 million of the aggregate purchase price for the Series A Preferred Stock has been deposited. The Company may not withdraw funds from the restricted cash account except in accordance with the terms of the Deposit Agreement. Under the Deposit Agreement, the Company may, with certain prescribed limitations, requisition funds from the restricted cash account for the payment of construction costs in connection with the construction of ethanol production facilities.

In connection with the issuance of the Series A Preferred Stock, the Company entered into a Registration Rights and Stockholders Agreement (the "Rights Agreement") with Cascade. The Rights Agreement is to be effective until the holders of the Series A Preferred Stock, and their affiliates, as a group, own less than 10% of the Series A Preferred Stock issued under the purchase agreement with Cascade, including common stock into which such Series A Preferred Stock has been converted (the "Termination Date"). The Rights Agreement provides that holders of a majority of the Series A Preferred Stock, including common stock into which the Series A Preferred Stock has been converted, may demand and cause the Company, at any time after April 13, 2007, to register on their behalf the shares of common stock issued, issuable or that may be issuable upon conversion of the Series A Preferred Stock (the "Registrable Securities"). Following such

demand, the Company is required to notify any other holders of the Series A Preferred Stock or Registrable Securities of the Company's intent to file a registration statement and, to the extent requested by such holders, include them in the related registration statement. The Company is required to keep such registration statement effective until such time as all of the Registrable Securities are sold or until such holders may avail themselves of Rule 144(k), which requires, among other things, a minimum two-year holding period and requires that any holder availing itself of Rule 144(k) not be an affiliate of the Company. The holders are entitled to three demand registrations on Form S-1 and unlimited demand registrations on Form S-3; however, the Company is not obligated to effect more than two demand registrations on Form S-3 in any 12-month period.

In addition to the demand registration rights afforded the holders under the Rights Agreement, the holders are entitled to "piggyback" registration rights. These rights entitle the holders who so elect to be included in registration statements to be filed by the Company with respect to other registrations of equity securities. The holders are entitled to unlimited "piggyback" registration rights.

The Rights Agreement provides for the initial appointment of two persons designated by Cascade to the Company's Board of Directors, and the appointment of one of such persons as the Chairman of the Compensation Committee of the Board of Directors. Following the Termination Date, Cascade is required to cause its director designees, and all other designees, to resign from all applicable committees and boards of directors, effective as of the Termination Date.

The Company is in the process of evaluating the proper accounting treatment for the above factors and resulting impact on its consolidated financial statements.

DEBT FINANCING - On April 13, 2006, PEI Madera entered into a Construction and Term Loan Agreement (the "Construction Loan") with Comerica Bank ("Comerica") and Hudson United Capital ("Hudson") for a debt financing (the "Debt Financing"), from Hudson and Comerica (collectively, the "Lender"), in the aggregate amount of up to $34.0 million. The Debt Financing will provide a portion of the total financing necessary for the completion of the Company's ethanol production facility in Madera County, California (the "Project"). The Project cost is not to exceed approximately $65.1 million (the "Project Cost").

The Company has contributed assets to PEI Madera having a value of approximately $13.9 million (the "Contributed Assets"). The Company is responsible for arranging cash equity (the "Contributed Amount") in an amount that, when combined with the Contributed Assets would be equal to no less than the difference between the Debt Financing amount of $34.0 million and the total Project Cost. The Contributed Amount is expected to be approximately $31.1 million and has been satisfied through the application of $17.7 million of Cascade's investment in the Company's Series A Preferred Stock.

The Debt Financing will initially be in the form the Construction Loan that will mature on or before the Final Completion Date, after which the Debt Financing will be converted to a term loan (the "Term Loan"), that will mature on the seventh anniversary of the closing of the Term Loan. If the conversion does not occur and PEI Madera elects to repay the Construction Loan, then PEI Madera must pay a termination fee equal to 5.00% of the amount of the Construction Loan. The closing of the Term Loan is expected to be the Final Completion Date. The Construction Loan interest rate will float at a rate equal to the 30-day London Inter Bank Offered Rate ("LIBOR"), plus 3.75%. PEI Madera will be required to pay the Construction Loan interest monthly during the term of the Construction Loan. The Term Loan interest rate will float at a rate equal to the 90-day LIBOR plus 4.00%. PEI Madera will be required to purchase interest rate protection in the form of a LIBOR rate cap of no more than 5.50% from a provider on terms and conditions reasonably acceptable to Lender, and in an amount covering no less than 70% of the principal outstanding on any loan payment date commencing on the closing date through the fifth anniversary of the Term Loan. Loan repayments on the Term Loan are to be due quarterly in arrears for a total of 28 payments beginning on the closing of the Term Loan and ending on its maturity date. The loan amortization for the Project will be established on the closing of the Term Loan based upon the operating cash projected to be available to PEI Madera from the Project as determined by closing pro forma projections. The Debt Financing will be the only indebtedness permitted on the Project. The Debt Financing will be senior to all obligations of the Project and PEI Madera other than direct Project operating expenses and expenses incurred in the ordinary course of business. All direct and out-of-pocket expenses of the Company or the Company's direct and indirect subsidiaries will be reimbursed only after the repayment of the Debt Financing obligations.

The Term Loan amount is to be the lesser of (i) $34.0 Million, (ii) 52.25% of the total Project cost as of the Term Loan Conversion Date, and (iii) an amount equal to the present value (discounted at an interest rate of

9.5% per annum) of 43.67% of the operating cash distributable to and received by PEI Madera supported by the closing pro forma projections, from the closing of Term Loan through the seventh anniversary of such closing.

The Debt Financing is secured by: (a) a perfected first priority security interest in all of the assets of PEI Madera, including inventories and all right title and interest in all tangible and intangible assets of the Project; (b) a perfected first priority security interest in the Project's grain facility, including all of PEI Madera's and the Company's and its affiliates' right title and interest in all tangible and intangible assets of the Project's grain facility; (c) a pledge of 100% of the ownership interest in PEI Madera; (d) a pledge of the PEI Madera's ownership interest in the Project; (e) an assignment of all revenues produced by the Project and PEI Madera; (f) the pledge and assignment of the material Project documents, to the extent assignable; (g) all contractual cash flows associated with such agreements; and (h) any other collateral security as Lender may reasonably request. In addition, the Construction Loan is secured by a completion bond provided by W.M. Lyles Co.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

PACIFIC ETHANOL, INC.

Dated: April 14, 2006

By: /s/ NEIL M. KOEHLER
Neil M. Koehler
President and Chief Executive Officer

In accordance with the Exchange Act, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

NAME	TITLE	DATE
<S>	<C>	<C>
/s/ WILLIAM L. JONES William L. Jones	Chairman of the Board and Director	April 14, 2006
/s/ NEIL M. KOEHLER Neil M. Koehler	President, Chief Executive Officer and Director (principal executive officer)	April 14, 2006
/s/ WILLIAM G. LANGLEY William G. Langley	Chief Financial Officer (principal accounting officer)	April 14, 2006
/s/ FRANK P. GREINKE Frank P. Greinke	Director	April 14, 2006
Douglas L. Kieta	Director	April 14, 2006
/s/ JOHN L. PRINCE John L. Prince	Director	April 14, 2006
/s/ TERRY L. STONE Terry L. Stone	Director	April 14, 2006
Robert P. Thomas	Director	April 14, 2006

</TABLE>

INDEX TO EXHIBITS FILED WITH THIS FORM 10-KSB

Exhibit Number	Description
3.2	Certificate of Designations, Powers, Preferences and Rights of the Series A Cumulative Redeemable Convertible Preferred Stock
10.5	Form of Indemnification Agreement between the Registrant and each of its Executive Officers and Directors
10.42	Deposit Agreement dated April 13, 2006 by and between Pacific Ethanol, Inc. and Comerica Bank
10.43	Registration Rights and Stockholders Agreement dated as of April 13, 2006 by and between Pacific Ethanol, Inc. and Cascade Investment, L.L.C.
10.44	Amendment No. 1 to Ethanol Purchase and Marketing Agreement dated effective as of March 4, 2005 between Kinergy Marketing, LLC, Phoenix Bio-Industries, LLC, Pacific Ethanol, Inc. and Western Milling, LLC
10.45	Construction and Term Loan Agreement dated April 10, 2006 by and among Pacific Ethanol Madera LLC, Comerica Bank and Hudson United Capital, a division of TD Banknorth, N.A.
10.46	Construction Loan Note dated April 13, 2006 by Pacific Ethanol Madera LLC in favor of Comerica Bank
10.47	Construction Loan Note dated April 13, 2006 by Pacific Ethanol Madera LLC in favor of Hudson United Capital, a division of TD Banknorth, N.A.
10.48	Assignment and Security Agreement dated April 13, 2006 by and between Pacific Ethanol Madera LLC and Hudson United Capital, a division of TD Banknorth, N.A.
10.49	Member Interest Pledge Agreement dated April 13, 2006 by Pacific Ethanol Madera LLC in favor of Hudson United Capital, a division of TD Banknorth, N.A.
10.50	Intercreditor and Collateral Sharing Agreement dated April 13, 2006 by and among Hudson United Capital, a division of TD Banknorth, N.A., Lyles Diversified, Inc. and Pacific Ethanol Madera LLC
10.51	Disbursement Agreement dated April 13, 2006 by and among Pacific Ethanol Madera LLC, Hudson United Capital, a division of TD Banknorth, N.A., Comerica Bank and Wealth Management Group of TD Banknorth, N.A.
10.52	Amended and Restated Term Loan Agreement effective as of April 13, 2006 by and between Lyles Diversified, Inc. and Pacific Ethanol Madera LLC
10.53	Letter Agreement dated as of April 13, 2006 by and among Pacific Ethanol California, Inc., Lyles Diversified, Inc. and Pacific Ethanol Madera LLC.
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Principal Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
31.2	Certification of Principal Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 3.2

CERTIFICATE OF DESIGNATIONS,
POWERS, PREFERENCES AND RIGHTS OF THE SERIES A
CUMULATIVE REDEEMABLE CONVERTIBLE PREFERRED STOCK

OF

PACIFIC ETHANOL, INC.

PURSUANT TO SECTION 151 OF THE
DELAWARE GENERAL CORPORATION LAW

Pacific Ethanol, Inc. (the "CORPORATION"), organized and existing under the laws of the State of Delaware, does, by its Chief Operating Officer and under its corporate seal, hereby certify that pursuant to the authority contained in Article Fourth of its Certificate of Incorporation and in accordance with the provisions of Section 151 of the Delaware General Corporation Law, its Board of Directors has adopted the following resolution creating the following classes and series of the Corporation's Preferred Stock and determining the voting powers, designations, powers, preferences and relative, participating, optional or other special rights, and the qualifications, limitations and restrictions thereof, of such classes and series:

RESOLVED, that, pursuant to authority conferred upon the Board of Directors by the Certificate of Incorporation of the Corporation (the "CERTIFICATE OF INCORPORATION"), there is hereby created the following series of Preferred Stock:

- 7,000,000 shares shall be designated Series A Cumulative Redeemable Convertible Preferred Stock, par value $0.001 per share (the "SERIES A PREFERRED STOCK").

The designations, powers, preferences, and rights and the qualifications, limitations and restrictions of the Series A Preferred Stock in addition to those set forth in the Certificate of Incorporation shall be as follows:

Section 1. DESIGNATION AND AMOUNT. 7,000,000 shares of the unissued preferred stock of the Corporation shall be designated as Series A Cumulative Redeemable Convertible Preferred Stock, par value $.001 per share. The Series A Preferred Stock shall be issued in accordance with the Purchase Agreement at a purchase price of $16.00 per share (the "SERIES A ISSUE PRICE").

Section 2. RANK. The Series A Preferred Stock shall rank: (i) subject to the requirements of Section 7, junior to any other class or series of capital stock of the Corporation hereafter created specifically ranking as to dividend rights, redemption rights, liquidation preference and other rights senior to the Series A Preferred Stock (the "SENIOR SECURITIES"); (ii) senior to all of the Corporation's common stock, par value $0.001 per share (the "COMMON STOCK"); (iii) senior to any class or series of capital stock of the Corporation hereafter created not specifically ranking as to dividend rights, redemption rights, liquidation preference and other rights senior to or on parity with any Series A Preferred Stock of whatever subdivision (collectively, with the Common

Stock, the "JUNIOR SECURITIES"); and (iv) subject to the requirements of Section 7, on a parity with any class or series of capital stock of the Corporation hereafter created specifically ranking as to dividend rights, redemption rights, liquidation preference and other rights on a parity with the Series A Preferred Stock (the "PARITY SECURITIES").

Section 3. DIVIDENDS. (a) So long as shares of Series A

Preferred Stock remain outstanding, the holders of each share of the Series A Preferred Stock shall be entitled, from and after the date of issuance of such share, to receive, and shall be paid quarterly in arrears (beginning on the last day of the calendar quarter following the date of the initial issuance of Series A Preferred Stock) in cash out of funds legally available therefor, cumulative dividends, of an amount equal to 5.00% of the Series A Issue Price per share (as adjusted for any stock dividends, stock splits, combinations, recapitalizations involving equity securities of the Corporation, reclassifications or other similar events involving a change with respect to the Series A Preferred Stock) per annum with respect to each share of the Series A Preferred Stock; PROVIDED, HOWEVER, that such dividend may, at the option of the Corporation, be paid to the holders of Series A Preferred Stock in shares of the Series A Preferred Stock valued at the Series A Issue Price (as adjusted for any stock dividends, stock splits, combinations, recapitalizations involving equity securities of the Corporation, reclassifications or other similar events involving a change with respect to the Series A Preferred Stock). The holders of shares of Series A Preferred Stock shall be entitled to receive such dividends immediately after the payment of any dividends to Senior Securities required by the Corporation's Certificate of Incorporation, as amended or amended and restated and in effect, including for this purpose any certificate(s) of designation (the "CHARTER"), prior and in preference to any dividends paid to Junior Securities but in parity with any distribution to the holders of Parity Securities.

(b) In case the Corporation shall at any time or from time to time declare, order, pay or make a dividend or other distribution (including, without limitation, any distribution of stock or other securities or property or rights or warrants to subscribe for securities of the Corporation or any of its subsidiaries by way of a dividend, distribution or spin-off) on its Common Stock, other than (i) a distribution made in compliance with the provisions of Section 4 or (ii) a dividend or distribution made in Common Stock, the holders of the Series A Preferred Stock shall be entitled to receive from the Corporation with respect to each share of Series A Preferred Stock held, any dividend or distribution that would be received by a holder of the number of shares (including fractional shares) of Common Stock into which such Series A Preferred Stock is convertible on the record date for such dividend or distribution, with fractional shares of Common Stock deemed to be entitled to the corresponding fraction of any dividend or distribution that would be received by a whole share. Any such dividend or distribution shall be declared, ordered, paid and made at the same time such dividend or distribution is declared, ordered, paid and made on the Common Stock. No dividend or distribution shall be declared, ordered, paid or made on the Common Stock unless the dividend or distribution on the Series A Preferred Stock provided for by this paragraph shall be declared, ordered, paid or made at the same time.

Section 4. LIQUIDATION PREFERENCE.

(a) In the event of any liquidation, dissolution or winding up of the Corporation, either voluntary or involuntary, the holders of Series A Preferred Stock shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders, whether from capital, surplus or earnings, immediately after any distributions to Senior Securities required by the Charter, and prior and in preference to any distribution to Junior Securities but in parity with any distribution to the holders of Parity Securities, an amount per share equal to the sum of the Series A Issue Price (as adjusted for any stock splits, combinations, recapitalizations involving equity securities of the Corporation, reclassifications of other similar events involving a change with respect to the Series A Preferred Stock) and any accrued but unpaid dividends on the Series A Preferred Stock. If upon the occurrence of such event, and after the payment in full of the preferential amounts with respect to the Senior Securities, the assets and funds available to be distributed among the holders of the Series A Preferred Stock and the holders of any Parity Securities shall be insufficient to permit the payment to such holders of the full preferential amounts due to the holders of the Series A Preferred Stock and holders of the Parity Securities, respectively, then the entire assets and funds of the Corporation legally available for distribution shall be distributed among the holders of the Series A Preferred Stock and the Parity Securities, pro rata, based on the amount each such holder would receive if such full preferential amounts were paid unless otherwise provided in the Charter.

(b) Upon the completion of the distributions required by Section 4(a), if assets remain in the Corporation, they shall be distributed to the holders of Junior Securities other than Common Stock with respect to any liquidation preference payable to such holders.

(c) Upon the completion of the distributions required by Section 4(a) and Section 4(b), if assets remain in the Corporation, they shall be distributed pro rata, on an as-converted to Common Stock basis, to the holders of Common Stock and Series A Preferred Stock.

(d) A sale, lease, conveyance or disposition of all or substantially all of the capital stock or assets of the Corporation or a merger, consolidation, share exchange, reorganization or other transaction or series of related transactions (whether involving the Corporation or a subsidiary thereof) in which the Corporation's stockholders immediately prior to such transaction do not retain a majority of the voting power in the surviving entity (a "TRANSACTION"), shall be deemed to be a liquidation, dissolution or winding up within the meaning of this Section 4, unless (i) the holders of 66 2/3% of the then outstanding shares of the Series A Preferred Stock, vote affirmatively or consent in writing that such transaction shall not be treated as a liquidation, dissolution or winding up within the meaning of this Section 4 or (ii) such Transaction shall have resulted in the conversion of the Series A Preferred Stock in accordance with Section 5(b); PROVIDED, HOWEVER, that each holder of Series A Preferred Stock shall have the right to elect the conversion benefits of the provisions of Section 5(a) or other applicable conversion provisions in lieu of receiving payment in liquidation, dissolution or winding up of the Corporation pursuant to this Section; and PROVIDED, FURTHER, that shares of the surviving entity held by holders of the capital stock of the Corporation acquired by means of other than the Transaction shall not be used in determining if the shareholders of the Corporation own a majority of the voting power of the surviving entity, but shall be used for determining the total outstanding voting power of such entity.

(e) Prior to the closing of a Transaction described in Section 4(d) which would constitute a liquidation, dissolution or winding up within the meaning of this Section 4, the Corporation shall, at its sole option, either (i) make all distributions of cash or other property that it is required to make to the holders of Series A Preferred Stock pursuant to the first sentence of Section 4(a), (ii) set aside sufficient funds or other property from which the distributions required to be made to such holders can be made, or (iii) establish an escrow or other similar arrangement with a third party pursuant to which the proceeds payable to the Corporation from the Transaction will be used to make the liquidating payments to such holders immediately after the consummation of the Transaction. In the event that the Corporation is unable to fully comply with any of the foregoing alternatives, the Corporation shall either: (x) cause such closing to be postponed until the Corporation complies with one of the foregoing alternatives, or (y) cancel such Transaction, in which event the rights of the holders of Series A Preferred Stock shall be the same as existing immediately prior to such proposed Transaction.

Section 5. CONVERSION OF SERIES A PREFERRED STOCK. The Corporation and the record holders of the Series A Preferred Stock shall have conversion rights as follows:

(a) RIGHT TO CONVERT. Each record holder of Series A Preferred Stock shall be entitled to convert whole shares of Series A Preferred Stock for the Common Stock issuable upon conversion of the Series A Preferred Stock, at any time at the option of the holder thereof, subject to adjustment as provided in Section 5(d) hereof, as follows: Each share of Series A Preferred Stock shall be convertible into such number of fully paid and nonassessable shares of Common Stock as is obtained by (I) multiplying the number of shares of Series A Preferred Stock so to be converted by the Series A Issue Price and (II) dividing the result thereof by the Conversion Price. The Conversion Price shall initially be $8.00 per share of Series A Preferred Stock, subject to adjustment as provided in Section 5(d). Accrued but unpaid dividends will be paid in cash upon any such conversion.

(b) FORCED CONVERSION. (i) In the event of a

Transaction which will result in an Internal Rate of Return to holders of Series A Preferred Stock of 25.00% or more, each share of outstanding Series A Preferred Stock shall, concurrently with the closing of such Transaction, be converted into fully-paid and non-assessable shares of Common Stock. Any such conversion shall be made into the number of shares of Common Stock determined pursuant to Section 5(a) using the Conversion Price, as last adjusted. Accrued but unpaid dividends will be paid in cash on any such conversion.

(ii) Notwithstanding anything to the contrary herein, no shares of outstanding Series A Preferred Stock shall be converted into Common Stock pursuant to this Section 5(b) unless at the time of such proposed conversion the Corporation shall have on file with the Securities and Exchange Commission an effective registration statement with respect to the shares of Common Stock issued or issuable to the holders on conversion of the Series A Preferred Stock then issued or issuable to such holders and such shares of Common Stock are eligible for trading on NASDAQ (or approved by and listed on a stock exchange approved by the holders of 66 2/3% of the then outstanding shares of Series A Preferred Stock).

(c) MECHANICS OF CONVERSION. In order to convert Series A Preferred Stock into full shares of Common Stock if (i) such conversion is pursuant to Section 5(a), the holder shall (A) fax a copy of a fully executed notice of conversion ("NOTICE OF CONVERSION") to the Corporation at the office of the Corporation or to the Corporation's designated transfer agent (the "TRANSFER AGENT") for the Series A Preferred Stock stating that the holder elects to convert, which notice shall specify the date of conversion, the number of shares of Series A Preferred Stock to be converted, the Conversion Price (together with a copy of the front page of each certificate to be converted) and (B) surrender to a common courier for either overnight or two (2) day delivery to the office of the Corporation or its transfer agent, the original certificates representing the Series A Preferred Stock (the "PREFERRED STOCK CERTIFICATES") being converted, duly endorsed for transfer, and (ii) such conversion is pursuant to Section 5(b), the Corporation shall fax a copy of a Notice of Conversion to the holders of Series A Preferred Stock stating that the shares of Series A Preferred Stock shall be converted into Common Stock, which notice shall describe the Transaction and the calculation of the Internal Rate of Return and specify the date of such conversion, the number of shares of Series A Preferred Stock that are being converted, the Conversion Price and a calculation of the number of shares of Common Stock issuable upon such conversion (together with a copy of the front page of each certificate to be converted); PROVIDED, HOWEVER, that the Corporation's failure to deliver a Notice of Conversion to each holder shall not affect the conversion of such shares of Series A Preferred Stock on the date of the closing of the Transaction and the cancellation of the certificates representing such shares of Series A Preferred Stock. In the event of a conversion pursuant to Section 5(b), the outstanding shares of Series A Preferred Stock shall be converted automatically without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the Corporation or its transfer agent and the Corporation shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon such conversion unless either the Preferred Stock Certificates are delivered to the Corporation or the Transfer Agent as provided above, or the holder notifies the Corporation or its Transfer Agent that such certificates have been lost, stolen or destroyed (subject to the requirements of Section 5(c)(i) below).

(i) LOST OR STOLEN CERTIFICATES. Upon receipt by the Corporation of evidence of the loss, theft, destruction or mutilation of any Preferred Stock Certificates representing shares of Series A Preferred Stock, and (in the case of loss, theft or destruction) of indemnity or security reasonably satisfactory to the Corporation, and upon surrender and cancellation of the Preferred Stock Certificates, if mutilated, the Corporation shall execute and deliver new Preferred Stock Certificates of like tenor and date; provided that the Corporation shall pay all costs of delivery (including insurance against loss and theft until delivered in an amount satisfactory to the holders of Series A Preferred Stock). However, the Corporation shall not be obligated to reissue such lost or stolen Preferred Stock Certificates if the holder contemporaneously requests the Corporation to convert such Series A Preferred Stock into Common Stock or if such shares of Series A Preferred Stock have been otherwise converted into Common Stock.

(ii) DELIVERY OF COMMON STOCK UPON CONVERSION. The Corporation no later than 6:00 p.m. (Pacific time) on the third (3rd) business day after receipt by the Corporation or its transfer agent of all necessary documentation duly executed and in proper form required for conversion, including the original Preferred Stock Certificates to be converted (or after provision for security or indemnification in the case of lost, stolen or destroyed certificates, if required), shall issue and surrender to a common

courier for either overnight or (if delivery is outside the United States) two (2) day delivery to the holder as shown on the stock records of the Corporation a certificate for the number of shares of Common Stock to which the holder shall be entitled as aforesaid.

(iii) DATE OF CONVERSION. The date on which a voluntary conversion pursuant to Section 5(a) occurs (the "DATE OF VOLUNTARY CONVERSION") shall be deemed to be the date the applicable Notice of Conversion is faxed to the Corporation or the Transfer Agent, as the case may be, provided that the copy of the Notice of Conversion is faxed to the Corporation on or prior to 6:00 p.m. (Pacific time) on the Date of Conversion. A forced conversion pursuant to Section 5(b) shall occur on the date on which such forced conversion is deemed to occur pursuant to Section 5(b) (the "DATE OF FORCED CONVERSION", and together with the Date of Voluntary Conversion, the "DATE OF CONVERSION"). The original Preferred Stock Certificates representing the shares of Series A Preferred Stock to be converted shall be surrendered by depositing such certificates with a common courier for either overnight or two (2) day delivery, as soon as practicable following the Date of Voluntary Conversion or as soon as practicable following the date such holder receives notice of the Date of Forced Conversion. The person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Date of Conversion.

(iv) NO FRACTIONAL SHARES ON CONVERSION. No fractional shares of Common Stock shall be issued upon conversion of the Series A Preferred Stock. In lieu of any fractional share to which the holder would otherwise be entitled, the Corporation shall (after aggregating all shares into which shares of Series A Preferred held by each holder could be converted) pay cash equal to such fraction multiplied by the market price per share of Common Stock (as determined in a reasonable manner by the Board) at the close of business on the Date of Conversion.

(d) ADJUSTMENT OF CONVERSION PRICE.

(i) ADJUSTMENTS OF CONVERSION PRICE UPON ISSUANCE OF COMMON STOCK. If at any time after the first filing of this Certificate of Designations, the Corporation shall issue or sell, or is, in accordance with Section 5(d)(i)(A) through (G) below, deemed to have issued or sold, any shares of Common Stock for a consideration per share less than the Conversion Price in effect immediately prior to the time of such issue or sale or deemed issue or sale, then, forthwith upon such issue or sale or deemed issue or sale, the Conversion Price shall be reduced to the price determined by dividing (x) an amount equal to the sum of (a) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the then existing Conversion Price and (b) the consideration, if any, received by the Corporation upon such issue or sale, by (y) the total number of shares of Common Stock outstanding immediately after such issue or sale. For purposes of determining the number of shares of Common Stock outstanding as provided in clauses (x) and (y) above, the number of shares of Common Stock issuable upon conversion of all outstanding shares of Series A Preferred Stock, exercise of all outstanding Options (as defined below) and conversion of all outstanding Convertible Securities (as defined below) shall be deemed to be outstanding.

For purposes of this Section 5(d)(i), the following subparagraphs (A) to (G) of this Section 5(d)i) shall also be applicable:

(A) ISSUANCE OF RIGHTS OR OPTIONS. In case at any time the Corporation shall in any manner grant (whether directly or by assumption in a merger or otherwise) any warrants or other rights to subscribe for or to purchase, or any options for the purchase of, Common Stock or any stock or security convertible into or exchangeable for Common Stock (such warrants, rights or options being called "OPTIONS" and such convertible or exchangeable stock or securities being called "CONVERTIBLE SECURITIES") whether or not such Options or the right to convert or exchange any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon the exercise of such Options or upon the conversion or exchange of such Convertible Securities (determined by dividing (i) the total amount, if any, received or receivable by the Corporation as consideration for the granting of such Options, plus the minimum aggregate amount of additional consideration payable to the Corporation upon the exercise of all such Options, plus, in the case of such Options which relate to Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the issue or sale of such Convertible Securities and upon the conversion or exchange thereof (in all cases excluding the effect of a net issue election), by (ii) the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such Options) shall be less than the Conversion Price in effect immediately prior to the time of the granting of such Options, then the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities issuable upon the exercise of such Options shall be deemed to have been issued for such price per share as of the date of granting of such Options and thereafter shall be deemed to be outstanding. Except as otherwise provided in Section 5(d)(i)(C), no adjustment of the Conversion Price shall be made upon the actual issue of such Common Stock or of such Convertible Securities upon exercise of such Options or upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities.

(B) ISSUANCE OF CONVERTIBLE SECURITIES. In case the Corporation shall in any manner issue (whether directly or by assumption in a merger or otherwise) or sell any Convertible Securities, whether or not the rights to exchange or convert any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon such conversion or exchange (determined by dividing (i) the total amount received or receivable by the Corporation as consideration for the issue or sale of such Convertible Securities, plus the aggregate amount of additional consideration, if any, payable to the Corporation upon the conversion or exchange thereof, by (ii) the total maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities) shall be less than the Conversion Price in effect immediately prior to the time of such issue or sale, then the total maximum number of shares of Common Stock issuable upon conversion or exchange of all such Convertible Securities shall be deemed to have been issued for such price per share as of the date of the issue or sale of such Convertible Securities and thereafter shall be deemed to be outstanding; PROVIDED that (a) except as otherwise provided in Section 5(d)(i)(C), no adjustment of the Conversion Price shall be made upon the actual

issue of such Common Stock upon conversion or exchange of such Convertible Securities and (b) if any such issue or sale of such Convertible Securities is made upon exercise of any Options to purchase any such Convertible Securities for which adjustments of the Conversion Price have been or are to be made pursuant to other provisions of this Section 5(d)(i), no further adjustment of the Conversion Price shall be made by reason of such issue or sale.

(C) CHANGE IN OPTION PRICE OR CONVERSION RATE. Upon the happening of any of the following events, namely, if (1) the purchase price or exercise price provided for in any Option referred to in Section 5(d)(i)(A), (2) the number of shares into which the Option is exercisable, (3) the additional consideration, if any, payable upon the conversion or exchange of any Convertible Securities referred to in Section 5(d)(i)(A) or (B), or (4) the rate at which Convertible Securities referred to in Section 5(d)(i)(A) or (B) are convertible into or exchangeable for Common

Stock shall change at any time (including, but not limited to, changes under or by reason of provisions designed to protect against dilution), the Conversion Price in effect at the time of such event shall forthwith be readjusted to the Conversion Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold.

(D) STOCK DIVIDENDS. In case the Corporation shall declare a dividend or make any other distribution upon any stock of the Corporation (other than Common Stock or Series A Preferred Stock) payable in Common Stock, then any Common Stock issuable in payment of such dividend or distribution shall be deemed to have been issued or sold for $.001 per share, unless the holders of at least 66 2/3% of the then outstanding Series A Preferred Stock shall have consented to such dividend or distribution.

(E) CONSIDERATION FOR STOCK. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Corporation therefor, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Corporation in connection therewith. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Corporation shall be deemed to be the fair value of such consideration as determined in good faith by the Board, without deduction of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Corporation in connection therewith. In case any Options shall be issued in connection with the issue and sale of other securities of the Corporation, together comprising one integral transaction in which no specific consideration is allocated to such Options by the parties thereto, such Options shall be deemed to have been issued for such consideration as determined in good faith by the Board.

(F) RECORD DATE. In case the Corporation shall take a record of the holders of its Common Stock for the purpose of entitling them (i) to receive a dividend or other distribution payable in Common Stock, Options or Convertible Securities or (ii) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(G) TREASURY SHARES. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Corporation, and the disposition of any such shares shall be considered an issue or sale of Common Stock for the purpose of this Section 5(d)(i).

(ii) CERTAIN ISSUES OF COMMON STOCK EXCEPTED. Anything herein to the contrary notwithstanding, the Corporation shall not be required to make any adjustment of the Conversion Price in the case of the issuance or sale from and after the date of filing of this Certificate of Designations of Anti-Dilution Excluded Securities (as defined below).

(iii) ADJUSTMENTS FOR SUBDIVISIONS, COMMON STOCK DIVIDENDS, COMBINATIONS OR CONSOLIDATIONS OF COMMON STOCK. If the outstanding shares of Common Stock shall be subdivided or increased, by stock split, stock dividend or otherwise, into a greater number of shares of Common Stock, the Conversion Price shall concurrently with the effectiveness of such subdivision or payment of such stock dividend, be proportionately decreased. If the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, the Conversion Price shall, concurrently with the effectiveness of such combination or consolidation, be proportionately increased.

(iv) ADJUSTMENTS FOR RECLASSIFICATION, EXCHANGE AND SUBSTITUTION. If the Common Stock issuable upon conversion of the

Series A Preferred Stock shall be changed into the same or a different number of shares of any other class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for above), the Conversion Price shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted such that the Series A Preferred Stock shall be convertible into, in lieu of the number of shares of Common Stock which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of stock equivalent to the number of shares of Common Stock that would have been subject to receipt by the holders upon conversion of the Series A Preferred Stock immediately before that change.

(v) ADJUSTMENTS FOR MERGER, SALE, LEASE OR CONVEYANCE. In case of any share exchange, reorganization, consolidation with or merger of the Corporation with or into another corporation, or in case of any sale, lease, conveyance or disposition to another Corporation of the assets of the Corporation as an entirety or substantially as an entirety, which is not treated as a liquidation, dissolution or winding up pursuant to Section 4(d) above, the Series A Preferred Stock shall after the date of such share exchange, reorganization, consolidation, merger, sale, lease, conveyance or disposition be convertible into the number of shares of stock or other securities or property (including cash) to which the Common Stock issuable (at the time of such consolidation, merger, sale, lease, conveyance or disposition) upon conversion of the Series A Preferred Stock would have been entitled upon such share exchange, reorganization, consolidation, merger, sale, lease, conveyance or disposition; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of the holders of the Series A Preferred Stock shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to any shares of stock or other securities or property thereafter deliverable on the conversion of the shares of Series A Preferred Stock.

(vi) FRACTIONAL SHARES. If any adjustment under this Section 5(d) would create a fractional share of Common Stock or a right to acquire a fractional share of Common Stock, such fractional share shall be rounded to the nearest whole number of shares with one-half share being rounded up.

(vii) NOTICE OF ADJUSTMENT. Concurrent with any adjustment pursuant to this Section 5(d), the Corporation shall provide prompt notice to the holders of Series A Preferred Stock notifying such holders of any such adjustment.

Section 6. VOTING RIGHTS. Except to the extent otherwise expressly provided by law and in Section 7, the Series A Preferred Stock shall vote together with all other classes and series of voting stock of the Corporation as a single class on all actions to be taken by the stockholders of the Corporation. Each share of Series A Preferred Stock shall entitle the holder thereof to the number of votes equal to the number of shares of Common Stock into which each share of Series A Preferred Stock is convertible (determined without regard to Section 5(c)(iv)) on all matters to be voted on by the stockholders of the Corporation; provided however that, solely for purposes of this Section 6, the number of votes for each share of Series A Preferred Stock shall not exceed the number of shares of Common Stock into which each share of Series A Preferred Stock would be convertible if the applicable Conversion Price were $8.99 (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares).

Section 7. PROTECTIVE PROVISIONS. The Corporation shall not, without first obtaining the written consent of the holders of at least a majority of the then outstanding shares of Series A Preferred Stock voting as a separate class:

(i) increase or decrease the total number of authorized shares of Series A Preferred Stock or the authorized shares of Common Stock reserved for issuance upon conversion of the Series A Preferred Stock (except as otherwise required by the Charter or this Certificate of Designations);

(ii) increase or decrease the number of authorized shares of Preferred Stock or Common Stock (except as otherwise required by the Charter or this Certificate of Designations);

(iii) alter, amend, repeal, substitute or waive any provision of the Charter or the Corporation's bylaws, so as to affect adversely the voting powers, preferences or other rights, including, without limitation, the liquidation preferences, dividend rights, conversion rights, redemption rights or any reduction in the stated value of the Series A Preferred Stock, whether by merger, consolidation or otherwise;

(iv) authorize, create, issue or sell any Senior Securities or any Parity Securities or securities that are convertible into Senior Securities or Parity Securities with respect to voting, dividend, liquidation or redemption rights, including subordinated debt;

(v) authorize, create, issue or sell any Junior Securities other than Common Stock or securities that are convertible into Junior Securities other than Common Stock with respect to voting, dividend, liquidation or redemption rights, including subordinated debt;

(vi) authorize, create, issue or sell any Series A Preferred Stock other than the Series A Preferred Stock authorized, created, issued and sold pursuant to the Purchase Agreement and Series A Preferred Stock issued in accordance with Section 3(a) and Series A Preferred Stock issued in replacement or exchange therefore;

(vii) engage in a Transaction which would result in an Internal Rate of Return to holders of Series A Preferred Stock of less than 25.00%;

(viii) declare or pay any dividends or distributions on the capital stock of the Corporation in a cumulative amount in excess of the dividends and distributions paid on the Series A Preferred Stock in accordance with this Certificate of Designations;

(ix) authorize or effect the voluntary liquidation, dissolution, recapitalization, reorganization or winding up of the business of the Corporation;

(x) purchase, redeem or otherwise acquire any capital stock of the Corporation other than Series A Preferred Stock, or any warrants or other rights to subscribe for or to purchase, or any options for the purchase of, capital stock of the Corporation or securities convertible into or exchangeable for capital stock of the Corporation;

(xi) change the number of members of the Board to be more than nine members or less than seven members;

(xii) effect any material change in the industry focus of the Corporation and its subsidiaries, considered on a consolidated basis;

(xiii) authorize or engage in, or permit any subsidiary of the Corporation to authorize or engage in, any transaction or series of transactions with a current or former officer, director or member of the Corporation or any of its subsidiaries with value in excess of $100,000, excluding compensation or the grant of Options approved by the Board; or

(xiv) authorize or engage in, or permit any subsidiary of the Corporation to authorize or engage in, any transaction with any entity or person that is affiliated with any current or former director, officer or member of the Corporation or any of its subsidiaries, excluding any director nominated by the initial holder of the Series A Preferred Stock in accordance with the Registration Rights Agreement.

Section 8. STATUS OF CONVERTED STOCK. In the event any shares of Series A Preferred Stock shall be converted pursuant to Section 5 hereof, the shares so converted shall be canceled, shall return to the status of authorized

but unissued Preferred Stock of no designated series, and shall not be issuable by the Corporation as Series A Preferred Stock.

Section 9. PREEMPTIVE RIGHTS. (a) The Corporation shall not issue, sell or exchange, agree to issue, sell or exchange, or reserve or set aside for issuance, sale or exchange, (i) any shares of the capital stock of the Corporation, (ii) any option, warrant or other right to subscribe for, purchase or otherwise acquire any capital stock of the Corporation, or (iii) any securities convertible into capital stock of the Corporation (collectively, the "Offered Securities"), unless in each such case the Corporation shall have first complied with this Section 9. The Corporation shall deliver to each holder of the Series A Preferred Stock a written notice of any proposed or intended issuance, sale or exchange of Offered Securities (the "Offer"), which Offer shall (i) identify and describe the Offered Securities, (ii) describe the price and other terms upon which they are to be issued, sold or exchanged, and the number or amount of the Offered Securities to be issued, sold or exchanged, (iii) identify the persons or entities (if known) to which or with which the Offered Securities are to be offered, issued, sold or exchanged, and (iv) offer to issue and sell to or exchange with such holder of the Series A Preferred Stock (A) a pro rata portion of the Offered Securities determined by dividing (x) the aggregate number of shares of Common Stock then held by such holder of the Series A Preferred Stock (giving effect to the conversion of all shares of convertible preferred stock then held by such holder) by (y) the total number of shares of Common Stock then held by all holders of the Series A Preferred Stock (giving effect to the conversion of all outstanding shares of convertible preferred stock then held by such holders) (such pro rata portion of the Offered Securities, the "Basic Amount"), and (B) any additional portion of the Offered Securities attributable to the Basic Amounts of other holders of the Series A Preferred Stock as such holder shall indicate it will purchase or acquire should the other holders subscribe for less than their Basic Amounts (the "Undersubscription Amount"). In the case of a public offering of Common Stock of the Corporation for a purchase price of at least $12.00 and a total gross offering price of at least $50,000,000.00, the rights of the holders of the Series A Preferred Stock shall be limited to 50% of the Offered Securities.

(b) To accept an Offer, in whole or in part, a holder of the Series A Preferred Stock must deliver a written notice to the Corporation prior to the end of the 30-day period of the Offer, setting forth the portion of the holder's Basic Amount that such holder elects to purchase and, if such holder shall elect to purchase all of its Basic Amount, the Undersubscription Amount (if any) that such holder elects to purchase (the "Notice of Acceptance"). If the Basic Amounts subscribed for by all holders of the Series A Preferred Stock are less than the total of all of the Basic Amounts available for purchase, then each holder who has set forth an Undersubscription Amount in its Notice of Acceptance shall be entitled to purchase, in addition to the Basic Amounts subscribed for, the Undersubscription Amount it has subscribed for; provided, however, that if the Undersubscription Amounts subscribed for exceeds the difference between the total of all of the Basic Amounts available for purchase and the Basic Amounts subscribed for (the "Available Undersubscription Amount") each holder of Series A Preferred Stock who has subscribed for any Undersubscription Amount shall be entitled to purchase only that portion of the Available Undersubscription Amount as the Undersubscription Amounts subscribed for by such holder bears to the total Undersubscription Amounts subscribed for by all holders of the Series A Preferred Stock, subject to rounding by the Board to the extent it deems reasonably necessary.

(c) The Corporation shall have 90 days from the expiration of the period set forth in Section 9(b) to issue, sell or exchange all or any part of such Offered Securities as to which a Notice of Acceptance has not been given by the holders of the Series A Preferred Stock (the "Refused Securities"), but only to the offerees or purchasers described in the Offer (if

so described therein) and only upon terms and conditions (including, without limitation, unit prices and interest rates) which are not more favorable, in the

aggregate, to the acquiring person or persons or less favorable to the Corporation than those set forth in the Offer.

(d) In the event the Corporation shall propose to sell less than all the Refused Securities (any such sale to be in the manner and on the terms specified in Section 9(c)), then each holder of the Series A Preferred Stock may, at its sole option and in its sole discretion, reduce the number or amount of the Offered Securities specified in its Notice of Acceptance to an amount that shall be not less than the number or amount of the Offered Securities that the holder of the Series a Preferred Stock elected to purchase pursuant to Section 9(b) multiplied by a fraction, (i) the numerator of which shall be the number or amount of Offered Securities the Corporation actually proposes to issue, sell or exchange (including Offered Securities to be issued or sold to Purchasers pursuant to Section 9(b) prior to such reduction) and (ii) the denominator of which shall be the original amount of the Offered Securities. In the event that any holder of the Series A Preferred Stock so elects to reduce the number or amount of Offered Securities specified in its Notice of Acceptance, the Corporation may not issue, sell or exchange more than the reduced number or amount of the Offered Securities unless and until such securities have again been offered to the Purchasers in accordance with Section 9(a).

(e) Upon the closing of the issuance, sale or exchange of all or less than all of the Refused Securities, the holders of the Series A Preferred Stock shall acquire from the Corporation, and the Corporation shall issue to the holders of the Series A Preferred Stock, the number or amount of Offered Securities specified in the Notices of Acceptance, as reduced pursuant to Section 9(d) if the holders have so elected, upon the terms and conditions specified in the Offer. The purchase by the holders of the Series A Preferred Stock of any Offered Securities is subject in all cases to the preparation, execution and delivery by the Corporation and the holders of a purchase agreement relating to such Offered Securities satisfactory in form and substance to the holders of the Series A Preferred Stock and their respective counsel.

(f) Any Offered Securities not acquired by the holders of the Series A Preferred Stock or other persons in accordance with Section 9(c) may not be issued, sold or exchanged until they are again offered to the holders of the Series A Preferred Stock under the procedures specified in this Section 9.

(g) The rights of the holders of the Series A Preferred Stock under this Section 9 shall not apply to Preemptive Rights Excluded Securities.

(h) The failure of any holder of Series A Preferred Stock to exercise its rights under this Section 9 shall not be deemed to be a waiver of its rights hereunder in connection with any subsequent issuance, sale or exchange, agreement to issue, sell or exchange, or reservation or setting aside for issuance, sale or exchange of Offered Securities.

Section 10. RESERVATION OF STOCK. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of shares of Series A Preferred Stock issued or issuable to the holders, such number of shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series A Preferred Stock; and if at any

time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of Series A Preferred Stock, in addition to such other remedies as shall be available to the holder of Series A Preferred Stock, the Corporation shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number as shall be sufficient for such purposes, including, without limitation, using best efforts to obtain stockholder approval of any necessary amendment to the Charter.

Section 11. REDEMPTION RIGHTS. The holders of the Series A

Preferred Stock shall have redemption rights as follows:

(a) Upon the occurrence of a Redemption Event, the Series A Preferred Stock shall be subject to redemption, at the option of the holders of 66 2/3% of the then outstanding shares of Series A Preferred Stock, on the date specified by the holders of Series A Preferred Stock exercising such option (the "SERIES A REDEMPTION DATE"). The number of shares of the Series A Preferred Stock to be so redeemed shall be obtained by multiplying the number of shares of Series A Preferred Stock then outstanding by a fraction, the numerator of which is the Restricted Cash Amount and the denominator of which is $80,000,000.00. The redemption price for shares of Series A Preferred Stock subject to such redemption shall be equal to the Series A Issue Price (as adjusted for any stock splits, combinations, recapitalizations involving a change with respect to the Series A Preferred Stock) per share plus any accrued but unpaid dividends plus an amount sufficient to yield an Internal Rate of Return of 5.00%, payable in immediately available funds. If less than all of the shares of the outstanding Series A Preferred Stock are to be redeemed pursuant to this Section 11(a), such shares shall be redeemed pro rata from the holders thereof in proportion to the number of shares held by such holders (with adjustments to avoid redemption of fractional shares).

(b) The funds legally available to the Corporation for the payment of the redemption price of any Junior Securities shall be used first to pay the redemption price of Series A Preferred Stock on the dates established for redemption pursuant to Section 11(a) and no such funds shall be used (or will be required to be used) to pay the redemption price of any Junior Securities unless the Corporation has paid, or reserved funds sufficient to pay, the entire redemption price of Series A Preferred Stock. If the funds legally available to the Corporation for the payment of the redemption price of the Series A Preferred Stock are not sufficient to redeem all of the shares of the Series A Preferred Stock required to be redeemed on any date, such funds shall be used to redeem the number of shares of Series A Preferred Stock which may be redeemed from such amount on a pro rata basis. If additional funds become available for the redemption of additional shares of Series A Preferred Stock required to be so redeemed, the Corporation shall immediately use such funds to redeem shares of Series A Preferred Stock until such time as all of the shares of Series A Preferred Stock required to be redeemed pursuant to this Section 11 have been redeemed.

(c) If, on the dates established for redemption pursuant to Section 11(a), all of the shares of Series A Preferred Stock to be redeemed on each such date are not redeemed in full, all rights in respect of such shares of Series A Preferred Stock that have not been redeemed, including the right to receive the applicable redemption price, plus accrued and unpaid dividends, shall continue to be outstanding as evidenced by the certificates

representing such shares. The exercise by the holders of the option to redeem any shares of Series A Preferred Stock which were not redeemed on the dates established for redemption pursuant to Section 11(a), may be rescinded by such holders at any time following the date established for such redemption by written notice to the Corporation. All shares of Series A Preferred Stock redeemed pursuant to Section 11(a) shall be retired and shall be restored to the status of authorized and unissued shares of Preferred Stock, without designation as to series or class and may thereafter be reissued, subject to compliance with the terms hereof, as shares of any series of Preferred Stock other than shares of Series A Preferred Stock.

(d) (i) If the Corporation is unable to make any such payment of the redemption price after redemption was required to be paid pursuant to Section 11(a) a default in the payment of the redemption price for the purpose of this section shall be deemed to have occurred, and having so occurred, such default shall be deemed to exist thereafter until, but only until, all amounts payable pursuant to this section have been paid. If and whenever a default in the payment of the redemption price shall occur, and in addition to any other remedies available at law, a special meeting of shareholders of the Corporation shall be held for the purpose of electing directors upon the written request of the holders of at least 10% of the total number of shares of Series A Preferred Stock then outstanding. Such meeting

shall be called by the secretary of the Corporation upon such written request and shall be held at the earliest practicable date upon like notice as that required for the annual meeting of shareholders of the Corporation and at the place for the holding of such annual meeting. If notice of such special meeting shall not be mailed by the secretary within thirty days after personal service of such written request upon the secretary of the Corporation or within thirty days of mailing the same in the United States of America by registered mail addressed to the secretary at the principal office of the Corporation, then the holders of at least 10% of the total number of shares of Series A Preferred Stock then outstanding may designate in writing one of their number to call such meeting and the person so designated may call such meeting upon like notice as that required for the annual meeting of shareholders and to be held at the place for the holding of such annual meeting. Any holder of Series A Preferred Stock so designated shall have access to the stock books of the Corporation for the purpose of causing a meeting of shareholders to be called pursuant to the foregoing provisions of this subdivision.

(ii) At any such special meeting, or at the next annual meeting of shareholders of the Corporation for the election of directors and at each other meeting, annual or special, for the election of directors held thereafter (unless at the time of any such meeting such default in the payment of the redemption price shall no longer exist), the holders of the outstanding shares of Series A Preferred Stock, voting separately as a class, shall have the right to elect the smallest number of directors which shall constitute at least a majority of the total number of directors of the Corporation, or two directors, whichever shall be greater, and the holders of the outstanding shares of Common Stock, voting as a class, shall have the right to elect all other members of the Board, anything herein or in the bylaws of the Corporation to the contrary notwithstanding. The terms of office, as directors, of all persons who may be directors of the Corporation at any time when such special right to elect directors shall become vested in the holders of the Series A Preferred Stock shall terminate upon the election of any new directors to succeed them as aforesaid.

(iii) At any meeting, annual or special, of the Corporation, at which the holders of Series A Preferred Stock shall have the special right to elect directors as aforesaid, the presence in person or by proxy of the holders of a majority of the total number of shares of Series A Preferred Stock then outstanding shall be required to constitute a quorum of such class for the election of directors, and the presence in person or by proxy of the holders of a majority of the total number of shares of Common Stock then outstanding shall be required to constitute a quorum of such class for the election of directors; provided, however, that the absence of a quorum of the holders of shares of any such class shall not prevent the election at any such meeting or adjournment thereof of directors by the other class, if necessary quorum of the holders of such other class shall be present at such meeting or any adjournment thereof; and provided further, that in the absence of a quorum of holders of shares of any class, a majority of the holders of the shares of such class who are present in person or by proxy shall have power to adjourn the election of the directors to be elected by such class from time to time, without notice other than announcement at the meeting, until the requisite quorum of holders of such class shall be present in person or by proxy, but no such adjournment shall be made to a date beyond the date for the mailing of the notice of the next annual meeting of shareholders of the Corporation or special meeting in lieu thereof.

(iv) So long as a default in the payment of the redemption price shall exist, any vacancy in the office of a director elected by the holders of the Series A Preferred Stock may be filled at any meeting of shareholders, annual or special, for the election of directors held thereafter, and a special meeting of shareholders, or of the holders of shares of the Series A Preferred Stock, may be called for the purpose of filling any such vacancy. So long as a default in the payment of the redemption price shall exist, any vacancy in the office of a director elected by the holders of the Common Stock may be filled by majority vote of the remaining directors elected by the holders of the Common Stock.

(v) If and when the default in the payment of the redemption price which permitted the election of directors by the holders

of the Series A Preferred Stock shall cease to exist, the holders of the Series A Preferred Stock shall be divested of any special right with respect to the election of directors, and the voting power of the holders of the Series A Preferred Stock and of the holders of the Common Stock shall revert to the status existing before the first dividend payment date on which dividends on the Series A Preferred Stock were not pain in full, subject to revesting in the event of each and every subsequent like default in preferred dividends. Upon the termination of any such special right, the terms of office of all persons who may have been elected directors by vote of the holders of the Series A Preferred Stock pursuant to such special right shall forthwith terminate, and the resulting vacancies shall be filled by the majority of the remaining directors.

Section 12. DEFINITIONS. As used in this Certificate, the following capitalized terms have the following meanings.

"ANTI-DILUTION EXCLUDED SECURITIES" mean any of the following securities: (1) securities issued to employees, officers or directors of the Corporation or options to purchase Common Stock granted by the Corporation to employees, officers or directors of the Corporation pursuant to any option plan, agreement or other arrangement duly adopted by the Corporation and the grant of which is approved by the compensation committee of the Board; (2) the Series A Preferred Stock and any Common Stock issued upon conversion of the Series A

Preferred Stock; (3) for the avoidance of doubt, securities issued on the conversion of any Convertible Securities or the exercise of any Options, in each case, outstanding on the date of the first filing of this Certificate of Designations; and (4) for the avoidance of doubt, securities issued in connection with a stock split, stock dividend, combination, reorganization, recapitalization or other similar event for which adjustment is made in accordance with Section 5(d)(iii) or (iv).

"DEPOSIT AGREEMENT" means that certain Deposit Agreement, dated on or about the date hereof, between the Corporation and a bank or trust company, entered into pursuant to the Purchase Agreement.

"INTERNAL RATE OF RETURN" means the discount rate that makes the net present value of all cash payments equal zero. In determining the Internal Rate of Return, the initial investment of the holders of the Series A Preferred Stock shall include all transaction costs and expenses incurred by the initial holder of the Series A Preferred Stock in connection with the transactions contemplated by the Purchase Agreement and all additional costs and expenses of the holders of Series A Preferred Stock in respect of the investment incurred through the date of the determination shall be treated as cash expenditures when made. For purposes of determining the Internal Rate of Return, any dividends, distributions or payments other than in cash shall be deemed to have no value. In determining the Internal Rate of Return in respect of a Transaction, the final payment for purposes of such determination shall be the cash, if any, distributable or payable to holders of the Series A Preferred Stock upon the closing of the Transaction assuming that the holders had converted all of the outstanding Series A Preferred Stock to Common Stock immediately prior to the closing of the Transaction.

"PURCHASE AGREEMENT" means that certain Purchase Agreement, dated November 14, 2005, between the Corporation and Cascade Investment, L.L.C.

"PREEMPTIVE RIGHTS EXCLUDED SECURITIES" mean any of the following securities: (1) securities issued to employees, officers or directors of the Corporation or options to purchase Common Stock granted by the Corporation to employees, officers or directors of the Corporation pursuant to any option plan, agreement or other arrangement duly adopted by the Corporation and the grant of which is approved by the compensation committee of the Board; (2) the Series A Preferred Stock and any Common Stock issued on conversion of the Series A Preferred Stock; (3) for the avoidance of doubt, securities issued on the conversion of any Convertible Securities or the exercise of any Options, in each case, outstanding on the date of the first filing of this Certificate of Designations; (4) for the avoidance of doubt, securities issued in connection with a stock split, stock dividend, combination, reorganization, recapitalization or other similar event for which adjustment is made in

accordance with Section 5(d)(iii), (iv) or (v); and (5) the issuance of securities of the Corporation issued for consideration other than cash pursuant to a merger, consolidation, acquisition or similar business combination by the Corporation approved by the Board.

"REDEMPTION EVENT" means (i) the Corporation withdraws or utilizes funds from the Restricted Cash Account in violation of the terms of the Deposit Agreement, (ii) the Corporation publicly disclosed an intent not to build or acquire additional ethanol production facilities for an indefinite period or for a period of at least two years from the time of the announcement,

(iii) fails to withdraw funds from the Restricted Cash Account for a period of two years, or (iv) amounts remain in the Restricted Cash Account after December 31, 2009.

"REGISTRATION RIGHTS AGREEMENT" means that certain Registration Rights and Stockholder's Agreement, dated on or about the date hereof, between the Corporation and Cascade Investment, L.L.C.

"RESTRICTED CASH ACCOUNT" means the account established and maintained pursuant to the Deposit Agreement.

"RESTRICTED CASH AMOUNT" means the total amount of money in the Restricted Cash Account on the Series A Redemption Date prior to any disbursement thereof on such date and after giving effect to the sale or other liquidation of all investments held in such account together with, if the Corporation shall have withdrawn or utilized moneys from the Restricted Cash Account in violation of the terms of the Deposit Agreement, the amount of any moneys so withdrawn or utilized.

SIGNATURE ON FOLLOWING PAGE.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be duly executed on its behalf by its Chief Operating Officer this 12th day of April, 2006.

PACIFIC ETHANOL, INC.

By: /s/ Ryan W. Turner

Name: Ryan W. Turner
Title: Chief Operating Officer

EXHIBIT 10.5

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT ("AGREEMENT") is made as of the date set forth on the signature page to this Agreement, by and between Pacific Ethanol, Inc., a Delaware corporation ("COMPANY"), and the individual named on the signature page to this Agreement ("INDEMNITEE"), [an officer and/or] a director of the Company.

R E C I T A L S

A. The Indemnitee is concerned about serving, or continuing to serve, the Company as [an officer and/or] a director without assurance that indemnities available to him are, and will be, adequate to protect him against the risks associated with his service to the Company;

B. The Company has investigated whether additional protective measures are warranted to adequately protect its directors and officers against various legal risks and potential liabilities to which such individuals are subject due to their position with the Company and has concluded that additional protective measures are warranted.

C. In order to induce and encourage highly experienced and capable persons such as the Indemnitee to serve, or to continue to serve, [an officer and/or] a director, the Board of Directors of the Company has determined, after due consideration, that this Agreement is not only reasonable and prudent, but necessary to promote and ensure the best interests of the Company and its stockholders.

D. The Company wishes to provide in this Agreement for the indemnification of and the advancing of expenses to the Indemnitee to the fullest extent permitted by law and as provided for in this Agreement.

E. The Company's execution of this Agreement has been approved by the Board of Directors of the Company.

F. Indemnitee has indicated to the Company that but for the Company's agreement to enter into this Agreement, Indemnitee would decline to serve, or to continue to serve, [an officer and/or] a director of the Company.

A G R E E M E N T

NOW, THEREFORE, in consideration of the recital set forth above and the continued services of the Indemnitee, and as an inducement to the Indemnitee to serve, or to continue to serve, [an officer and/or] a director of the Company, the Company and the Indemnitee do hereby agree as follows:

1. DEFINITIONS. As used in this Agreement, the following terms shall have the meanings set forth below:

(a) "PROCEEDING" shall mean any threatened, pending or completed action, suit or proceeding, whether brought in the name of the Company or otherwise and whether of a civil, criminal, administrative or investigative nature, by reason of the fact that the Indemnitee is or was [an officer and/or] a director of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another enterprise, whether or not he is serving in such capacity at the time any liability, Expense (as defined in subparagraph (b) below) or Loss (as defined in subparagraph (c) below) is incurred for which indemnification or advancement of Expenses or Losses is to be provided under this Agreement.

(b) "EXPENSES" means all costs, charges and expenses incurred in connection with a Proceeding, including, without limitation, attorneys' fees, disbursements and retainers, accounting and witness fees, travel and deposition costs, expenses of investigations, judicial or administrative proceedings or appeals, and any expenses of establishing a right

to indemnification pursuant to this Agreement or otherwise, including reasonable compensation for time spent by the Indemnitee in connection with the investigation, defense or appeal of a Proceeding or action for indemnification for which he is not otherwise compensated by the Company or any third party; PROVIDED, HOWEVER, that the term "EXPENSES" does not include Losses.

(c) "LOSSES" means any amount which Indemnitee pays or is obligated to pay in connection with a Proceeding, including, without limitation, (i) the amount of damages, judgments, amounts paid in settlement, fines or penalties relating to any Proceeding, (ii) sums paid in respect of any deductible under any applicable D&O Insurance (as defined in Section 12(a) below) or (iii) excise taxes under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), relating to any Proceeding, either of which are actually levied against the Indemnitee or paid by or on behalf of the Indemnitee; PROVIDED, HOWEVER, that the term "LOSSES" does not include Expenses.

2. AGREEMENT TO SERVE. The Indemnitee agrees to continue to serve as [an officer and/or] a director of the Company at the will of the Company for so long as Indemnitee is duly elected or appointed or until such time as Indemnitee tenders a resignation in writing or is [terminated as an officer and/or] removed as a director by the Company. Nothing in this Agreement shall be construed to create any right in Indemnitee to continued employment with the Company or any subsidiary or affiliate of the Company. Nothing in this Agreement shall affect or alter any of the terms of any otherwise valid [employment agreement or other] agreement between Indemnitee and the Company relating to Indemnitee's conditions and/or terms of [employment or] service.

3. INDEMNIFICATION IN THIRD PARTY ACTIONS. The Company shall indemnify the Indemnitee in accordance with the provisions of this Section 3 if the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding (other than a Proceeding by or in the right of the Company to procure a judgment in its favor), by reason of the fact that the Indemnitee is or was [an officer and/or] a director of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another enterprise, or by reason of anything done or not done by Indemnitee in any such capacity, against all Expenses and Losses actually and reasonably incurred by the Indemnitee in connection with the defense or settlement of such Proceeding, to the fullest extent permitted by the Delaware General Corporation Law ("DGCL"), whether or not the Indemnitee was the successful party in any such Proceeding; PROVIDED, HOWEVER, that any settlement shall be approved in writing by the Company.

4. INDEMNIFICATION IN PROCEEDINGS BY OR IN THE RIGHT OF THE COMPANY. The Company shall indemnify the Indemnitee in accordance with the provisions of this Section 4 if the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding by or in the right of the Company to procure a judgment in its favor by reason of the fact that the Indemnitee is or was an officer and/or a director of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another enterprise, or by reason of anything done or not done by Indemnitee in any such capacity, against all Expenses actually and reasonably incurred by Indemnitee in connection with the defense or settlement of such Proceeding, to the fullest extent permitted by the DGCL, whether or not the Indemnitee is the successful party in any such Proceeding. The Company shall further indemnify the Indemnitee for any Losses actually and reasonably incurred by the Indemnitee in any such Proceeding described in the immediately preceding sentence, provided that either (i) the Proceeding is settled with the approval of a court of competent jurisdiction, or (ii) indemnification of such amounts is otherwise ordered by a court of competent jurisdiction in connection with such Proceeding.

5. CONCLUSIVE PRESUMPTION REGARDING STANDARD OF CONDUCT. The Indemnitee shall be conclusively presumed to have met the relevant standards of conduct required by the DGCL for indemnification pursuant to this Agreement, unless a determination is made that the Indemnitee has not met such standards (i) by the Board of Directors of the Company by a majority vote of a quorum thereof consisting of directors who were not parties to such Proceeding, (ii) by the stockholders of the Company by a majority vote, or (iii) in a written opinion of the Company's independent legal counsel. Further, the termination of any Proceeding by judgment, order, settlement, conviction or upon a plea of nolo

contendere or its equivalent, shall not, of itself, rebut such presumption that the Indemnitee met the relevant standards of conduct required for indemnification pursuant to this Agreement.

6. INDEMNIFICATION OF EXPENSES OF SUCCESSFUL PARTY. Notwithstanding any other provision of this Agreement, to the extent that the Indemnitee has been successful on the merits or otherwise in defense of any Proceeding or in defense of any claim, issue or matter therein, the Indemnitee shall be indemnified against all Expenses incurred in connection therewith to the fullest extent permitted by the DGCL. For purposes of this paragraph, the Indemnitee will be deemed to have been successful on the merits if the Proceeding is terminated by settlement or is dismissed with prejudice.

7. ADVANCES OF EXPENSES. The Expenses incurred by the Indemnitee in connection with any Proceeding shall be paid by the Company in advance of the final disposition of the Proceeding at the written request of the Indemnitee, and within ten (10) business days of such request, to the fullest extent permitted by the DGCL; provided that the Indemnitee shall undertake in writing to repay such amount to the extent that it is ultimately determined that the Indemnitee is not entitled to indemnification by the Company.

8. PARTIAL INDEMNIFICATION. If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses or Losses actually and reasonably incurred by Indemnitee in the investigation, defense, appeal or settlement of any Proceeding but not, however, for the total amount thereof, the Company shall nevertheless indemnify the Indemnitee for the portion of such Expenses and Losses to which the Indemnitee is entitled.

9. INDEMNIFICATION PROCEDURE; DETERMINATION OF RIGHT TO INDEMNIFICATION.

(a) Promptly after receipt by the Indemnitee of notice of the commencement of any Proceeding with respect to which the Indemnitee intends to claim indemnification or advancement of Expenses or Losses pursuant to this Agreement, the Indemnitee will notify the Company of the commencement thereof. The omission to so notify the Company will not relieve the Company from any liability which it may have to the Indemnitee under this Agreement or otherwise.

(b) The Company shall give prompt notice of the commencement of such Proceeding to the insurers on the D&O Insurance in accordance with the procedures set forth in the respective policies in favor of Indemnitee. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

(c) If a claim for indemnification or advancement of Expenses or Losses under this Agreement is not paid by or on behalf of the Company within thirty (30) days of receipt of written notice thereof, Indemnitee may at any time thereafter bring suit in any court of competent jurisdiction against the Company to enforce the right to indemnification or advancement of Expenses or Losses provided by this Agreement. It shall be a defense to any such action (other than an action brought to enforce a claim for Expenses incurred in defending any Proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Company) that the Indemnitee has failed to meet the standard of conduct that makes it permissible under the DGCL for the Company to indemnify the Indemnitee for the amount claimed. The burden of proving by clear and convincing evidence that indemnification or advancement of Expenses or Losses is not appropriate shall be on the Company. The failure of the directors or stockholders of the Company or independent legal counsel to have made a determination prior to the commencement of such Proceeding that indemnification or advancement of Expenses or Losses are proper in the circumstances because the Indemnitee has met the applicable standard of conduct shall not be a defense to the action or create a presumption that the Indemnitee has not met the applicable standard of conduct.

(d) The Indemnitee's Expenses incurred in connection with any action concerning Indemnitee's right to indemnification or advancement

of Expenses or Losses in whole or in part pursuant to this Agreement shall also be indemnified in accordance with the terms of this Agreement by the Company regardless of the outcome of such action, unless a court of competent jurisdiction determines that each of the material claims made by the Indemnitee in such action was not made in good faith or was frivolous.

(e) With respect to any Proceeding for which indemnification is requested, the Company will be entitled to participate therein at its own expense and, except as otherwise provided below, to the extent that it may wish, the Company may assume the defense thereof, with counsel satisfactory to the Indemnitee. After notice from the Company to the

Indemnitee of its election to assume the defense of a Proceeding, the Company will not be liable to the Indemnitee under this Agreement for any Expenses subsequently incurred by the Indemnitee in connection with the defense thereof, other than reasonable costs of investigation or as otherwise provided below. The Company shall not settle any Proceeding in any manner that would impose any penalty or limitation on the Indemnitee, or include an admission of wrongdoing by the Indemnitee, without the Indemnitee's prior written consent. The Indemnitee shall have the right to employ counsel in any such Proceeding, but the Expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof and the Indemnitee's approval of the Company's counsel shall be at the expense of the Indemnitee, unless (i) the employment of counsel by the Indemnitee has been authorized by the Company, (ii) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee in the conduct of the defense of a Proceeding, or (iii) the Company shall not in fact have employed counsel to assume the defense of a Proceeding, in each of which cases the Expenses of the Indemnitee's counsel shall be at the expense of the Company. Notwithstanding the foregoing, the Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which the Indemnitee has concluded that there may be a conflict of interest between the Company and the Indemnitee.

(f) With respect to any Proceeding that is other than by or in the right of the Company, the Indemnitee may require the Company to defend him. In the event that Indemnitee requires the Company to defend him, the Company shall promptly undertake to defend any such Proceeding at the Company's sole expense, employing counsel satisfactory to the Indemnitee.

(g) If the Company fails timely to defend, contest or otherwise protect the Indemnitee against any Proceeding which is not by or in the right of the Company, the Indemnitee shall have the right to do so, including without limitation, the right to make any compromise or settlement thereof, and to recover from the Company all Expenses and Losses and amounts paid as a result thereof.

10. RETROACTIVE EFFECT. Notwithstanding anything to the contrary contained in this Agreement, the Company's obligation to indemnify the Indemnitee and advance Expenses and Losses to the Indemnitee shall be deemed to be in effect since the date that the Indemnitee first commenced serving [in any of the capacities covered by this Agreement] [as a director of the Company].

11. LIMITATIONS ON INDEMNIFICATION. No payments pursuant to this Agreement shall be made by the Company:

(a) to indemnify or advance Expenses to the Indemnitee with respect to actions initiated or brought voluntarily by the Indemnitee and not by way of defense, except with respect to actions brought to establish or enforce a right to indemnification or advancement of Expenses or Losses under this Agreement or any other statute or law or otherwise as required under the DGCL, but such indemnification or advancement of Expenses or Losses may be provided by the Company in specific cases if approved by the Board of Directors by a majority vote of a quorum thereof consisting of directors who are not parties to such action;

(b) to indemnify the Indemnitee for any Expenses or Losses for which payment is actually made to the Indemnitee under a valid and collectible insurance policy, except in respect of any excess beyond the amount paid under such insurance;

(c) to indemnify the Indemnitee for any Expenses or Losses for which the Indemnitee has been or is indemnified by the Company or any other party otherwise than pursuant to this Agreement; or

(d) to indemnify the Indemnitee for any Expenses or Losses sustained in any Proceeding for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder or similar provisions of any federal, state or local statutory law;

12. MAINTENANCE OF DIRECTORS' AND OFFICERS' INSURANCE.

(a) Upon the Indemnitee's request, the Company hereby agrees to maintain in full force and effect, at its sole cost and expense, directors' and officers' liability insurance ("D&O INSURANCE") by an insurer, in an amount and with a deductible reasonably acceptable to the Indemnitee, covering the period during which the Indemnitee is serving [in any of the capacities covered by this Agreement] [as a director of the Company] and for so long thereafter as the Indemnitee shall be subject to any possible claim or threatened, pending or completed Proceeding by reason of the fact that the Indemnitee is serving [in any of the capacities covered by this Agreement] [as a director]. Upon receipt of any D&O Insurance policy, or any endorsement to any D&O Insurance policy, the Company shall promptly provide the Indemnitee with a complete copy thereof.

(b) In all policies of D&O Insurance to be maintained pursuant to Paragraph 12(a) above, the Indemnitee shall be named as an insured in such a manner as to provide Indemnitee with the greatest rights and benefits available under such policy.

(c) The Company will, within ten (10) days of request of the Indemnitee and upon each subsequent renewal date of the D&O Insurance, furnish the Indemnitee with a certificate of insurance naming the Indemnitee as an insured and otherwise meeting the requirements of this Section 12 and will not make any changes to such insurance without the prior consent of the Indemnitee, which consent will not be unreasonably withheld. Upon receipt by the Company of notice, in any form, of cancellation or termination or proposed cancellation or termination or any restriction or limitation of any D&O Insurance, the Company shall, within five (5) days of receipt of such notice, provide like notice to the Indemnitee.

(d) Any approval by the Indemnitee of the D&O Insurance will not release the Company of its obligations under this Agreement.

13. INDEMNIFICATION HEREUNDER NOT EXCLUSIVE; TERM. The indemnification and advancement of Expenses and Losses provided by this Agreement shall not be deemed to limit or preclude any other rights to which the Indemnitee may be entitled under the Company's certificate of incorporation or bylaws, any agreement, any vote of stockholders or disinterested directors of the Company, the DGCL, or otherwise. The indemnification under this Agreement shall continue as to the Indemnitee, even though he may have ceased to be [and officer and/or] a director of the Company, for so long as the Indemnitee shall be subject to any possible Proceeding.

14. PRIMARY INDEMNITY. The Company's obligation to provide indemnification to the Indemnitee under this Agreement is primary to any other source of indemnification or insurance that may be available to the Indemnitee for matters covered by the indemnification under this Agreement. The Company agrees that it shall have no right of subrogation with respect to any such other right of recovery of the Indemnitee.

15. SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon, and shall inure to the benefit of (i) the Indemnitee and Indemnitee's heirs, devisees, legatees, personal representatives, executors, administrators and assigns and (ii) the Company and its successors and assigns, including any transferee of all or substantially all of the Company's assets and any successor or assign of the Company by merger or by operation of law.

16. SEVERABILITY. Each provision of this Agreement is a separate and distinct agreement and independent of the other, so that if any provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions hereof. To the extent required, any provision of this Agreement may be modified by a court of competent jurisdiction to preserve its validity and to provide the Indemnitee with the broadest possible indemnification and advancement of Expenses and Losses permitted under the DGCL. If this Agreement or any portion thereof is invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify Indemnitee as to Expenses and Losses with respect to any Proceeding to the fullest extent permitted by any applicable portion of this Agreement that shall not have been invalidated or by any applicable provision of the DGCL or any other applicable law.

17. HEADINGS. The headings used herein are for convenience only and shall not be used in construing or interpreting any provision of the Agreement.

18. GOVERNING LAW. The DGCL shall govern all issues concerning the relative rights of the Company and the Indemnitee under this Agreement. All other questions and obligations under this Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of California, without giving effect to the principles of conflicts of laws thereunder which would specify the application of the law of another jurisdiction.

19. AMENDMENTS AND WAIVERS. No amendment, waiver, modification, termination or cancellation of this Agreement shall be effective unless in writing and signed by the party against whom enforcement is sought. The indemnification rights afforded to the Indemnitee hereby are contract rights and may not be diminished, eliminated or otherwise affected by amendments to the Company's certificate of incorporation, bylaws or agreements, including any D&O Insurance policies, whether the alleged actions or conduct giving rise to indemnification hereunder arose before or after any such amendment. No waiver of any provision of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof, whether or not similar, nor shall any waiver constitute a continuing waiver.

20. COUNTERPARTS. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each party and delivered to the other.

21. NOTICES. All notices and communications shall be in writing and shall be deemed duly given on the date of delivery or on the date of receipt of refusal indicated on the return receipt if sent by first class mail, postage prepaid, registered or certified, return receipt requested, to the following addresses, unless notice of a change of address is duly given by one party to the other, in which case notices shall be sent to such changed address:

If to the Company:

Pacific Ethanol, Inc.
5711 N. West Avenue
Fresno, CA 93711
Attn: Neil Koehler, Chief Executive Officer

with a copy, which shall not constitute notice to the Company, to:

Rutan & Tucker, LLP
611 Anton Boulevard, Suite 1400

Costa Mesa, CA 92626
Attn: Larry A. Cerutti, Esq.

If to the Indemnitee, to the address set forth on the signature page to this Agreement.

22. SUBJECT MATTER AND PARTIES. The intended purpose of this Agreement is to provide for indemnification and advancement of Expenses and Losses, and this Agreement is not intended to affect any other aspect of any relationship between the Indemnitee and the Company and is not intended to and shall not create any rights in any person as a third party beneficiary hereunder.

(Signature page follows.)

IN WITNESS WHEREOF, the parties have executed this Agreement as of _____, 2006.

"Indemnitee"

Signature: _____

Print Name: _____

Address For Notices: _____

_____

_____

"Company"

PACIFIC ETHANOL, INC.,
a Delaware corporation

By: _____

Name: _____

Its: _____

EXHIBIT 10.42

DEPOSIT AGREEMENT

BETWEEN

PACIFIC ETHANOL, INC.

AND

COMERICA BANK

DATED APRIL 13, 2006

PACIFIC ETHANOL, INC.

DEPOSIT AGREEMENT

THIS DEPOSIT AGREEMENT is made on the 13th day of April, 2006 (the "AGREEMENT"), by and between Pacific Ethanol, Inc., a Delaware corporation (the "COMPANY"), and Comerica Bank, a Michigan banking corporation, in its capacity as depository bank (the "Bank"). Certain capitalized terms used herein are defined in Section 5.14 of this Agreement.

WHEREAS, the Company and Cascade Investment, L.L.C., a Washington limited liability company (the "PURCHASER") have entered into a Purchase Agreement, dated as of November 14, 2005 (the "PURCHASE AGREEMENT"), pursuant to which the Purchaser has purchased from the Company, and the Company has sold to the Purchaser, the Preferred Shares (as defined in the Purchase Agreement);

WHEREAS, pursuant to the terms of the Purchase Agreement, $80,000,000 of the purchase price paid by the Purchaser to the Company in consideration of the Preferred Shares is to be deposited into a restricted cash account (the "RESTRICTED CASH ACCOUNT") to be held by the Bank and applied in the manner provided in this Agreement;

WHEREAS, to induce the Purchaser to acquire the Preferred Shares, the Company has agreed to enter into this Agreement, establish the Restricted Cash Account and utilize the amounts maintained in the Restricted Cash Account in accordance with this Agreement; and

WHEREAS, the parties hereto desire to set forth the terms of the Restricted Cash Account and to select Bank as the depository bank to act in accordance with the terms of this Agreement.

NOW, THEREFORE, in consideration of the premises, representations, warranties and the mutual covenants contained in this Agreement and the Purchase Agreement, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I.

ESTABLISHMENT OF RESTRICTED CASH ACCOUNT

SECTION 1.01 Selection of depository bank. The Company hereby selects Bank as the depository bank under this Agreement, and Bank agrees to

assume and perform the obligations of Bank under this Agreement.

SECTION 1.02 Establishment of Restricted Cash Account. Subject to the terms and conditions set forth in this Agreement, on the date hereof the Purchaser has deposited with Bank an amount equal to $80,000,000 (the "DEPOSIT AMOUNT") by wire transfer of immediately available funds to the account of the Bank referenced on EXHIBIT A attached hereto. The Deposit Amount, together with any and all interest, income and other earnings thereon, is referred to as the "DEPOSIT FUND." The Bank shall hold, invest, manage, administer, distribute and dispose of the Deposit Fund in accordance with the terms and conditions of this Agreement.

SECTION 1.03 Investment and Liquidation of Deposit Fund.

(a) Pending disbursement, the Bank shall invest and reinvest the Deposit Fund in Permitted Investments, and liquidate such Permitted Investments, pursuant to and in accordance with the written instructions of an Authorized Officer of the Company as provided to the Bank from time to time. Interest, income and other earnings, if any, earned on the investment of any Deposit Fund moneys shall be credited to the Restricted Cash Account. The Bank shall not be liable for any loss resulting from any investment made, or any sale or redemption of any investment made, in accordance with instructions received from an Authorized Officer of the Company or in accordance with paragraph (b) of this Section 1.03.

(b) If and when cash is required to be disbursed in accordance with this Agreement, and cash is not otherwise available in the Restricted Cash Account, the Bank is authorized, without instructions from an Authorized Officer of the Company, to cause Permitted Investments to be sold or otherwise liquidated into cash (without regard to maturity) in such manner as the Bank shall direct; provided that the Bank shall attempt to liquidate any and all investments as so needed in such manner as will minimize, to the extent reasonably practicable, the costs, penalties and losses associated with any such liquidation.

ARTICLE II.

REPRESENTATIONS, WARRANTIES AND COVENANTS

SECTION 2.01 Representations and Warranties of the Company. Each submission of a requisition to the Bank shall constitute a representation and warranty by the Company that all of the information contained in such requisition is true and correct.

SECTION 2.02 Covenant of the Company. The Company covenants and agrees that it shall not withdraw moneys from the Restricted Cash Account or utilize any moneys that have been withdrawn from the Restricted Cash Account except in accordance with the terms and provisions of this Agreement and the applicable requisition under which such moneys are to be withdrawn.

ARTICLE III.

DISBURSEMENT FROM THE RESTRICTED CASH ACCOUNT

SECTION 3.01 Disbursements for Payment of Construction Costs. The Bank is hereby authorized and directed to disburse moneys in the Restricted Cash Account to or upon the order of the Company, from time to time, upon receipt by it of a requisition signed by two Authorized Officers of the Company, which requisition shall state with respect to each payment to be made: (1) the requisition number, (2) identify the ethanol production facility in respect of which such requisition is being made, (3) the name and address of the Person to whom payment is due or has been made, (4) the aggregate amount paid or to be paid to such Person, (5) an accurate description of the work performed, services

rendered, materials, equipment or supplies delivered or any other purpose for which such payment was or is to be made, with invoices with respect thereto attached, (6) the proposed date of payment and the payment or wire instructions for the payment or transfer of such amounts by the Bank to such Person, (7) that each obligation, item of cost or expense mentioned therein has been properly incurred and has been paid or is then due and payable (or is required to be deposited at this time as equity in a Subsidiary project financing under a binding agreement with a third party which is not an Affiliate) as an item of the Cost of Construction, is a proper charge against the Restricted Cash Account, and has not been the basis of any previous payment therefrom, (8) all amounts previously drawn from the Restricted Cash Account under Construction Cost Requisitions (i) have been applied to pay the Costs of Construction listed on the applicable Construction Cost Requisition with respect to which such amounts were drawn or (ii) have not yet been expended and are still available to the Company or a Subsidiary of the Company for the payment of Costs of Construction, (9) that the amount of such requisition, together with all amounts previously drawn from the Restricted Cash Account under Construction Cost Requisitions relating to the ethanol production facility in respect of which the drawing is being made, does not exceed the Project Limit, and (10) that the Purchaser shall have approved, in writing, the terms of the debt, if any, incurred by the Company or a Subsidiary of the Company to finance a portion of the Costs of Construction of the ethanol production facility in respect of which the drawing is being made . A form of Construction Cost Requisition is attached hereto as EXHIBIT B.

SECTION 3.02 Disbursements for Payment of Acquisition Costs. The Bank is hereby authorized and directed to disburse moneys in the Restricted Cash Account to or upon the order of the Company and consented to by the Purchaser, from time to time, upon receipt by it of a requisition signed by two Authorized Officers of the Company, with a consent thereto signed by an officer of the Purchaser, which requisition shall state with respect to each payment to be made: (1) the requisition number, (2) the name and address of the Person to whom payment is due or has been made, (3) the aggregate amount paid or to be paid to such Person, (4) the proposed date of payment and the payment or wire instructions for the payment or transfer of such amounts by the Bank to such Person, and (5) that such payment obligation has been incurred in connection with the acquisition of an ethanol production facility by the Company or a Subsidiary of the Company and is currently payable, is a proper charge against the Restricted Cash Account, and has not been the basis of any previous payment therefrom. A form of Acquisition Cost Requisition is attached hereto as EXHIBIT C.

SECTION 3.03 Disbursements upon Redemption of Preferred Shares. The Bank is hereby authorized and directed to disburse all moneys in the Restricted Cash Account to or upon the order of the Company upon receipt by it of a written requisition signed by two Authorized Officers of the Company, which instrument shall state (1) the name and address of the Person to whom payment shall be made, (2) the aggregate amount to be paid to such Person, (3) the proposed date of payment and the payment or wire instructions for the payment or transfer of such amounts by the Bank to such Person, and (4) that such payment is being made to fund the payment of the redemption price of the Preferred Shares on the date that the Preferred Shares are being redeemed in accordance with the terms and provisions thereof, is a proper charge against the Restricted Cash Account, and has not been the basis of any previous payment therefrom.

SECTION 3.04 Bank's Reliance on Requisitions. In paying any requisition under this Article III, the Bank may rely as to the completeness and accuracy of all statements in such requisition upon the approval of such requisition by an Authorized Officer of the Company, execution thereof to be conclusive evidence of such approval, and the Company hereby covenants and agrees to indemnify and save harmless the Bank from any liability incurred in connection with the payment of any requisition so executed by an Authorized Officer of the Company.

SECTION 3.05 Records of Disbursements. The Bank shall keep and maintain adequate records pertaining to all requisitions and disbursements from the Restricted Cash Account and, if requested by the Company or the Purchaser, shall promptly provide such requestor with a copy of each such requisition submitted

to the Bank for payment under this Article III.

ARTICLE IV.

RIGHTS AND DUTIES OF BANK; TERMINATION

SECTION 4.01 Rights and Duties of Bank. It is understood and agreed that the Bank:

(a) undertakes to perform only those duties as are expressly set forth in this Agreement;

(b) shall not be required to take any action which is contrary to this Agreement or applicable law;

(c) shall not be liable for any action taken or omitted to be taken in good faith by it hereunder, except to the extent that any loss or damage results from the Bank's gross negligence or willful misconduct; and

(d) shall be protected in acting upon any document, instrument or signature believed by it to be genuine, and it may be assumed that any person purporting to give any notice or instructions in accordance with this Agreement has been duly authorized to do so. The Bank may consult with legal counsel, and the advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder and in good faith in accordance therewith.

SECTION 4.02 Termination. The Bank may terminate this Agreement at any time by giving thirty (30) days' written notice to the Company and the Purchaser, and, in the event of such termination, the Company and the Purchaser shall jointly select a successor depository bank. Company and Purchaser may terminate Bank's obligations hereunder at any time with or without cause by joint action of both the Company and the Purchaser. No such resignation or removal shall become effective until a successor depository bank shall have executed an instrument by which it shall have assumed all of the rights and obligations of the Bank hereunder.

SECTION 4.03 Compensation of Bank. The Company shall pay to the Bank compensation as shall be agreed to from time to time by the Company and the Bank, and shall reimburse the Bank for reasonable fees, costs and expenses, including reasonable attorneys' fees, incurred by the Bank in connection with the performance of its duties and obligations under this Agreement.

SECTION 4.04 Indemnity. The Company agrees to indemnify, defend and hold harmless the Bank, its Affiliates and their respective directors, managers, officers, members, stockholders, employees, Affiliates, agents, trustees, advisors (including, without limitation, attorneys, accountants and financial advisors), attorneys-in-fact, successors and assigns (collectively, "Indemnified Parties") from and against any and all losses, claims, liabilities, damages,

deficiencies, costs or expenses (including, without limitation, interest, penalties, reasonable attorneys' fees, disbursements and related charges and any costs or expenses that an Indemnified Party incurs to enforce its right to indemnification) (collectively, "Losses") based upon, arising out of or otherwise in respect of the execution, delivery and performance of this Agreement, except that the Company shall not be required to indemnify, defend and hold harmless the Bank or any other Indemnified Party against any Losses resulting from its own gross negligence or willful misconduct.

ARTICLE V.

MISCELLANEOUS

SECTION 5.01 No Assignment. No assignment of any rights or delegation of any obligations provided for in this Agreement may be made by any party without the express written consent of the Company, the Bank and the Purchaser. This Agreement shall be binding upon the successors and permitted assigns of the parties.

SECTION 5.02 Further Assurances. The Company and the Bank each agree to execute and deliver such other documents or agreements as may be necessary or desirable for the implementation of this Agreement and the consummation of the transactions contemplated hereby.

SECTION 5.03 Notices. Any notice, request, demand or other communication required or permitted to be given to the Company, the Bank or the Purchaser pursuant to the provisions of this Agreement will be in writing and will be effective and deemed given under this Agreement on the earliest of: (a) the date of personal delivery, (b) the date of transmission by facsimile, with confirmed transmission and receipt, (c) two (2) days after deposit with a nationally-recognized courier or overnight service and (d) five (5) days after mailing via first-class mail. All notices not delivered personally or by facsimile will be sent with postage and other charges prepaid and properly addressed to the Company, the Bank or the Purchaser, as applicable, at the following address: (i) if to the Company, to Pacific Ethanol, Inc., 5711 N. West Ave., Fresno, CA 93711, attention: Neil Koehler, with a copy to Rutan & Tucker LLP, 611 Anton Boulevard, 14th Floor, Costa Mesa, CA 92626, attention: Larry A. Cerutti, facsimile (714) 546-9035, (ii) if to the Bank, to Comerica Bank, attention: Robert Harlan, Vice President, 5200 N. Palm Avenue #320, Fresno, CA 93704 with a copy to Comerica Bank, attention: Phil Ellis, Senior Counsel-Senior Vice President, 15303 Ventura Blvd, Sherman Oaks, CA 91403 and (iii) (i) if to the Purchaser, to Cascade Investment, L.L.C., 2365 Carillon Point, Kirkland, WA 98033, attention: Michael Larson, with a copy to Thelen Reid & Priest LLP, 875 Third Avenue, New York, NY 10022, attention: John T. Hood, facsimile (212) 603-2001. The Company, the Bank and the Purchaser (and their permitted assigns) may change such address for receipt of future notices hereunder by giving written notice to the Company, the Bank and the Purchaser.

SECTION 5.04 Governing Law. This Agreement shall be governed by, and construed, interpreted and enforced in accordance with, the laws of the state in which the Deposit Fund is located, without giving effect to the principles of conflicts of laws thereunder which would specify the application of the law of another jurisdiction.

SECTION 5.05 Jury Trial Waiver; Reference Provision; Consent to Service of Process.

(a) THE PARTIES HERETO ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL ONE, BUT THAT IT MAY BE WAIVED. EACH PARTY, AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR CHOICE, KNOWINGLY AND VOLUNTARILY, AND FOR THEIR MUTUAL BENEFIT, WAIVES ANY RIGHT TO TRIAL BY JURY IN THE EVENT OF LITIGATION REGARDING THE PERFORMANCE OR ENFORCEMENT OF, OR IN ANY WAY RELATED TO, THIS AGREEMENT OR THE SUBJECT MATTER THEREOF.

(b) Reference Provision.

(i) In the event that the Jury Trial Waiver provision contained in the Agreement is not enforceable, the parties elect to proceed under this Reference Provision.

(ii) With the exception of the items specified in clause (iii), below, any controversy, dispute or claim (each, a "Claim") between the parties arising out of or relating to the Agreement will be resolved by a reference proceeding in California in accordance with the provisions of Section 638 ET SEQ. of the California Code of Civil Procedure ("CCP"), or their successor sections, which shall constitute the exclusive remedy for the resolution of any Claim, including whether the Claim is subject to the reference proceeding. Except as otherwise provided in the Agreement, venue for the reference proceeding will be in the state or federal court in the county or district where venue is otherwise appropriate under applicable law (the "Court").

(iii) The matters that shall not be subject to a reference are the

following: (i) non-judicial foreclosure of any security interests in real or personal property, (ii) exercise of self-help remedies (including, without limitation, set-off), (iii) appointment of a receiver and (iv) temporary, provisional or ancillary remedies (including, without limitation, writs of attachment, writs of possession, temporary restraining orders or preliminary injunctions). This Agreement does not limit the right of any party to exercise or oppose any of the rights and remedies described in clauses (i) and (ii) or to seek or oppose from a court of competent jurisdiction any of the items described in clauses (iii) and (iv). The exercise of, or opposition to, any of those items does not waive the right of any party to a reference pursuant to this Agreement.

(iv) The referee shall be a retired judge or justice selected by mutual written agreement of the parties. If the parties do not agree within ten (10) days of a written request to do so by any party, then, upon request of any party, the referee shall be selected by the Presiding Judge of the Court (or his or her representative). A request for appointment of a referee may be heard on an EX PARTE or expedited basis, and the parties agree that irreparable harm would result if EX PARTE relief is not granted. Pursuant to CCP ss. 170.6, each party shall have one peremptory challenge to the referee selected by the Presiding Judge of the Court (or his or her representative).

(v) The parties agree that time is of the essence in conducting the reference proceedings. Accordingly, the referee shall be requested, subject to change in the time periods specified herein for good cause shown, to (a) set the matter for a status and trial-setting conference within fifteen (15) days after the

date of selection of the referee, (b) if practicable, try all issues of law or fact within one hundred twenty (120) days after the date of the conference and (c) report a statement of decision within twenty (20) days after the matter has been submitted for decision.

(vi) The referee will have power to expand or limit the amount and duration of discovery. The referee may set or extend discovery deadlines or cutoffs for good cause, including a party's failure to provide requested discovery for any reason whatsoever. Unless otherwise ordered, no party shall be entitled to "priority" in conducting discovery, depositions may be taken by either party upon seven (7) days written notice, and all other discovery shall be responded to within fifteen (15) days after service. All disputes relating to discovery which cannot be resolved by the parties shall be submitted to the referee whose decision shall be final and binding.

(vii) Except as expressly set forth in this Agreement, the referee shall determine the manner in which the reference proceeding is conducted including the time and place of hearings, the order of presentation of evidence, and all other questions that arise with respect to the course of the reference proceeding. All proceedings and hearings conducted before the referee, except for trial, shall be conducted without a court reporter, except that when any party so requests, a court reporter will be used at any hearing conducted before the referee, and the referee will be provided a courtesy copy of the transcript. The party making such a request shall have the obligation to arrange for and pay the court reporter. Subject to the referee's power to award costs to the prevailing party, the parties will equally share the cost of the referee and the court reporter at trial.

(viii) The referee shall be required to determine all issues in accordance with existing case law and the statutory laws of the State of California. The rules of evidence applicable to

proceedings at law in the State of California will be applicable to the reference proceeding. The referee shall be empowered to enter equitable as well as legal relief, enter equitable orders that will be binding on the parties and rule on any motion which would be authorized in a trial, including without limitation motions for summary judgment or summary adjudication. The referee shall issue a decision at the close of the reference proceeding which disposes of all claims of the parties that are the subject of the reference. Pursuant to CCP ss. 644, such decision shall be entered by the Court as a judgment or an order in the same manner as if the action had been tried by the Court and any such decision will be final, binding and conclusive. The parties reserve the right to appeal from the final judgment or order or from any appealable decision or order entered by the referee. The parties reserve the right to findings of fact, conclusions of laws, a written statement of decision, and the right to move for a new trial or a different judgment, which new trial, if granted, is also to be a reference proceeding under this provision.

(ix) If the enabling legislation which provides for appointment of a referee is repealed (and no successor statute is enacted), any dispute between the parties that would otherwise be determined by reference procedure will be resolved and determined by arbitration. The arbitration will be conducted by a retired

judge or Justice, in accordance with the California Arbitration Act ss.1280 through ss.1294.2 of the CCP as amended from time to time. The limitations with respect to discovery set forth above shall apply to any such arbitration proceeding.

(x) THE PARTIES RECOGNIZE AND AGREE THAT ALL DISPUTES RESOLVED UNDER THIS REFERENCE PROVISION WILL BE DECIDED BY A REFEREE AND NOT BY A JURY. AFTER CONSULTING (OR HAVING HAD THE OPPORTUNITY TO CONSULT) WITH COUNSEL OF THEIR OWN CHOICE, EACH PARTY KNOWINGLY AND VOLUNTARILY, AND FOR THE MUTUAL BENEFIT OF ALL PARTIES, AGREES THAT THIS REFERENCE PROVISION WILL APPLY TO ANY CONTROVERSY, DISPUTE OR CLAIM BETWEEN OR AMONG THEM WHICH ARISES OUT OF OR IS RELATED TO THE AGREEMENT.

SECTION 5.06 Third Party Beneficiary. The Purchaser shall be a third party beneficiary of this Agreement.

SECTION 5.07 No Right of Set-Off. The Bank agrees that it shall have no right, title or interest in the Deposit Fund. In addition, the Bank irrevocably waives any banker's lien or right of set-off to which it may be entitled, and any other right that it may have at law or otherwise to exercise such banker's lien or right of set-off, and agrees that it shall not appropriate or apply any moneys in the Restricted Cash Account to the payment of any obligations of the Company or any of its subsidiaries to the Bank, any affiliate of the Bank or any other third party. Notwithstanding the foregoing, the Bank expressly reserves, all of its present and future rights (whether described as rights of setoff, banker's lien, security interest, chargeback or otherwise, and whether available to the Bank under the law or under any other agreement between the Bank and Company concerning the Restricted Cash Account, or otherwise) with respect to: (i) erroneous entries to the Restricted Cash Account and (ii) the Bank's usual and customary charges for services rendered in connection with the Restricted Cash Account.

SECTION 5.08 Entire Agreement. This Agreement, including the Exhibits hereto, constitutes the sole and entire agreement of the parties with respect to the subject matter hereof. All Exhibits hereto are hereby incorporated herein by reference.

SECTION 5.09 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

SECTION 5.10 Amendments and Termination. This Agreement may not be amended, supplemented, modified or terminated, and no provisions hereof may be waived, without the written consent of the Company, the Bank, and the Purchaser. No action taken pursuant to this Agreement, including without limitation, any investigation by or on behalf of the Company, the Bank or the Purchaser, shall be deemed to constitute a waiver of compliance with any representation, warranty, covenant or agreement contained herein. The waiver by the Company, the Bank or the Purchaser of a breach of any provision of this Agreement shall not operate or be construed as a further or continuing waiver of such breach or as a waiver of any other or subsequent breach. No failure on the part of any party to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of such right, power or remedy by such party preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law.

This Agreement shall terminate upon the disbursement of the entire Deposit Fund in the Restricted Cash Account pursuant to Article III.

SECTION 5.11 Severability. If any provision of this Agreement shall be declared void or unenforceable by any judicial or administrative authority, the validity of any other provision and of the entire Agreement shall not be affected thereby.

SECTION 5.12 Titles and Subtitles; Interpretive Matters. The titles and subtitles used in this Agreement are for convenience of reference only and are not to be considered in construing or interpreting any term or provision of this Agreement. No provision of this Agreement will be interpreted in favor of, or against, any of the parties hereto by reason of the extent to which any such party or its counsel participated in the drafting thereof or by reason of the extent to which any such provision is inconsistent with any prior draft hereof or thereof.

SECTION 5.13 Facsimile Signatures. Any signature page delivered by a fax machine shall be binding to the same extent as an original signature page, with regard to any agreement subject to the terms hereof or any amendment thereto. Any party who delivers such a signature page agrees to deliver promptly an original counterpart to each party to whom the faxed signature page was sent.

SECTION 5.14 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"AFFILIATE" means, with respect to any Person, (i) any other Person of which securities or other ownership interests representing more than fifty percent (50%) of the voting interests are, at the time such determination is being made, owned, Controlled or held, directly or indirectly, by such Person, or (ii) any other Person which, at the time such determination is being made, is Controlling, Controlled by or under common Control with, such Person. As used herein, "CONTROL", whether used as a noun or verb, refers to the possession, directly or indirectly, of the power to direct, or cause the direction of, the management or policies of a Person, whether through the ownership of voting securities or otherwise.

"ACQUISITION COST REQUISITION" shall mean an Acquisition Cost Requisition from the Company to the Bank, in the form attached hereto as Exhibit C.

"AUTHORIZED OFFICER" shall mean the Chief Executive Officer, President, Chief Financial Officer, Chief Operating Officer or Treasurer of the Company.

"CONSTRUCTION COST REQUISITION" shall mean a Construction Cost Requisition from the Company to the Bank, in the form attached hereto as Exhibit B.

"COST(S) OF CONSTRUCTION" shall mean the following costs and expenses incurred by the Company or a Subsidiary of the Company in the construction of an

ethanol production facility prior to the commercial operation date of such facility: (a) costs and expenses incurred by the Company or the Subsidiary under engineering, procurement and construction contracts relating to the facility, and other costs and expenses directly related to the design, engineering,

construction, installation, start-up, and testing of the facility and operating expenses with respect to the facility payable prior to the commercial operation date of the facility; (b) fees and expenses incurred by or on behalf of the Company or the Subsidiary in connection with the development of the facility, including financial, accounting, legal, environmental site assessment, surveying and consulting fees and the costs of preliminary engineering, (c) the costs of obtaining governmental approvals, permits and licenses for the facility prior to the commercial operation date of the facility; (d) interest on the loans incurred to finance the construction of the facility which is payable prior to the commercial operation date of the facility; (e) financing expenses, costs and charges in connection with the facility, and the fees and expenses of the counsel, independent engineers, consultants incurred in connection with the financing of the cost of construction of the facility; (f) insurance premiums with respect to the title insurance policy, title continuations and the insurance relating to the facility; (g) all costs, fees and expenses incurred by the Company or the Subsidiary in accordance with the construction budget and other costs directly related to the design, engineering, construction, installation, start-up and testing of the facility being constructed thereunder; (h) amounts necessary to fund a debt service reserve account required under the loan agreement or related financing agreements relating to the financing of the facility and (i) all other costs and expenses included in the construction budget for the facility.

"PERMITTED INVESTMENT" shall mean (a) obligations of or guaranteed by the United States of America (or of any agency directly backed by the full faith and credit of the United States of America), maturing not more than 12 months after the acquisition thereof, (b) commercial paper rated "A-1" by Standard & Poor's Rating Services ("S&P") or "P-1" by Moody's Investors Service, Inc. ("MOODY'S"), maturing not more than 180 days after the acquisition thereof, and (c) bankers' acceptances, certificates of deposits, term deposits or Eurodollar term deposits issued by a bank which is rated "AA" or better by S&P or "Aa" or better by Moody's, maturing not more than 180 days after the acquisition thereof.

"PROJECT LIMIT" shall mean (a)(i) with respect to the Madera ethanol production facility, $20,000,000, and (ii) with respect to each other ethanol production facility being constructed by the Company or a Subsidiary of the Company, the product of (A) the Equity Portion, and (B) the total budgeted Costs of Construction for such facility as determined in good faith by the Board of Directors of the Company, or (b) such other amount in respect of an ethanol production facility as shall have been consented to in writing by the Purchaser. "EQUITY PORTION" shall mean 0.30 for the first ethanol production facility (other than the Madera ethanol production facility) in respect of which a Construction Cost Requisition is submitted to the Bank and 0.25 for each subsequent ethanol production facility in respect of which a Construction Cost Requisition is submitted.

"PERSON" shall mean an individual, corporation, trust, partnership, limited liability company, joint venture, unincorporated organization, government body or any agency or political subdivision thereof, or any other entity.

"SUBSIDIARY(IES)" shall mean any other corporation, limited liability company, association, joint stock company, joint venture or business trust or which, as of the date hereof or hereafter, (i) more than fifty percent (50%) of the outstanding voting stock, share capital or other equity interests is owned either directly or indirectly by any Person or one or more of it Subsidiaries, or (ii) the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by any Person and/or its Subsidiaries. Unless otherwise specified to the contrary herein, Subsidiary(ies) shall refer to the Company's Subsidiary(ies).

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the Company and the Bank have executed this Deposit Agreement as of the day and year first above written.

PACIFIC ETHANOL, INC.
By: /S/ RYAN TURNER
Name:_____
Title:_____

COMERICA BANK

By: /S/ ROBERT J. HARLAN
Name: Robert J. Harlan
Title: Vice President

EXHIBIT A to
Deposit Agreement

BANK WIRE INSTRUCTIONS

PACIFIC ETHANOL/CASCADE RESTRICTED ACCOUNT #1892630839

WIRE FUNDS VIA FEDERAL RESERVE SYSTEM TO:

COMERICA BANK - CALIFORNIA
ABA/ROUTING #: 121137522
333 W. Santa Clara Street
San Jose, CA 95113

WIRE FUNDS VIA SWIFT TO:

Comerica Bank
SWIFT BIC Code: MNBD US 33

ORIGINATOR SHOULD INCLUDE THE FOLLOWING INFORMATION WHEN SENDING THE WIRE TRANSFER TO YOUR ACCOUNT:

BENEFICIARY BANK NAME AND ADDRESS (INTERNATIONAL WIRE TRANSFERS)
BENEFICIARY NAME AND ADDRESS
BENEFICIARY ACCOUNT NUMBER
CONTACT/SPECIAL INSTRUCTIONS (OPTIONAL)

NOTE: TO INSURE PROPER CREDIT TO THE ACCOUNT, THE ACCOUNT NUMBER MUST BE INCLUDED IN THE WIRE INSTRUCTIONS.

EXHIBIT B to
Deposit Agreement

CONSTRUCTION COST REQUISITION

NO. _____

[Date]

Comerica Bank
[Insert Bank Address]
[ ]
[ ]

Attention: [ ]

Re: Deposit Agreement dated [_____], 2006 (the "DEPOSIT AGREEMENT") between Pacific Ethanol, Inc., a Delaware corporation (the "COMPANY"), and Comerica Bank, a Michigan banking corporation (the "Bank").

Ladies and Gentlemen:

This requisition (this "CONSTRUCTION COST REQUISITION") is delivered to you pursuant to Section 3.01 of the Deposit Agreement. Each capitalized term used herein and not otherwise defined herein shall have the definition assigned to that term in the Deposit Agreement. The information relating to this Construction Cost Requisition is as follows:

1. The aggregate amount to be withdrawn from the Restricted Cash Account in accordance with this Construction Cost Requisition is $_____.

2. This Construction Cost Requisition is to be used to pay Costs of Construction relating to the _____ ethanol production facility.

3. Set forth on Schedule 1 attached hereto is (i) the name and address of each Person to whom any payment is to be made or has been made, (ii) the aggregate amount to be paid to such Person on the disbursement date, or to be paid to the Company on the disbursement date for amounts paid to such Person which have not been the basis of any previous payment, (iii) an accurate description of the work performed, services rendered, materials, equipment or supplies delivered or any other purpose for which each payment was or is to be made, with invoices with respect thereto attached, and (iv) the proposed date of payment and the payment or wire instructions for the payment or transfer of such amounts by the Bank to each such Person.

4. The proceeds of this Construction Cost Requisition withdrawn from the Restricted Cash Account will be used to pay Costs of Construction in accordance with the Deposit Agreement.

5. Each obligation, item of cost or expense covered by this Construction Cost Requisition has been properly incurred and has been paid or is now due and payable (or is required to be deposited at this time as equity in a Subsidiary project financing under a binding agreement with a third party which is not an Affiliate) as an item of the Costs of Construction, is a proper charge against the Restricted Cash Account, and has not been the basis of any previous payment from the Restricted Cash Account.

6. The proceeds of this Construction Cost Requisition, together with all amounts previously drawn from the Restricted Cash Account under Construction Cost Requisitions relating to the ethanol production facility in respect of which this drawing is being made, does not exceed the Project Limit.

Furthermore, (a) all amounts previously drawn from the Restricted Cash Account under Construction Cost Requisitions (i) have been applied to pay the Costs of Construction listed on the applicable Construction Cost Requisition with respect to which such amounts were drawn or (ii) have not yet been expended and are still available to the Company or a Subsidiary of the Company for the payment of Costs of Construction and (b) the Purchaser has approved, in writing, the terms of the debt, if any, incurred by the Company or a Subsidiary of the Company to finance a portion of the Costs of Construction of

the ethanol production facility in respect of which the drawing is being made.

Very truly yours,

PACIFIC ETHANOL, INC.

By:
_____
Name:
Title:

By:
_____
Name:
Title:

Schedule 1 to EXHIBIT B
(Construction Cost Requisition)

Name	Amount of Payment	Purpose	Date of Payment	Instructions
- ----	----------	-------	----------	----------

EXHIBIT C to
Deposit Agreement

ACQUISITION COST REQUISITION

NO. _____

[Date]

Comerica Bank
[Insert Bank Address]
[ ]
[ ]

Attention: [ ]

Re: Deposit Agreement dated [_____], 2006 (the "DEPOSIT AGREEMENT") between Pacific Ethanol, Inc., a Delaware corporation (the "COMPANY"), and Comerica Bank, a Michigan banking corporation (the "Bank").

Ladies and Gentlemen:

This requisition (this "ACQUISITION COST REQUISITION") is delivered to you pursuant to Section 3.02 of the Deposit Agreement. Each capitalized term used herein and not otherwise defined herein shall have the definition assigned to that term in the Deposit Agreement. The information relating to this Acquisition Cost Requisition is as follows:

1. The aggregate amount to be withdrawn from the Restricted Cash Account in accordance with this Acquisition Cost Requisition is $_____.

2. Set forth on Schedule 1 attached hereto is (i) the name and address of each Person to whom any payment is to be made or has been made, (ii) the aggregate amount to be paid to such Person on the disbursement date, or to be paid to the Company on the disbursement date for amounts paid to such Person which have not been the basis of any previous payment, and (iii) the proposed date of payment and the payment or wire instructions for the payment or transfer of such amounts by the Bank to each such Person.

3. The proceeds of this Acquisition Cost Requisition withdrawn from the Restricted Cash Account will be used to pay obligations incurred in connection with the acquisition of an ethanol production facility by the Company or a Subsidiary of the Company and is currently payable in accordance with the Deposit Agreement.

4. Each obligation, item of cost or expense covered by this Acquisition Cost is a proper against the Restricted Cash Account and has not been the basis of any previous payment from the Restricted Cash Account.

Very truly yours,

PACIFIC ETHANOL, INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

CONSENTED TO BY:

CASCADE INVESTMENT, L.L.C.

By: _____
Name:
Title:

Schedule 1 to EXHIBIT C
(Acquisition Cost Requisition)

Name	Amount of Payment	Purpose	Date of Payment	Instructions

EXHIBIT 10.43

PACIFIC ETHANOL, INC.

REGISTRATION RIGHTS AND STOCKHOLDERS AGREEMENT

THIS REGISTRATION RIGHTS AND STOCKHOLDERS AGREEMENT (the "Agreement") dated as of April 13, 2006, is by and among PACIFIC ETHANOL, INC., a Delaware corporation (the "Company") and CASCADE INVESTMENT, L.L.C., a Washington limited liability company (the "Investor").

WHEREAS, the Company and the Investor have entered into a Purchase Agreement, dated November 14, 2005 and as amended from time to time (the "Purchase Agreement"), providing for the purchase by the Investor of shares of the Company's Series A Cumulative Redeemable Convertible Preferred Stock (such shares, together with any additional shares of the Company's Series A Cumulative Redeemable Convertible Preferred Stock issued as a dividend thereon, the "Shares") which are convertible into shares of the Company's common stock, $.001 par value per share (the "Common Stock"), subject to the terms and provisions of the Purchase Agreement;

WHEREAS, simultaneously with, and as a condition to, the closing of the transactions contemplated in the Purchase Agreement, the Company and the Investor desire to enter into this Agreement to provide certain registration and other rights with respect to the Common Stock and the Shares held by or issuable to the Investor and to establish certain corporate governance and other rights of the Investor; and

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained in this Agreement and the Purchase Agreement, and intending to be legally bound, the parties hereto agree as follows:

SECTION 1. DEFINITIONS. As used in this Agreement, the following terms have the meanings indicated below or in the referenced sections of this Agreement:

"Adjustment Provisions." As defined in SECTION 3(A).

"Affiliate." As defined in the Purchase Agreement.

"Agreement." As defined in the recitals hereof.

"Applicable Boards." As defined in SECTION 10(A)(III).

"Capital Stock." With respect to any Person at any time, means any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of capital stock, partnership interests (whether general or limited), member interests or equivalent ownership interests in or issued by such Person, including, in the case of the Company, any and all shares of Common Stock and Shares.

"Closing." As defined in the Purchase Agreement.

"Common Stock." As defined in the recitals hereof.

"Company." As defined in the recitals hereof.

"Company Board." The board of directors of the Company.

"Demand Registration." As defined in SECTION 3(A).

"Director." Any member or any of the Applicable Boards.

"Equity Securities." Any and all shares of Capital Stock of the Company, securities of the Company convertible into, or exchangeable or exerciseable for, such shares, and options, warrants or other rights to acquire such shares.

"Exchange Act." The Securities Exchange Act of 1934, as amended, and

the rules and regulations thereunder.

"GAAP." Generally accepted accounting principals, as in effect in the United States of America from time to time applied on a consistent basis.

"Investor." As defined in the recitals hereof, and its successors, assigns and transferees.

"Investor Designees." As defined in SECTION 10(A)(III).

"Investor Directors." As defined in SECTION 10(A)(I) hereof.

"Investor Securities." The Shares issued pursuant to the Purchase Agreement and the Common Stock issued upon the conversion thereof.

"Majority of the Registrable Securities." As defined in SECTION 2(B).

"NASD." The National Association of Securities Dealers, Inc.

"Person." An individual, a partnership, a corporation, a limited liability company or partnership, an association, a joint stock company, a trust, a business trust, a joint venture, an unincorporated organization or a government entity or any department, agency, or political subdivision thereof.

"Piggyback Registration." As defined in SECTION 4(A) hereof.

"Proportional." When used to determine the number of individuals that the Investor is entitled to nominate to any board of directors at any particular time, means the number (rounded to the nearest whole number) determined by multiplying the aggregate number of members of such board by a fraction, the numerator of which shall be the number of Investor Directors that the Investor is entitled to designate to the Company Board pursuant to subsection (a) of SECTION 10 at such time and the denominator of which shall be the total number of directors constituting the entire Company Board at such time; PROVIDED, HOWEVER, that, notwithstanding the foregoing, in no event shall such number be less than one (1).

"Purchase Agreement." As defined in the recitals hereof.

"Registrable Securities." Any Common Stock issued or issuable upon conversion or exercise of the Shares or deriving therefrom, and all other shares of Common Stock of the Company or any successor owned from time to time by the Investor; PROVIDED, that a Registrable Security ceases to be a Registrable Security when (i) it is registered under the Securities Act and disposed of in accordance with the registration statement covering it or (ii) it is sold or transferred in accordance with the requirements of Rule 144 (or similar provisions then in effect) promulgated by the SEC under the Securities Act ("Rule 144").

"Registration Expenses." As defined in SECTION 6(A) hereof.

"Registration Statement." Registration Statement shall mean any registration statements contemplated by SECTION 3 and any additional registration statements contemplated by SECTION 4, including (in each case) the prospectus, amendments and supplements to such registration statement or prospectus, all exhibits attached thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

"Representatives." Of a Person means the officers, employees, independent accountants, independent legal counsel and other representatives of such Person.

"Rule 415." Rule 415 (or similar provisions then in effect) promulgated by the SEC under the Securities Act.

"SEC." The United States Securities and Exchange Commission.

"Securities Act." The Securities Act of 1933, as amended, and the rules and regulations thereunder.

"Shares." As defined in the recitals hereof.

"Stockholder." As defined in the recitals hereof.

"Subsequent Shares." As defined in SECTION 3(A).

"Subsidiary." Of a Person means any corporation or other entity (including a limited liability company, partnership or other business entity) in which such Person, directly or indirectly, owns outstanding Capital Stock or other Voting Securities having the power, under ordinary circumstances, to elect a majority of the directors or members of the governing body of such corporation or other entity or with respect to which such Person otherwise has the power to direct the management and policies of such corporation or other entity.

"Subsidiary Boards." As defined in SECTION 10(A)(III).

"Termination Date." The date that the Investor and its Affiliates, as a group, own less than 10% of the Investor Securities. For purposes of calculating such percentage of ownership, each Share shall be deemed to be equivalent to the number of shares of Common Stock into which they are convertible.

"Voting Letter." As defined in SECTION 10(A)(VI).

"Voting Securities." At any time, shares of any class of Equity Securities that are ordinarily entitled to vote (without regard to the occurrence of any additional event or contingency) generally in the election of directors.

SECTION 2. Securities Subject to this Agreement.

(a) HOLDERS OF REGISTRABLE SECURITIES. A Person is deemed to be a holder of Registrable Securities whenever that Person owns, directly or beneficially, or has the right to acquire, Registrable Securities, disregarding any legal restrictions upon the exercise of that right.

(b) MAJORITY OF REGISTRABLE SECURITIES. As used in this Agreement, the term "Majority of the Registrable Securities" means more than 50% of the Registrable Securities being registered or, where the context requires, a majority in interest of the Registrable Securities.

SECTION 3. DEMAND REGISTRATION.

(a) REQUEST FOR REGISTRATION. Subject to the provisions of SECTION 3(B), at any time after the first anniversary of the Closing, (A) one or more holders of Shares or Common Stock representing a Majority of the Registrable Securities may demand that the Company register all or part of its Registrable Securities under the Securities Act (a "DEMAND REGISTRATION") on Form S-1 (or a similar form then in effect) promulgated by the SEC under the Securities Act, provided that the Company shall not be obligated to effect a Demand Registration (i) during the one hundred eighty (180) days period commencing with the date of any secondary public offering or (ii) if the Company delivers notice to the holders of Registrable Securities within thirty (30) days of any registration request of its intent to file a registration statement for a secondary public offering within sixty (60) days and (B) one or more holders Shares or Common Stock representing a Majority of the Registrable Securities may request a Demand Registration on Form S-3 (or a similar form then in effect), provided that the Registrable Securities to be covered by any such Form S-3 shall be expected to result in aggregate gross proceeds of not less than $1,000,000. Within ten (10) days after receipt of a demand, the Company will notify in writing all holders of Registrable Securities of the demand. Any holder who wants to include its Registrable Securities in the Demand Registration must notify the Company within ten (10) business days of receiving the notice of the Demand Registration. Except as provided in this SECTION 3, the Company will include in all Demand Registrations all Registrable Securities for which the Company receives the timely written requests for inclusion. Any such request to be included in a Demand Registration shall not be counted as a Demand Registration under this SECTION 3. All demands or requests made pursuant to this SECTION 3(A) must specify the number of Registrable Securities to be registered and the intended method of disposing of the Registrable Securities. The Company acknowledges that

the plan of distribution contemplated by any such Registration Statement shall include offers and sales through underwriters or agents, offers and sales directly to investors, block trades and such other methods of offer and sale and

that offers and sales may be on a continued or delayed basis under Rule 415. The Company will cause such Registration Statement to remain effective until such time as all of the shares of Common Stock designated thereunder are sold or the holders thereof are entitled to rely on Rule 144(k) for sales of Registrable Securities without registration under the Securities Act and without compliance with the public information, sales volume, manner of sale or notice requirements of Rule 144(c), (e), (f) or (h). The Company acknowledges that at the time the Company files any Registration Statement pursuant to this SECTION 3 the number of Registrable Securities may not be fixed due to the antidilution and other provisions related to the Shares ("Adjustment Provisions") and due to possible future issuances of Shares as dividends on the Shares ("Subsequent Shares"). Accordingly, the Company agrees that it will register the number of shares of Common Stock issuable upon conversion of Shares held by or issuable to the Investor as of the date of the filing of the Registration Statement and, to the extent permitted under the applicable rules under the Securities Act, the additional number of shares of Common Stock issuable pursuant to the Adjustment Provisions. The Company agrees that, thereafter, it will file, as soon as practicable but in no event later than thirty (30) days after the issuance of additional Registrable Securities that are not covered by such Registration Statement (due to the effect of the Adjustment Provisions and the Subsequent Shares) such amendments and/or supplements to the Registration Statement, and such additional Registration Statements as are necessary in order to ensure that at least 100% of the number of shares of Common Stock issuable on conversion of the Shares held by or issuable to the Investor are included in a Registration Statement, and the Company will use its reasonable best efforts to cause such amendments, supplements and additional Registration Statements to be declared effective within ninety (90) days following the issuance of such additional Registrable Securities that are not otherwise covered by an effective Registration Statement.

(b) NUMBER OF DEMANDS. The holders of Registrable Securities shall have the right to three (3) Demand Registrations on Form S-1 (or a similar form then in effect) and shall have the right to an unlimited number of Demand Registrations on Form S-3 (or a similar form then in effect); PROVIDED, that the Company shall not be obligated to effect more than two (2) Demand Registrations on Form S-3 in any twelve (12) month period.

(c) REGISTRATION EXPENSES. The Company shall pay or reimburse to the holders of the Registrable Securities included in a Demand Registration all Registration Expenses of those holders in connection with any Demand Registration (including the reasonable fees and disbursements of one counsel for such holders in connection with each such Demand Registration not to exceed $25,000 per registration, as described in SECTION 6).

(d) SELECTION OF UNDERWRITERS. The holders of the Registrable Securities initiating a Demand Registration shall, after consultation with the Company, select the investment banker(s) and manager(s) that will administer the offering; PROVIDED, that the Company shall have given its prior written consent to such selection. The Company and the holders of Registrable Securities whose shares are being registered shall enter into a customary underwriting agreement with such investment banker(s) and manager(s).

(e) PRIORITY ON DEMAND RESTRICTIONS. If the managing underwriter shall advise the Company, in writing or otherwise, that an underwriters' over-allotment option, not in excess of fifteen percent (15%) of the total offering to be so effected, is necessary or desirable for the marketing of such

offering, all Registrable Securities which are to be included in such offering pursuant to this SECTION 3(E) and any other securities shall be allocated pro rata to the primary portion of such offering and the underwriters' over-allotment portion on the basis of the total number of Registrable Securities and other securities requested to be included in the registration. If any holder of Registrable Securities (other than the holder making the demand)

disapproves of the terms of the underwriting, such holder may withdraw therefrom by giving written notice to the Company and the managing underwriter.

(f) DELAY IN FILING. Notwithstanding the foregoing, the Company may delay in filing a registration statement in connection with a Demand Registration and may withhold efforts to cause the registration statement to become effective, if the Company determines in good faith that such registration might involve initial or continuing disclosure obligations that the Board of Directors of the Company determines, in good faith, will not be in the best interest of the Company's stockholders. The Company may exercise such right to delay or withhold efforts not more than once in any twelve (12) month period and for not more than ninety (90) days at a time. If, after a registration statement becomes effective, the Company advises the holders of registered shares that the Company considers it appropriate for the registration statement to be amended, the Company shall use its best efforts to amend such registration statement, and the holders of such shares shall suspend any further sales of their registered shares until the Company advises them that the amended registration statement has been declared effective.

(g) EFFECTIVE DEMAND REGISTRATION. A registration shall not constitute a Demand Registration until it has become effective and remains continuously effective for the lesser of (i) the period during which all Registrable Securities registered in the Demand Registration are sold and (ii) three hundred sixty (360) days; PROVIDED, HOWEVER, that a registration shall not constitute a Demand Registration if (x) after such Demand Registration has become effective, such registration or the related offer, sale or distribution of Registrable Securities thereunder is interfered with by any stop order, injunction or other order or requirement of the SEC or other governmental agency or court for any reason not attributable to the holder requesting the Demand Registration and such interference is not thereafter eliminated, or (y) the conditions specified in the underwriting agreement, if any, entered into in connection with such Demand Registration are not satisfied or waived, other than by reason of a failure on the part of the holder requesting the Demand Registration.

SECTION 4. PIGGYBACK REGISTRATIONS.

(a) RIGHT TO PIGGYBACK. Whenever the Company proposes to register any of its securities in an underwritten offering under the Securities Act, whether for its own account or for the account of another stockholder (except for the registration of securities to be offered pursuant to an employee benefit plan on Form S-8, pursuant to a registration made on Form S-4 or any successor forms then in effect) at any time other than pursuant to a Demand Registration and the registration form to be used may be used for the registration of the Registrable Securities (a "Piggyback Registration"), it will so notify in writing all holders of Registrable Securities no later than the earlier to occur of (i) the tenth (10th) day following the Company's receipt of notice of exercise of other demand registration rights, or (ii) forty-five (45) days prior to the anticipated filing date. Subject to the provisions of SECTION 4(C), the Company will include in the Piggyback Registration all Registrable Securities with respect to which the Company has received written requests for inclusion within

fifteen (15) days after the issuance of the Company's notice. Such Registrable Securities may be made subject to an underwriters' over-allotment option, if so requested by the managing underwriter. The holders of Registrable Securities may withdraw all or any part of the Registrable Securities from a Piggyback Registration at any time before ten (10) business days prior to the effective date of the Piggyback Registration. In any Piggyback Registration, the Company, the holders of Registrable Securities and any Person who hereafter becomes entitled to register its securities in a registration initiated by the Company must sell their securities on the same terms and conditions. A registration of Registrable Securities pursuant to this SECTION 4 shall not be counted as a Demand Registration pursuant to SECTION 3.

(b) PIGGYBACK EXPENSES. The Company shall pay or reimburse to the holders of the Registrable Securities included in a Piggyback Registration all Registration Expenses of those holders in connection with the Piggyback Registration (including the reasonable fees and disbursements of one counsel for such holders in connection with each such Piggyback Registration not to exceed $25,000 per Piggyback Registration, as described in SECTION 6).

(c) UNDERWRITING; PRIORITY ON PIGGYBACK REGISTRATIONS. The right of any such holder to be included in an underwritten registration pursuant to this SECTION 4 shall be conditioned upon such holder's participation in such underwriting and the inclusion of such holder's Registrable Securities in the underwriting to the extent provided herein. All holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company. If the managing underwriter gives the Company its written opinion that the total number or dollar amount of securities requested to be included in the registration exceeds the number or dollar amount of securities that can be sold, the Company will include the securities in the registration in the following order of priority: (i) first, subject to the first proviso below, all securities the Company or the stockholder, if any, on whose account securities are being registered proposes to sell; (ii) second, subject to the first proviso below, up to the full number or dollar amount of Registrable Securities requested to be included in the registration (allocated pro rata among the holders of Registrable Securities requested to be included in the registration, on the basis of the dollar amount or number of Registrable Securities requested to be included, as the case may be); and (iii) third, any other securities (provided they are of the same class as the securities sold by the Company) requested to be included, allocated among the holders of such securities in such proportions as the Company and those holders may agree; PROVIDED, that at least twenty-five percent (25%) of the Registrable Securities requested to be included in such registration shall be included in the offering; PROVIDED, FURTHER, that, (i) the holders of Registrable Securities shall not be subject to any cutback in the amount of Registrable Securities requested to be included in the registration unless all other holders of securities requesting to be included in such registration other than the stockholder, if any, on whose account securities are being registered have been excluded from such registration. In the event that the managing underwriter advises the Company that an underwriters' over-allotment option is necessary or advisable, the allocation provided for in this SECTION 4(C) shall apply to the determination of which securities are to be included in the registration of such shares. Except with the prior written consent of each holder of Registrable Securities, the Company shall not grant to any holder of the Company's securities any right to Piggyback Registration which would reduce the amount of Registrable Securities includable in such registration.

(d) SELECTION OF UNDERWRITERS. If any Piggyback Registration is an underwritten offering, the Company will select as the investment banker(s) and manager(s) that will administer the offering a nationally recognized investment banker(s) and manager(s) with demonstrable industry-specific expertise and experience. The Company and the holders of Registrable Securities whose shares are being registered shall enter into a customary underwriting agreement with such investment banker(s) and manager(s), PROVIDED, that the liability of any holder of Registrable Securities shall be limited to such holder's net proceeds received from the sale of its Registrable Securities in such offering and such limitation shall not be amended by an underwriting agreement or arrangement.

(e) RIGHT TO TERMINATE REGISTRATION. The Company shall have the right to terminate or withdraw any registration initiated by it under this SECTION 4 prior to the effectiveness of such registration whether or not any holder has elected to include securities in such registration. The Registration Expenses of such withdrawn registration shall be borne by the Company in accordance with SECTION 7 hereof.

(f) OTHER REGISTRATIONS. The Company agrees that after filing a registration statement with respect to Registrable Securities pursuant to SECTION 3 or this SECTION 4 that has not been withdrawn or abandoned, the Company will not register any of its equity securities or securities convertible or exchangeable into or exercisable for its equity securities under the Securities Act, whether on its own behalf or at the request of any holder of those securities until the earlier of (i) the sale of all such Registrable Securities subject to such registration statement and (ii) one hundred eighty (180) days from the effective date of the previous registration, and the parties hereto agree that the Company will not be required to effect any such registration notwithstanding the other provisions of this Agreement. This 180-day hiatus does not apply to registrations of securities (i) to be issued in connection with employee benefit plans, (ii) to permit exercise or conversions of previously issued options, warrants, or other convertible securities, (iii)

in connection with a Demand Registration or (iv) made on Form S-4 (or any successor form).

SECTION 5. REGISTRATION PROCEDURES.

(a) OBLIGATIONS OF THE COMPANY. Whenever required to register any Registrable Securities, the Company shall as expeditiously as practicable:

(1) prepare and file with the SEC to permit a public offering and resale of the Registrable Securities under the Securities Act which offering may, if so requested, be on a delayed or continuous basis under Rule 415 a registration statement on the appropriate form and use best efforts to cause the registration statement to become effective. At least ten (10) days before filing a registration statement or prospectus or at least three (3) business days before filing any amendments or supplements thereto, the Company will furnish to the counsel of the holders of a Majority of the Registrable Securities being registered copies of all documents proposed to be filed for that counsel's review and approval, which approval shall not be unreasonably withheld or delayed;

(2) immediately notify each seller of Registrable Securities of any stop order threatened or issued by the SEC and take all actions reasonably required to prevent the entry of a stop order or if entered to have it rescinded or otherwise removed;

(3) prepare and file with the SEC such amendments and supplements to the registration statement and the corresponding prospectus necessary to keep the registration statement effective, in the case of the registration required by SECTION 3 hereof for the period provided in SECTION 3 and in any other case for one hundred twenty (120) days or such shorter period as may be required to sell all Registrable Securities covered by the registration statement; and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by the registration statement during each period in accordance with the sellers' intended methods of disposition as set forth in the registration statement;

(4) furnish to each seller of Registrable Securities a sufficient number of copies of the registration statement, each amendment and supplement thereto (in each case including all exhibits), the corresponding prospectus (including each preliminary prospectus), and such other documents as a seller may reasonably request to facilitate the disposition of the seller's Registrable Securities;

(5) use its best efforts to register or qualify the Registrable Securities under securities or blue sky laws of jurisdictions in the United States of America as any seller requests within twenty (20) days following the original filing of a registration statement and do any and all other reasonable acts and things that may be necessary or advisable to enable the seller to consummate the disposition of the seller's Registrable Securities in such jurisdiction; PROVIDED, HOWEVER, that the Company shall not be obligated to qualify as a foreign corporation to do business under the laws of any jurisdiction in which it is not then qualified or to file any general consent to service of process;

(6) notify each seller of Registrable Securities, at any time when a prospectus is required to be delivered under the Securities Act, of any event as a result of which the prospectus or any document incorporated therein by reference contains an untrue statement of a material fact or omits to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which such statements were made, and use best efforts to prepare a supplement or amendment to the prospectus or any such document incorporated therein so that thereafter the prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which such statements were made;

(7) cause all registered Registrable Securities to be listed on each securities exchange, if any, on which similar securities issued by the Company are then listed;

(8) provide an institutional transfer agent and registrar and a CUSIP number for all Registrable Securities on or before the effective date of the registration statement;

(9) enter into such customary agreements, including an underwriting agreement in customary form and take all other actions in connection with those agreements as the holders of a Majority of the Registrable Securities being registered or the underwriters, if any, reasonably request to expedite or facilitate the disposition of the Registrable Securities;

(10) make available for inspection by any seller of Registrable Securities, any underwriter participating in any disposition pursuant to the registration statement, and any attorney, accountant, or other agent of any seller or underwriter, all financial and other records, pertinent corporate documents, and properties of the Company, and cause the Company's officers, directors and employees to supply all information reasonably requested by any seller, underwriter, attorney, accountant, or other agent in connection with the registration statement; PROVIDED that an appropriate confidentiality agreement is executed by any such seller, underwriter, attorney, accountant or other agent;

(11) in connection with any underwritten offering, obtain a "comfort" letter from the Company's independent public accountants in customary form and covering those matters customarily covered by "comfort" letters as the holders of a Majority of the Registrable Securities being registered or the managing underwriter reasonably requests, addressed to the underwriters and to the holders of the Registrable Securities being registered;

(12) in connection with any underwritten offering, furnish an opinion of counsel representing the Company for the purposes of the registration, in the form and substance customarily given to underwriters in an underwritten public offering and reasonably satisfactory to counsel representing the holders of Registrable Securities being registered and the underwriter(s) of the offering, addressed to the underwriters and to the holders of the Registrable Securities being registered;

(13) use its best efforts to comply with all applicable rules and regulations of the SEC, and make available to its security holders, as soon as reasonably practicable, an earnings statement complying with the provisions of Section 11(a) of the Securities Act and covering the period of at least twelve (12) months, but not more than eighteen (18) months, beginning with the first month after the effective date of the Registration Statement;

(14) cooperate with each seller of Registrable Securities and each underwriter participating in the disposition of such Registrable Securities and their respective counsel in connection with any filings required to be made with the NASD; and

(15) take all other steps reasonably necessary to effect the registration of the Registrable Securities contemplated hereby.

(b) SELLER INFORMATION. In the event of any registration by the Company, from time to time, the Company may require each seller of Registrable Securities subject to the registration to furnish to the Company information regarding such seller, the Registrable Securities held by them, and the distribution of the securities subject to the registration, and such seller shall furnish all such information reasonably requested by the Company.

(c) NOTICE TO DISCONTINUE. Each holder of Registrable Securities agrees by acquisition of such securities that, upon receipt of any notice from the Company of any event of the kind described in SECTION 5(a)(6), the holder will

discontinue disposition of Registrable Securities until the holder receives copies of the supplemented or amended prospectus contemplated by SECTION 5(A)(6). In addition, if the Company requests, the holder will deliver to the

Company (at the Company's expense) all copies, other than permanent file copies then in the holder's possession, of the prospectus covering the Registrable Securities current at the time of receipt of the notice. If the Company gives any such notice, the time period mentioned in SECTION 5(A)(3) shall be extended by the number of days elapsing between the date of notice and the date that each seller receives the copies of the supplemented or amended prospectus contemplated in SECTION 5(A)(6).

(d) NOTICE BY HOLDERS. Whenever the holders of Registrable Securities have requested that any Registrable Securities be registered pursuant to this Agreement, those holders shall notify the Company, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event concerning that holder of the Registrable Securities, as a result of which the prospectus included in the registration statement contains an untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

SECTION 6. REGISTRATION EXPENSES.

All costs and expenses incurred in connection with the Company's performance of or compliance with this Agreement (the "Registration Expenses") shall be paid by the Company as provided in this Agreement. The term "Registration Expenses" includes without limitation all registration filing fees, reasonable professional fees and other reasonable expenses of the Company's compliance with federal, state and other securities laws (including fees and disbursements of counsel for the underwriters in connection with state or other securities law qualifications and registrations), printing expenses, messenger, telephone and delivery expenses; reasonable fees and disbursements of counsel for the Company and for one counsel for the holders of Registrable Securities not to exceed $25,000 per registration; reasonable fees and disbursement of the independent certified public accountants selected by the Company (including the expenses of any audit or "comfort" letters required by or incident to performance of the obligations contemplated by this Agreement); fees and expenses of the underwriters (excluding discounts and commissions); fees and expenses of any special experts retained by the Company at the request of the managing underwriters in connection with the registration; and applicable stock exchange and NASDAQ registration and filing fees. The term "Registration Expenses" does not include underwriting fees or commissions or transfer taxes, all of which shall be paid by each of the sellers of Registrable Securities with respect to the Registrable Securities sold by such seller.

SECTION 7. INDEMNIFICATION.

(a) INDEMNIFICATION BY COMPANY. In the event of any registration of Registrable Securities under the Securities Act pursuant to this Agreement, to the full extent permitted by law, the Company agrees to indemnify and hold harmless each holder of Registrable Securities, its officers, directors, trustees, partners, employees, advisors and agents, and each Person who controls the holder (within the meaning of the Securities Act and the Exchange Act) against any and all losses, claims, damages, liabilities and expenses arising out of (i) any untrue or allegedly untrue statement of material fact contained in or incorporated by reference into any registration statement or any amendment thereof under which such Registrable Securities were registered under the Securities Act, any prospectus or preliminary prospectus contained therein or any amendment thereof or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, except to the extent the untrue statement or omission resulted

from information that the holder furnished in writing to the Company expressly for use therein, and (ii) any failure to comply with any law, rule or regulation applicable to such registration. Such indemnity shall remain in full force and effect, regardless of any investigation made by such indemnified party, and

shall survive the transfer of such Registrable Securities by such holder. In connection with a firm or best efforts underwritten offering, to the extent customarily required by the managing underwriter, the Company will indemnify the underwriters, their officers and directors and each Person who controls the underwriters (within the meaning of the Securities Act and the Exchange Act), to the extent customary in such agreements.

(b) INDEMNIFICATION BY HOLDERS OF SECURITIES. In connection with any registration statement, each participating holder of Registrable Securities will furnish to the Company in writing such information and affidavits as the Company reasonably requests for use in connection with any registration statement or prospectus. Each participating holder agrees, severally and not jointly, to indemnify and hold harmless, to the extent permitted by law, the Company, its directors, officers, trustees, partners, employees, advisors and agents, and each Person who controls the Company (within the meaning of the Securities Act and the Exchange Act) against any and all losses, claims, damages, liabilities and expenses arising out of any untrue or allegedly untrue statement of a material fact or any omission or alleged omission to state a material fact required to be stated in the registration statement or prospectus or any amendment thereof or supplement thereto necessary to make the statements therein not misleading, but only to the extent that the untrue statement or omission is contained in or omitted from any information or affidavit the holder furnished in writing to the Company expressly for use therein and only in an amount not exceeding the net proceeds received by the holder with respect to securities sold pursuant to such registration statement. Such indemnity shall remain in full force and effect, regardless of any investigation made by the Company, and shall survive the transfer of such Registrable Securities by such holder. In connection with a firm or best efforts underwritten offering, to the extent customarily required by the managing underwriter, each participating holder of Registrable Securities will indemnify the underwriters, their officers and directors and each Person who controls the underwriters (within the meaning of the Securities Act and the Exchange Act), to the same extent as it has indemnified the Company; PROVIDED, that the indemnity obligations of any holder contained in such agreement shall be limited to the amount of such holder's net proceeds received from the sale of its Registrable Securities in such offering.

(c) INDEMNIFICATION PROCEEDINGS. Any Person entitled to indemnification under this Agreement will (i) give prompt notice to the indemnifying party of any claim with respect to which it seeks indemnification and (ii) unless in the indemnified party's reasonable judgment a conflict of interest may exist between the indemnified and indemnifying parties with respect to the claim, permit the indemnifying party to assume the defense of the claim with counsel reasonably satisfactory to the indemnified party. If the indemnifying party does not assume the defense, the indemnifying party will not be liable for any settlement made without its consent (but that consent may not be unreasonably withheld). No indemnifying party will consent to entry of any judgment or will enter into any settlement that does not include as an unconditional term thereof the claimant's or plaintiff's release of the indemnified party from all liability concerning the claim or litigation or which includes any non-monetary settlement. An indemnifying party who is not entitled to or elects not to assume the defense of a claim will not be under an obligation to pay the fees and expenses of more than one counsel for all parties indemnified by the indemnifying party with respect to the claim, unless in the reasonable judgment of any indemnified party

a conflict of interest may exist between the indemnified party and any other indemnified party with respect to the claim, in which event the indemnifying party shall be obligated to pay the fees and expenses of no more than one additional counsel for the indemnified parties.

(d) CONTRIBUTION. IF THE INDEMNIFICATION PROVIDED FOR IN SECTION 7(A) OR (B) IS unavailable to an indemnified party in respect of any losses, claims, damages, liabilities or expenses referred to therein, then each indemnifying party thereunder shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnified party and the indemnifying party in connection with the statements or omissions that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of the indemnified party and the indemnifying party shall be determined by reference to, among other things, whether the untrue or alleged

untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnified party and the indemnifying party and the parties' relative intent and knowledge.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this SECTION 7(D) were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding anything herein to the contrary, no participating holder of Registrable Securities acting as an indemnifying party shall be required to contribute any amount in excess of the amount by which the net proceeds of the offering (before deducting expenses, if any) received by such participating holder exceeds the amount of any damages that such participating holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

The obligations of the Company and the holders of Registrable Securities under this SECTION 7 shall survive the completion of any offering of Registrable Securities in a registration statement, including the termination of this Agreement.

SECTION 8. RULE 144. With a view to making available to the holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its best efforts to:

(a) Make and keep public information available, as those terms are understood and defined in SEC Rule 144 or any similar or analogous rule promulgated under the Securities Act, at all times after the effective date of the first registration filed by the Company for an offering of its securities to the general public;

(b) File with the SEC, in a timely manner, all reports and other documents required of the Company under the Exchange Act; and

(c) So long as a holder owns any Registrable Securities, furnish to such holder forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 of the

Securities Act, and of the Exchange Act (at any time after it has become subject to such reporting requirements); a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as a holder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities without registration.

SECTION 9. PARTICIPATION IN UNDERWRITTEN REGISTRATION. No Person may participate in any underwritten registration without (a) agreeing to sell securities on the basis provided in underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements (the holders of Registrable Securities in a Demand Registration pursuant to SECTION 3(D) and the Company in a piggyback registration pursuant to SECTION 4(D)), and (b) completing and executing all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required by the underwriting arrangements.

SECTION 10. BOARD REPRESENTATION. (a) During the period commencing on the date of the Closing and ending on the Termination Date:

(i) the Investor shall be entitled to nominate two individuals for election to the Company Board, and each party hereto that holds Voting Securities agrees to vote such Voting Securities in favor of the election of such individuals (the "Investor Directors") to the Company Board;

(ii) the Company agrees, by action of the Company Board, (i) to establish, by appointment from among the members of the Company Board, and maintain a Compensation Committee and (ii) to the greatest extent permitted by applicable law and the rules and regulations of NASDAQ or any national

securities exchange on which the Company's Common Stock is listed, to appoint to the Compensation Committee one of the Investor Directors, as designated by the Investor;

(iii) if requested by the Investor, the Company agrees to elect or to cause to be elected, through action of the Company Board, to the board of directors of or management committee, as the case may be, each Subsidiary of the Company (the "Subsidiary Boards" and, together with the Company Board, the "Applicable Boards") a number of individuals designated by the Investor, who need not be directors, officers or employees of the Company or any of its Subsidiaries, that is, in the case of each Subsidiary Board, as nearly as is practicable, Proportional to the number of members of each such Subsidiary Board (together with the Investor's designated member of the Compensation Committee, the "Investor Designees");

(iv) the Company agrees to permit one of the Investor Directors or another individual designated by the Investor, who need not be a director, officer or employee of the Company or any of its Subsidiaries, to attend as a non-voting observer all meetings of the Executive Committee and the Audit Committee and Subsidiary Boards for which there shall be no Investor Designee and to transmit to such individual, at the time and in the manner sent to other members of such committees and board, all information and materials provided by the Company to such committee and board members;

(v) the Company agrees to provide advance notice in accordance with the Delaware General Corporation Law and the Company's bylaws to each Investor Director with respect to each regular and special meeting of the Company Board and the Compensation Committee which notice shall, in the case of each special meeting, include a reasonable summary of the subject matter of the meeting; and

(vi) the Company agrees to cause each person serving from time to time as an executive officer, director or manager of the Company or any Subsidiary of the Company (other than the Investor Directors and the Investor Designees) to execute and deliver to the Investor a Voting Letter substantially in the form of EXHIBIT A hereto (each a "Voting Letter").

(b) Each party hereto agrees to take such actions, including actions as necessary or desirable to nominate and elect individuals to the intended offices and, in the case of the Company, actions by the Company Board, as shall be necessary or desirable in order that, effective as of the Closing:

(i) the Company Board shall include the Investor Directors;

(ii) the Compensation Committee shall include the Investor Director required by SECTION 10(A);

(iii) each other Applicable Board shall include the Investor Designees to the extent required by subsection (ii) of SECTION 10(A); and

(iv) each current executive officer and director of the Company and each current executive officer, director or manager of any of its Subsidiaries shall have executed and delivered to the Investor, a Voting Letter.

(c) No Investor Director or Investor Designee shall be subject to removal, without cause, from any Applicable Board or the Compensation Committee other than with the express written consent of the Investor. If the Investor shall determine to remove any Investor Director or Investor Designee from any Applicable Board or the Compensation Committee, each party hereto agrees, upon written notice to such effect from the Investor, to take all actions reasonably necessary or desirable, including the voting of outstanding Voting Securities held by such party, in order to effect such action. Following such removal of an Investor Director or Investor Designee, the parties shall comply with the other provisions of this Section to ensure that the removed individual is replaced by another Investor Director or Investor Designee, as appropriate.

(d) If a vacancy is created on any Applicable Board or the Compensation Committee by virtue of the death, disability, retirement, resignation or removal of any Investor Director or Investor Designee from any Applicable Board or the Compensation Committee, each party hereto shall, to the extent permitted by

applicable laws and regulations, take promptly any and all actions, including the voting of outstanding Voting Securities held by such party and, in the case of the Company, actions by the Company Board, necessary or desirable to fill such vacancy with an individual designated in writing by the Investor so as to give effect to the provisions of SECTION 10(A).

(e) Immediately following the Termination Date, the Investor shall cause the Investor Directors or Investor Designees to resign from all of the Applicable Boards, effective as of the Termination Date. The Investor agrees to take all actions reasonably necessary or desirable, including the voting of outstanding Voting Securities held by it, in order to effect such action.

SECTION 11. AVAILABLE FINANCIAL INFORMATION. For so long as the Company is not a reporting issuer under the Exchange Act or, if having been such a reporting issuer, it shall cease to be such a reporting issuer or for so long as the Company shall fail to comply with its reporting obligations under the Exchange Act, the Company shall, to the extent that the Investor beneficially owns any of the Shares or Common Stock, deliver, or cause to be delivered, to the Investor:

(a) as soon as practicable after the end of each fiscal year of the Company, and in any event within ninety (90) days thereafter, a consolidated and consolidating balance sheets of the Company as of the end of such fiscal year, and consolidated and consolidating statements of income, changes in shareholders' equity and cash flows of the Company for such year, prepared in accordance with GAAP and setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and followed promptly thereafter (to the extent not then available) by such financial statements accompanied by the audit report with respect thereto of independent public accountants of recognized national standing selected by the Company; and

(b) as soon as practicable after the end of the first, second and third quarterly accounting periods in each fiscal year of the Company, and in any event within forty-five (45) days after the end of each such period, consolidated balance sheets of the Company as of the end of each quarterly period, and consolidated statements of income, changes in shareholders' equity and cash flows of the Company for such period and for the current fiscal year to date, prepared in accordance with GAAP and setting forth in comparative form the figures for the corresponding periods of the previous fiscal year, subject to changes resulting form normal year-end audit adjustments, all in reasonable detail and certified by the principal financial or accounting officer of the Company.

SECTION 12. ACCESS. During the period commencing on the date of the Closing and ending on the Termination Date, the Company shall afford, provide and furnish, and shall cause its Subsidiaries and the Representatives of the Company and its Subsidiaries to afford, provide and furnish to the Investor and their Representatives:

(i) during normal business hours and upon reasonable advance notice, reasonable access to the Representatives, properties, plants and other facilities and to all books and records of the Company and each of its Subsidiaries;

(ii) all financial, operating and other data and information regarding the Company and its Subsidiaries as the Investor and its Representatives may reasonably request; and

(iii) the opportunity to discuss the affairs, finances, operations and accounts of the Company and its Subsidiaries with the Company's officers on a periodic basis.

SECTION 13. MISCELLANEOUS.

(a) RECAPITALIZATIONS, EXCHANGES, ETC. The provisions of this Agreement shall apply to the full extent set forth herein with respect to (i) the Registrable Securities, (ii) any and all shares of voting common stock of the

Company into which the Registrable Securities are converted, exchanged or substituted in any recapitalization or other capital reorganization by the Company and (iii) any and all equity securities of the Company or any successor or assign of the Company (whether by merger, consolidation, sale of assets or otherwise) which may be issued in respect of, in conversion of, in exchange for or in substitution of, or as a dividend upon, the Registrable Securities and shall be appropriately adjusted for any stock dividends, splits, reverse splits, combinations, recapitalizations and the like occurring after the date hereof. The Company shall use its best efforts to cause any successor or assign (whether by sale, merger or otherwise) to enter into a new registration rights agreement with the holders of Registrable Securities on terms substantially the same as this Agreement as a condition of any such transaction.

(b) AMENDMENT. This Agreement may be amended or modified only by a written agreement executed by (i) the Company and (ii) the Investor.

(c) ATTORNEYS' FEES. In any legal action or proceeding brought to enforce any provision of this Agreement, the prevailing party shall be entitled to recover all reasonable expenses, charges, court costs and attorneys' fees in addition to any other available remedy at law or in equity.

(d) BENEFIT OF PARTIES; ASSIGNMENT. Subject to the terms and conditions of the Purchase Agreement and this subsection (d), including, without limitation, the transfer restrictions contained therein, all of the terms and provisions of this Agreement shall be binding on and inure to the benefit of the parties and their respective successors and assigns, including, without limitation, all subsequent holders of securities entitled to the benefits of this Agreement who agree in writing to become bound by the terms of this Agreement.

(e) CAPTIONS. The captions of the sections and subsections of this Agreement are solely for convenient reference and shall not be deemed to affect the meaning or interpretation of any provision of this Agreement.

(f) COOPERATION. The parties agree that after execution of this Agreement they will from time to time, upon the request of any other party and without further consideration, execute, acknowledge and deliver in proper form any further instruments and take such other action as any other party may reasonably require to carry out effectively the intent of this Agreement.

(g) COUNTERPARTS; FACSIMILE EXECUTION. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement. Facsimile execution and delivery of this Agreement shall be legal, valid and binding execution and delivery for all purposes.

(h) ENTIRE AGREEMENT. Each party hereby acknowledges that no other party or any other person or entity has made any promises, warranties, understandings or representations whatsoever, express or implied, not contained in the Transaction Documents (as defined in the Purchase Agreement) and acknowledges that it has not executed this Agreement in reliance upon any such promises, representations, understandings or warranties not contained herein or therein and that the Transaction Documents supersede all prior agreements and understandings between the parties with respect thereto. There are no promises, covenants or undertakings other than those expressly set forth or provided for in the Transaction Documents.

(i) GOVERNING LAW. The internal law of the State of Washington will govern the interpretation, construction, and enforcement of this Agreement and all transactions and agreements contemplated hereby, notwithstanding any state's choice of law rules to the contrary.

(j) SUBMISSION TO JURISDICTION; CONSENT TO SERVICE OF PROCESS. The parties hereto hereby irrevocably submit to the exclusive jurisdiction of any federal or state court located within King County, Washington, over any dispute arising out of or relating to this Agreement or any of the transactions contemplated hereby and each party hereby irrevocably agrees that all claims in respect of such dispute or any suit, action or proceeding related thereto shall be heard and determined in such courts. The parties hereby irrevocably waive, to

the fullest extent permitted by applicable law, any objection which they may now or hereafter have to the laying of venue of any such dispute brought in such court or any defense of inconvenient forum for the maintenance of such dispute. Each of the parties hereto agrees that a judgment in any such dispute may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(k) NO INCONSISTENT AGREEMENTS. The Company represents and warrants that, except as disclosed in the Purchase Agreement, it has not granted to any Person the right to request or require the Company to register any securities issued by the Company other than the rights contained herein. The Company shall not, except with the prior written consent of at least a majority in interest of the Registrable Securities held by the Investor, enter into any agreement with respect to its securities that shall grant to any Person registration rights that in any way conflict with or are prior to or equal in right to the rights provided under this Agreement.

(l) NOTICES. All notices, requests, demands, or other communications that are required or may be given pursuant to the terms of this Agreement shall be in writing and properly addressed to the addresses of the parties set forth in the Purchase Agreement or to such other address(es) as the respective parties hereto shall from time to time designate to the other(s) in writing. All notices shall be effective upon receipt.

(m) SPECIFIC PERFORMANCE. Each of the parties agrees that damages for a breach of or default under this Agreement would be inadequate and that in addition to all other remedies available at law or in equity that the parties and their successors and assigns shall be entitled to specific performance or injunctive relief, or both, in the event of a breach or a threatened breach of this Agreement.

(n) VALIDITY OF PROVISIONS. Should any part of this Agreement for any reason be declared by any court of competent jurisdiction to be invalid, that decision shall not affect the validity of the remaining portion, which shall continue in full force and effect as if this Agreement had been executed with the invalid portion eliminated; provided, however, that this Agreement shall be interpreted to carry out to the greatest extent possible the intent of the parties and to provide to each party substantially the same benefits as such party would have received under this Agreement if such invalid part of this Agreement had been enforceable. Whenever the words "include" or "including" are used in the Agreement, they shall be deemed to be followed by the words "without limitation."

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

PACIFIC ETHANOL, INC.

By: /S/ RYAN TURNER

Name:
Title:

CASCADE INVESTMENT, L.L.C.

By: /S/ MICHAEL LARSON

Name: Michael Larson
Title: Business Manager

EXHIBIT A

_____, 200_

Pacific Ethanol, Inc.
5711 N. West Ave.
Fresno, CA 93711
Attention: _____

Cascade Investment, L.L.C.
2365 Carillon Point
Kirkland, WA 98033
Attention: _____

VOTING LETTER AGREEMENT

Ladies and Gentlemen:

This letter agreement (this "Voting Letter Agreement") sets forth certain agreements relating to a Registration Rights and Stockholders Agreement (the "Registration Rights and Stockholders Agreement") dated as of _____, 200_, by and among Pacific Ethanol, Inc., a Delaware corporation (the "Company") and Cascade Investment, L.L.C., a Washington limited liability company (the "Investor"). Capitalized terms used herein without definition have the meanings ascribed to them in the Registration Rights and Stockholders Agreement. In order to induce the Investor to enter into the Purchase Agreement and purchase the Shares and in consideration of the agreements set forth in this Registration Rights and Stockholders Agreement, the undersigned, an executive officer, director or manager of the Company or one of its Subsidiaries (the "Insider"), agrees as follows:

1. The Insider hereby grants to the Company an irrevocable proxy, coupled with an interest, to vote all of the Voting Securities now or hereafter owned by such Insider or over which such Insider has voting control in favor of the Investor Directors at any general or special meeting of stockholders of the Company at which directors are to be elected. The Insider further agrees to take such other actions as may be within his or her authority as an officer or director of the Company and/or one of the Subsidiaries of the Company to carry out the provisions of SECTION 10 of the Registration Rights and Stockholders Agreement.

2. The Insider further agrees that such Insider will not vote any Voting Securities owned by such Insider or over which such Insider has voting control, or take any action by written consent, or take any other action as a shareholder of the Company, to circumvent the voting arrangements required by SECTION 10 of the Registration Rights and Stockholders Agreement or this Voting Letter Agreement. The Insider hereby agrees to vote or cause to be voted or cause such Insider's designees as directors to vote all Voting Securities owned by such Insider or over which such Insider has voting control so as to comply with SECTION 10 of the Registration Rights and Stockholders Agreement and this

Voting Letter Agreement. The provisions set forth herein constitute a voting agreement under Section 218 of the Delaware General Corporation Law, as amended, and, in connection therewith, the Insider expressly consents to the enforcement of this Voting Letter Agreement by specific performance.

3. This Voting Letter Agreement shall terminate on the earlier of the Termination Date and the date that the Insider is not an officer, director, manager or employee of the Company or any of its Subsidiaries.

[4. To the extent, if any, that the provisions of this Voting Letter Agreement would conflict with the provisions of the Voting Agreement, dated as of October 27, 2003, relating to the election of Frank P. Greinke as a director, the provisions of this Voting Letter Agreement shall supercede and control. The Insider further consents and agrees that _____ and _____ may execute and deliver a voting letter agreement substantially similar to this Voting Letter Agreement.] [To be included in Messrs. Jones, Turner and Greinke's Voting Letter Agreements. Blanks to be filled in with the names of the other two such persons.]

Very truly yours,

By:

Name:

Title:

EXHIBIT 10.44

AMENDMENT NO. 1 TO ETHANOL PURCHASE AND MARKETING AGREEMENT

THIS AMENDMENT NO. 1 TO ETHANOL PURCHASE AND MARKETING AGREEMENT (this "AMENDMENT") is made and entered into effective as of March 4, 2005 by and among Kinergy Marketing, LLC, an Oregon limited liability company ("KINERGY"), Phoenix Bio-Industries, LLC, a California limited liability company ("PBI"), Pacific Ethanol, Inc., a Delaware corporation ("PEI"), and Western Milling, LLC, a California limited liability company ("WESTERN").

WHEREAS, Kinergy, PBI, PEI and Western have previously entered into that certain Ethanol Purchase and Marketing Agreement dated March 4, 2005 (the "AGREEMENT"); and

WHEREAS, Kinergy, PBI, PEI and Western desire to amend the Agreement to clarify the manner in which Kinergy will purchase and market ethanol produced by PBI.

NOW, THEREFORE, in consideration of the foregoing premises and the respective promises and agreements of the parties set forth herein, the parties hereto agree as follows:

1. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings ascribed thereto in the Agreement.

2. The first sentence of the "Volume" section of the Agreement is hereby amended by deleting said sentence in its entirety and inserting in its place the following new sentence which shall read in its entirety as follows:

> "KINERGY will purchase and market the entire production of ethanol from PBI's Goshen plant, estimated to be approximately 2,000,000 to 2,500,000 gallons per month at start up with expansion at a later date."

3. The first sentence of the "Price" section of the Agreement is hereby amended by deleting said sentence in its entirety and inserting in its place the following new sentence which shall read in its entirety as follows:

> "KINERGY shall purchase ethanol from PBI in one of the following two ways, with the selection of either alternative to be made by PBI in its sole discretion: (i) at negotiated prices mutually agreed upon by KINERGY and PBI without regard to the price at which KINERGY will re-sell ethanol to its customers, and (ii) at prices equal to the gross sales price to KINERGY's customer less transportation expenses and a 1.0% marketing fee, after transportation expenses."

4. Except as modified and amended pursuant to this Amendment, the Agreement shall remain in full force and effect.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment effective as of the date set forth above.

PHOENIX BIO-INDUSTRIES INC.

By: /s/ EJNAR KNUDSEN
Ejnar Knudsen, EVP

Date: April 1, 2006

KINERGY MARKETING, LLC

By: /s/ NEIL KOEHLER
Neil Koehler, President

Dated: April 1, 2006

WESTERN MILLING LLC

PACIFIC ETHANOL, INC.

By: /s/ EJNAR KNUDSEN
Ejnar Knudsen, EVP

Date: April 1, 2006

By: /s/ RYAN TURNER
Ryan Turner, COO

Dated: April 1, 2006

EXHIBIT 10.45

- ---

CONSTRUCTION AND TERM LOAN AGREEMENT

dated April 10, 2006

by and among

PACIFIC ETHANOL MADERA LLC,
as Borrower,

THE LENDERS NAMED ON THE SIGNATURE PAGES
TO THIS AGREEMENT,
as Lenders,

and

HUDSON UNITED CAPITAL,
A DIVISION OF TD BANKNORTH, N.A.,
as Administrative Agent

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CONSTRUCTION AND TERM LOAN AGREEMENT

This CONSTRUCTION AND TERM LOAN AGREEMENT, dated April 10, 2006 (as amended, modified or supplemented, this "AGREEMENT"), is by and among PACIFIC ETHANOL MADERA LLC, a Delaware limited liability company ("BORROWER"), the lenders named from time to time on the signature pages to this Agreement, and HUDSON UNITED CAPITAL, A DIVISION OF TD BANKNORTH, N.A., a national banking association, as administrative agent for the Lenders (as defined below) (together with its successors and assigns in such capacity, the "ADMINISTRATIVE Agent").

RECITALS:

WHEREAS, Pacific Ethanol, Inc., a Delaware corporation

("PEI"), is a developer of ethanol production facilities;

WHEREAS, PEI owns all of the issued and outstanding shares of Pacific Ethanol California, Inc., a California corporation ("PEC"), and all of the membership interests in Kinergy Marketing, LLC, an Oregon limited liability company ("KINERGY");

WHEREAS, PEC owns all of the membership interests in Pacific Ethanol Holding Co. LLC, a Delaware limited liability company ("BORROWER MEMBER"), and Pacific Ag. Products, LLC, a California limited liability company ("PAP");

WHEREAS, Borrower Member owns all of the membership interests in Borrower;

WHEREAS, Borrower was formed to develop, own and operate an approximately 35 million gallon-per-year dry mill ethanol production facility to be located in Madera, California (the "PROJECT");

WHEREAS, Borrower also owns grain processing and storage facilities consisting of eight silos and two associated rail loops, which facilities (the "GRAIN FACILITIES") will provide storage and grain processing services to the Project;

WHEREAS, W.M. Lyles, Co., a California corporation ("LYLES"), will design and build the Project pursuant to a guaranteed maximum price design-build contract between Lyles and Borrower;

WHEREAS, Delta-T Corporation, a Virginia corporation ("DELTA-T"), is licensing technology and providing certain design and process engineering services to Borrower pursuant to a License of Technology, dated September 1, 2005, by and between Delta-T and Borrower;

WHEREAS, PAP will provide grain origination services to Borrower and Kinergy will provide ethanol marketing services to Borrower;

WHEREAS, PEC will provide operations and maintenance services to Borrower in connection with the Project and PAP will provide operations and maintenance services to Borrower in connection with the Grain Facilities;

WHEREAS, Western Milling LLC, a California limited liability company, will provide marketing services for the wet distillers' grains produced by the Project;

WHEREAS, Borrower desires that the Lenders make available to Borrower Construction Loans (as defined below) to finance a portion of the cost of ownership, development, engineering, construction, testing and operation of the Project;

WHEREAS, Borrower further desires that, upon the satisfaction of certain conditions, the Lenders convert the Construction Loans to Term Loans (as defined below);

WHEREAS, the Construction Loans and the Term Loans will be secured by, among other collateral, pledges of all of Borrower's assets (including the Project and the Grain Facilities) and all of the membership interests in Borrower;

WHEREAS, the Lenders are willing to make such loans available to Borrower on the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, the Lenders desire that the Administrative Agent serve as their administrative agent in connection with the loans contemplated by this Agreement and the Administrative Agent is willing to serve in such capacity;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

Capitalized terms used and not otherwise defined in this Agreement have the meanings given to those terms in Schedule X hereto, and the rules of construction set forth in Schedule X govern this Agreement.

ARTICLE II

THE CONSTRUCTION LOANS AND TERM LOANS

Section 2.1 COMMITMENTS.

(a) CONSTRUCTION LOAN COMMITMENTS AND TERM LOAN COMMITMENTS. Commencing on the Construction Loan Closing Date, on the terms and subject to the conditions of this Agreement and in reliance upon the representations, warranties and covenants of Borrower contained herein, (i) each Construction Lender agrees to make one or more Construction Loans to Borrower on one or more Construction Loan Funding Dates in an aggregate amount equal to its Pro Rata

Share of the Aggregate Construction Loan Commitment and (ii) each Term Lender agrees to make a Term Loan to Borrower on the Term Loan Conversion Date in an amount equal to its Pro Rata Share of the Aggregate Term Loan Commitment. Notwithstanding the foregoing, (i) no Construction Lender will have any obligation to make a Construction Loan after, and the Construction Loan Commitments will expire on, the Construction Loan Commitment Termination Date and (ii) no Term Lender will have any obligation to make a Term Loan after, and the Term Loan Commitments will expire on, the Construction Loan Commitment Termination Date, if the Term Loan Conversion Date has not occurred prior to such date.

(b) SEPARATE OBLIGATIONS. Each Lender will make its Loans to Borrower simultaneously with the other Lenders at the times designated by the Administrative Agent pursuant to Section 2.2(c); PROVIDED, that the failure of any Lender to fund any Loan will not affect the obligation of any other Lender to fund its Loans. No Lender will be responsible for a default by any other Lender in funding a Loan nor will any Commitment of any Lender be increased or decreased by reason of any such default.

Section 2.2 FUNDING OF THE LOANS.

(a) THE CONSTRUCTION LOANS.

(i) On each Construction Loan Funding Date, each Construction Lender will make a Construction Loan to Borrower in the amount of such Construction Lender's Pro Rata Share of the amount specified in the Notice of Borrowing relating to such Construction Loan Funding Date; PROVIDED, that no Construction Lender will be required to make Construction Loans that, in the aggregate, exceed such Construction Lender's Pro Rata Share of the Aggregate Construction Loan Commitment. After payment of all fees, expenses and other amounts required by the Loan Documents to be paid by Borrower on such Construction Loan Funding Date, the aggregate net proceeds of such Construction Loans will be deposited into the Construction Draw Account for disbursement in accordance with the Disbursement Agreement and for use in accordance with Section 2.7(a).

(ii) Each Construction Loan will mature on the Construction Loan Maturity Date and must be refinanced with a Term Loan on or prior to the Construction Loan Maturity Date, unless payment of such Construction Loan is due prior to the Construction Loan Maturity Date by acceleration, mandatory prepayment or otherwise. No Construction Loan, once repaid, may be reborrowed.

(iii) On each Business Day after the Construction Loan Closing Date and on or before the Term Loan Conversion Date on which interest, fees or expenses are due and payable and are not otherwise paid or provided for, Borrower hereby irrevocably authorizes the Construction Lenders, in their sole discretion, to make Construction Loans to Borrower in the aggregate amount of all interest, fees and expenses then due and payable. The proceeds of such Construction Loans will be deposited into the Construction Draw Account

for disbursement in accordance with the Disbursement Agreement. The Construction Lenders have no obligation to make any Construction Loan for the purposes stated in this Section 2.2(a)(iii) and no Construction Loan will be made pursuant to this Section 2.2(a)(iii) if an Event of Default has occurred and is continuing.

(b) THE TERM LOANS.

(i) On the Term Loan Conversion Date, each Term

Lender will make a Term Loan to Borrower in the amount of such Term Lender's Pro Rata Share of the amount specified in the Notice of Borrowing relating to the Term Loan Conversion Date. The initial principal amount of each Lender's Term Loan may not exceed such Lender's Pro Rata Share of the Aggregate Term Loan Commitment. After payment of all fees, expenses and other amounts required by the Loan Documents to be paid by Borrower on the Term Loan Conversion Date and the repayment in full of all Construction Loans, including all accrued and unpaid interest thereon, the remaining aggregate net proceeds of such Term Loans, if any, will be paid to or for the account of Borrower for use in accordance with Section 2.7(b).

(ii) Each Term Loan will mature on the Term Loan Maturity Date, unless payment thereof is due prior to such date by acceleration, mandatory prepayment or otherwise. No Term Loan, once repaid, may be reborrowed.

(c) FUNDING PROCEDURE. Whenever Borrower desires to borrow Loans hereunder, it will submit a Notice of Borrowing to the Administrative Agent prior to 1:00 p.m., New York City time, at least three (3) Business Days prior to the proposed Construction Loan Funding Date or Term Loan Conversion Date, as applicable. Each Notice of Borrowing will be irrevocable. Promptly after receipt of a Notice of Borrowing, the Administrative Agent will notify each Lender of the proposed Loans and of such Lender's Pro Rata Share thereof, and each Lender will have available such Lender's Pro Rata Share of the proposed Loans in immediately available funds no later than 1:00 p.m., New York City time, on the applicable Funding Date. Upon satisfaction or waiver of the applicable conditions precedent set forth in Article III, the Administrative Agent will notify each Lender to disburse its Pro Rata Share of the requested Loans to or for the benefit of Borrower on the applicable Funding Date.

Section 2.3 INTEREST.

(a) INTEREST RATES.

(i) Each Loan will bear interest on the unpaid principal amount thereof from the date made to but excluding the date of repayment (whether at stated maturity, by acceleration, because of mandatory prepayment or otherwise) at the following rates:

(A) the Construction Loans will bear interest during each Construction Loan Interest Period at a rate per annum equal to LIBOR as determined for such Construction Loan Interest Period plus three hundred

seventy-five (375) basis points, computed on each date on which interest is due on the Construction Loans on the basis of a year of 360 days for the actual number of days elapsed; and

(B) the Term Loans will bear interest during each Term Loan Interest Period at a rate per annum equal to LIBOR as determined for such Term Loan Interest Period plus four hundred (400) basis points, computed on each date on which interest is due on the Term Loans on the basis of a year of 360 days for the actual number of days elapsed.

(ii) [RESERVED].

(b) INTEREST PERIODS.

(i) The initial Construction Loan Interest Period will commence on the initial Construction Loan Funding Date and end on the next Construction Loan Funding Date. Each Construction Loan Interest Period occurring thereafter will commence on the day after the date on which the immediately preceding Construction Loan Interest Period expires and end on the next Construction Loan Funding Date or, if no such Construction Loan Funding Date occurs, on the last Business Day of the next calendar month.

(ii) The initial Term Loan Interest Period will commence on the Term Loan Conversion Date and end on the next Payment Date. Each Term Loan Interest Period occurring thereafter will commence on the day after the date on which the immediately preceding Term Loan Interest Period expires and end on the next Payment Date.

(iii) An Interest Period that would otherwise end on a day that is not a LIBOR Business Day will end on the next succeeding LIBOR Business Day, unless such day falls in the next calendar month,

in which case such Interest Period will end on the next preceding LIBOR Business Day.

(iv) An Interest Period that begins on the last LIBOR Business Day of a calendar month or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period will end on the last LIBOR Business Day of the calendar month at the end of such Interest Period.

(c) INTEREST PAYMENT DATES.

(i) All accrued and unpaid interest on the Construction Loans will be payable on each Construction Loan Funding Date (or, if no Construction Loan Funding Date occurs during any calendar month during which any Construction Loans are outstanding, on the last Business Day of such calendar month) and on the date on which the Construction Loans are repaid in full, whether by mandatory prepayment or refinancing with Term Loans.

(ii) All accrued and unpaid interest on the Term Loans will be payable in arrears on each March 31, June 30, September 30 and December 31 following the Term Loan Conversion Date and on the date on which the Term Loans are repaid in full, whether by mandatory prepayment or on the Term Loan Maturity Date.

(iii) After maturity (whether at stated maturity, by acceleration, because of mandatory prepayment or otherwise), all accrued and unpaid interest (including Default Interest) due on any Loan will be payable upon demand by the Administrative Agent.

(d) DEFAULT INTEREST. Overdue principal and overdue interest in respect of any Loan and any other amount payable hereunder or under any other Loan Document by Borrower or any other Person that is overdue will bear interest at a rate per annum (the "DEFAULT RATE") equal to two percent (2%) in excess of the Interest Rate then-applicable to such Loan or other amount or, if no rate of interest is applicable to such overdue amount, the highest rate of interest then-applicable to any outstanding Loan. Upon the occurrence and during the continuation of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p)), all Loans and all other amounts owing by Borrower and any other Person under a Loan Document will bear interest at the Default Rate.

(e) INTEREST LIMITATION. Notwithstanding any other provision of the Loan Documents, if the rate of interest on any obligation of Borrower or any other Person under any Loan Document at any time exceeds the highest rate permitted by applicable Law, the rate of interest on such obligation will be deemed to be the highest rate permitted by applicable Law.

Section 2.4 NOTES. Borrower will execute and deliver to each Construction Lender on the Construction Loan Closing Date a Construction Loan Note substantially in the form of Exhibit 2.4(a) and to each Term Lender on the Term Loan Conversion Date a Term Loan Note substantially in the form of Exhibit 2.4(b). Each Construction Loan Note will be dated the Construction Loan Closing Date, will be in the principal amount of such Lender's Pro Rata Share of the Aggregate Construction Loan Commitment and will evidence the Construction Loans made by such Construction Lender. Each Term Loan Note will be dated the Term Loan Conversion Date and will be in the principal amount of, and will evidence, the Term Loan made by such Term Lender. On each Construction Loan Funding Date, each Construction Lender is authorized to make a notation on the schedule attached to its Construction Loan Note indicating the date and the principal amount of the Construction Loan made by such Construction Lender on such date. The information set forth in such schedules will, absent manifest error, be prima facie evidence of the outstanding principal amount of such Construction Loan Note. Any failure by a Construction Lender to make any such notation will not limit or affect the obligations of Borrower under the Construction Loan Notes or any other Loan Document. Each Note will be subject to and entitled to the benefits of the Loan Documents.

Section 2.5 FEES.

(a) CONSTRUCTION LOAN FEE. On the Construction Loan Closing Date, Borrower will pay to each Construction Lender a fee equal to one percent (1%) of such Construction Lender's Pro Rata Share of the Aggregate Construction Loan Commitment; PROVIDED, that the fee payable to Hudson United Capital, as a Construction Lender, will be reduced by thirty thousand Dollars ($30,000) in

recognition of fees previously paid.

(b) TERM LOAN CONVERSION FEE. On the Term Loan Conversion Date, Borrower will pay to each Term Lender a fee equal to one percent (1%) of the initial principal amount of such Term Lender's Term Loan.

(c) AGENCY FEE. On the first anniversary of the Construction Loan Closing Date, and on the Payment Date next following each subsequent anniversary of the Construction Loan Closing Date for so long as any Loan remains outstanding under this Agreement, Borrower will pay to the Administrative Agent a fee equal to thirty-three thousand Dollars ($33,000).

Section 2.6 SECURITY. The Loans and all other amounts payable by Borrower or any other PEIX Party under this Agreement and the other Loan Documents are secured by the Collateral and are entitled to the benefits of the Security Documents.

Section 2.7 USE OF PROCEEDS.

(a) CONSTRUCTION LOANS. Proceeds of the Construction Loans may be used only to pay (i) Qualified Project Construction Expenses and (ii) interest, fees and other expenses payable pursuant to Section 2.3, Section 2.5, Section 2.10 and Section 8.11.

(b) TERM LOANS. Proceeds of the Term Loans may be used only to (i) refinance the principal of and accrued and unpaid interest on all Construction Loans outstanding on the Term Loan Conversion Date and (ii) pay interest, fees and other expenses payable pursuant to Section 2.3, Section 2.5, Section 2.10 and Section 8.11. To the extent that proceeds of the Term Loans are not sufficient to pay in full all of the amounts described in the preceding sentence, such proceeds will be applied FIRST to the amounts described in clause (i) of the preceding sentence and SECOND to the amounts described in clause (ii) of the preceding sentence until all of such proceeds have been disbursed. Any amount described in the first sentence of this paragraph not paid with the proceeds of the Term Loans will be payable in full by or on behalf of Borrower on the date on which the Term Loans are disbursed.

Section 2.8 REPAYMENT OF PRINCIPAL.

(a) MANDATORY REPAYMENTS.

(i) The Construction Loans must be refinanced in full with Term Loans on or before the Construction Loan Commitment Termination Date. Borrower will repay all outstanding Term Loans on or before the Term Loan Maturity Date.

(ii) On each March 31, June 30, September 30 and December 31 following the Term Loan Conversion Date, Borrower will pay to each Lender the amount of principal of the Term Loans corresponding to such Payment Date under the heading "Scheduled Installment" on Schedule I to each Term Loan Note (each such payment, a "SCHEDULED INSTALLMENT"). Exhibit 2.4(b) contains the Schedule I that will be attached to each Term Loan Note and applicable to the Term Loans if the aggregate amount of Term Loans made on the Term Loan Conversion Date is equal to $34 million. If, however, based upon the restrictions contained in the definition of Aggregate Term Loan Commitment, the aggregate amount of Term Loans made on the Term Loan Conversion Date is less than $34 million, then the Administrative Agent, in consultation with Borrower and with the approval of the Majority Lenders, will prepare replacement amortization schedules for the Term Loan Notes based upon (A) the reduced aggregate amount of Term Loans (calculated in accordance with the definition of Aggregate Term Loan Commitment) being made on such Term Loan Conversion Date, (B) the Project's projected Net Operating Cash, as reflected in the Closing Pro Forma and adjusted by the actual production capabilities of the Project (as confirmed by the Engineer and with any adjustment based solely upon the Project's as-built production capacity and efficiency levels) and (C) the requirement that Borrower at all times comply with its obligations under Section 5.1(p). Each such amortization schedule will list all Scheduled Installments that will be payable on the corresponding Term Loan Note and all Scheduled Installments, when aggregated together, would result in the Term Loans being paid in full on the Term Loan Maturity Date. No amortization schedule, once it is attached to an executed Term Loan Note, may be amended or otherwise modified except as agreed by the Administrative Agent, with the approval of the Majority Lenders, and Borrower in their respective sole discretion.

(iii) In addition to the Scheduled Installments, on each Payment Date after the Term Loan Conversion Date, Borrower will

pay to each Lender an additional amount of principal of the Term Loans (each such payment, an "SPP PAYMENT"). SPP Payments will be applied against the outstanding balance of the Term Loans in the inverse order of maturity. The SPP Payment amounts will be determined as follows:

(A) Subject to the provisions of Section 2.8(a)(iii)(B), each SPP Payment will be in the amount of each Lender's Pro Rata Share of the amount that is twenty-five percent (25%) of the balance remaining in the Project Revenues Account following the operation of priority FIFTH of Section 4.2(b) of the Disbursement Agreement.

(B) In the event that the Volumetric Ethanol Excise Tax Credit is either repealed or not extended beyond 2010 on or before January 1, 2008, then each SPP Payment will be in the amount of each Lender's Pro Rata Share of the amount

that is seventy-five percent (75%) of the balance remaining in the Project Revenues Account following the operation of priority FIFTH of Section 4.2(b) of the Disbursement Agreement; PROVIDED, that if the Volumetric Ethanol Excise Tax Credit is extended beyond 2010 at any time after January 1, 2008, then this Section 2.8(a)(iii)(B) will cease to be in effect and the SPP Payment will be calculated pursuant to Section 2.8(a)(iii)(A) on the Payment Date next following the effectiveness of such extension.

(iv) All cash proceeds received by Borrower as a result of (A) any amendment or termination of any Project Document or (B) the sale of any material asset of Borrower, in either case prohibited by Section 5.2 of this Agreement or otherwise without the prior written consent of the Majority Lenders (which will not be unreasonably withheld), will immediately be paid to the Lenders in accordance with their Pro Rata Shares of the outstanding Loans and applied as prepayments of the Loans. In connection with any such prepayment, Borrower will pay to the Lenders the prepayment fee calculated in accordance with Section 2.8(c), if any.

(v) Borrower will immediately prepay in full the Loans and all other amounts then-outstanding under the Loan Documents:

(A) in the event that substantially all of the improvements included in the Project are completely destroyed by casualty or are condemned, or in the event that Net Insurance Proceeds (together with such other funds as may be available to Borrower for the purposes of repairing the Project) are insufficient in the reasonable judgment of the Administrative Agent to pay for the repair of any casualty to the Project substantially to the pre-casualty condition of the Project prior to the expiration of the benefits of any business interruption insurance and without the occurrence of any Event of Default described in Section 6.1(a), (b), (f), (g), (h), (j), (m), (o) or (p) (in which case no prepayment fee will be payable to the Lenders); or

(B) in the event that the interests of Borrower in the Project are sold or otherwise transferred or PEI ceases to be the majority direct or indirect owner of Borrower or no longer has direct or indirect operational control over Borrower, in any case without the Majority Lenders' prior written consent (in which case Borrower will pay to the Lenders the prepayment fee calculated in accordance with Section 2.8(c), if any).

(b) OPTIONAL PREPAYMENTS. Borrower may, on any Payment Date after the first anniversary of the Term Loan Conversion Date, after having given the Administrative Agent at least ten (10) Business Days' prior revocable notice and five (5) Business Days' prior irrevocable notice, prepay in full the Term Loans and all other amounts then-outstanding under the Loan Documents. In connection with any such prepayment, Borrower will pay to the Lenders the prepayment fee calculated in accordance with Section 2.8(c), if any.

(c) PREPAYMENT FEE.

(i) In connection with any prepayment or repayment of the Construction Loans other than with proceeds of Term Loans, Borrower will pay to the Lenders a prepayment fee in the amount of five percent (5%) of the prepaid principal amount of the Construction Loans, as liquidated damages and compensation for the costs of the Construction Lenders.

(ii) In connection with (i) any permitted optional prepayment made pursuant to Section 2.8(b) or (ii) any mandatory prepayment made pursuant to Section 2.8(a)(iv) or Section 2.8(a)(v)(B), Borrower will pay to the Lenders a prepayment fee in the amount determined pursuant to the following table as liquidated damages and compensation for the costs of the Term Lenders:

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Date of Prepayment	Fee as a % of Prepaid Principal Amount
From the Term Loan Conversion Date until the second anniversary of the Term Loan Conversion Date	3%
From the second to the third anniversary of the Term Loan Conversion Date	2%
From the third to the fourth anniversary of the Term Loan Conversion Date	1%
After the fourth anniversary of the Term Loan Conversion Date	0%

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Section 2.9 PAYMENTS.

(a) METHOD OF PAYMENT.

(i) All payments by Borrower or any other Person under any Loan Document will be made in immediately available funds in U.S. Dollars to the Lenders at such office or to such account as each Lender may notify to Borrower in writing from time to time. All such payments must be received no later than 1:00 p.m., New York City time, on the date due and must be made in full without defense, set-off or counterclaim of any kind and without any requirement of presentment, notice or demand. If any such payment is made by Borrower or any other Person after 1:00 p.m., New York City time, such payment will be deemed to have been made on the next Business Day. Subject to the provisions of Section 2.3(b), whenever any payment to be made hereunder or under

any other Loan Document is stated to be due on a day that is not a Business Day, the due date of such payment will be accelerated to the next preceding Business Day and such reduction in time will be included in the computation of such payment.

(ii) Notwithstanding the provisions of Section 2.9(a)(i) to the contrary, for so long as the Disbursement Agreement remains in full force and effect and PROVIDED, that sufficient funds are available for application in accordance with the terms and conditions hereof and thereof, Borrower authorizes and consents to make, and the Administrative Agent and the Lenders agree to receive, any and all payments required to be made hereunder through operation of the relevant provisions of the Disbursement Agreement.

(b) APPLICATION OF PAYMENTS. Subject to the provisions of the Disbursement Agreement and except to the extent expressly otherwise provided herein or in any other Loan Document, all payments received by the Administrative Agent and the Lenders hereunder will be applied in the following order of priority:

(i) to the payment of all accrued interest on the Loans;

(ii) to the payment or reimbursement of all costs, expenses, Taxes and other amounts payable pursuant to Sections 2.10, 8.11 and 8.12;

(iii) to the payment of all fees payable pursuant to Section 2.5;

(iv) to the payment of the principal of the Loans in the inverse order of maturity; and

(v) to the payment or reimbursement of all other amounts due to the Administrative Agent or any Lender hereunder or under any other Loan Document.

All payments applied to interest on or principal of any Loan will be paid to the Lenders in proportion to their respective Pro Rata Shares of the Construction Loans or the Term Loans, as applicable. All payments applied to any other category of obligation set forth above will be paid to the various payees within such category in proportion to the respective amounts due to them.

Section 2.10 INCREASED COSTS AND UNAVAILABILITY.

(a) TAXES.

(i) All payments made by Borrower or any other Person under the Loan Documents will be made free and clear of, and without deduction or withholding for, any present or future Tax other than Lender Income Taxes and United States backup withholding Taxes (collectively, "REIMBURSABLE TAXES"), and Borrower will pay, either directly (with respect to Reimbursable Taxes of which Borrower has independent knowledge) or through reimbursement pursuant to Section

2.10(a)(ii), all Reimbursable Taxes in respect of payments under the Loan Documents, and all costs and liabilities incurred by the Administrative Agent and the Lenders (each, an "AFFECTED PARTY") in connection therewith; PROVIDED, that Borrower shall not be required to reimburse any Lender pursuant to this Section 2.10(a) for any Tax incurred more than one year prior to the date on which such Lender notifies Borrower of such Reimbursable Tax.

(ii) Borrower will reimburse each Affected Party, on demand given pursuant to Section 2.10(f)(i), for any Reimbursable Tax paid by such Affected Party, including for any Reimbursable Taxes imposed on or attributable to amounts payable under this Section 2.10(a)(ii) (subject to the remaining provisions of this Section 2.10(a) and provided that this Section 2.10(a)(ii) shall not apply to the extent that any such amounts are compensated for by an increased payment under Section 2.10(a)(i)). Each Affected Party will have the absolute right to arrange its tax affairs in whatever manner it deems appropriate and no Affected Party will be obligated to claim any particular deduction, credit or other benefit.

(iii) If Borrower is prohibited or prevented (by Law or otherwise) from making any payment to an Affected Party required under Section 2.10(a)(ii), then the amount of the payment due to such Affected Party under the Loan Documents will be increased by the amount necessary to insure that such Affected Party will receive the full amount payable to it under the Loan Documents.

(iv) Within thirty (30) days after the date on which any Reimbursable Tax (of which Borrower has independent knowledge or has become aware by a notice from an Affected Party delivered in accordance with Section 2.10(f)(i)) is due, Borrower will furnish to the applicable Affected Parties official receipts or notarized copies thereof evidencing payment of such Reimbursable Tax or, if such receipts are not obtainable, other evidence of such payment by Borrower reasonably satisfactory to the Administrative Agent.

(v) The Administrative Agent and the Lenders agree to deliver to Borrower on the date hereof all forms and documents necessary to establish any exemption from withholding for Taxes to which they are entitled, or any other certification reasonably requested by Borrower from time to time. Any Person that becomes the successor holder of a Note will deliver the forms and documents required under this Section 2.10(a)(v). In addition, each Lender will deliver such forms promptly upon the obsolescence, expiration or invalidity of any form previously delivered by such Lender. Each Lender will promptly notify Borrower and the Administrative Agent at any time such Lender determines that it is no longer in a position to provide any previously delivered form or certificate to Borrower.

(vi) If the Administrative Agent or a Lender determines, in its reasonable discretion, that it has received a refund of any Reimbursable Taxes or a Tax credit with respect to Reimbursable Taxes from the jurisdiction imposing such Reimbursable Taxes as to which it has been indemnified by Borrower or with respect to which Borrower has paid additional amounts pursuant to this Section 2.10(a), it shall pay to Borrower an amount equal to such refund or credit (but only to the extent of indemnity payments made, or additional amounts paid, by Borrower under this Section 2.10(a) with respect to the Reimbursable Taxes giving rise to such refund or credit), net of all out-of-pocket expenses of the Administrative Agent or such Lender and without interest, provided that Borrower, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to Borrower (plus any penalties, interest or other charges imposed by the relevant Government Instrumentality) to the Administrative Agent or such Lender in the event the Administrative Agent or such Lender is required to repay such refund to such Government Instrumentality. At the reasonable request of Borrower, each Lender who has been indemnified by a Borrower and the Administrative Agent shall take all reasonable measures, at Borrower's expense, to apply for, request or otherwise seek a refund or credit of any Reimbursable Taxes; provided that taking such action, in the reasonable discretion of such Lender or the Administrative Agent, would not be materially burdensome (taking into account Borrower's obligation to pay such Lender's or the Administrative Agent's expenses and other assistance that Borrower offers to provide such Lender or Administrative Agent) or result in materially adverse consequences to such Lender or the Administrative Agent. This paragraph shall not be construed to require the Administrative Agent or any Lender to make available its tax returns (or any other information relating to its taxes which it deems confidential) to Borrower or any other Person.

(b) CAPITAL ADEQUACY, RESERVE REQUIREMENTS AND INCREASED COSTS. If a Lender determines that any Law enacted or effective after the Construction Loan Closing Date, any change in Law effective after the Construction Loan Closing Date, any change in the interpretation or administration of any Law effective after the Construction Loan Closing Date, or compliance with any directive, guideline or request from any Government Instrumentality effective after the Construction Loan Closing Date (whether or not having the force of Law), other than any Law or change in Law related to Reimbursable Taxes, which shall be governed exclusively by Section 2.10(a), or Lender Income Taxes, has the effect of (i) requiring an increase in the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender; (ii) imposing or modifying any reserve, special deposit, compulsory loan or similar requirement relating to any loan, extension of credit or other asset of, or any deposit with or other liability of, such Lender; or (iii) imposes any other cost or condition affecting the cost of making a Loan or maintaining a Commitment; PROVIDED, that Borrower's obligation under this Section 2.10(b) will not affect the obligations of the Affected Parties under Sections 2.10(f)(ii) and (iii), and such Lender reasonably determines that such increase, imposition or modification is material and is based, in whole or in part, upon its obligations hereunder, Borrower will either (x) pay to such Lender the amount necessary to preserve the return on equity originally anticipated to be realized by such Lender as a result of the Loans made hereunder or (y) prepay the Loans made by such Lender in the aggregate amount necessary to prevent such Lender from being subject to such

increase, imposition or modification; PROVIDED, that Borrower shall not be required to compensate a Lender pursuant to this Section 2.10(b) for any capital adequacy or reserve increase, imposition or modification incurred more than one year prior to the date on which such Lender notifies Borrower of the change giving rise to those increased costs or reductions and of such Lender's intention to claim compensation for those circumstances; PROVIDED, further, that, if the change giving rise to those increased costs or reductions is retroactive, then the one-year period referred to above shall be extended to include that period of retroactive effect. Any prepayment pursuant to this Section 2.10(b) will not cause Borrower to owe a prepayment fee pursuant to Section 2.8(c) or otherwise, but such prepayment will be applied in the manner provided in Section 2.9(b).

(c) FUNDING LOSSES. Borrower will compensate each Lender, upon demand, for any out-of-pocket loss, cost or liability (including interest paid by such Lender on funds borrowed to make, continue or convert a Loan and losses sustained in liquidating deposits but excluding any consequential damages or losses) incurred as a result of:

(i) repayment (including repayment due to acceleration) of a Loan on a date other than the last day of an Interest Period or the Construction Loan Maturity Date or Term Loan

Maturity Date, as applicable;

(ii) failure of Borrower to borrow a Loan on the Funding Date notified to the Administrative Agent in a Notice of Borrowing; or

(iii) failure of Borrower to repay a Loan when due (whether at stated maturity, by acceleration, because of mandatory prepayment or otherwise) or on the date specified therefor in a notice delivered pursuant to Section 2.8(b).

(d) UNAVAILABILITY. In the event that, on or before the start of any Interest Period, the Administrative Agent determines that:

(i) U.S. Dollar deposits are not being generally offered in the London interbank market;

(ii) adequate and fair means do not exist for ascertaining interest rates by reference to LIBOR; or

(iii) any Lender no longer provides LIBOR loans to any of its borrowers;

then the Administrative Agent will give prompt notice of such fact to Borrower and Borrower and the Administrative Agent will promptly enter into good-faith discussions to determine an alternate reference interest rate and margin that will as nearly as possible duplicate the economic terms of this Agreement and the monetary benefit to the Lenders of the Loans made and to be made by the Lenders hereunder. If Borrower and the Administrative Agent are unable to agree on an alternate reference interest rate and margin, then the Lenders may suspend their obligations to make Loans in their sole discretion.

(e) ILLEGALITY. If a Lender determines that any Law enacted or effective after the Construction Loan Closing Date, any change in Law effective after the Construction Loan Closing Date, any change in the interpretation or administration of any Law effective after the Construction Loan Closing Date, or compliance by such Lender with any directive, guideline or request (whether or not having the force of Law) of any Government Instrumentality effective after the Construction Loan Closing Date makes it unlawful or impossible for such Lender to fund or maintain Loans, then upon notice to Borrower by such Lender the obligation of such Lender to fund Loans will be suspended. In addition, the outstanding principal amount of such Lender's portion of all Loans, together with interest accrued thereon and all other amounts payable with respect thereto, will be repaid immediately upon demand of such Lender if it determines that immediate repayment is required or, if it determines that immediate repayment is not required, at the end of the next applicable Interest Period. In the event of a repayment of a Loan pursuant to this Section 2.10(e) prior to the end of its Interest Period, Borrower will compensate the Lenders for all losses, costs and liabilities described in Section 2.10(c). Any prepayment pursuant to this Section 2.10(e) will not cause Borrower to owe a prepayment fee pursuant to Section 2.8(c) or otherwise and such prepayment will be applied in the manner provided in Section 2.9(b). Notwithstanding the foregoing, prior to demanding prepayment of a Loan pursuant to this Section 2.10(e), each Lender affected by the conditions described in this Section 2.10(e) agrees to work in good faith with Borrower to restructure their respective obligations under this Agreement in such a manner as to preserve such Lender's economic return and to eliminate or minimize the need for a Loan to be prepaid.

(f) NOTICE AND MITIGATION.

(i) To claim any amount under this Section 2.10, the Affected Party must deliver to Borrower a certificate setting forth in reasonable detail any amount or amounts that such Affected Party is entitled to receive pursuant to this Section 2.10 (including calculations, in reasonable detail, showing how such Affected Party computed such amount or amounts). Borrower shall pay such Affected Party the amount due and payable and set forth on any such certificate within thirty (30) days after its receipt.

(ii) Except as specifically provided in this Section 2.10, each Affected Party will take reasonable measures to avoid the need for, or reduce the amount of, compensation, reimbursement or indemnification pursuant to this Section 2.10; PROVIDED, that no Affected Party will be required to take any measure that, in its reasonable judgment, would be materially disadvantageous to it or inconsistent with its legal and regulatory position.

(iii) If any material Tax or other charge of a type not generally imposed on lenders making loans of the types contemplated

by this Agreement is imposed on payments to any Lender, or if any Affected Party is entitled to compensation, reimbursement or indemnification pursuant to this Section 2.10 in any material amount and other lenders making loans of the types contemplated by this Agreement would not generally be so entitled, and Borrower is obligated

hereunder to compensate, reimburse or indemnify such Lender for such Tax or other charge, then (A) Borrower may, within ten (10) days after receipt of notice of such obligation, request that such Lender assign its portion of the affected Loan or Loans to another Person reasonably acceptable to the Administrative Agent and such Lender, and such Lender will use reasonable efforts to negotiate such an assignment, and (B) if Borrower identifies a replacement lender that is reasonably acceptable to the Administrative Agent and the other Lenders (if any), then such Lender will promptly assign its portion of the affected Loan or Loans to such replacement lender pursuant to an assignment reasonably acceptable to the assigning Lender.

ARTICLE III
CONDITIONS PRECEDENT

Section 3.1 CONDITIONS PRECEDENT TO THE AVAILABILITY OF COMMITMENTS. The obligation of each Lender to make available its respective Commitments is subject to the satisfaction of each of the following conditions precedent:

(a) The Administrative Agent has received each of the following, in each case in form and substance satisfactory to the Administrative Agent:

(i) each Loan Document required by the Administrative Agent in its sole discretion to be delivered on the Construction Loan Closing Date, executed and delivered by each of the parties thereto;

(ii) [RESERVED];

(iii) certified copies of:

(A) the Organizational Documents of the PEIX Parties;

(B) certificates of existence with respect to the PEIX Parties dated no earlier than thirty (30) days before the Construction Loan Closing Date; and

(C) incumbency certificates for the signatories of the PEIX Parties and resolutions (or other authorizations) of the PEIX Parties approving the Documents to which they are a party and the transactions contemplated thereby;

(iv) certificates of a manager or officer of each of the PEIX Parties certifying that:

(A) all Documents executed by such Person on or prior to the Construction Loan Closing Date are in full force and effect, such Person and, to the best knowledge of such Person, the other Project Parties, are in material compliance with all covenants and provisions thereof, and no breach or event of default (or any event that would become a

breach or event of default with the giving of notice or passage of time or both) has occurred and is continuing under any such Document, except to the extent as could not reasonably be expected to result in a Material Adverse Effect;

(B) all representations and warranties of such Person contained in the Loan Documents to which it is a party are true, correct and complete;

(C) no act, event or circumstance has occurred with respect to the Project or such Person or, to the best knowledge of such Person, the other Project Parties which

has had or could reasonably be expected to have a Material Adverse Effect; and

(D) no material adverse change in the condition or operation, financial or otherwise, of such Person or, to the best of such Person's knowledge, PEI has occurred since January 23, 2006, and the financial statements (including any notes thereto) provided to the Administrative Agent disclose all material liabilities, contingent or otherwise, of such Person;

(v) the legal opinion of Borrower's Counsel;

(vi) the legal opinion of Lenders' Counsel;

(vii) audited financial statements of PEI for the fiscal year ended December 31, 2005 (which may be in the form of a substantially final draft of such audited financial statements if final audited financial statements are not available on the Construction Loan Closing Date), and all subsequent quarterly financial statements, if any, available on the Construction Loan Closing Date, and pro forma balance sheets of Borrower as of the Construction Loan Closing Date;

(viii) judgment lien, tax lien and UCC searches, and such other searches of the records of Government Instrumentalities as the Administrative Agent may require, performed with respect to the PEIX Parties in all relevant jurisdictions;

(ix) a certificate of an authorized officer of Borrower certifying that each of the Project Documents listed on Schedule 3.1(a)(ix) (and attached to such certificate) has been duly authorized, executed and delivered by the parties thereto, is in full force and effect on the Construction Loan Closing Date and is enforceable against each of the parties thereto;

(x) copies of all Required Approvals obtained on or prior to the Construction Loan Closing Date by or on behalf of Borrower;

(xi) the Construction and Draw Schedule;

(xii) a written report of the Engineer, dated on or prior to the Construction Loan Closing Date, reporting favorably on the relevant technical aspects of the Project, including without limitation;

(A) existing environmental damage/liability (if any);

(B) the projected availability of the Project;

(C) the EPC Contract (including the acceptance, completion and performance test criteria) and EPC Contractor's and Delta-T's ability to perform their respective obligations to Borrower;

(D) the cost and expenses of PEC for performing operation and maintenance services for the Project and the Grain Facilities pursuant to the applicable Project Documents, the adequacy of such services, that the provision of such services by PEC will be sufficient to provide Project availabilities as assumed in the Closing Pro Forma, and confirmation that there exist third-party operators capable of performing such services at comparable cost;

(E) the Closing Pro Forma;

(F) Borrower's and the Project's ability to comply with the requirements of all leases, easements, Required Approvals and Project Documents;

(G) an opinion that the construction, completion, operation and revenues of the Project are reasonably obtainable within the cost and timeframe anticipated;

(H) an opinion that any Required Approvals not yet possible to obtain can be obtained as a matter of

administrative application;

(I) the ability of the Project as designed and constructed to produce the quantities of Products from the quantities of corn, natural gas, water, electricity and other feedstocks at the cost of production, as all are assumed in the Closing Pro Forma;

(J) the capability of the Grain Facilities and PEC, as operator of the Grain Facilities, to service the requirements of the Project as intended;

(K) the capability of the deep water wells to provide sufficient quantities of make-up water;

(L) that Phase I Completion has been achieved; and

(M) any other technical or environmental issues that the Administrative Agent may reasonably request.

(xiii) evidence that Borrower has employed a construction manager reasonably acceptable to the Administrative Agent who will oversee the performance by the EPC Contractor of its performance under the EPC Contract;

(xiv) a Phase I Environmental Audit or other acceptable environmental due diligence of the Site, prepared by the Environmental Consultant and dated not more than sixty (60) days prior to the Construction Loan Closing Date, confirming, among other things, that (i) the operations of Borrower and the Project are not subject to any current (and would not trigger any future) federal or state investigation evaluating whether remedial action, involving any expenditure deemed material by the Administrative Agent, is needed to respond to any release of any Hazardous Substance, and (ii) Borrower has and will have no contingent liabilities deemed material by the Administrative Agent in connection with the release of any Hazardous Substance;

(xv) a written report of the Insurance Consultant, dated on or prior to the Construction Loan Closing Date, confirming compliance by Borrower and the Project Parties with all requirements relating to Required Insurance contained in this Agreement (except as noted in such report) and attaching binders or certificates of insurance and other documents sufficient, to the extent appropriate as of the Construction Loan Closing Date and as otherwise reflected in such report) to indicate that Borrower and the Project Parties have obtained all Required Insurance, that all Required Insurance is in full force and effect and is not subject to pending cancellation, and that (A) the Administrative Agent has been named as loss payee with respect to the property insurance and business interruption insurance policies relating to the Project and (B) the Administrative Agent and the Lenders have been named as additional insureds on the general and umbrella liability insurance policies maintained by Borrower;

(xvi) one or more reports of qualified consultants acceptable to the Administrative Agent and dated on or prior to the Construction Loan Closing Date commenting favorably on:

(A) the historical and projected availability and price of the Project's anticipated corn, natural gas and electrical requirements;

(B) the historical and projected markets and prices for the Products;

(C) the agreements and/or arrangements for the purchase and supply of natural gas, electricity and other materials utilized by the Project;

(D) the agreements and/or arrangements for the sale of the Products; and

(E) the Project's risk management policies

and procedures and their adequacy to reasonably protect the Project's operating margin.

(xvii) written confirmation from the Disbursement Agent that the Contributed Capital has been deposited by or on behalf of Borrower into the Construction Draw Account for application in accordance with this Agreement and the Disbursement Agreement;

(xviii) evidence that Borrower and Borrower Member have appointed the Process Agent to serve as a designated agent to accept service of legal process until the scheduled Term Loan Maturity Date and that the Process Agent has accepted such appointment;

(xix) the Closing Pro Forma incorporating, to the Administrative Agent's satisfaction, the results of the Administrative Agent's due diligence based on information provided by Borrower, the reports of Lenders' Counsel, the Engineer and other consultants and the terms and conditions imposed by the Project Documents, showing annual Net Operating Cash for the ten years following the Construction Loan Closing Date and available for debt service on the Term Loans sufficient (in the Administrative Agent's sole determination) to produce an annual Debt Service Coverage Ratio of at least 2.29 to 1 and for Borrower to comply with the financial covenants of this Agreement, including maintenance of the Minimum Coverage Ratio;

(xx) copies of documentation pursuant to which (1) Borrower has instructed the EPC Contractor to proceed with "Phase II" construction, and the EPC Contractor has acknowledged such instructions, in accordance with the EPC Contract and (2) the EPC Contractor has released, on or prior to the Construction Loan Closing Date, all Liens relating to "Phase I" construction;

(xxi) the Completion Bond;

(xxii) an appraisal of the Project, the Grain Facilities and all other improvements constructed on the Site, prepared by an appraiser, and in form and substance, acceptable to the Lenders, and dated not more than sixty (60) days prior to the Construction Loan Closing Date; and

(xxiii) such other assurances, instruments or undertakings as the Administrative Agent, the Disbursement Agent and the DSRA Agent may reasonably request, including in connection with "know your customer" and USA PATRIOT Act information requirements.

(b) Since January 23, 2006, no act, event or circumstance has occurred with respect to the Project, any PEIX Party or any other Project Party which has had or could reasonably be expected to have a Material Adverse Effect or a material adverse effect on the availability or pricing of financing for the Project.

(c) All Taxes, fees and expenses required to be paid by Borrower on or before the Construction Loan Closing Date have been paid.

(d) The Organizational Documents of Borrower contain provisions satisfactory to the Administrative Agent relating to bankruptcy and "separateness" matters and restricting the ability of Borrower to sell some or all of its assets.

(e) All Documents executed by Borrower and the PEIX Parties on or prior to the Construction Loan Closing Date are in full force and effect, the PEIX Parties and the other Project Parties are in full compliance with all covenants and provisions thereof, and no breach or event of default (or any event that could become a breach or event of default with the giving of notice or passage of time or both) has occurred and is continuing under any such Document except to the extent as could not reasonably be expected to result in a Material Adverse Effect.

(f) All representations and warranties of the PEIX Parties contained in the Loan Documents are true, correct and complete.

(g) The Project Documents executed by Borrower on or prior to the Construction Loan Closing Date or to which Borrower is otherwise a party include all agreements required for the development, construction, ownership and operation of the Project, other than those agreements that the Administrative Agent does not require to be in place on the Construction Loan Closing Date and that the Administrative Agent is satisfied, on the basis of evidence provided by Borrower, will be obtainable and entered into in the ordinary course of business prior to the time required, and such Project Documents conform in all material

respects with the Closing Pro Forma and are sufficient to permit the Project to operate in a manner that will not violate the Required Approvals or the manufacturer's normal operating parameters and such that the Project will be capable of achieving the financial results projected in the Closing Pro Forma.

(h) All Required Approvals necessary for the construction and operation of the Project and the performance by Borrower and the Project Parties of all of their obligations under the Project Documents in effect on the Construction Loan Closing Date have been obtained except for those that are obtainable only at a later stage and which the Administrative Agent is satisfied, on the basis of evidence provided by Borrower, will be obtainable in the ordinary course of business prior to the time required, and all obtained Required Approvals are in full force and effect, not subject to any onerous or unusual condition and are satisfactory to the Administrative Agent in its sole discretion.

(i) There is no action, suit, proceeding or investigation pending or, to Borrower's knowledge, threatened against any PEIX Party that, individually or in the aggregate, has had or could reasonably be expected to have a Material Adverse Effect, and, to Borrower's knowledge, no action, suit, proceeding or investigation has been instituted or threatened against any Project Party (other than Borrower or another PEIX Party) relating to the Project that, individually or in the aggregate, has had or could reasonably be expected to have a Material Adverse Effect.

(j) The Project has not suffered a material Loss, the Grain Facilities have not suffered a material Loss other than the fire damage disclosed to the Administrative Agent and no material portion of the Project, the Grain Facilities or the Site is subject to pending or, to Borrower's best knowledge, threatened condemnation or appropriation proceedings.

(k) No order, judgment or decree of any Government Instrumentality enjoins or restrains the Administrative Agent or any Lender from entering into and performing its obligations under this Agreement.

(l) All Required Insurance has been obtained, is in full force and effect and is not subject to cancellation and no Person other than Borrower, the Administrative Agent and the Lenders has any right or interest in, to or under any Required Insurance other than pursuant to the Project Documents.

(m) The Security Documents and all financing statements or other instruments with respect thereto, as may be necessary, have been filed, registered or recorded in such manner and in such places as are required by any Law to establish and perfect First-Priority Liens in favor of the Administrative Agent as granted or purported to be granted pursuant to the Security Documents in respect of the Collateral to the extent permitted under applicable Law, and any other action required in the judgment of the Administrative Agent to perfect such security interests as First-Priority Liens has been taken, including without limitation delivery to the Administrative Agent of the certificates evidencing all of the membership interests in Borrower and the related transfer powers, and all Taxes, fees and other charges in connection with such recording, publishing, registration and filing of such Security Documents or any memoranda thereof have been paid, or caused to be paid, by Borrower.

Section 3.2 CONDITIONS PRECEDENT TO THE SECOND AND EACH SUBSEQUENT CONSTRUCTION LOAN FUNDING DATE. The obligation of the Construction Lenders to make Construction Loans in accordance with Section 2.2(a) is subject to the satisfaction of each of the following conditions precedent on the first Construction Loan Funding Date after the Construction Loan Closing Date and on each subsequent Construction Loan Funding Date:

(a) The Administrative Agent has received each of the following, in each case in form and substance satisfactory to the Administrative Agent:

(i) [RESERVED];

(ii) a Notice of Borrowing, with all attachments thereto, delivered in compliance with Section 2.2(c) and signed by Borrower;

(iii) a certificate of the manager of Borrower certifying that:

(A) all Documents executed by Borrower on or prior to the applicable Construction Loan Funding Date are in full force and effect, Borrower and, to the best knowledge of Borrower, the Project Parties are in compliance with all

covenants and provisions thereof, and no breach or event of default (including any Event of Default)(or any event that would become a breach or event of default, or an Event of Default, with the giving of notice or the passage of time or both) has occurred and is continuing under any such Document, except to the extent as could not reasonably be expected to result in a Material Adverse Effect;

(B) all representations and warranties of Borrower contained in the Loan Documents to which it is a party are true, correct and complete in all material respects (except with respect to representations and warranties made as of a prior specific date); and

(C) no act, event or circumstance has occurred with respect to the Project or Borrower or, to the best knowledge of Borrower, the Project Parties which has had or could reasonably be expected to have a Material Adverse Effect.

(iv) certified copies of all Project Documents in effect on the applicable Construction Loan Funding Date that have not previously been provided to the Administrative Agent;

(v) copies of all Required Approvals obtained on or prior to the applicable Construction Loan Funding Date by or on behalf of Borrower that have not previously been provided to the Administrative Agent;

(vi) a certificate of the Engineer, dated the applicable Construction Loan Funding Date, (1) attaching copies of the Construction Budget and the Construction and Draw Schedule and (2) certifying that, to the best of its knowledge after due inquiry and review:

(A) construction of the Project is being accomplished in all material respects in conformity and compliance with the Construction Budget, the Plans and Specifications, the EPC Contract and the Construction and Draw Schedule (subject to any "PERMITTED CONSTRUCTION DELAY," which for purposes of this Agreement means any delay in construction that is expected, in the Engineer's reasonable opinion following consultation with Borrower and the EPC Contractor, to delay the Project achieving "Final Construction Completion" (as defined in the EPC Contract) until not later than January 15, 2007; PROVIDED, that if the Engineer reasonably believes that construction of the Project will be delayed beyond January 15, 2007, then such delay will also be considered a Permitted Construction Delay if Borrower has posted a letter of credit or other cash or cash-equivalent collateral, in form and substance reasonably acceptable to the Administrative Agent, and for the benefit of the Administrative Agent and the Construction Lenders, in the amount of the aggregate amount of interest on the Construction Loans that is expected to accrue from January 15, 2007, until the new expected date for Final Construction Completion of the Project);

(B) all Required Approvals capable of being obtained as of the applicable Construction Loan Funding Date have been obtained and all other Required Approvals that are not possible to obtain as of such date will be obtained as and when needed in the ordinary course of business; and

(C) the Engineer is not aware of any event that has occurred or is anticipated to occur that could cause the Project not to be completed on or before the Construction Loan Commitment Termination Date;

(vii) written confirmation, dated on or before the first Construction Loan Funding Date after the Construction Loan Closing Date, from the Engineer, that the full amount of the Contributed Capital has been used by Borrower to pay Qualified Project Construction Expenses;

(viii) [RESERVED];

(ix) a title commitment (with copies of all documents and instruments affecting title to Borrower's interest in the Site) and a Policy of Title Insurance in California standard form for Borrower's interest in the Site, each dated on or prior to the first Construction Loan Funding Date after the Construction Loan Closing Date, insuring the Mortgage as a First-Priority Lien on Borrower's interest in the Site in an amount no less than one hundred percent (100%) of the maximum possible Aggregate Term Loan Commitment (the "TITLE POLICY"), marked "premium paid" and containing such modifications to the standard exceptions and affirmative insurance and endorsements as are available in the State of California, including, without limitation, access to a public road and mechanic's lien coverage, as the Administrative Agent may require;

(x) an ALTA/ASCM "boundary" survey of the Site showing all easements, encroachments and other survey matters shown on the Title Policy or otherwise required by the Administrative Agent, such survey to be dated within sixty (60) days of the first Construction Loan Funding Date after the Construction Loan Closing Date and otherwise in form and substance satisfactory to the Administrative Agent, prepared by licensed surveyors acceptable to the Administrative Agent, and certified to the Administrative Agent and the Title Insurer;

(xi) an interest rate cap agreement from a provider reasonably acceptable to the Administrative Agent, in form and substance acceptable to the Administrative Agent, which agreement caps LIBOR at no more than five and one-half percent (5.5%) on seventy percent (70%) of the principal projected to be outstanding on any Payment Date from the first Construction Loan Funding Date after the Construction Loan Closing Date through the fifth anniversary of the Term Loan Conversion Date; and

(xii) such other assurances, instruments or undertakings as the Administrative Agent may reasonably request.

(b) The Project Documents to which Borrower is a party include all agreements required for the development, construction, ownership and operation of the Project, other than those agreements that the Administrative Agent does not require to be in place on the applicable Construction Loan Funding Date and that the Administrative Agent is satisfied, on the basis of evidence provided by Borrower, will be obtainable in the ordinary course of business prior to the time required, and such Project Documents conform in all material respects with the Closing Pro Forma and are sufficient to permit the Project to operate in a manner that will not violate the Required Approvals or the manufacturer's normal operating parameters and such that the Project will be able to achieve the financial results projected in the Closing Pro Forma.

(c) All Documents executed by the PEIX Parties on or prior to the applicable Construction Loan Funding Date are in full force and effect, the PEIX Parties and the other Project Parties are in full compliance with all covenants and provisions thereof, and no breach or event of default (or any event that could become a breach or event of default with the giving of notice or passage of time or both) has occurred and is continuing under any such Document except to the extent as could not reasonably be expected to result in a Material Adverse Effect.

(d) All representations and warranties of the PEIX Parties contained in the Loan Documents are true, correct and complete in all material respects (except with respect to representations and warranties made as of a prior specific date).

(e) No Default or Event of Default has occurred and is continuing.

(f) All Required Approvals necessary for the construction and operation of the Project and the performance by Borrower and the Project Parties of all of their obligations under the Project Documents in effect on the applicable Construction Loan Funding Date have been obtained except for those that are obtainable only at a later stage and which the Administrative Agent is satisfied, on the basis of evidence provided by Borrower, will be obtainable in the ordinary course of business prior to the time required, and all obtained Required Approvals are in full force and effect, not subject to any onerous or unusual condition and are satisfactory to the Administrative Agent in its sole discretion.

(g) No order, judgment or decree of any Government Instrumentality enjoins or restrains any Construction Lender from making the

requested Loan.

(h) All Taxes, fees and expenses required to be paid by Borrower on or before the applicable Construction Loan Funding Date have been paid or will be paid on such Construction Loan Funding Date with proceeds of Construction Loans.

(i) On or prior to the date that is 425 days after the Construction Loan Closing Date, the Grain Facilities have been modified so as to meet the operational requirements of the Project, including without limitation the availability to the Project of fifteen (15) days of dedicated grain storage.

Section 3.3 CONDITIONS PRECEDENT TO THE TERM LOAN CONVERSION DATE. The obligation of the Term Lenders to make Term Loans in accordance with Section 2.2(b) is subject to the satisfaction of each of the following conditions precedent:

(a) The Administrative Agent has received each of the following, in each case in form and substance satisfactory to the Administrative Agent:

(i) a Notice of Borrowing, with all attachments thereto, delivered in compliance with Section 2.2(c) and executed by Borrower;

(ii) the Term Loan Notes, executed by Borrower;

(iii) [RESERVED];

(iv) an ALTA/ASCM "as-built" survey of the Site showing (A) the location of the Project and the Grain Facilities, (B) that the Project and the Grain Facilities are located within the boundaries of the Site (without encroachments on any right-of-way, easement or other interest that could adversely affect the continued operation of the Project or the Grain Facilities), (C) that the Site is not located in a flood zone (or, to the extent that any portion of the Site is in a flood zone, delineating the portions thereof in such flood zone, in which case flood hazard insurance may be required by the Administrative Agent), and (D) all easements, encroachments and other survey matters shown on the Title Policy (as updated to the Term Loan Conversion Date) or otherwise reasonably required by the Administrative Agent, such survey to be dated within thirty (30) days of the Term Loan Conversion Date and prepared by licensed surveyors acceptable to the Administrative Agent, and certified to the Administrative Agent and the Title Insurer;

(v) such legal opinions of Borrower's Counsel and Lenders' Counsel as the Administrative Agent may reasonably request;

(vi) a certificate of existence with respect to each PEIX Party dated no earlier than thirty (30) days before the Term Loan Conversion Date;

(vii) a certificate of a manager or officer of each PEIX Party certifying that:

(A) all Documents executed by such Person on or prior to the Term Loan Conversion Date are in full force and effect, such Person and, to the best knowledge of such Person, the other Project Parties, are in compliance with all covenants and provisions thereof, and no breach or event of default (including any Event of Default or any event that would become a breach or event of default, or an Event of

Default, with the giving of notice or the passage of time or both) has occurred and is continuing under any such Document, except to the extent as could not reasonably be expected to result in a Material Adverse Effect;

(B) all representations and warranties of such Person contained in the Loan Documents are true, correct and complete in all material respects (except with respect to representations and warranties made as of a prior specific date); and

(C) no act, event or circumstance has occurred with respect to the Project or such Person or, to the best knowledge of such Person, the other Project Parties which has had or could reasonably be expected to have a Material Adverse Effect;

(viii) a completion certificate of the Engineer certifying that:

(A) the Project has been completed in all material respects in accordance with the EPC Contract;

(B) "Final Construction Completion" (as defined in the EPC Contract) has occurred;

(C) the Project is available for commercial operation; and

(D) all Required Approvals required to operate the Project are in full force and effect;

(ix) an Operating Plan and Budget for the Project for the current and subsequent calendar year;

(x) certified copies of all Project Documents in effect on the Term Loan Conversion Date that have not previously been provided to the Administrative Agent;

(xi) copies of all Required Approvals obtained on or prior to the Term Loan Conversion Date that have not previously been provided to the Administrative Agent;

(xii) an overhaul, maintenance and repair plan with respect to the Project for the period from the Term Loan Conversion Date through the Term Loan Maturity Date, as approved by the Engineer;

(xiii) evidence satisfactory to the Administrative Agent in its sole discretion that all existing Indebtedness of Borrower (including, without limitation, the Sub-Debt but excluding Indebtedness of Borrower permitted to be outstanding pursuant to Section 5.2(g))

will be repaid in full on the Term Loan Conversion Date with proceeds of the Term Loans or otherwise assumed in full by a Person other than Borrower and that liens securing such indebtedness on the equity interests in Borrower and Borrower's assets will be released upon such repayment; and

(xiv) such other assurances, instruments or undertakings as the Administrative Agent may reasonably request.

(b) The Project Documents to which Borrower is a party include all agreements required for the development, construction, ownership and operation of the Project and the Grain Facilities, other than those agreements that the Administrative Agent does not require to be in place on the Term Loan Conversion Date and that the Administrative Agent is satisfied, on the basis of evidence provided by Borrower, will be obtainable in the ordinary course of business prior to the time required, and such Project Documents are sufficient to permit the Project and the Grain Facilities to operate in a manner that will not violate the Required Approvals or the manufacturer's normal operating parameters and such that the Project will be able to achieve the financial results projected in the Closing Pro Forma.

(c) All Documents executed by the PEIX Parties on or prior to the Term Loan Conversion Date are in full force and effect, the PEIX Parties and the other Project Parties are in full compliance with all covenants and provisions thereof, and no breach or event of default (or any event that could become a breach or event of default with the giving of notice or passage of time or both) has occurred and is continuing under any such Document except to the extent as could not reasonably be expected to result in a Material Adverse Effect.

(d) All representations and warranties of the PEIX Parties contained in the Loan Documents are true, correct and complete in all material respects (except with respect to representations and warranties made as of a prior specific date).

(e) No Default or Event of Default has occurred and is continuing.

(f) All Required Approvals necessary for the construction and operation of the Project and the performance by Borrower and the Project Parties of all of their obligations under the Project Documents in effect on the Term Loan Conversion Date have been obtained except for those that are obtainable only at a later stage and which the Administrative Agent is satisfied, on the basis of evidence provided by Borrower, will be obtainable in the ordinary course of business prior to the time required, and all obtained Required Approvals are in full force and effect, not subject to any onerous or unusual condition and are satisfactory to the Administrative Agent in its sole discretion.

(g) All Required Insurance has been obtained, is in full force and effect and is not subject to cancellation and no Person other than Borrower, the Administrative Agent and the Lenders has any right or interest in, to or under any Required Insurance other than pursuant to the Project Documents.

(h) The Security Documents and all financing statements or other instruments with respect thereto, as may be necessary, have been filed, registered or recorded in such manner and in such places as are required by any Law to establish and perfect First-Priority Liens in favor of the Administrative Agent as granted or purported to be granted pursuant to the Security Documents in respect of the Collateral to the extent permitted under applicable Law, and any other action required in the judgment of the Administrative Agent to perfect such security interests as First-Priority Liens has been taken, including without limitation delivery to the Administrative Agent of the certificates evidencing all of the membership interests in Borrower and the related transfer powers, and all stamp, recording or other documentary taxes (collectively, "TRANSFER TAXES"), fees and other charges in connection with such recording, publishing, registration and filing of such Security Documents or any memoranda thereof have been paid, or cause to be paid, by Borrower.

(i) All Construction Loans, together with all accrued and unpaid interest thereon and all other amounts due and payable under the Loan Documents will be paid in full concurrently with the funding of the Term Loans.

(j) All Qualified Project Construction Expenses have been paid in full, or an amount deemed sufficient by the Engineer to pay all unpaid costs (including with respect to outstanding punch list items) has been deposited in an account under the control of the Administrative Agent for such purpose.

(k) The Project has achieved Final Construction Completion under the EPC Contract and commenced Commercial Operations.

(l) No order, judgment or decree of any Government Instrumentality enjoins or restrains any Term Lender from making the requested Term Loan.

Section 3.4 NO WAIVER. The failure of the Administrative Agent to require satisfaction of any condition precedent set forth in this Article III, or the funding of any Loan despite the failure of Borrower to satisfy any such condition precedent, will not constitute a waiver of such condition precedent unless the Administrative Agent so states in writing. A waiver by the Administrative Agent of any condition precedent in connection with the funding of any Loan will not affect the applicability of such condition precedent to the funding of subsequent Loans.

Section 3.5 LOCATION OF CLOSINGS. The various closings of the loan transactions contemplated hereunder will take place at the office of the Lenders' Counsel in New York, New York, or the offices of the Administrative Agent in Westport, Connecticut, at the election of the Administrative Agent.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Section 4.1 REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to the Administrative Agent and the Lenders on and as of each date on which such representations and warranties are required to be made pursuant to Article III as follows:

(a) EXISTENCE; AUTHORITY. It is a limited liability company duly formed, validly existing and in good standing under the Laws of the State of Delaware and is duly qualified to do business as a foreign limited liability

company and is in good standing in each jurisdiction in which such qualification is necessary or desirable in view of its current or proposed business and operations or the ownership of its properties. It has all necessary rights, franchises and privileges and full power and authority to execute, deliver and perform the Documents to which it is a party, to design, construct, own and operate the Project and to conduct its business as currently conducted and as proposed to be conducted. It has taken all necessary action to execute, deliver and perform the Documents to which it is a party and such Documents have been duly executed and delivered by it and constitute the legally valid and binding obligations of it, enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar Laws relating to or limiting creditors' rights generally or by general principles of equity.

(b) CAPITALIZATION. The ownership interests in Borrower are as set forth in the Organizational Documents provided to the Administrative Agent pursuant to Article III. All of such ownership interests are duly and validly issued and are subject to no Liens other than the Liens in favor of the Administrative Agent created by the Pledge Agreement. There are no other ownership or equity interests in Borrower, rights to acquire or subscribe for any such interests or securities or instruments convertible into or exchangeable or exercisable for any such interests.

(c) BUSINESS AND CONTRACTUAL OBLIGATIONS. Borrower is a single-purpose entity formed for the sole purpose of designing, constructing, owning and operating the Project and the Grain Facilities and performing its obligations under the Documents. Borrower has engaged in no business or activity and incurred no liability or expense to any Person except for those contemplated by the Documents and the Sub-Debt. Except for the Documents and in connection with the Sub-Debt, Borrower is not a party or subject to any Contractual Obligation with respect to any of the Collateral. Borrower has not assumed, guaranteed, endorsed or otherwise become directly or contingently liable for (including, without limitation, liable by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to or otherwise invest in the debtor or otherwise to assure the creditor against loss) the indebtedness or obligations of any other Person except pursuant to a Loan Document. Borrower has not made any loan or advance to any Person and does not own or hold capital stock, securities, debt, assets or obligations of, or any interest in, any Person.

(d) NAME, ADDRESS AND RECORDS. The name of Borrower set forth in the first paragraph of this Agreement is the true, correct and complete name of Borrower, and Borrower does not conduct business under any other name or tradestyle. The legal address of Borrower and the address of the principal place of business and chief executive office of Borrower is 31470 Avenue 12, Madera, California 93628. Borrower keeps all of its records and all documents evidencing

or relating to its Contractual Obligations at such address or at 5611 N. West Avenue, Fresno, California 93711. Borrower has no property or other assets at any other address other than as listed in the Security Agreements.

(e) NO VIOLATIONS, DEFAULTS OR LIENS.

(i) Borrower is not (A) in violation of any Law (including Environmental Laws), (B) in violation of or default under its Organizational Documents and (C) in violation of or default under any Document or other Contractual Obligation, except to the extent as could not reasonably be expected to have a Material Adverse Effect. Borrower is not a party to or affected by any charter, bylaw, operating agreement or other constituent document or any Contractual Obligation that could reasonably be expected to have a Material Adverse Effect.

(ii) To the best knowledge of Borrower, no Project Party (A) is in violation of any Law (including Environmental Laws), (B) is in violation of or default under its charter, bylaws, partnership agreement or other organizational documents or (C) is in violation of or default under any Project Document or any other Contractual Obligation, in each case except to the extent as could not reasonably be expected to have a Material Adverse Effect.

(iii) No Event of Default has occurred and is continuing.

(iv) Borrower is the legal and beneficial owner of, and has good, marketable and valid title to, the Collateral (except for the Collateral pledged pursuant to the Pledge Agreement). None of the Collateral is subject to any Lien other than Permitted Liens. No effective mortgage, deed of trust, financing statement, security agreement or other similar instrument which is not a Security Document

is on file or of record in the office of any Government Instrumentality with respect to any Collateral other than with respect to Permitted Liens.

(v) The execution, delivery and performance of the Loan Documents and Major Project Documents to which the PEIX Parties are parties do not and will not (A) violate any Law (including Environmental Laws), (B) violate, or result in a default under, the Organizational Documents of any such Person, (C) violate, or result in a default under, any Loan Document or any other material Contractual Obligation of any such Person, (D) result in or require the creation or imposition of any Lien (other than Permitted Liens) on the Collateral or other property of any such Person or (E) require an Approval from any Person that has not been obtained or that will not be obtained in due course.

(f) REQUIRED APPROVALS. Borrower has obtained and is in compliance with all Required Approvals required to be obtained at or prior to the time this representation is made and in order for the Project, the Grain Facilities, Borrower, the Administrative Agent and the Lenders and their respective activities to be in compliance with Applicable Law (except to the

extent the failure to obtain such Approvals could not reasonably be expected to have a Material Adverse Effect). Borrower has no reason to believe that any Required Approval not yet obtained cannot or will not be obtained in the normal course of business as and when required and without significant expense. Borrower has provided the Administrative Agent with a true, correct and complete copy of each Required Approval required to be obtained at or prior to the time this representation and warranty is made. All Required Approvals obtained by Borrower (i) are validly issued, (ii) are in full force and effect, (iii) are free from any condition or requirement that cannot be met or that could reasonably be expected to have or result in a Material Adverse Effect and (iv) are not the subject of a current challenge and are not subject to any onerous or unusual conditions. No adverse proceeding or other action is pending or to Borrower's knowledge threatened with respect to any Required Approval and all information provided in connection with each Required Approval was on the date provided and is on the date hereof true, correct and complete in all material respects. The Administrative Agent will be entitled, without undue expense or delay, to the benefit of each Required Approval upon the exercise of its remedies under the Security Documents.

(g) PROJECT DOCUMENTS.

(i) As of the Construction Loan Closing Date, the Project Documents listed in Schedule 3.1(a)(ix) include all agreements required for the design, construction, ownership, operation and maintenance of the Project and the Grain Facilities as contemplated by the Documents and the Closing Pro Forma. All such Project Documents have been duly and validly executed and delivered by the parties thereto, are in full force and effect and have not been amended, modified, supplemented or terminated. The copies of all Project Documents provided to the Administrative Agent by Borrower are true, correct and complete. Borrower has or will have enforceable agreements or other satisfactory arrangements that ensure the availability, on commercially reasonable terms, of all feedstock, utilities, transportation, facilities, infrastructure, interconnections, materials and services necessary for the design, construction, ownership, operation and maintenance of the Project and the Grain Facilities as contemplated by the Documents.

(ii) The Project, when constructed and operated in accordance with the Project Documents, will comply in all material respects with all applicable Laws, all Required Approvals and prudent practices of the ethanol production industry.

(iii) The legal description of the Site set forth in the Mortgage is true and correct. Borrower has good and marketable title to all easements and other property interests necessary for the construction, ownership, operation and maintenance of the Project as contemplated by the Documents, including all rights of access, ingress, egress and interconnection.

(iv) Borrower is not aware of any existing fact or circumstance that would prevent the conversion of the Construction Loans to Term Loans in accordance with this Agreement on or before the Construction Loan Commitment Termination Date.

(h) INTELLECTUAL PROPERTY. Borrower owns, or is licensed to use, or will own or license to use, all patents, trademarks, service marks, licenses, franchises, trade names, tradestyles, copyrights, technology, formulas, know-how and processes used in, to be used in or necessary for the construction, ownership or operation of the Project or for the current or proposed conduct of its business, other than that intellectual property for which the failure to so obtain and maintain could not reasonably be expected to have a Material Adverse Effect. The use of such patents, trademarks, trade names, tradestyles, copyrights, technology, know-how and processes by Borrower does not and will not injure or infringe upon the rights of any Person in any material respects.

(i) TAXES.

(i) There is no, and to the knowledge of Borrower there are no pending changes in Law that would create any, Tax payable by or imposed on Borrower by virtue of the execution, delivery, performance or enforcement of the Documents other than normal and customary Transfer Taxes and income taxes payable by Borrower on its income in the jurisdictions in which such income is earned.

(ii) Borrower has filed in a timely manner all Tax returns required by Law and has paid all Taxes shown to be due and payable on such returns or on any material assessments made on Borrower's properties, other than Taxes being contested in good faith by appropriate proceedings with proper reserves established in accordance with GAAP.

(j) FINANCIAL STATEMENTS.

(i) All financial statements of PEI (as well as all notes and schedules thereto) furnished to the Administrative Agent are true, complete and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments), have been prepared in accordance with GAAP (except as otherwise stated therein). Except with respect to matters previously disclosed to the Administrative Agent, there has been no material adverse change in the business, condition or operations (financial or otherwise) of any of the PEIX Parties since January 23, 2006, and Borrower knows of no reasonable basis for the assertion against it or the other PEIX Parties of any obligation or liability that is not fully reflected in the financial statements furnished to the Administrative Agent.

(ii) The Pro Forma Balance Sheet for Borrower is true, correct and complete in all material respects and fairly presents the information contained therein as at the Construction Loan Closing Date and Borrower's good-faith estimate of the information contained therein as at the date of such Balance Sheet. Borrower has no material liability, contingent or otherwise, including any material liability

for Taxes, or any unusual forward or long-term commitment which is not disclosed by, or reserved against in, the Pro Forma Balance Sheet or in the notes thereto which under GAAP is of a nature and an amount required to be so disclosed or reserved. There are no unrealized or anticipated losses from any unfavorable commitments of Borrower that could reasonably be expected to have a material adverse effect on the business, condition or operations (financial or otherwise) of Borrower.

(k) CONSTRUCTION BUDGET. As of the Construction Loan Closing Date, the Construction Budget (i) has been prepared with due care, (ii) is complete in all material respects and fairly presents Borrower's good faith expectations as at the date of such document as to the matters covered thereby, (iii) is based on reasonable assumptions as to the factual and legal matters material to the estimates therein and (iv) is consistent with the Documents. The Construction Budget accurately specifies and describes all material Qualified Project Construction Expenses.

(l) NO PROCEEDINGS. There is no pending or, to the best of Borrower's knowledge, threatened action, suit, litigation, investigation, arbitration or other proceeding involving or affecting Borrower or its properties or assets or, to the best knowledge of Borrower, any Project Party or any of their respective properties or assets, before any Government Instrumentality which could reasonably be expected to result in a Material Adverse Effect. None of Borrower or its properties or assets or, to the best knowledge of Borrower after due inquiry, any Project Party or any of their

respective properties or assets, is subject to any order, writ or injunction which prohibits, enjoins or limits any aspect of the transactions contemplated by the Documents or which could reasonably be expected to result in a Material Adverse Effect.

(m) NO BROKER'S FEES. Borrower has no obligation (direct, indirect, contingent or otherwise) to pay any fee, commission or compensation to any broker, finder or intermediary with respect to or as a result of any transaction contemplated by the Documents except as has been previously disclosed to the Administrative Agent.

(n) ENVIRONMENTAL MATTERS. Except as set forth in the reports delivered to the Administrative Agent pursuant to Section 3.1(a)(xiv):

(i) To Borrower's best knowledge, no Hazardous Substance exists on, under or about the Project, the Grain Facilities or the Site in violation of any Environmental Law, and the Project, the Grain Facilities, the Site, Borrower and the Project Parties (in such respects as relate to the Project) are in compliance with all Environmental Laws except to the extent that such noncompliance could not reasonably be expected to result in a Material Adverse Effect.

(ii) To Borrower's best knowledge, no Hazardous Substance has at any time been transported to or from the Site or used, generated, manufactured, handled, processed, stored, released, transported, removed, disposed of or cleaned up on, from, under or about the Site in violation of any Environmental Law except to the extent that could not reasonably be expected to result in a Material Adverse Effect.

(iii) To Borrower's best knowledge, there has occurred no release or threatened release of any Hazardous Substance on, under, onto, adjacent to or from the Site except to the extent that such release could not reasonably be expected to result in a Material Adverse Effect.

(iv) There are no past, current, pending or threatened Environmental Claims in writing in any way relating to Borrower, any Project Party (to Borrower's best knowledge and in such respects as relate to the Project, the Grain Facilities or the Site) or the Project, the Grain Facilities or the Site except to the extent that such Environmental Claims could not reasonably be expected to result in a Material Adverse Effect.

(v) There are no facts, circumstances, conditions or occurrences known to Borrower regarding the Project, the Grain Facilities or the Site that could reasonably be expected to form the basis of an Environmental Claim or cause the Project, the Grain Facilities or the Site to be subject to any restrictions on ownership, occupancy, use or transferability under any Environmental Law applicable to the Project, the Grain Facilities or the Site or require the filing or recording of any notice, Approval or disclosure document under any Environmental Law, except to the extent that could not reasonably be expected to result in a Material Adverse Effect.

(vi) The Site is not listed on or proposed for listing on the National Priority List promulgated pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 and the regulations promulgated pursuant thereto or any state priority list promulgated pursuant to any comparable state law. To Borrower's best knowledge, no Hazardous Substances have been generated at or transported from the Project, the Grain Facilities or the Site or been disposed at any location that is listed or proposed for listing on the National Priority List or any state priority list or any location that is or has been the subject of a clean-up or remedial action pursuant to any Environmental Law, except to the extent that could not reasonably be expected to result in a Material Adverse Effect.

(vii) Borrower and, to Borrower's best knowledge, the Project Parties have not received any written or other notice, mandate, order, lien or request which remains pending under an Environmental Law relating to a violation or an alleged violation of any Environmental Law or potential Environmental Claim, except to the extent that could not reasonably be expected to result in a Material Adverse Effect.

(viii) Borrower has obtained all necessary Approvals to operate the Project and such approvals are: (i) in full force and effect; and (ii) allow the Project to produce 35 million gallons per year of ethanol without exceeding any emission limits or requiring any

offsets to be acquired.

(o) NO ADVERSE EVENTS.

(i) No material Loss has occurred.

(ii) To Borrower's knowledge, no portion of the Project, the Grain Facilities or the Site is subject to a pending or threatened (in writing) condemnation or appropriation proceeding.

(iii) No PEIX Party is party to or affected by any charter, certificate of incorporation, bylaw, certificate of formation, limited liability company agreement, partnership agreement or other constituent document or any Contractual Obligation that could reasonably be expected to result in a Material Adverse Effect.

(p) ERISA. None of Borrower or the ERISA Affiliates of Borrower sponsors, maintains, administers, contributes to, participates in or has any obligation to contribute to or any liability under any Plan.

(q) LABOR MATTERS. There are no collective bargaining agreements or Multiemployer Plans covering any employees of Borrower and none of Borrower or, to the best knowledge of Borrower, any Major Project Party has experienced any strike, walkout, work stoppage or other labor action or disturbance during the past five years.

(r) INVESTMENT COMPANY ACT. Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(s) USE OF PROCEEDS.

(i) The proceeds of the Loans have been and will be used only for the purposes described in Section 2.7 and in accordance with the requirements and conditions of this Agreement.

(ii) Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation G, T, U or X issued by the Board of Governors of the Federal Reserve System) and no proceeds of any Loan will be used, directly or indirectly, to purchase or carry margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock.

(iii) No proceeds of any Loan will be used to acquire any security in any transaction which is subject to Section 13 or 14 of the Securities Exchange Act of 1934, as amended.

(t) BANK ACCOUNTS. Borrower does not maintain any account or deposit with any bank or other depository institution other than the accounts created under the Disbursement Agreement, except for standard operations and payroll accounts.

(u) ENFORCEABILITY; NO IMMUNITY. The descriptions of the Collateral contained in the Security Documents are true, correct and complete and are sufficient to describe the Collateral and to create, attach and perfect the Liens intended to be created by the Security Documents. All necessary and appropriate deliveries, notices, recordings, filings and registrations have been effected to perfect First-Priority Liens on the Collateral in favor of the Administrative Agent in all relevant jurisdictions, and the Administrative Agent has duly and validly created, attached, perfected and enforceable First-Priority Liens on the Collateral in all relevant jurisdictions.

(v) FULL DISCLOSURE. No written information, exhibit or report furnished to the Administrative Agent by PEI or any PEIX Party in connection with the transactions contemplated by this Agreement (other than projections and other "forward-looking" information prepared on a reasonable basis in good faith by Borrower), when taken as a whole and taking into account updates of previously provided information, contains any material misstatement of fact or omits to state a material fact or any fact necessary to make the statements contained therein not misleading.

(w) INSURANCE. Borrower is in compliance, to the extent applicable to it, with all requirements set forth in the Loan Documents and the

Major Project Documents to maintain insurance, including Required Insurance.

Section 4.2 SURVIVAL. The representations and warranties of the PEIX Parties contained in the Loan Documents or made by the PEIX Parties in any certificate, notice or report delivered pursuant to any Loan Document will speak only as of each date on which the PEIX Parties make such representations and warranties pursuant to the Loan Documents and will survive the Construction Loan Closing Date, the making and repayment of the Loans and any transfer or assignment of any Note, but will terminate upon the payment in full of the Loans and all other amounts due and payable under the Loan Documents.

ARTICLE V
COVENANTS

Section 5.1 AFFIRMATIVE COVENANTS. Borrower covenants and agrees that, for so long as any Lender has any Commitment outstanding hereunder and until the payment in full of the Notes and all amounts payable by Borrower and any other Person under the Loan Documents, it will perform and observe each of the following covenants, unless (and then only to the extent) compliance with such covenant has been waived pursuant to Section 8.5:

(a) EXISTENCE. It will preserve and maintain its limited liability company existence, rights, franchises and privileges and remain in good standing in the jurisdiction of its formation, and qualify and remain qualified as a foreign limited liability company in good standing in each

jurisdiction in which such qualification is necessary or desirable in view of its current or proposed business and operations or the ownership of its properties except to the extent that any non-qualification could not reasonably be expected to have a Material Adverse Effect.

(b) COMPLIANCE WITH LAWS, APPROVALS AND OBLIGATIONS. It will comply with, and will cause the Project and the Grain Facilities to be constructed and operated safely and in compliance in all material respects with, all applicable Laws, all Required Approvals, the Documents, its other Contractual Obligations and prudent operating practices followed by the ethanol production and grain handling industries. It will perform its obligations under the Documents and each of its other Contractual Obligations and will diligently enforce all of its rights under the Project Documents and under all guarantees, warranties and indemnities in its favor or relating to the Project or any component thereof, except to the extent that any failure to perform or enforce could not reasonably be expected to have a Material Adverse Effect. It will satisfy before the same become delinquent all Claims (including all Claims for labor, services, materials and supplies and other amounts due under its Contractual Obligations) other than Claims being contested in good faith by appropriate proceedings with proper reserves established which do not result in the imposition of a Lien prohibited by Section 5.2(f). It will obtain and maintain in full force and effect all Required Approvals required from time to time and at any time for the execution, delivery, performance, admission into evidence or enforcement of the Documents or the development, construction, ownership or operation of the Project and the Grain Facilities as contemplated under the Documents. It will furnish the Administrative Agent with true, correct and complete copies of all Required Approvals upon receipt thereof.

(c) TITLE. Except as may be otherwise permitted in this Agreement, Borrower will maintain good and marketable title to its interest in the Site and to its interests in the Project, the Grain Facilities and the other Collateral in which it has an interest and warrant and defend its interest in the Site and its title or other interest in the Project, the Grain Facilities and the other Collateral against all Claims that do not constitute Permitted Liens.

(d) COLLATERAL. Borrower will take all actions necessary to insure that, on and after the Construction Loan Closing Date, the Administrative Agent has and continues to have in all relevant jurisdictions duly and validly created, attached, perfected and enforceable First-Priority Liens on the Collateral (including after-acquired Collateral). It will deliver possession of any Collateral to the Administrative Agent or its designated agent immediately upon acquiring rights therein to the extent the Administrative Agent is required to perfect its security interest in such Collateral by taking possession thereof. It will also maintain the title insurance policies delivered to the Administrative Agent pursuant to Article III.

(e) CONSTRUCTION.

(i) Borrower will use commercially reasonable efforts to cause the Project to be constructed and completed substantially in accordance with the Plans and Specifications, the Construction Budget

and the Construction and Draw Schedule. Only new, first-quality components will be used in constructing and equipping the Project except as may be otherwise agreed by the Administrative Agent in consultation with the Engineer. The Project will be constructed entirely on the Site and in a manner so as not to injure or encroach upon the property or rights of any other Person except for those portions of the Project that are located on the property of others pursuant to easements granted to Borrower by such Persons.

(ii) Borrower will give the Administrative Agent and the Engineer at least seven (7) Business Days' prior written notice of each performance test to be conducted under the EPC Contract and the Administrative Agent, the Engineer and their respective agents and representatives will be afforded the opportunity to observe and verify each such test. Completion will not be deemed to have been achieved until the Engineer determines that it has been achieved. Borrower will give the Administrative Agent and the Engineer at least five (5) Business Days' prior written notice of the occurrence of Commercial Operation.

(f) MAINTENANCE AND OPERATION. Borrower will maintain and preserve the Project, the Grain Facilities and all of its other material assets and properties in good working order and condition, ordinary wear and tear excepted. Prior to the Term Loan Conversion Date, it will develop an overhaul, maintenance and repair plan with respect to the Project for the period from the Term Loan Conversion Date through the Term Loan Maturity Date, which must be approved by the Administrative Agent in consultation with the Engineer. Borrower will comply in all material respects with such overhaul, maintenance and repair plan, comply with all warranties and maintenance recommendations and requirements of manufacturers and vendors of component parts of the Project and make all repairs, alterations, additions and replacements necessary for the Project (i) to operate safely and to meet, in all material respects, the requirements of all applicable Laws, all Required Approvals, the Documents, the other Contractual Obligations of Borrower and prudent practices followed by the ethanol production industry and (ii) to operate at or exceed the operating levels set forth in the Closing Pro Forma. Borrower will promptly correct any material structural or other defect in the Project or any material deviation from the Plans and Specifications and will maintain appropriate spare parts, inventories and redundancies.

(g) OPERATING PLAN AND BUDGET. Not later than each November 30 occurring after the Term Loan Conversion Date, Borrower will submit to the Administrative Agent for approval a proposed Operating Plan and Budget for the next calendar year and a forecast of the Net Operating Cash of the Project for the next three (3) calendar years. The Administrative Agent will have the right to request, and if so requested by the Majority Lenders shall request, revisions to each proposed Operating Plan and Budget and, after an Operating Plan and Budget has been finalized and approved by the Administrative Agent, Borrower will follow and comply with such Operating Plan and Budget in all particulars except that (i) on an annualized basis, taking into account cost savings on other line items, Borrower may exceed by no more than 10% the budget for fixed

costs and no more than 15% the budget for variable costs, and (ii) to the extent that Borrower exceeds its budget by amounts greater than the margins described in the preceding clause (i), Borrower will be permitted to do so to the extent Borrower pays for any such excess overages with amounts available to it other than funds on deposit in the Security Accounts or otherwise disbursed to Borrower pursuant to the Disbursement Agreement. Borrower will have the right to revise any Operating Plan and Budget based on cost fluctuations for any Budget Line Items related to the pricing of corn, natural gas, Products and operations and maintenance costs, to the extent that the Net Operating Cash under the revised Operating Plan and Budget (and taking into account such increased costs) is equal to or greater than the Net Operating Cash contemplated in the Operating Plan and Budget prior to such revision. Once approved by the Administrative Agent, an Operating Plan and Budget or a revised Operating Plan and Budget will supersede all prior Operating Plans and Budgets and will continue in effect until a subsequent Operating Plan and Budget has been approved by the Administrative Agent.

(h) INTELLECTUAL PROPERTY. Borrower will obtain and maintain in full force and effect all patents, trademarks, service marks, licenses, franchises, trade names, tradestyles, copyrights, technology, formulas, know-how and processes to be used in or necessary for the construction, ownership and

operation of the Project and for the current and proposed conduct of its business other than that intellectual property for which the failure to so obtain and maintain could not reasonably be expected to have a Material Adverse Effect, and in its use thereof it will obtain all required licenses and consents and not injure or infringe upon the property or rights of any Person in any material respect.

(i) TAXES. Borrower will file all Tax returns required by Law in a timely manner and will pay before the same become delinquent all Taxes shown to be due and payable on such returns or on any material assessments made on Borrower's properties, other than Taxes being contested in good faith by appropriate proceedings with proper reserves established which do not result in the imposition of a Lien prohibited by Section 5.2(f).

(j) RECORDS AND INSPECTION RIGHTS. Borrower will keep and maintain, and will use commercially reasonable efforts to cause the EPC Contractor to keep and maintain in respect of its involvement in the Project, true, correct and complete records and books of account, in which complete entries will be made in accordance with GAAP and applicable Law, reflecting all financial transactions of the Project, the Grain Facilities, Borrower and the EPC Contractor. Borrower will also keep and maintain true, correct and complete inventories of all Collateral in which it has an interest and records of all transactions relating thereto. All such records, books of account and inventories will be kept and maintained at its principal place of business or at the Site. At any reasonable time and from time to time during normal business hours and upon at least seven (7) days' advance notice to Borrower by the Administrative Agent (except during the continuance of an Event of Default, when no advance notice will be required), it agrees to permit, and to cause the EPC Contractor to permit, the Administrative Agent, the Engineer and any agent or representative thereof, to examine and make copies of and abstracts from such records, books of account and inventories, to visit the Project and to discuss

the affairs, finances and accounts of Borrower and the Project directly with its auditors and with any of its officers or managers. Borrower will at all times maintain at the Site or at its principal place of business a complete set of the current and as-built plans and specifications for the Project, which will be available for inspection by the Administrative Agent, the Engineer and their respective agents and representatives; PROVIDED, that for so long as no Default or Event of Default has occurred and is continuing, Borrower will only be required to reimburse the Administrative Agent for its or Engineer's or its agent's or representative's costs with respect to one visit or inspection per calendar year and shall not be required to reimburse the Lenders for costs with respect to visits or inspections.

(k) REPORTING REQUIREMENTS. Borrower will furnish to the Administrative Agent:

(i) as soon as available and in any event within fifty (50) days after the end of each of the first three quarters of each fiscal year of Borrower, complete unaudited financial statements of Borrower, including the balance sheet of Borrower as of the end of such quarter, and profit and loss statements and statements of cash flows of Borrower for such quarter and for the elapsed portion of such fiscal year, in each case prepared in accordance with GAAP (subject to normal year-end adjustments and the absence of footnote disclosures) and setting forth in comparative form the figures for the corresponding period of Borrower's previous fiscal year, certified in a manner reasonably acceptable to the Administrative Agent by Borrower's chief financial officer;

(ii) as soon as available and in any event within one hundred twenty (120) days after the end of each fiscal year of Borrower, complete audited financial statements of Borrower, including the balance sheet of Borrower as of the end of such fiscal year, and profit and loss statements and statements of cash flows of Borrower for such fiscal year, in each case prepared in accordance with GAAP and setting forth in comparative form the figures for Borrower's previous fiscal year, certified in a manner reasonably acceptable to the Administrative Agent by the chief financial officer of Borrower and by independent certified public accountants reasonably acceptable to the Administrative Agent (it being understood that Borrower's current independent certified public accountants, Hein & Associates, are acceptable to the Administrative Agent;

(iii) within ten (10) days after the last day of each calendar month during which a Construction Loan is outstanding, a Monthly Construction Report substantially in the form of Exhibit 5.1(k)(iii);

(iv) within ten (10) days after the last day of each calendar month during which the Term Loans are outstanding, a monthly operations report in form and substance reasonably acceptable to the Administrative Agent;

(v) promptly after the sending, filing or receipt thereof, a copy of each material report, notice, certificate, application, demand, request or other communication that Borrower sends to, files with or receives from any Government Instrumentality or Project Party or sends or receives pursuant to any Document that relates to any matter that could reasonably be expected to have a Material Adverse Effect;

(vi) promptly after receipt thereof, copies of each Required Approval;

(vii) copies (or notification of their availability on PEI's website) of all reports on Forms 8-K, 10-K and 10-Q filed by PEI with the United States Securities and Exchange Commission; and

(viii) such other information respecting the operations or condition (financial or otherwise) of Borrower or the Project, the Grain Facilities or the other Collateral as the Administrative Agent may from time to time reasonably request.

(l) NOTICE REQUIREMENTS. Promptly and in any event within three (3) Business Days after Borrower obtains knowledge thereof, Borrower will give the Administrative Agent written notice of the occurrence of any of the following:

(i) any Default or Event of Default;

(ii) any actual, proposed or threatened (in writing) termination, rescission or amendment of, waiver under or Claim with respect to any Project Document that could reasonably be expected to have a Material Adverse Effect;

(iii) any Loss that could reasonably be expected to reduce by more than ten percent (10%) the Project's Net Operating Cash for the then-current calendar quarter;

(iv) any Material Adverse Effect or any event or circumstance that could reasonably be expected to have a Material Adverse Effect;

(v) any pending or threatened (in writing) Claim, action, attachment, proceeding, suit, litigation, investigation or arbitration involving or affecting Borrower, any Project Party or any of their respective properties or assets (including without limitation the Project, the Grain Facilities and the other Collateral) by any Person or before any Government Instrumentality that could reasonably be expected to have a Material Adverse Effect;

(vi) any termination, revocation, suspension or modification of any Required Approval or any action or proceeding that could reasonably be expected to result in any of the foregoing;

(vii) the receipt of any management letter or similar communication from Borrower's auditors, or the resignation, discharge or change of Borrower's auditors;

(viii) any Environmental Claim or any fact, circumstance or condition (including any release or spill of any Hazardous Substance) that could reasonably be expected to form the basis of an Environmental Claim with respect to Borrower, any Project Party (in connection with its obligations under the Documents) or the Project or the Grain Facilities or any portion thereof or that could reasonably be expected to have a Material Adverse Effect;

(ix) any pending or threatened (in writing) condemnation or appropriation proceeding affecting the Project or the Grain Facilities or any material portion thereof;

(x) any material dispute involving Borrower or any

Project Party on the one hand and any Government Instrumentality or Project Party on the other hand (PROVIDED, that no notice need be given of a dispute between a Project Party and a Government Instrumentality unless such dispute could reasonably be expected to result in a Material Adverse Effect);

(xi) any event or claim of force majeure under any Major Project Document;

(xii) any forced outage (such as loss of electrical power for an extended period of time) with respect to the Project if such forced outage lasts for more than three (3) days; or

(xiii) Borrower's or any ERISA Affiliate's adoption of or participation in any Plan, or intention to adopt or participate in any Plan.

Each notice delivered pursuant to this Section 5.1(l) must include reasonable details concerning the occurrence that is the subject of such notice as well as Borrower's proposed course of action, if any. Delivery of a notice pursuant to this Section 5.1(l) will not affect Borrower's obligations under any other provision of the Loan Documents.

(m) SECURITY ACCOUNTS. Borrower will establish and maintain the Security Accounts required by the Disbursement Agreement.

(n) INSURANCE.

(i) Borrower will maintain, and will use commercially reasonable efforts to cause the EPC Contractor to maintain, all Required Insurance and, on each anniversary of the Construction Loan Closing Date, if there has been any change in coverage, will cause the Insurance Consultant to provide a letter to the Administrative Agent certifying that the insurance maintained by Borrower is adequate and consistent with industry standards. All Required Insurance will be provided by financially sound and reputable insurance companies or associations rated "A" or better (and a minimum size rating of X) by Best's Insurance Guide and Key Ratings (or an equivalent rating by another nationally recognized insurance rating agency of similar standing if Best's Insurance Guide and Key Ratings is no longer

published) or other insurance companies of recognized responsibility satisfactory to the Administrative Agent. Borrower may fulfill its obligations under this Section 5.1(n) under a corporate ("master") program or through EPC Contractor programs of insurance, subject to the prior approval of the Administrative Agent.

(ii) All Required Insurance will provide for waivers of subrogation in favor of the Administrative Agent, will not be cancelable without at least sixty (60) days' prior written notice to the Administrative Agent (except for 10 days' notice for non-payment of premium), and all third-party liability policies will name the Administrative Agent and the Lenders as additional insureds (except in the case of worker's compensation insurances). Insurance protecting Project assets and revenues (property, equipment, business interruption, etc.) will contain a standard Lender's Loss Payable endorsement, acceptable to the Administrative Agent, and name the Lenders or their assignee as first loss payee/mortgagee. Property-related policies will provide that any payment thereunder for loss or damage with respect to the mortgaged property will be made to the Project Revenue Account. Insurance supplied by Borrower will be primary as respects any other insurance carried by or on behalf of the Administrative Agent or the Lenders. The interests of the Administrative Agent and the Lenders will not be invalidated by any action or inaction of any Person or by any breach or violation by any Person of any warranties, declarations or conditions in such policies. All liability insurance will provide a severability of interest or cross-liability clause.

(iii) All Required Insurance maintained by the EPC Contractor will provide for waivers of subrogation in favor of Borrower, the Administrative Agent and the Lenders, will not be cancelable without at least sixty (60) days' prior written notice to the Administrative Agent (except for 10 days' notice for non-payment of premium), and all third party liability policies will name Borrower, the Administrative Agent and the Lenders as additional insureds (except in the case of worker's compensation insurance). Insurance protecting Project assets and revenues (property, equipment, business interruption, etc.) will name the Administrative Agent as the first

loss payee/mortgagee. All liability insurance maintained by the EPC Contractor will provide a severability of interest or cross-liability clause and will be primary and not excess to or contributing with any insurance or self-insurance maintained by Borrower, the Administrative Agent or the Lenders.

(iv) On each anniversary of the Construction Loan Closing Date, Borrower will furnish to the Administrative Agent evidence of insurance, in the form of binders, cover notes or certificates of insurance evidencing all coverages in place and certify (A) that all premiums are paid or current to date and (B) that Borrower is in compliance with all provisions in this Agreement relating to Required Insurance. Borrower will provide the Administrative Agent with copies of all insurance policies and certificates and other information that the Administrative Agent may reasonably request in writing with respect to the Required Insurance or the providers thereof and, without

any requirement of request by the Administrative Agent, will provide the Administrative Agent with copies of all replacement policies within 15 days of receipt of such policies by Borrower.

(v) Borrower will collaterally assign to the Administrative Agent and grant the Administrative Agent a Lien upon all insurance proceeds from the Project obtained by Borrower or in which Borrower has any right or interest (whether or not complying with or described by this Section 5.1(n)). Borrower will deposit, or cause to be deposited, all insurance proceeds not required by Section 2.8(a)(v)(A) to be applied as prepayments of the Loans into the Loss Proceeds Account for application in accordance with Section 4.5 of the Disbursement Agreement. Borrower will have the right to make, settle, compromise and liquidate any and all Claims for amounts less than $1 million and the Administrative Agent will have the right to make, settle, compromise and liquidate any and all Claims in excess of such amount and without prejudice to the other rights and remedies of the Administrative Agent under the Documents, the Required Insurance or Applicable Law.

(vi) In the event that any policy is written on a "claims made" basis and is approved by the Administrative Agent and such policy is not renewed or the retroactive date of such policy is changed, Borrower will obtain for each such policy or policies the broadest basic and supplemental extended reporting period coverage or "tail" reasonably available in the commercial insurance market for each such policy or policies and will provide the Administrative Agent with proof that such basic and supplemental extended reporting period coverage or "tail" has been obtained.

(o) LITIGATION. In any action, suit, litigation, investigation, arbitration or other proceeding involving Borrower or the Project, Borrower will make all filings and responses in a timely manner, pursue all remedies and appeals, defend its rights and properties with diligence and take all lawful action to avoid a Material Adverse Effect. Borrower will promptly pay any valid, final judgment (after all appeal rights have been exhausted) rendered against it or the Project.

(p) MINIMUM COVERAGE RATIO. Borrower will maintain a Minimum Coverage Ratio of not less than 1.25 to 1, calculated quarterly on each Payment Date after the Term Loan Conversion Date. For each of the first three Payment Dates after the Term Loan Conversion Date, the Minimum Coverage Ratio will be calculated from the Term Loan Conversion Date until the date of calculation. From and after the fourth Payment Date after the Term Loan Conversion Date, the Minimum Coverage Ratio will be calculated for the preceding twelve (12) month period.

(q) OPERATING MARGIN PROTECTION. Borrower will employ long-term hedging and price-management strategies customary and usual in the ethanol production industry for (i) the procurement of feedstocks, energy and fuel for the Project and (ii) the sale of the Products produced by the Project. Such hedging and price management strategies will be employed to minimize any reductions in (i) the Project's operating margin and (ii) the Project's ability to repay the Loans in accordance with this Agreement.

Section 5.2 NEGATIVE COVENANTS. Borrower covenants and agrees that, for so long as any Lender has any Commitment outstanding hereunder and

until the payment in full of the Notes and all amounts payable by Borrower and any other Person under the Loan Documents, it will perform and observe each of the following covenants, unless (and then only to the extent) compliance with such covenant has been waived pursuant to Section 8.5:

(a) BUSINESS. Borrower will not make any material change in the nature of its business or engage in any business or activity not contemplated by the Documents. It will not form or have any subsidiaries and will not own or hold the capital stock, securities, debt, assets or obligations of, or any interest in, any Person. It will not enter into any partnership, joint venture, royalty agreement or profit-sharing or similar arrangement.

(b) MERGERS AND SALES OF ASSETS. Borrower will not merge or consolidate with any Person or liquidate or dissolve. It will not sell, assign, lease or otherwise dispose of (whether in one transaction or in a series of transactions) any asset except (i) in the ordinary course of business (including the sale of obsolete or no longer useful or usable assets and sales of unneeded environmental credits or allowances), (ii) in connection with the replacement of such asset with a replacement that is appropriate and complies with all requirements of the Documents or (iii) in an instance in which the proceeds of such sale, assignment, lease or other disposition do not exceed two hundred fifty thousand Dollars ($250,000) in each instance and one percent (1%) of the total Qualified Project Construction Expenses of the Project in the aggregate and, in every instance, such sale, assignment, lease or other disposition has no material impact on the Net Operating Cash of the Project. The sale of Products by Borrower will not violate this Section 5.2(b). All proceeds of activities permitted by this Section 5.2(b) will be deposited into the Asset Sales Proceeds Account and disbursed therefrom in accordance with Section 4.6 of the Disbursement Agreement.

(c) CONTRACTUAL OBLIGATIONS.

(i) Borrower will not enter into any material Contractual Obligation other than the Documents and other documents or agreements relating to the items and actions described in Schedule 5.2(c). If requested by the Administrative Agent, it will collaterally assign any material Contractual Obligation to the Administrative Agent and, if such Contractual Obligation is a Major Project Document, will deliver to the Administrative Agent the written consent to assignment of the other party or parties to such material Contractual Obligation and a satisfactory opinion of Borrower's Counsel confirming the validity and enforceability of such assignment and consent. It will not pledge or assign any Contractual Obligation to any Person other than the Administrative Agent. Notwithstanding the foregoing, or any other provision of this Agreement to the contrary, Borrower will be permitted to enter into new or replacement plant operations and maintenance

agreements and Product marketing agreements without the prior approval of the Majority Lenders; PROVIDED, that such agreements, either individually or taken together, could not reasonably be expected to result in a Material Adverse Effect.

(ii) Borrower will not amend, suspend, terminate or grant a waiver under any Project Document in a manner that could reasonably be expected to result in a Material Adverse Effect, or take, or fail to take, any action that could result in the termination of, or the impairment of any right of Borrower, the Administrative Agent or any Lender under, any Project Document or any other contract, arrangement or agreement material to the Project. Notwithstanding the foregoing, Borrower may approve change orders under the EPC Contract without the Administrative Agent's consent if the work covered by such change orders does not exceed fifty thousand Dollars ($50,000) in the case of any single change order or two hundred thousand Dollars ($200,000) in the aggregate over any twelve-month period or if the cost of such change orders will be paid with new equity contributions made by Borrower Member to Borrower; PROVIDED, that none of such change orders materially affects the character of the Project or the ability of Borrower to fulfill its obligations under the Documents. In addition, the Administrative Agent and the Lenders acknowledge and agree that they have approved Borrower entering into documents and agreements relating to, and expending funds toward, the items and actions described in Schedule 5.2(c) and no further approval of or consent to such items will be required, including without limitation with respect to the approval of change orders related to such items and actions.

(iii) The Organizational Documents of Borrower may not be amended or any provision thereof waived in any material respect.

(iv) Borrower will not declare Final Performance Acceptance or Completion without the approval of the Majority Lenders (in consultation with the Engineer), which will not be unreasonably withheld or delayed.

(v) Borrower will promptly deliver to the Administrative Agent copies of (A) all material Contractual Obligations, (B) all amendments, suspensions, terminations and waivers of any material Contractual Obligation and (C) all change orders approved or entered into after the date of this Agreement.

(d) RESERVED.

(e) INVESTMENTS. Borrower will not make any loan or advance to any Person other than accounts receivable incurred in commercially reasonable amounts in the normal course of Borrower's business. Except for Permitted Investments made in compliance with the Disbursement Agreement, Borrower will not purchase or otherwise acquire the capital stock, securities, debt, assets or obligations of, or any interest in, any Person.

(f) LIENS. Borrower will not, and will not permit any other Person to, create, incur, assume or suffer to exist, any Lien upon or with respect to any of the Collateral or any of the other property of Borrower, now owned or hereafter acquired, or assign or otherwise convey, or permit any Person to assign or otherwise convey, any right to receive income or revenues from or of the Project, except that the foregoing restrictions will not apply to the following (collectively, "PERMITTED LIENS"):

(i) the Security Document Liens;

(ii) Liens for Taxes, if such Taxes (A) are not at the time delinquent and thereafter can be paid without penalty or (B) are being contested in good faith by appropriate proceedings with reserves established in accordance with GAAP and such Liens have been bonded over or do not involve any risk that a significant interest in or right to any Collateral may be sold, lost or forfeited or that any Security Document Lien may be impaired;

(iii) carriers', warehousemen's, materialmen's and mechanics' Liens and other similar Liens imposed by Law and arising in the ordinary course of business in connection with the construction or operation of the Project and the Grain Facilities, if such Liens have been bonded over and either (A) are not filed of record and are not delinquent or (B) are being contested in good faith by appropriate proceedings with proper reserves established, have not proceeded to judgment and do not involve any risk that a significant interest in or right to any Collateral may be sold, lost or forfeited or that any Security Document Lien may be impaired;

(iv) Liens arising out of pledges or deposits under workmen's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation (other than Liens imposed by ERISA);

(v) purchase money security interests in discrete items of equipment not comprising an integral part of the Project, the Grain Facilities or other Collateral when the obligation secured is incurred for the purchase of such equipment and does not exceed one hundred percent (100%) of the lesser of cost or fair market value thereof at the time of acquisition, and the security interest does not extend beyond the equipment involved and any proceeds therefrom; PROVIDED, that such Liens and the amount of materials, equipment and fixtures supplied or purchased pursuant to this clause (v) will not, taken together, at any time exceed the maximum aggregate amount of two hundred fifty thousand Dollars ($250,000);

(vi) the exceptions to the title of the Site set forth in the title policies delivered pursuant to Article III;

(vii) Liens arising from Indebtedness permitted pursuant to Section 5.2(g);

(viii) Liens in respect of matters disclosed by the ALTA/ASCM surveys delivered to the Administrative Agent pursuant to

Article III; and

(ix) Non-monetary encumbrances incurred in the ordinary course of business which could not reasonably be expected to have a Material Adverse Effect and other minor involuntary encumbrances and minor defects on title reasonably acceptable to the Administrative Agent.

If foreclosure or enforcement of any Lien upon the Project, any part thereof or any other Collateral is at any time initiated, the Administrative Agent will have the right, but not the obligation, to take any action it deems appropriate, including payment of the obligation secured by such Lien, and Borrower will immediately upon demand reimburse the Administrative Agent for all sums expended by the Administrative Agent in taking any such action. Any amount not reimbursed upon demand will bear interest at the Default Rate and will be an obligation secured by the Security Document Liens.

(g) INDEBTEDNESS. Borrower will not, without Administrative Agent's prior written consent, which will not be unreasonably withheld, create, incur, assume or suffer to exist any Indebtedness, except:

(i) Indebtedness under the Notes and the other Loan Documents;

(ii) Indebtedness owed to the Sub-Debt Provider and subject to the Intercreditor Agreement, which Indebtedness must be repaid in full or assumed in full by a Person other than Borrower on or prior to the Term Loan Conversion Date;

(iii) Indebtedness not to exceed, in the aggregate, two hundred fifty thousand Dollars ($250,000) at any one time outstanding, secured by Liens permitted by Section 5.2(f)(v);

(iv) accounts payable incurred in commercially reasonable amounts in the normal course of Borrower's business, including guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions;

(v) Indebtedness under interest rate and commodity price hedge agreements entered into by Borrower in the normal course of its business;

(vi) Indebtedness relating to capital lease transactions entered into by Borrower in the ordinary course of its business relating to assets the fair market value of which does not exceed one hundred thousand Dollars ($100,000) individually and five hundred thousand Dollars ($500,000) in the aggregate;

(vii) unsecured subordinated Indebtedness in the aggregate amount not to exceed two hundred fifty thousand Dollars ($250,000); and

(viii) other contingent liabilities incurred by Borrower in the ordinary course of its business in accordance with the Project Documents but not in connection with obtaining or guaranteeing any Indebtedness of Persons other than Borrower.

(h) LEASE OBLIGATIONS. Borrower will not create or suffer to exist any obligation for the payment of rental for any property under leases or agreements to lease having a term of three years or more, other than the Project Documents.

(i) DISTRIBUTIONS. Borrower will not make, declare or pay any distribution, dividend or return of capital, or purchase, redeem or otherwise acquire for value any ownership interest now or hereafter outstanding, or make any distribution of assets or property to any other Person except for distributions made in compliance with the Disbursement Agreement.

(j) CHANGES IN CONTROL. Borrower will not effect or permit any change of control of Borrower; PROVIDED, that Borrower may affect or permit one or a series of transactions pursuant to which PEI sells less than fifty percent (50%) of its direct or indirect equity interests in Borrower so long as PEI retains operational control over Borrower and Borrower and the other PEIX Parties comply with the provisions of the second sentence of this Section 5.2(j). No sale, transfer or other encumbrance of any ownership interest in Borrower may occur without appropriate Security Documents being entered into between the Administrative Agent and the new Borrower Members.

(k) TRANSACTIONS WITH AFFILIATES AND THIRD PARTIES. Borrower

will not enter into, or cause, suffer or permit to exist, any arrangement or contract with any of its Affiliates (other than the Project Documents in effect on the Construction Loan Closing Date or the Term Loan Conversion Date, as applicable) EXCEPT (i) any arrangement or contract that contains provisions that are fair and reasonable to Borrower and no less favorable than those which would be included in an arm's-length transaction entered into by a prudent Person in the position of Borrower with a Person which is not one of its Affiliates, (ii) any employment, non-competition, management or confidentiality agreement entered into by Borrower with any of its employees, officers or directors in the ordinary course of business that contains fair and reasonable terms no less favorable to Borrower than those which would be included in an arm's-length transaction entered into by a prudent Person in the position of Borrower with a non-affiliated third party and (iii) as otherwise expressly permitted by the Loan Documents or approved in advance by the Majority Lenders.

(l) ENVIRONMENTAL COMPLIANCE.

(i) Borrower will not, and will not knowingly permit any other Person to, use, generate, discharge, emit, manufacture, handle, process, store, release, transport, remove, dispose of or clean up any Hazardous Substance on, under or from the Project, the Grain Facilities or the Site in violation of any Environmental Law or in a manner that could reasonably be expected to lead to any material Environmental Claim or pose a material risk to human health, safety or

the environment. Borrower will comply, and will use commercially reasonable efforts to cause all other Persons occupying, using or present at the Project, the Grain Facilities or the Site to comply, with all Environmental Laws in all material respects.

(ii) Borrower will promptly take all actions and pay or arrange to pay all costs necessary for it and the Project and the Grain Facilities to comply with all Environmental Laws and all Required Approvals, including actions to remove and dispose of all Hazardous Substances and to clean-up the Project, the Grain Facilities, the Site and any other property to the extent affected by the Project, the Grain Facilities or the activities of Borrower, the Project Parties or their respective agents or for which Borrower is otherwise responsible. If Borrower fails to take the actions or pay or arrange to pay the costs required under this Section 5.2(l), the Administrative Agent may, but will have no obligation to, take such actions or pay such costs, and all amounts so expended will be obligations of Borrower to the Administrative Agent under the Loan Documents payable upon demand and secured by the Liens of the Security Documents. Nothing in this Section 5.2(l) will impose any obligation or liability whatsoever on the Administrative Agent or any Lender or require Borrower to undertake or assure compliance for which it is not responsible or respecting property that it does not own or control.

(iii) From time to time and at any reasonable time and frequency, upon the occurrence of an event or omission that, in the reasonable opinion of the Administrative Agent, could reasonably be expected to result in a Material Adverse Effect, the Administrative Agent may cause an environmental audit of the Project, the Grain Facilities or the Site or the location of any Collateral to be conducted to confirm Borrower's compliance with this Section 5.2(l). Borrower agrees to cooperate fully with the Administrative Agent and its agents in connection with each such audit and to pay the reasonable documented cost thereof.

(m) ERISA. None of Borrower or any ERISA Affiliate will adopt, maintain, sponsor, participate in or incur any liability or obligation under or to any Plan or incur any obligation to provide post-retirement benefits to any Person.

(n) USE OF PROCEEDS. Borrower will use the proceeds of the Loans only for the purposes described in Section 2.7 and in accordance with the requirements and conditions of the Loan Documents. Borrower will not engage in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation G, T, U or X issued by the Board of Governors of the Federal Reserve System) and no proceeds of any Loan will be used, directly or indirectly, to purchase or carry margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock. No proceeds of any Loan will be used to acquire any security in any transaction which is subject to Section 13 or 14 of the Securities Exchange Act of 1934, as amended.

(o) BANK ACCOUNTS. Borrower will not maintain any account or deposit with any bank or other depository institution other than (i) the accounts created under the Disbursement Agreement and standard operations and payroll accounts and (ii) such other accounts as the Administrative Agent may approve in writing and in which the Administrative Agent has a perfected, valid and enforceable First-Priority Lien. It will not deposit funds into any account other than the accounts described in the preceding sentence except as may be otherwise expressly permitted by the Loan Documents.

(p) AUDITORS. Borrower will not discharge or change its auditors to an auditing firm that is not also providing audit services to PEI or change its fiscal year without the prior written consent of the Administrative Agent.

(q) PUBLICITY. Borrower will not, and will not permit any Affiliate to, issue, or consent to the issuance of, any press release, announcement or advertisement that refers to the financing contemplated by the Loan Documents without the prior written consent of the Administrative Agent, which will not be unreasonably withheld or delayed; PROVIDED, that Borrower and PEI will be permitted, without obtaining the prior written consent of the Administrative Agent, to make such filings with Government Instrumentalities as may be required by applicable Law.

(r) ABANDONMENT. Borrower will not abandon the Project or cease to operate the Project for any period of thirty (30) consecutive days (it being acknowledged that the cessation of operations on account of a force majeure event or maintenance shall not be deemed to be an abandonment for so long as Borrower continues to comply with all of its other obligations under this Agreement).

ARTICLE VI
EVENTS OF DEFAULT

Section 6.1 EVENTS OF DEFAULT. Each of the following constitutes an "EVENT OF DEFAULT" under this Agreement:

(a) Any principal of any Loan is not paid within five (5) days after such principal is due.

(b) Any interest on any Loan or any fee or other amount payable under any Loan Document (other than amounts described in paragraph (a) above) is not paid within five (5) days after such interest, fee or other amount is due.

(c) Any representation or warranty made by any PEIX Party or any other Project Party (or any of their respective officers or representatives) in any Loan Document or in any certificate, financial statement or other document furnished pursuant to or in connection with any Loan Document proves to have been incorrect or misleading in any material respect at the time it was made, deemed to have been made, or confirmed.

(d) Borrower or any other PEIX Party fails to perform or observe any term, covenant or agreement contained in any Loan Document (other than any term, covenant or agreement that is the basis of another Event of Default) to be performed or observed by it and such failure remains unremedied

for thirty (30) days after the occurrence thereof; PROVIDED, that, if Borrower or such other PEIX Party has diligently attempted to cure such default throughout the initial 30-day grace period but such default has not been cured at the expiration of the initial 30-day grace period, and if such default is likely to be cured during the thirty (30) days following the expiration of the initial 30-day grace period, then Borrower may request in writing that the Administrative Agent grant one additional 30-day grace period within which to cure such default (such request to contain all relevant facts and circumstances necessary for the Administrative Agent to make an informed decision as to whether to grant an additional grace period) and the Administrative Agent, in its sole discretion, may grant one additional 30-day grace period within which Borrower or such other PEIX Party must cure the default.

(e) Any Project Party fails to perform or observe any term, covenant or agreement contained in any Major Project Document (other than any term, covenant or agreement that is the basis of another Event of Default) to be performed or observed by it and such failure is not remedied within any applicable grace period specifically provided for in such Major Project Document and could reasonably be expected to have a Material Adverse Effect; PROVIDED,

that, if such Project Party has diligently attempted to cure such default throughout the initial grace period provided for in the Major Project Document but such default has not been cured at the expiration of such initial grace period, and if (1) the applicable Major Project Document provides for one or more subsequent grace periods and (2) such default is likely to be cured during the next subsequent grace period provided for in the Major Project Document, then Borrower may request in writing that the Administrative Agent grant one additional grace period of the same length as the Project Party has received pursuant to the Major Project Document (but not to exceed thirty (30) days) within which the Project Party may cure such default (such request to contain all relevant facts and circumstances necessary for the Administrative Agent to make an informed decision as to whether to grant an additional grace period) and the Administrative Agent, in its sole discretion, may grant one additional grace period of up to thirty (30) days within which the Project Party must cure the default under the Major Project Document; PROVIDED, FURTHER, that Borrower may also cure this Event of Default by entering into, within thirty (30) days after the initial occurrence of such Event of Default, a replacement agreement with a new counterparty reasonably acceptable to the Administrative Agent, which replacement agreement will be on terms and conditions at least as favorable to Borrower as the original Major Project Document being replaced.

(f) The Security Documents for any reason cease to create perfected, valid and enforceable First-Priority Liens on the Collateral, or Borrower or Borrower Member so states in writing.

(g) Any provision of any Document (i) is terminated, repudiated or declared to be invalid by any party thereto or by any Government Instrumentality or (ii) for any reason ceases to be valid and binding and of full force and effect except as permitted by Section 5.2(c) and, in either case, could reasonably be expected to have a Material Adverse Effect.

(h) Borrower fails to pay any Indebtedness (other than Indebtedness evidenced by the Notes or arising under the Loan Documents) or any interest or premium thereon when due, or any other default under any agreement or instrument relating to any such Indebtedness, or any other event, occurs and continues after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such default or event is to accelerate the maturity of Indebtedness in an amount greater than two hundred fifty thousand Dollars ($250,000) or to cause the holders of Indebtedness in an amount greater than two hundred fifty thousand Dollars ($250,000) to exercise any remedy against Borrower or any of its properties; or any Indebtedness in an amount greater than two hundred fifty thousand Dollars ($250,000) is declared to be due and payable, or required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof.

(i) A final judgment or order for the payment of money in excess of five hundred thousand Dollars ($500,000) is rendered against Borrower and is not covered by insurance or otherwise covered to the satisfaction of the Administrative Agent and either (i) enforcement proceedings are commenced by any creditor upon such judgment or order or (ii) a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, is not in effect for any period of ten (10) consecutive days.

(j) A Bankruptcy Event occurs with respect to Borrower, Borrower Member or any Project Party and, in the case of a Project Party, such event could reasonably be expected to have a Material Adverse Effect.

(k) (i) Any Law is enacted, (ii) any change in Law or any change in the interpretation or administration of any Law (having the force of Law) occurs (other than with respect to the Volumetric Ethanol Excise Tax Credit), or (iii) any Claim is asserted against Borrower, the Project or any Project Party, in each case that (a) has a material adverse effect on the validity, enforceability or priority of the Liens granted in favor of the Administrative Agent pursuant to the Security Documents or (b) would reasonably be expected (after taking into account all insurance, defenses and any other mitigating factors available to Borrower) to result in the inability of Borrower to pay its Obligations at the times and in the amounts required by this Agreement and the Notes.

(l) A Major Loss occurs without the relevant insurer agreeing to pay insurance proceeds in the full amount of such Major Loss (subject to the underlying deductible) within ninety (90) days of the occurrence of the Major Loss so as to allow replacement of such Collateral and PROVIDED, that Borrower continues to satisfy its obligations hereunder and under the other Major Project Documents.

(m) Any Government Instrumentality or any Person acting or purporting to act under the authority of any Government Instrumentality takes any action to condemn, seize or appropriate, or to assume custody or control of,

all or any substantial part of the Site or the Project, or takes any action to displace or curtail the authority of the management of Borrower and such action could reasonably be expected to have a Material Adverse Effect.

(n) The Engineer, at any time during the period between the Construction Loan Closing Date and the Term Loan Conversion Date, reports that construction of the Project lags more than thirty (30) days behind the schedule detailed in the Construction and Draw Schedule for reasons other than Permitted Construction Delays and thereafter, within sixty (60) days of the date of the Engineer's report, construction of the Project has not been restored to conform with the schedule detailed in the Construction and Draw Schedule.

(o) Substantial Completion does not occur on or prior to 425 days after Construction Loan Closing Date and (i) such delay in reaching Substantial Completion, taking into account the obligations of the EPC Contractor to pay scheduled liquidated damages under the EPC Contract, could reasonably be expected to have a Material Adverse Effect or (ii) the Administrative Agent, in its reasonable discretion, determines that such delay in reaching Substantial Completion makes it more likely than not that Completion will not occur on or prior to the Construction Loan Commitment Termination Date.

(p) Completion does not occur on or prior to the Construction Loan Commitment Termination Date.

Section 6.2 REMEDIES. Upon the occurrence of an Event of Default described in Section 6.1(j), the Commitments of the Lenders will terminate and the Loans, all interest thereon and all other amounts payable under the Loan Documents will become and be immediately due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Borrower. Notwithstanding any other provision of this Agreement or any other Loan Document, upon the occurrence of an Event of Default described in Section 6.1(d) that is caused solely by Borrower's failure to comply with its obligations pursuant to Section 5.1(p), the sole remedy of the Administrative Agent and the Lenders will be as provided in Sections 4.3 and 4.4 of the Disbursement Agreement. Upon the occurrence and during the continuance of any other Event of Default, the Administrative Agent will at the request, or may with the consent, of the Majority Lenders, by notice to Borrower, (i) declare the Commitment of each Lender to be terminated, whereupon the same will forthwith terminate and (ii) declare the Loans, all interest thereon and all other amounts payable under the Loan Documents to be due and payable, whereupon the Loans, all such advances, all such interest and all such amounts will become and be immediately due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Borrower.

Section 6.3 RIGHT TO COMPLETE.

(a) Upon the occurrence and during the continuance of an Event of Default, and following the acceleration by the Lenders of the outstanding Loans and the commencement by the Administrative Agent of any exercise of remedies available to it pursuant to the Security Documents or applicable Law, the Administrative Agent and the Lenders, in addition to any other remedy that they may have under the Loan Documents or by Law, will have the right (but not the obligation) in their sole and absolute discretion:

(i) to enter the Site, the Project and other property owned or leased by Borrower and complete the construction of the Project at the risk, cost and expense of Borrower;

(ii) at any and all times to discontinue any work commenced by them in respect of the Project or to change any course of action undertaken by them; and

(iii) to take over and use all or any part of the labor, materials, supplies and equipment contracted for by or on behalf of Borrower, whether or not previously incorporated into the Project.

In no event will the actions of the Administrative Agent or the Lenders while exercising their rights pursuant to this Section 6.3 constitute the Administrative Agent or any Lender a mortgagee-in-possession, and Borrower hereby indemnifies the Administrative Agent and the Lenders from and against any and all costs and liabilities resulting from any such characterization or from their actions or omissions to act pursuant to this Section 6.3; PROVIDED, that Borrower has no obligation to indemnify the Administrative Agent and the Lenders

for costs and liabilities resulting from the gross negligence or willful misconduct of the Administrative Agent or any Lender.

(b) In connection with any construction of the Project undertaken by the Administrative Agent and the Lenders pursuant to this Section 6.3, the Administrative Agent and the Lenders may:

(i) engage builders, contractors, architects, engineers, security services and others for the purpose of furnishing labor, material, equipment and security in connection with any construction of the Project;

(ii) pay, settle or compromise, or cause to be paid, settled or compromised, all claims or bills that may become Liens against Borrower's interest in the Site or the Project, or that have been or may be incurred in any manner in connection with the construction of the Project or for the discharge of Liens or defects in the title of Borrower's interest in the Site or the Project; and

(iii) take such other action or refrain from acting under this Agreement as the Administrative Agent and the Lenders may in their sole and absolute discretion from time to time determine.

(c) Borrower will be liable to the Administrative Agent and the Lenders for all sums paid or incurred for the construction of the Project and all payments made or liabilities incurred by the Administrative Agent and the Lenders under this Agreement of any kind whatsoever (other than liabilities incurred due to the gross negligence or willful misconduct of the Administrative

Agent or any Lender) will be paid by Borrower to the Administrative Agent and the Lenders upon demand with interest to the date of payment to the Administrative Agent and the Lenders at the Default Rate.

(d) For the purpose of carrying out the provisions and exercising the rights, powers and privileges granted by this Section 6.3, Borrower irrevocably constitutes and appoints the Administrative Agent, with full power of substitution, as its true and lawful attorney-in-fact, in its name and on its behalf, and at its expense, at any time after the occurrence and during the continuance of an Event of Default, to execute, acknowledge and deliver any document and instrument and to do and perform any act such as those referred to in this Section 6.3, without notice to or the consent of Borrower. This power of attorney is coupled with an interest and is not revocable.

ARTICLE VII
THE AGENT

Section 7.1 AUTHORIZATION AND ACTION. Each Lender hereby appoints and authorizes the Administrative Agent to take such actions as administrative agent on its behalf and to exercise such powers under this Loan Agreement and the other Loan Documents as are delegated to the Administrative Agent by the terms hereof and thereof, together with such powers as are reasonably incidental thereto. The Administrative Agent will have no duties, responsibilities, obligations or liabilities other than those expressly set forth in the Loan Documents, and no additional duties, responsibilities, obligations or liabilities will be inferred from the provisions of the Loan Documents or imposed on the Administrative Agent. As to matters not expressly provided for by this Loan Agreement or the other Loan Documents (including enforcement or collection of the Notes), the Administrative Agent will not be required to exercise any discretion or take any action, but will be required to act or to refrain from acting (and will be fully protected in so acting or refraining from acting) upon the instructions of the Majority Lenders, and such instructions will be binding upon all the Lenders and all holders of Notes; PROVIDED, that the Administrative Agent will in no event be required to take any action which exposes it to personal liability, which is contrary to the Loan Documents or Law or with respect to which the Administrative Agent does not receive adequate instructions or full indemnification from the Lenders. The provisions of this Article VII are solely for the benefit of the Administrative Agent, its agents and Affiliates and the Lenders. The Administrative Agent has no duties or relationships, of trust or agency, with or to Borrower, Borrower Member, the Project Parties or their respective Affiliates.

Section 7.2 DELEGATION OF DUTIES. The Administrative Agent may delegate any of its responsibilities or duties under the Loan Documents to one or more agents and will not be liable for the negligence or misconduct of any agent selected by it with reasonable care.

Section 7.3 ADMINISTRATIVE AGENT'S RELIANCE. None of the Administrative Agent, its agents or any of its respective affiliates will be

liable for any action taken or omitted to be taken by any of them under or in connection with the Documents, except that each will be liable for its own gross negligence or willful misconduct as finally determined by a Government Instrumentality. Without limiting the generality of the foregoing, the Administrative Agent:

(a) may treat the payee of any Note as the holder thereof until the Administrative Agent receives written notice of the assignment or transfer thereof signed by such payee and in a form satisfactory to the Administrative Agent;

(b) may consult with qualified legal counsel (including Borrower's Counsel), independent public accountants and other experts selected by it and will not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts;

(c) makes no representation or warranty to any Lender and will not be responsible to any Lender for any statement, representation or warranty made in or in connection with the Documents;

(d) will not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of the Documents or to inspect the Project or the books and records or any other property of Borrower, any PEIX Party, any other Project Party or any Affiliate thereof;

(e) will not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of any Document or any other document or instrument furnished pursuant thereto, or for the failure of any Person to perform its obligations under any Document; and

(f) will incur no liability under or in respect of this Agreement or any other Document or otherwise by acting upon any notice, consent, waiver, certificate or other writing or instrument (including facsimiles, telexes, telegrams and cables) believed by it to be genuine and signed or sent by the proper Person or Persons.

Section 7.4 NOTICE OF DEFAULT. The Administrative Agent will not be deemed to have knowledge or notice of any Default or Event of Default unless and until written notice has been provided as set forth in Section 8.20 from a Lender or Borrower referring to this Agreement, describing the Default or Event of Default and stating that such notice is a "notice of default."

Section 7.5 ADMINISTRATIVE AGENT AS A LENDER. With respect to its Commitments, the Pro Rata Share of the Loans funded by it and the Notes issued to it, Hudson United Capital will have the same rights and powers under the Loan Documents as any other Lender and may exercise the same as though it were not the Administrative Agent and, unless otherwise expressly indicated, the term "Lender" or "Lenders" will include Hudson United Capital in its individual capacity. Hudson United Capital and its Affiliates may accept deposits from,

lend money to, act as trustee under indentures of and generally engage in any kind of business with the PEIX Parties and any of their Affiliates and any Person who may do business with or own securities of the PEIX Parties or any of their Affiliates, all as if Hudson United Capital were not the Administrative Agent and without any duty to account therefor to the Lenders. The Administrative Agent is designated as an administrative agent for the Lenders and each of the Lenders and Borrower may rely on authorizations and directions by the Administrative Agent as if given by each Lender.

Section 7.6 CREDIT DECISIONS. Each Lender acknowledges that neither the Administrative Agent nor any of its Affiliates has made any representation or warranty with respect to the PEIX Parties, any of their Affiliates, the Project or any other matter, and agrees that no review or other action by the Administrative Agent or any of its Affiliates will be deemed to constitute any such representation or warranty. Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based on the financial statements referred to in Section 4.1(j) and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents to which it is party. Each Lender also acknowledges and agrees that it will, independently and without reliance upon the Administrative

Agent or any other Lender, and based on such documents and information as it deems appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents. The Administrative Agent will have no obligation to provide to any Lender any information or document concerning or relating to the Project, the PEIX Parties, the other Project Parties or any Affiliate thereof or any other Person or matter that may come into the Administrative Agent's possession or to obtain any such information or documents; PROVIDED, that the Administrative Agent will deliver to the Lenders all notices, information and documents actually received by the Administrative Agent from the PEIX Parties, the other Project Parties or any Affiliate thereof pursuant to the Loan Documents for distribution to the Lenders.

Section 7.7 INDEMNIFICATION. The Lenders agree to indemnify the Administrative Agent, its agents and its respective Affiliates (to the extent not reimbursed by Borrower), ratably according to the respective principal amounts of the Notes then held by each of the Lenders, from and against any and all Claims, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever that may be imposed on, incurred by or asserted against the Administrative Agent, its agents or its respective Affiliates by any Person (including any Lender) in any way relating to or arising out of:

(a) the Project;

(b) any Document;

(c) any action taken or omitted by the Administrative Agent or any Lender;

(d) any claim for brokerage fees or commissions in connection with any transaction contemplated by the Documents;

(e) any Claim based on any misstatement or inaccuracy in or omission from any disclosure provided by the PEIX Parties, the other Project Parties or any Affiliate thereof or their representatives in connection with the syndication of the Loans;

(f) the actual or alleged presence, release or discharge of any Hazardous Substance on, from or under the Project or the existence, use, generation, manufacture, handling, processing, discharge, emission, storage, release, transportation, removal, disposal or clean-up thereof of any Hazardous Substance on or at the Project or by Borrower, any Project Party or any Affiliate thereof; or

(g) any Environmental Claim asserted against or relating to the Project, Borrower, any Project Party or any Affiliate thereof or any actual or alleged violation of any Environmental Law by any of such Persons; PROVIDED, that no Lender will be liable to any Person for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from such Person's gross negligence or willful misconduct as finally determined by a Government Instrumentality.

Without limiting the generality of the foregoing, each Lender agrees to reimburse the Administrative Agent promptly upon demand for such Lender's ratable share of any cost, expense or Tax described in Section 8.11 incurred by or imposed on the Administrative Agent for which the Administrative Agent does not receive reimbursement from Borrower. Payment by an indemnified party will not be a condition precedent to the obligations of the Lenders under this indemnity. This Section 7.7 will survive the Construction Loan Closing Date, the making and repayment of the Loans and any transfer or assignment of the Notes.

Section 7.8 SUCCESSOR ADMINISTRATIVE AGENT. The Administrative Agent may resign at any time by giving at least sixty (60) days' prior written notice thereof to the Lenders and Borrower and may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders will have the right to appoint a successor Administrative Agent, which shall also be acceptable to Borrower in its reasonable discretion. If within thirty (30) days after the resignation or removal of the retiring Administrative Agent no successor Administrative Agent accepts appointment by the Majority Lenders, the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which will be a commercial bank organized under the Laws of the United States or of any State thereof and will have a combined capital and surplus of at least two hundred fifty million Dollars ($250,000,000). Upon the acceptance of its appointment as Administrative Agent, the successor Administrative Agent will thereupon succeed to and be vested with all the rights, powers, privileges and duties of the retiring Administrative Agent and the retiring Administrative Agent will be discharged

from its duties and obligations under the Loan Documents. After any retiring Administrative Agent's resignation or removal, the provisions of this Article VII will inure to its benefit as to any action taken or omitted to be taken by it while it was Administrative Agent.

ARTICLE VIII
GENERAL PROVISIONS

Section 8.1 COUNTERPARTS. Each of the Loan Documents may be executed in any number of counterparts and by the different parties thereto in separate counterparts, each of which when so executed will be deemed to be an original and all of which taken together will constitute one and the same instrument.

Section 8.2 INTEGRATION. The Loan Documents contain the complete agreement among the PEIX Parties, the Lenders and the Administrative Agent with respect to the matters contained therein and supersede all prior commitments, agreements and understandings, whether written or oral, with respect to the matters contained therein.

Section 8.3 SEVERABILITY. Any provision of any Loan Document that is invalid or prohibited in any jurisdiction will, as to such jurisdiction, be ineffective and severable from the rest of such Loan Document to the extent of such invalidity or prohibition, without impairing or affecting in any way the validity of any other provision of such Loan Document or of any other Loan Document, or of such provision in other jurisdictions. The parties agree to replace any provision that is ineffective by operation of this Section 8.3 with an effective provision which as closely as possible corresponds to the spirit and purpose of such ineffective provision and the affected Loan Document as a whole.

Section 8.4 FURTHER ASSURANCES. At any time and from time to time upon the request of the Administrative Agent, Borrower will execute and deliver such further documents and instruments and do such other acts as the Administrative Agent may reasonably request in accordance with the Loan Documents in order to effect fully the purposes of the Loan Documents, to create, perfect, maintain and preserve First-Priority Liens on the Collateral in favor of the Administrative Agent and to provide for the payment of the Loans and the other obligations of Borrower and Borrower Member in accordance with the terms of the Loan Documents.

Section 8.5 AMENDMENTS AND WAIVERS. No amendment or waiver of any provision of any Loan Document, or consent to any departure by Borrower therefrom, will be effective unless it is in writing and signed by the Administrative Agent with the consent of the Majority Lenders; PROVIDED, that no such amendment, waiver or consent that could reasonably be expected to affect the principal amount, amortization or maturity of, the interest rate applicable to, or the collateral securing, the Loans will be effective without the consent of all of the Lenders. A waiver or consent granted pursuant to this Section 8.5 will be effective only in the specific instance and for the specific purpose for which it is given.

Section 8.6 NO WAIVER; REMEDIES CUMULATIVE. The waiver of any right, breach or default under any Loan Document by the Administrative Agent must be made specifically and in writing. No failure on the part of the Administrative Agent or any Lender to exercise, and no forbearance or delay in exercising, any right under any Loan Document will operate as a waiver thereof, no single or partial exercise of any right under any Loan Document will preclude

any other or further exercise thereof or the exercise of any other right, and no waiver of any breach of or default under any provision of any Loan Document will constitute or be construed as a waiver of any subsequent breach of or default under that or any other provision of any Loan Document. No notice to or demand upon Borrower will entitle Borrower to any further, subsequent or other notice or demand in similar or any other circumstances. Each of the rights and remedies of the Administrative Agent and the Lenders under the Loan Documents is cumulative and not exclusive of any other right or remedy provided or existing by agreement or under Law.

Section 8.7 SUCCESSORS AND ASSIGNS.

(a) Each Loan Document will be binding upon and inure to the benefit of the parties thereto and all future holders of Notes and their

respective successors and permitted assigns.

(b) Borrower has no right to assign its rights or interests, or delegate its duties or obligations, under any Loan Document without the prior written consent of the Administrative Agent.

(c) The Lenders may not syndicate or transfer all or any part of their respective Commitments or Loans to other financial institutions without the prior written consent of the Administrative Agent and Borrower; PROVIDED, that if the proposed transferee is a financial institution has a reasonable amount of experience as a lender in project-finance transactions or as a lender to ethanol production facilities, then Borrower's consent to such transfer will not be required. In addition, no Person that is not an original signatory to this Agreement will become a Lender unless such Person does not have any then-existing borrower-lender or other current, significant financial relationship with the PEIX Parties, any other Project Party or any Affiliate of the PEIX Parties or any other Project Party, or with any other Lender. In connection with each such transfer, the transferring Lender and its transferee will execute and deliver a supplement to this Agreement in the form of Exhibit 8.7(c). Upon delivery of such supplement to the Administrative Agent, the transferee will become a "Lender" under the Loan Documents with all of the attendant rights, benefits and obligations, the respective Pro Rata Shares of the transferring Lender and its transferee will be appropriately adjusted, and Borrower will execute and deliver to the transferring Lender and its transferee replacement Notes reflecting their respective Loans. The Note or Notes being replaced will be canceled and returned to Borrower. Each replacement Note will have endorsed thereon the disbursements, payments and amount outstanding thereunder. After any such transfer, the transferring Lender will have no obligation with respect to the portion of its Commitments transferred. The Administrative Agent shall maintain at its address referred to in its signature block a copy of each Commitment Transfer Supplement delivered to it and a register (the "REGISTER") for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Loans owing to, each Lender from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and Borrower, the Administrative Agent and the Lenders shall treat each Person whose name is recorded in the Register as the

owner of the Loans and any Notes evidencing such Loans recorded therein for all purposes of this Agreement. Any assignment of any Loan, whether or not evidenced by a Note, shall be effective only upon appropriate entries with respect thereto being made in the Register. The Register shall be available for inspection by Borrower or any Lender (with respect to any entry relating to such Lender's Loans) at any reasonable time and from time to time upon reasonable prior notice. An assignee shall not be entitled to receive any greater payment under Section 2.10 than the assigning Lender would have been entitled to receive with respect to the Loan or portion of the Loan assigned to such assignee, unless the grant to such assignee is made with Borrower's prior written consent or unless at the time of such assignment both the assigning Lender and the assignee Lender would have been entitled to the same payment under Section 2.10 under the circumstances that later give rise to the assignee Lender's claim for payment under Section 2.10, and subject to compliance by such assignee with Section 2.10(a).

(d) The holder of any Note or Commitment will have the right to grant participations in such Note or Commitment to any Person on such terms and conditions as are determined by such holder in its sole and absolute discretion; PROVIDED, that no such grant of participations will release any Lender from its obligations hereunder or create any additional obligation on Borrower. A participant shall not be entitled to receive any greater payment under Section 2.10 than the applicable Lender would have been entitled to receive with respect to the participation sold to such participant, unless the sale of the participation to such participant is made with Borrower's prior written consent or unless at the time of such assignment both the assigning Lender and the assignee Lender would have been entitled to the same payment under Section 2.10 under the circumstances that later give rise to the assignee Lender's claim for payment under Section 2.10, and subject to compliance by such assignee with Section 2.10(a).

(e) The Lenders have the right to assign and pledge all or any portion of the obligations owing to them under the Loan Documents to any Federal Reserve Bank or to the United States Department of the Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by the Federal Reserve System; PROVIDED, that no such collateral assignment will release any Lender from its obligations hereunder.

(f) Each Lender represents and warrants to the Administrative Agent and each other party to this Loan Agreement that in making Loans hereunder such Lender will be acquiring the Notes issued to it for the purpose of

investment and not with the view to, or for sale in connection with, any distribution in violation of the Securities Act of 1933, as amended.

Section 8.8 NO AGENCY. None of the PEIX Parties is the agent or representative of the Administrative Agent or any Lender or is authorized to act on behalf of or bind the Administrative Agent or any Lender in any way.

Section 8.9 NO THIRD-PARTY BENEFICIARIES. Except as otherwise expressly stated therein, each Loan Document is intended to be solely for the benefit of the parties thereto and their respective successors and permitted assigns and is not intended to and does not confer any right or benefit on any third party.

Section 8.10 NON-RECOURSE. The Loans are the obligations solely of Borrower, and the Administrative Agent and the Lenders will have access only to the Collateral for repayment. The Obligations of the PEIX Parties other than Borrower are limited to those specifically stated in the Security Documents to which such PEIX Parties are parties and no PEIX Party other than Borrower has any direct obligation with respect to the payment of the Loans.

Section 8.11 COSTS AND EXPENSES. Borrower agrees to pay to the Administrative Agent and the Lenders on demand all reasonable, documented costs, and expenses incurred or arising in connection with the preparation, documentation, negotiation, execution, delivery, funding, administration or enforcement of the Loan Documents or the transactions contemplated thereby or effected pursuant thereto; PROVIDED, that Borrower will have no liability to pay the costs and expenses of the Lenders (in such capacity) arising after the Construction Loan Closing Date unless there shall occur and be continuing an Event of Default. Such costs and expenses will include (a) all reasonable fees of, and expenses incurred by, the Engineer, Lenders' Counsel, the Process Agent, the Title Insurer, the Insurance Consultant, the Environmental Consultant and all other advisers and consultants engaged by the Administrative Agent pursuant to the Loan Documents, (b) all Transfer Taxes, charges and similar levies, filing and recordation fees and expenses payable in order to create, attach, perfect, continue and enforce the Liens of the Security Documents, and the cost of the Title Policies and all endorsements thereto, (c) all fees, costs, expenses, Taxes and insurance premiums incurred in connection the protection, maintenance, preservation, collection, liquidation or sale of, or foreclosure or realization upon, any Collateral, and (d) all reasonable attorneys' fees and expenses and other costs incurred in connection with (i) complying with any subpoena or similar legal process relating in any way to the Project, any Document, any PEIX Party or any other Project Party, (ii) determining the rights and responsibilities of the Administrative Agent or the Lenders under the Loan Documents when questioned or otherwise requiring clarification as a result of any action or inaction by any PEIX Party or any other Project Party, (iii) any enforcement, amendment or restructuring of, or waiver or consent requested by any PEIX Party or any other Project Party under, any Loan Document, (iv) foreclosure or realization upon any Collateral or (v) any bankruptcy, insolvency, receivership, reorganization, liquidation or similar proceeding or any appellate proceeding involving the Project, any PEIX Party or any other Project Party. Borrower agrees to make the payments required under this Section 8.11 regardless of whether a Construction Loan Funding Date or the Term Loan Conversion Date occurs and hereby indemnifies the Administrative Agent and the Lenders for all liabilities resulting from any failure or delay in making any payment required under this Section 8.11. Borrower's obligations under this Section 8.11 constitute Obligations secured by the Security Document Liens. The Administrative Agent will provide to Borrower copies of all invoices, receipts and other documentation relating to any amount payable pursuant to this Section 8.11 reasonably requested by Borrower.

Section 8.12 INDEMNITY. Borrower hereby indemnifies the Administrative Agent, the Lenders and their Affiliates from and against any and all Claims, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements of any kind or nature whatsoever that may be imposed on, incurred by or asserted against any one or more of them by any Person in any way relating to or arising out of (a) the Project or the Grain Facilities, (b) any Document, (c) any action taken or omitted by any of them pursuant to any Loan Document, (d) any claim for brokerage fees or commissions in connection with any transaction contemplated by the Documents, (e) any claim based on any misstatement or inaccuracy in or omission from any disclosure provided by Borrower or its representatives in connection with the Loans, (f) the actual or alleged presence, release or discharge of any Hazardous Substance on, from or under the Project or the Grain Facilities or the existence, use, generation, manufacture, handling, processing,

discharge, emission, storage, release, transportation, removal, disposal or clean-up thereof of any Hazardous Substance on or at the Project or the Grain Facilities or by Borrower, any Project Party (in connection with such Project Party's obligations under the Project Documents) or any of their Affiliates or (g) any Environmental Claim asserted against or relating to the Project, the Grain Facilities, Borrower, any Project Party (in connection with such Project Party's obligations under the Project Documents) or any of their Affiliates or any actual or alleged violation of any Environmental Law by any of such Persons; PROVIDED, that Borrower will not be liable to any Person for any portion of such Claims, liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from such Person's gross negligence or willful misconduct as finally determined by a Government Instrumentality of competent jurisdiction or occurring subsequent to foreclosure on the Collateral in full satisfaction of the Obligations or delivery by Borrower of a deed in lieu of foreclosure with respect to the Collateral in full satisfaction of the Obligations. Payment by an indemnified party will not be a condition precedent to the obligations of Borrower under this indemnity. This Section 8.12 will survive the Construction Loan Closing Date, the making and repayment of the Loans and any transfer or assignment of any Note but will expire three (3) years after the payment in full of the Loans and all other amounts due and payable under the Loan Documents.

Section 8.13 RIGHT OF SET-OFF. Upon the occurrence and during the continuance of an Event of Default, the Administrative Agent and each Lender are hereby authorized at any time and from time to time, without notice to Borrower (any such notice being expressly waived by Borrower), to set off and apply any and all deposits (general or special, time or demand) at any time held and other indebtedness at any time owing by the Administrative Agent or such Lender (at any of its offices, branches or agencies, wherever located) to or for the credit or the account of Borrower against any and all of the Obligations, irrespective of whether or not the Administrative Agent or such Lender has made any demand under any Note or any other Loan Document, and although such obligations may be continuing or unmatured. The Administrative Agent and the Lenders agree to notify Borrower promptly after any such set-off and application; PROVIDED, that the failure to give such notice will not affect the validity of such set-off and application. The rights of the Administrative Agent and the Lenders under this Section 8.13 are in addition to all other rights and remedies (including other rights of set-off) the Administrative Agent and the Lenders may have.

Section 8.14 SHARING OF PAYMENTS. Each Lender agrees that if as of any date it obtains any payment (whether by voluntary payment, realization upon security, exercise of the right of set-off or banker's lien, counterclaim or cross action or otherwise) on account of the Loans made by it in excess of its Pro Rata Share of all payments on account of the Loans obtained by the Lenders, it will purchase for cash without recourse or warranty from the other Lenders interests in their Notes in such amounts as will result in a proportional participation by all of the Lenders in such excess payment. If any of such excess payment is subsequently recovered from such purchasing Lender, any purchases of interests in Notes will be rescinded and the purchase prices restored to the extent of such recovery, in each case without interest. Borrower agrees that any Lender purchasing an interest in a Note pursuant to this Section 8.14 may exercise its rights of payment (including the right of set-off) with respect to such interest as fully as if such Lender were the direct creditor of Borrower in the amount of such interest. This Section 8.14 is for the sole benefit of the Lenders and does not confer any right upon Borrower.

Section 8.15 GOVERNING LAW. EACH LOAN DOCUMENT, EXCEPT TO THE EXTENT EXPRESSLY PROVIDED OTHERWISE THEREIN, WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF (OTHER THAN SECTION 5.1401 OF THE GENERAL OBLIGATIONS LAW AND ANY SUCCESSOR STATUTE THERETO).

Section 8.16 WAIVER OF PRESENTMENT, DEMAND, PROTEST AND NOTICE. Except as specifically stated herein or therein, Borrower irrevocably waives presentment, demand, protest and notice of any kind in connection with any Loan Document or any Collateral.

Section 8.17 WAIVER OF JURY TRIAL. BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS, AS AMONG THEM, WAIVE ANY RIGHTS THEY MAY HAVE TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED ON OR ARISING FROM ANY LOAN DOCUMENT, ANY TRANSACTION CONTEMPLATED THEREBY OR EFFECTED PURSUANT THERETO, ANY DEALINGS OR COURSE OF DEALING AMONG THEM RELATING IN ANY WAY TO THE SUBJECT MATTER OF THE LOAN DOCUMENTS OR ANY STATEMENTS OR ACTIONS OF ANY OF THEM OR THEIR AFFILIATES. Each of the parties acknowledges and agrees that this waiver is a material inducement to enter into the business relationship contemplated by the Loan Documents and that each has relied on this waiver in entering into the Loan Documents to which it is a party and will continue to rely on this waiver in its future dealings with the other parties. The scope of

this waiver is intended to be all-encompassing, and this waiver will apply to all Claims, of any nature whatsoever, whether deriving from contract, arising by Law, based on tort or otherwise. BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS HAVE MADE THIS WAIVER KNOWINGLY AND VOLUNTARILY, AND THIS WAIVER WILL BE

IRREVOCABLE. THIS WAIVER WILL ALSO APPLY TO ALL AMENDMENTS, SUPPLEMENTS, RESTATEMENTS, EXTENSIONS AND MODIFICATIONS OF ANY LOAN DOCUMENT AS WELL AS TO ANY LOAN DOCUMENT ENTERED INTO AFTER THE DATE OF THIS AGREEMENT. In the event of litigation, the relevant portions of this Agreement may be filed as a written consent to a trial by the court.

Section 8.18 CONSENT TO JURISDICTION. Each of Borrower, the Administrative Agent and the Lenders hereby irrevocably submits to the jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan over any action or proceeding arising out of or relating to any Claim, and hereby irrevocably agrees that all Claims in respect of such action or proceeding may be heard and determined in such New York state or United States federal court. Each of Borrower, the Administrative Agent and the Lenders irrevocably waives any objection that it may now or hereafter have to the laying of venue in such forums and agrees not to plead or claim that any such action or proceeding brought in any such New York state or United States federal court has been brought in an inconvenient forum. Borrower hereby irrevocably appoints the Process Agent as its agent to receive on behalf of Borrower and its property service of copies of the summons and complaint and any other process that may be served in any such action or proceeding. Such service may be made by mailing or delivering a copy of such process to Borrower at the address of the Process Agent and Borrower hereby irrevocably authorizes and directs the Process Agent to accept such service on its behalf. In addition and as an alternative method of service, Borrower also irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to Borrower at its address set forth on the signature pages to this Agreement. Borrower agrees that a final judgment in any such action or proceeding will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law. Nothing in this Section 8.18 will affect the right of the Administrative Agent or the Lenders to serve legal process in any other manner permitted by Law or affect the right of the Administrative Agent or the Lenders to bring any action or proceeding against Borrower or its property in the courts of any other jurisdiction. If for any reason the Process Agent ceases to be available to act as Process Agent, Borrower agrees immediately to appoint a replacement Process Agent satisfactory to the Administrative Agent.

Section 8.19 CONFIDENTIALITY. Borrower, the Administrative Agent and the Lenders agree to keep confidential the Documents and each document and all non-public information delivered to them by another party to this Agreement. Notwithstanding the foregoing, each party will be permitted to disclose confidential documents and information (a) to another party to this Agreement, (b) to its Affiliates, advisers and consultants, (c) to prospective participants or prospective purchasers or transferees of interests in Notes and their respective affiliates, advisers and consultants, (d) to any Government Instrumentality having jurisdiction over such party, (e) in response to any subpoena or other legal process or to comply with Law, (f) to the extent reasonably required in connection with any litigation to which such party is a party, (g) to the extent reasonably required in connection with the exercise of its rights or remedies under any Loan Document or (h) to the extent such

documents or information already have been publicly disclosed by another Person. Each prospective participant, purchaser and transferee and each adviser and consultant to which confidential documents or information is disclosed will be required to execute a confidentiality agreement containing the provisions of this Section 8.19.

Section 8.20 NOTICES. All notices, consents, certificates, waivers, documents and other communications required or permitted to be delivered to any party under the terms of any Loan Document (a) must be in writing, (b) must be personally delivered, transmitted by a recognized courier service or transmitted by facsimile, and (c) must be directed to such party at its address or facsimile number set forth on the signature pages to this Agreement. All notices will be deemed to have been duly given and received on the date of delivery if delivered personally, three (3) days after delivery to the courier if transmitted by courier, or the date of transmission with confirmation if transmitted by facsimile, whichever occurs first; PROVIDED, that notices to the Administrative Agent will not be effective until actually received by the Administrative Agent. Any party may change its address or

facsimile number for purposes hereof by notice to all other parties.

Section 8.21 LEGAL REPRESENTATION OF THE PARTIES. This Agreement and the other Loan Documents were negotiated by the parties with the benefits of legal representation and any rule of construction or interpretation otherwise requiring this Agreement or any Loan Document to be construed or interpreted against any party will not apply to any construction or interpretation hereof or thereof.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have caused this Construction and Term Loan Agreement to be signed on the date first above written.

PACIFIC ETHANOL MADERA LLC

By /S/ RYAN TURNER

Name:
Title:

Address: 31470 Avenue 12
Madera, California 93637
Facsimile No.: (559) 435-1478

With a copy to:

Address: 885 Third Avenue
New York, New York 10022
Facsimile No.: (212) 751-4864
Attention: Jeffrey B. Greenberg, Esq.

HUDSON UNITED CAPITAL, A DIVISION OF
TD BANKNORTH, N.A., as the Administrative Agent

By /S/ JEROME P. PETERS, JR.

Name: Jerome P. Peters, Jr.
Title: Senior Vice President

Address: 101 Post Road East
Westport, Connecticut 06880
Facsimile No.: (203) 291-6652

CONSTRUCTION LENDER:

HUDSON UNITED CAPITAL, A DIVISION OF
TD BANKNORTH, N.A., as a Construction Lender

By /S/ JEROME P. PETERS, JR.

Name: Jerome P. Peters, Jr.
Title: Senior Vice President

Address: 101 Post Road East
Westport, Connecticut 06880
Facsimile No.: (203) 291-6652

Pro Rata Share of Aggregate
Construction Loan Commitment: 65%

CONSTRUCTION LENDER:

COMERICA BANK,
as a Construction Lender

By /S/ ROBERT J. HARLAN

Name: Robert J. Harlan
Title: Vice President

Address: MC 4330
5200 N. Palm Ave., Suite 320
Fresno, California 93704

Facsimile No.: (559) 244-3909

Pro Rata Share of Aggregate
Construction Loan Commitment: 35%

TERM LENDER:

HUDSON UNITED CAPITAL, A DIVISION OF
TD BANKNORTH, N.A., as a Term Lender

By /S/ JEROME P. PETERS, JR.

Name: Jerome P. Peters, Jr.
Title: Senior Vice President

Address: 101 Post Road East
Westport, Connecticut 06880
Facsimile No.: (203) 291-6652

Pro Rata Share of Aggregate
Term Loan Commitment: 65%

TERM LENDER:

COMERICA BANK,
as a Term Lender

By /S/ ROBERT J. HARLAN

Name: Robert J. Harlan
Title: Vice President

Address: MC 4330
5200 N. Palm Ave., Suite 320
Fresno, California 93704
Facsimile No.: (559) 244-3909

Pro Rata Share of Aggregate
Term Loan Commitment: 35%

Schedule 3.1(a)(ix) to
Construction and Term Loan Agreement

Project Documents in Effect On the Construction Loan Closing Date

Amended and Restated Corn Procurement Agreement, dated March 30, 2006, between Borrower and Pacific Ag. Products, LLC, a California limited liability company ("PAP").

Amended and Restated Ethanol Marketing Agreement, dated March 16, 2006, between Kinergy Marketing LLC, an Oregon limited liability company, and Borrower.

Amended and Restated Operation and Maintenance Services Agreement, dated March 16, 2006, between Pacific Ethanol California, Inc., a California corporation ("PECA"), and Borrower.

Amended and Restated Phase I Design-Build Contract, dated November 2, 2005, between Borrower and W.M. Lyles Co., a California corporation ("LYLES").

Assignment and Assumption Agreement, dated November 4, 2005, between PECA and Borrower.

1st Amendment to the Assignment and Assumption Agreement, dated November 11, 2005, between PECA and Borrower.

2nd Amendment to the Assignment and Assumption Agreement, dated November 11, 2005, between PECA and Borrower.

Construction Performance and Completion Bond, dated November 4, 2005, issued by Travelers Casualty and Surety Company of America, with Dual-Obligee Rider, dated February 24, 2006, issued by Travelers Casualty and Surety Company.

Grain Mill Operation and Maintenance Agreement, dated March 30, 2006, between Borrower and PAP.

License of Technology, dated September 1, 2005, between Delta-T Corporation, a Virginia corporation, and Borrower.

Phase II Design-Build Contract, dated November, 2, 2005, between Borrower and Lyles, and change orders 1.0 through 7.0 pursuant thereto.

WDG Marketing and Services Agreement, dated March 4, 2005, between Western Milling LLC, a California limited liability company, and Borrower, as assignee of PECA.

Schedule 5.2(c) to
Construction and Term Loan Agreement

Additional Project Costs

The following items are recognized construction costs that are not included in the scope of work of the EPC Contract, as modified by change orders 1-7. Expenditures in these areas up to the amounts listed below, whether as separate contracts with third parties or as change orders to the EPC Contract do not require the approval of the Administrative Agent or Independent Engineer.

Technology License	500,000
Substation/Switchgear	110,000
Cold Lime Softener Water Treatment	1,149,398
New Well	84,786
Regenerative Thermal Oxidizer	530,000

Permits	39,251
Prof Liability Insurance	40,000
PGE Fees/Pole Relocation/Gas Line	511,755
Telephone Service Relocation	20,000
Lab Equipment & Supplies	150,000
Office Furniture	20,000
Entrance Sign	20,000
Grain R/S/H (GR) / WDG H/L (DG)	1,285,000
SUBTOTAL	4,460,191

Exhibit 2.2 to
Construction and Term Loan Agreement

Form of Notice of Borrowing

TO: Hudson United Capital, A Division of TD Banknorth, N.A.
FROM: Pacific Ethanol Madera LLC
RE: Notice of Borrowing
DATE: _____

Reference is made to the Construction and Term Loan Agreement, dated April __, 2006 (as amended, modified or supplemented from time to time, the "LOAN AGREEMENT"), among Pacific Ethanol Madera LLC ("BORROWER"), the lenders named on the signature pages thereto, and Hudson United Capital, a Division of TD Banknorth, N.A., as administrative agent (the "ADMINISTRATIVE AGENT"). Capitalized terms used in this Notice of Borrowing and not otherwise defined herein have the meanings assigned to them in the Loan Agreement.

This Notice of Borrowing is given pursuant to Section 2.2 of the Loan Agreement, and in connection therewith, set forth below is the information relating to the proposed [Construction/Term] Loans as required by Section 2.2.

1. The proposed Funding Date is: _____.

2. The aggregate amount of the [Construction/Term] Loans is: $_____.

Borrower hereby certifies as follows:

1. (i) There exists no Default or Event of Default, (ii) all representations and warranties made to the Administrative Agent contained in the Loan Agreement or any other Loan Document or in any writing delivered to the Administrative Agent by Borrower pursuant to the Loan Agreement or other Loan Document are true and correct in all material respects with the same force and effect as if made on and as of the date hereof (except to the extent such statements, representations and warranties made in any such Loan Document or writing executed prior to the date hereof related to a specific prior date), and (iii) no material Loss has occurred.

2. All conditions precedent to the making of the [Construction/Term] Loans have been satisfied in full or waived in writing by the Administrative Agent or waived in writing by the Administrative Agent and all amounts received in connection with the Loans made in connection with this Notice of Borrowing will be used in accordance with Section 2.7 of the Loan Agreement.

[3. All amounts borrowed pursuant to previous Notice(s) of Borrowing have been applied in accordance therewith and with Section 2.7 of the Loan Agreement.]

[4. Borrower has no reason to believe that (i) the aggregate amount of the Construction Loans, when taken together with all other funds available to construct the Project, is insufficient to complete the Project on or prior to the Construction Loan Commitment Termination Date or (ii) the Closing Pro Forma is no longer reasonable in all material respects or the conclusions demonstrated therein are no longer valid in all material respects. Construction of the Project is progressing in a satisfactory manner in accordance with the Construction Budget and the Construction and Draw Schedule, subject to any Permitted Construction Delay.]

5. Borrower has no knowledge of, and has not received any notice of, Liens or claims of Lien (other than Permitted Liens) filed or threatened against the Project or any Collateral.

6. Borrower is not aware of any event, circumstance or condition, or lack thereof, which could reasonably be expected to cause an Event of Default.

PACIFIC ETHANOL MADERA LLC

By_____
Name:
Title:

Exhibit 2.4(a) to
Construction and Term Loan Agreement

Form of Construction Loan Note

PACIFIC ETHANOL MADERA LLC

Senior Construction Loan Note Due [_____]

No. __

Amount: US$_____ Date: _____

FOR VALUE RECEIVED, PACIFIC ETHANOL MADERA LLC, a Delaware limited liability company ("PAYOR"), hereby unconditionally promises to pay to the order of _____ (herein called "NOTE HOLDER"), or its permitted assigns, the principal sum of _____ _____ ($_____), or so much thereof as may be advanced pursuant to the Loan Agreement (as defined below), on the Construction Loan Maturity Date, or such earlier date as the same may become due and payable hereunder or under the Loan Agreement, payable as set forth below and in the Loan Agreement.

All payments under this Construction Loan Note will be payable without setoff, counterclaim or deduction of any kind in lawful money of the United States of America and in immediately available funds not later than 1:00 p.m., New York City time, on the date when due to Note Holder.

This Construction Loan Note is one of the Construction Loan Notes referred to in and issued subject to the Construction and Term Loan Agreement, dated April __, 2006 (as amended, modified or supplemented from time to time, the "LOAN AGREEMENT"), among Payor and Note Holder, as a Construction Lender, and the other parties thereto. Except as otherwise defined herein, each capitalized term used herein has the meaning set forth for such term in the Loan Agreement.

On each Construction Loan Funding Date and on each other day on which Note Holder makes a Construction Loan to Payor in accordance with the Loan Agreement, Note Holder is hereby authorized to make a notation on Schedule I hereto as to the date and the amount of each Construction Loan evidenced by this Construction Loan Note. Failure to make any such notation will not limit or otherwise affect the obligations of Payor hereunder or under the Loan Agreement. Payor agrees that this Construction Loan Note, upon each entry being duly made and absent manifest error, constitutes PRIMA FACIE evidence of the indebtedness of Payor and is enforceable against Payor with the same force and effect as if

such amounts were set forth in separate Construction Loan Notes executed by Payor.

This Construction Loan Note is subject to mandatory prepayment in whole or in part and optional prepayment (in connection with a refinancing of the Construction Loans by Term Loans) in whole or in part as provided in the Loan Agreement.

Payor will pay interest on the unpaid principal amount hereof at the applicable interest rate per annum as determined pursuant to Section 2.3 of the Loan Agreement. Interest will be computed on the actual number of days elapsed over a 360-day year. Interest will be payable (i) in accordance with Section 2.3 of the Loan Agreement and (ii) concurrently with any prepayment, at maturity (by acceleration or otherwise) and, after such maturity, on demand. This Construction Loan Note is hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of the maturity of any indebtedness evidenced hereby or otherwise, will the interest contracted for or charged or received by Note Holder exceed the maximum amount permissible under applicable Law. If, under any circumstance whatsoever, interest would otherwise be payable to Note Holder in excess of the maximum lawful amount, the interest payable to Note Holder will be reduced to the maximum amount permitted under applicable Law, and the amount of interest for any subsequent period to the extent less than that permitted by applicable Law, will to that extent be increased by the amount of such reduction.

Payor hereby irrevocably authorizes Note Holder to calculate the amount of each interest payment to be evidenced by this Construction Loan Note in accordance with the provisions of the Loan Agreement.

Upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), Payor will pay, pursuant to the terms of the Loan Agreement, interest on all amounts outstanding hereunder (whether or not past due) at a rate per annum equal to 2% plus the Construction Loan Interest Rate; otherwise the principal hereof and accrued interest hereon will become, or may be declared to be, forthwith due and payable in the manner, on the conditions and with the effect provided in the Loan Agreement.

Payor will pay the costs and expenses, including attorneys' fees, incurred by Note Holder in enforcing any of its rights under the Loan Agreement, this Construction Loan Note, the Security Documents or any other Loan Document or in complying with any subpoena or other legal process served upon Note Holder in connection with the Loan Agreement, the Notes, the Security Documents or any other Loan Document, or the transactions contemplated thereby, including without limitation costs and expenses incurred in any bankruptcy case, in accordance with the provisions of the Loan Agreement.

This Construction Loan Note is secured by the Collateral described in the Security Documents and any other agreement which by its terms provides security for this Construction Loan Note. This Construction Loan Note is the obligation solely of Payor and Note Holder will have access only to the Collateral for repayment. This Construction Loan Note will be binding upon Payor and its successors and will inure to the benefit of Note Holder and its successors and permitted assigns.

Payor hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Construction Loan Note except as specifically provided in the Loan Agreement.

Any provision of this Construction Loan Note which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof and without affecting the validity or enforceability of such or any other provision in any other jurisdiction.

THIS CONSTRUCTION LOAN NOTE WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF (OTHER THAN SECTION 5.1401 OF THE GENERAL OBLIGATIONS LAW AND ANY SUCCESSOR STATUTE THERETO). Payor hereby knowingly, voluntarily and intentionally waives any right it may have to a trial by jury in any litigation or claim which is based hereon, or arises out of, under, or in connection with, this Construction Loan Note. Any legal action or proceeding with respect to this Construction Loan Note may be brought in the courts of the

State of New York or the United States of America sitting in the Borough of Manhattan, and Payor hereby accepts for itself and in respect of its property, generally and unconditionally, the exclusive jurisdiction of the aforesaid courts. Further, Payor hereby irrevocably waives any objection, including without limitation any objection to the laying of venue or based on the grounds of forum non conveniens, which it may now or hereafter have to the bringing of any such action or proceeding in such jurisdictions.

PAYOR:

PACIFIC ETHANOL MADERA LLC

By _____
Name:
Title:

<TABLE>
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SCHEDULE I

Date	Amount of Construction Loan	Unpaid Aggregate Principal Amount of Construction Loans	Notation Made By

</TABLE>

Exhibit 2.4(b) to
Construction and Term Loan Agreement

Form of Term Loan Note

PACIFIC ETHANOL MADERA LLC

Senior Term Loan Note Due _____

No. __

Amount: US$ Date:_____, ____

FOR VALUE RECEIVED, PACIFIC ETHANOL MADERA LLC, a Delaware limited liability company ("PAYOR"), hereby unconditionally promises to pay to the order of _____ (herein called "NOTE HOLDER"), or its permitted assigns, the principal sum of _____ Dollars ($_____) on the Term Loan Maturity Date or such earlier date as the same may become due and payable hereunder or under the Loan Agreement (as defined below), payable as set forth below and in the Loan Agreement.

All payments under this Term Loan Note will be payable without setoff, counterclaim or deduction of any kind in lawful money of the United States of America and in immediately available funds not later than 1:00 p.m., New York City time, on the date when due to Note Holder.

This Term Loan Note is one of the Term Loan Notes referred to in and issued subject to the Construction and Term Loan Agreement, dated April __, 2006 (as amended, modified or supplemented from time to time, the "LOAN AGREEMENT"), among Payor and Note Holder, as a Term Lender, and the other parties thereto. Except as otherwise defined herein, each capitalized term used herein has the meaning set forth for such term in the Loan Agreement.

The principal amount of this Term Loan Note will be due and payable in the amounts and on the dates set forth in the Amortization Schedule attached hereto as Schedule I, together with accrued interest hereon from and after the date hereof and continuing to and including the earlier of _____ and the date on which all Obligations are paid in full. This Term Loan Note is subject to mandatory prepayment in whole or in part and optional prepayment in whole or in part as provided in the Loan Agreement.

Payor will pay interest on the unpaid principal amount hereof at the applicable interest rate per annum determined pursuant to Section 2.3 of the Loan Agreement. Interest will be computed on the actual number of days elapsed over a 360-day year. Interest will be payable (i) quarterly in arrears on each March 31, June 30, September 30 and December 31, and (ii) concurrently with any prepayment, at maturity (by acceleration or otherwise) and, after such maturity, on demand. This Term Loan Note is hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of the maturity of any indebtedness evidenced hereby or otherwise, will the interest contracted for or charged or received by Note Holder exceed the maximum amount permissible under applicable Law. If, under any circumstance whatsoever, interest would otherwise be payable to Note Holder in excess of the maximum lawful amount, the interest payable to Note Holder will be reduced to the maximum amount permitted under applicable Law, and the amount of interest for any subsequent period to the extent less than that permitted by applicable Law will, to that extent, be increased by the amount of such reduction.

Payor hereby irrevocably authorizes Note Holder to calculate the amount of each interest payment to be evidenced by this Term Loan Note in accordance with the provisions of the Loan Agreement.

Upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), Payor will pay, pursuant to the terms of the Loan Agreement, interest on all amounts outstanding hereunder (whether or not past due) at a rate per annum equal to 2% plus the Term Loan Interest Rate; otherwise the principal hereof and accrued interest hereon will become, or may be declared to be, forthwith due and payable in the manner, on the conditions and with the effect provided in the Loan Agreement.

Payor will pay the costs and expenses, including attorneys' fees, incurred by Note Holder in enforcing any of its rights under the Loan Agreement, this Term Loan Note, the Security Documents or any other Loan Document or in complying with any subpoena or other legal process served upon Note Holder in connection with the Loan Agreement, the Notes, the Security Documents or any other Loan Document, or the transactions contemplated thereby, including without limitation costs and expenses incurred in any bankruptcy case, in accordance with the provisions of the Loan Agreement.

This Term Loan Note is secured, on a parity basis with all other Notes, by the Collateral described in the Security Documents and any other agreement which by its terms provides security for this Term Loan Note. This Term Loan Note is the obligation solely of Payor and Note Holder will have access only to the Collateral for repayment. This Term Loan Note will be binding upon Payor and its successors and will inure to the benefit of Note Holder and its successors and permitted assigns.

This Term Loan Note evidences indebtedness heretofore evidenced by a Construction Loan Note and is not intended to extinguish the indebtedness evidenced by the Construction Loan Note.

Payor hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Term Loan Note, except as specifically provided in the Loan Agreement.

Any provision of this Term Loan Note which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof and without affecting the validity or enforceability of such or any other provision in any other jurisdiction.

THIS TERM LOAN NOTE WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF (OTHER THAN SECTION 5.1401 OF THE GENERAL OBLIGATIONS LAW AND ANY SUCCESSOR STATUTE THERETO). Payor hereby knowingly, voluntarily and intentionally waives any right it may have to a trial by jury in any litigation or claim which is based hereon, or arises out of, under, or in

connection with, this Term Loan Note. Any legal action or proceeding with respect to this Term Loan Note may be brought in the courts of the State of New York or the United States of America sitting in the Borough of Manhattan, and Payor hereby accepts for itself and in respect of its property, generally and unconditionally, the exclusive jurisdiction of the aforesaid courts. Further, Payor hereby irrevocably waives any objection, including without limitation any objection to the laying of venue or based on the grounds of forum non conveniens, which it may now or hereafter have to the bringing of any such action or proceeding in such jurisdictions.

PAYOR:

PACIFIC ETHANOL MADERA LLC

By _____
Name:
Title:

SCHEDULE I

PAYMENT DATE	PERCENTAGE OF INITIAL PRINCIPAL AMOUNT
	2.27%
	2.33%
	2.38%
	2.44%
	2.60%
	2.67%
	2.73%
	2.79%
	2.97%
	3.04%
	3.11%
	3.18%
	3.37%
	3.45%
	3.53%
	3.61%
	3.81%
	3.90%
	3.99%
	4.08%
	4.29%
	4.39%
	4.50%
	4.60%

	4.82%
	4.93%
	5.05%
	5.17%

Exhibit 5.1(n) to
Construction and Term Loan Agreement

Required Insurance

1. Commercial general liability insurance for the Project on an occurrence policy form, including coverage for premises/operations, explosion, collapse and underground hazards, products/completed operations, broad form property damage, blanket contractual liability for both oral and written contracts, independent contractors, personal injury, advertising injury, TRIA for Borrower and for operators and contractors, with primary coverage limits of no less than $1,000,000 per occurrence and in the aggregate for injuries or death to one or more persons or damage to property.

The comprehensive or commercial general liability policy shall also include a severability of interest clause (separation of insureds) and a cross liability clause in the event more than one entity is named as an insured under the liability policy. The policy will not contain any exclusion for the operation of any railroad siding. The policy will include a landlord protective liability clause. The policy territory is to be worldwide, including coverage for products liability.

2. Automobile liability insurance providing coverage for owned, non-owned and hired automobiles and containing appropriate no-fault insurance provisions or other endorsements in accordance with state legal requirements, with limits of no less than $1,000,000 per accident with respect to bodily injury, property damage or death. The policy is to be endorsed to provide for TRIA coverage to the extent it is available.

3. Employers' liability insurance with limits of not less than $1,000,000 and workers' compensation insurance providing Other States coverage, USL&H Act coverage and Jones Act coverage, if applicable, disability benefits insurance, and such other forms of insurance that Borrower is required by law to provide to cover loss resulting from injury, sickness, disability or death of its employees. There shall be no "sunset clause" or similar provision.

4. Umbrella/excess liability insurance providing limits of not less than $20,000,000 per occurrence and in the aggregate. Such coverage shall be written on an occurrence policy form and shall provide coverage limits over and above those provided by the policies described in paragraphs (a), (b) and (c) above (except with respect to workers' compensation insurance). The umbrella and/or excess policies shall not contain provisions that restrict coverage as set forth in paragraphs (a), (b) and (c) above and that are provided in the underlying policies. If the policy or policies provided under this paragraph (d) contain(s) aggregate limits applying to operations of Borrower and such limits are diminished below $10,000,000 by incidents, occurrences, claims, settlements or judgments against such insurance that have caused the carrier to establish a reserve, Borrower shall take commercially reasonable efforts to promptly restore such aggregate limits or provide other equivalent insurance protection for such aggregate limits, and such limits shall be restored within no later than thirty (30) days. Any aggregate is to apply to this project and location solely.

5. Environmental Pollution Liability Insurance for sudden pollution events will not be less than $2,000,000 per occurrence and $2,000,000 in the aggregate.

6. Pollution Liability Insurance for nonsudden pollution events will not be less than $3,000,000 per occurrence and $6,000,000 in the aggregate.

7. Such policies shall include pollution and contamination coverage for bodily injury and property damage arising from the ownership, operation,

transportation, handling, storage, disposal, dumping, processing and treatment of waste and will provide for control, monitoring, remediation and clean up costs due to seepage, pollution, contamination of environmental liabilities of any kind whether on land or water. Time Element Pollution Coverage is also to be provided.

8. Upon completion, "All Risk" property insurance coverage in an amount not less than the replacement value of the Project, including a full replacement cost endorsement with no deduction for depreciation, and without any coinsurance provision with sub-limits as are typical for insurance for similar exposures. The Property insurance policy will provide, without limitation, (i) coverage against loss or damage by fire, lightning, windstorm, hail, explosion, riot, civil commotion, aircraft, vehicles, smoke, and other risks from time to time included under "all risk" or "extended coverage" policies, earthquake, flood, collapse, sinkhole, subsidence, service interruption, ingress/egress, terrorism (TRIA) and such other perils as the Administrative Agent, after consultation with Borrower, may from time to time reasonably require to be insured, with a sub-limit of not less than $500,000 for on-site clean-up of land and water from pollutants and/or contaminants following loss or damage by an insured peril, (ii) off-site coverage with a limit sufficient to cover such off-site equipment, (iii) transit coverage (including ocean cargo if and when such transit will be required) with a per occurrence limit of not less than $250,000 or such higher amount as is sufficient to cover property in transit, (iv) boiler and machinery coverage on a "comprehensive" basis, including breakdown and repair, with limits not less than the full replacement cost of the insured objects. If boiler and machinery insurance is provided by an insurer other than Borrower's property insurer, then a Joint Loss Agreement is to be obtained on both policies. Borrower shall also maintain or cause to be maintained on its behalf with respect to the Project, business interruption insurance on an "all risk" basis as set forth in clause (i) above, in an amount not less than the sum of 12 month period of indemnification plus debt service (principal and interest) and other fixed costs. Borrower shall also maintain, or cause to be maintained on its behalf, expediting and extra expense coverage in an amount not less than $1,000,000. Borrower shall also maintain, or cause to be maintained on its behalf with respect to the Project, contingent business interruption/extra expense insurance on a named and identified basis in an amount not less than $5,000,000. The policy/policies shall include debris removal in an amount of 25% of the replacement cost value, not to exceed $5,000,000, and building ordinance coverage to pay for loss of undamaged property which may be required to be replaced due to enforcement of local, state, or federal ordinances, subject to a sub-limit of not less than $1,000,000. The policies are also to provide for loss

of Rental Value in an amount of not less than the full annual value. All such policies may have deductibles of not greater than $250,000 per loss with respect to property damage, and business interruption coverage shall have a waiting period of not greater than sixty (60) days. All insurance coverage described in this paragraph shall be written on a replacement cost basis, shall not be subject to coinsurance provisions, and shall be in such form (including the form of the loss payable clauses) as shall be reasonably acceptable to the Administrative Agent (which acceptance shall not be unreasonably withheld or delayed).

9. Earthquake coverage, for a minimum amount equal to 50% of the replacement cost of the Project, shall include coverage for movement, earthquakes, shocks, tremors, landslides, subsidence, volcanic activity, sinkhole coverage, mud-flow or rockfall, or any other earth movement, all whether direct or indirect, approximate or remote or in whole or in part caused by, contributed to or aggravated by any physical damage insured against by such policy regardless of any other cause or event that contributes, concurrently or in sequence, to the loss.

10. Flood coverage, for a minimum amount equal to 50% of the replacement cost of the project, shall include, but not be limited to, coverage for waves, tide or tidal water, inundation, rainfall and/or resulting runoff or the rising (including the overflowing or breaking of boundaries) of lakes, ponds, reservoirs, rivers, harbors, streams, or other bodies of water, whether or not driven by wind.

11. "All Risks" coverage for personal property of Borrower, including coverage for raw material and inventory including loss to stored ethanol, DDGS and WDGS and other raw material at replacement cost valuation. In addition, coverage is to be provided for the property of others for which Borrower is responsible for full replacement cost valuation without depreciation.

12. Such other or additional insurance (as to risks covered, policy amounts, policy provisions or otherwise) as, under prudent ethanol production practices, are from time to time insured against for property and facilities similar in nature, use and location to the Project which the Administrative Agent may reasonably require and which is obtainable at commercially reasonable

rates.

13. Title Insurance in the form approved by the Administrative Agent on the Construction Loan Closing Date.

14. To the extent not described above, from and after the time that the Project commences Commercial Operation, the insurance described in the schedule entitled "Schedule of Insurance to Satisfy Requirements for Operating Period," attached to the report of the Insurance Consultant dated March 24, 2006, and delivered to the Administrative Agent and Borrower in connection with the Construction Loan Closing Date.

15. This Exhibit 5.1(n) describes the "Required Insurance" as agreed between the Administrative Agent and Borrower as of the Construction Loan Closing Date. If at any time after the Construction Loan Closing Date any of the insurances described above, or any required element of any insurance described above, is not, in the reasonable opinion of Borrower (as confirmed to the Administrative Agent by the Insurance Consultant), obtainable at commercially reasonable rates, then the Administrative Agent and Borrower will negotiate in good faith and in consultation with the Insurance Consultant to amend or waive the applicable provisions of this Exhibit 5.1(n) (and, therefore, the definition of "Required Insurance") so as to reflect the insurances then-available to Borrower at commercially reasonable rates.

Exhibit 5.1(k)(iii) to
Construction and Term Loan Agreement

Form of Monthly Construction Report

The Monthly Construction Report will include:

Detailed description of progress of construction, percent completion of engineering, procurement, construction and start-up tasks, with photos

Report of potential problems and resolution of previous issues reported

Milestones completed

Milestones not completed by deadline

Anticipated completion dates for remaining Milestones

Permit status (give details)

Total funds disbursed, broken down monthly by Construction Budget category (actual and scheduled)

Current schedule for performance testing (give details)

Current anticipated date of Completion (give details)

Number of days of Force Majeure (give details)

Detailed description of accidents, other unanticipated events

Exhibit 8.7(c) to
Construction and Term Loan Agreement

Form of Commitment Transfer Supplement

This COMMITMENT TRANSFER SUPPLEMENT, dated as of the date set forth in Schedule 1 hereto, is by and among the Transferring Lender and the Purchasing Lender set forth in Schedule 1 hereto.

RECITALS

WHEREAS, this Commitment Transfer Supplement is being executed and delivered in accordance with Section 8.7(c) of the Construction and Term Loan Agreement, dated April __, 2006 (as amended, modified or supplemented, the "LOAN AGREEMENT"; terms defined therein being used herein as therein defined), by and among Pacific Ethanol Madera LLC ("BORROWER"), the Transferring Lender, Hudson United Capital, a division of TD Banknorth, N.A., as Administrative Agent, and the other parties thereto; and

WHEREAS, the Transferring Lender proposes to sell and assign to the Purchasing Lender its rights, obligations and commitments under the Loan Agreement to the extent provided herein;

NOW, THEREFORE, the Transferring Lender and the Purchasing Lender hereby agree as follows:

Section 1. The Transferring Lender hereby sells and assigns to the Purchasing Lender, without recourse, representation or warranty of any kind except as set forth in Section 2, and the Purchasing Lender hereby purchases and assumes from the Transferring Lender, that Pro Rata Share of the Transferring Lender's rights and obligations under the Loan Agreement as of the date hereof specified in Part A of Schedule 1.

Section 2. The Transferring Lender (i) represents and warrants that as of the date hereof its Pro Rata Shares of the Aggregate Construction Loan Commitment and of the Aggregate Term Loan Commitment are the percentages specified as the Transferring Lender's Construction Loan Commitment Pro Rata Share and Term Loan Commitment Pro Rata Share in Part B-1 of Schedule 1 and the aggregate outstanding principal amounts of the Loans owing to it are the dollar amounts specified as the aggregate outstanding principal amounts of Loans owing to the Transferring Lender in Part C-1 of Schedule 1 hereto; (ii) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (iii) makes no representation or warranty and assumes no responsibility with respect to any statement, warranty or representation made in or in connection with the Loan Agreement or any other instrument or document furnished pursuant thereto; (iv) makes no representation or warranty and assumes no responsibility with respect to the financial condition of Borrower or any other party to any Loan Document or the performance or observation by Borrower or such party of any of its obligations under the Loan Agreement, any other Loan

Document, or any other instrument or document furnished pursuant thereto; and (v) attaches the Notes referred to in Part D of Schedule l and requests that the Administrative Agent exchange such Notes for new Notes payable to the order of the Purchasing Lender and to the order of the Transferring Lender in amounts as specified in Part E of Schedule 1, all pursuant to Section 8.7(c) of the Loan Agreement.

Section 3. The Purchasing Lender (i) confirms that it has received a copy of the Loan Agreement, together with such documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Commitment Transfer Supplement; (ii) agrees that it will, independently and without reliance upon the Administrative Agent, the Transferring Lender or any other Lender and based on such documents and information as it deems appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Agreement and related documents; (iii) appoints and authorizes the Administrative Agent to take such actions as administrative agent on its behalf and to exercise such powers under the Loan Agreement, the Security Documents and related documents as are delegated to the Administrative Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (iv) agrees that (A) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Agreement, the other Loan Documents and related documents are required to be performed by it as a Lender and (B) it hereby makes the agreements set forth in Article VII of the Loan Agreement; (v) represents and warrants to the Administrative Agent, each other Lender and Borrower that it is acquiring the Notes issued to it for the purpose of investment and not with the view to, or for sale in connection with, any distribution in violation of the Securities Act of 1933, as amended; and (vi) has attached hereto all forms and documents necessary to establish that payments to it under the Loan Documents are exempt from withholding for Taxes and agrees to deliver to Borrower updated and revised copies of such forms and documents as appropriate.

Section 4. Following the execution of this Commitment Transfer Supplement by the Transferring Lender and the Purchasing Lender, and upon the making of the payments separately agreed to be paid in connection herewith, this Commitment Transfer Supplement will be delivered to Borrower and to the Administrative Agent for recording by the Administrative Agent. The effective date of this Commitment Transfer Supplement will be the date of acceptance hereof by the Administrative Agent (the "EFFECTIVE DATE"), as set forth in Schedule 1.

Section 5. As of the Effective Date, (i) the Purchasing Lender will be a party to the Loan Agreement and, to the extent provided in this Commitment Transfer Supplement, have the rights and obligations of a Lender thereunder and (ii) the Transferring Lender will, to the extent provided in this Commitment Transfer Supplement, relinquish its rights and be released from its obligations under the Loan Agreement.

Section 6. Upon such receipt and recording by the Administrative Agent, from and after the Effective Date, the Administrative Agent will make all payments under the Loan Agreement and the Notes in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest, fees and other charges with respect thereto) to the Purchasing Lender. The Transferring Lender and Purchasing Lender will make all appropriate adjustments in payments under the Loan Agreement and the Notes for periods prior to the Effective Date directly between themselves.

Section 7. THIS COMMITMENT TRANSFER SUPPLEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF (OTHER THAN SECTION 5.1401 OF THE GENERAL OBLIGATIONS LAW AND ANY SUCCESSOR STATUTE THERETO).

IN WITNESS WHEREOF, the parties hereto have caused this Commitment Transfer Supplement to be executed by their respective officers thereunto duly authorized, as of the date first above written, such execution being made on Schedule 1.

SCHEDULE 1

to

COMMITMENT TRANSFER SUPPLEMENT

Dated _____ , _____,

between

_____ ("Transferring Lender")

and

_____ ("Purchasing Lender")

<TABLE>
<S> <C>

PART A. PRO RATA SHARE OF TRANSFERRING LENDER'S INTEREST BEING SOLD.	
Pro Rata Share of all of Transferring Lender's outstanding rights and obligations under the _____% Loan Agreement transferred to the Purchasing Lender	
PART B. PRO RATA SHARES.	
B-1. Prior to transfer:	
Transferring Lender's Pro Rata Share of the Aggregate Construction Loan Commitment:	_____%
Transferring Lender's Pro Rata Share of the Aggregate Term Loan Commitment:	_____%
B-2. Following transfer:	
Transferring Lender's Pro Rata Share of the Aggregate Construction Loan Commitment:	_____%
Transferring Lender's Pro Rata Share of the Aggregate Term Loan Commitment:	_____%

Purchasing Lender's Pro Rata Share of the Aggregate Construction Loan Commitment:	_____%
Purchasing Lender's Pro Rata Share of the Aggregate Term Loan Commitment:	_____%

PART C. PRINCIPAL OUTSTANDING.	_____%
C-1. PRIOR TO TRANSFER:	
Aggregate Outstanding Principal Amount of Construction Loans owing to the Transferring Lender:	_____%
or	
Aggregate Outstanding Principal Amount of Term Loans owing to the Transferring Lender:	_____%
C-2. FOLLOWING TRANSFER:	
Aggregate Outstanding Principal Amount of Construction Loans owing to the Transferring Lender:	_____%
or	
Aggregate Outstanding Principal Amount of Term Loans owing to the Transferring Lender:	_____%
Aggregate Outstanding Principal Amount of Construction Loans owing to the Purchasing Lender:	_____%
or	
Aggregate Outstanding Principal Amount of Term Loans owing to the Purchasing Lender:	_____%

PART D. DESCRIPTION OF NOTES ATTACHED HERETO.	
Construction Loan Note payable to the order of the Transferring Lender:	Dated: _____, _____ Principal amount: _____
or	
Term Loan Note payable to the order of the Transferring Lender:	Dated: _____, _____ Principal amount: _____

PART E. DESCRIPTION OF NOTES REQUESTED.	
Construction Loan Note payable to the order of the Transferring Lender:	Dated: _____, _____ Principal amount: _____
Or	
Term Loan Note payable to the order of the Transferring Lender:	Dated: _____, _____ Principal amount: _____
Construction Loan Note payable to the order of the Transferring Lender:	Dated: _____, _____ Principal amount: _____
Term Loan Note payable to the order of the Transferring Lender:	Dated: _____, _____ Principal amount: _____

[TRANSFERRING LENDER]

By _____

Name:
Title

[PURCHASING LENDER]

By

Name:
Title

ACCEPTED this _____ day
of _____, __
(the "Effective Date")
[ADMINISTRATIVE AGENT], as _____ Administrative
Agent

By

Name:
Title:

</TABLE>

SCHEDULE X

I. DEFINITIONS.

When used in the Loan Documents, the following capitalized defined terms have the meanings set forth below:

"ACCOUNTS" means all "accounts" as that term is defined in Section 9-102 of the UCC, now or hereafter owned by Borrower under the Security Agreement, including without limitation the Security Accounts.

"ADJUSTED LOAN" means the hypothetical loan, with a term from the date of determination until the scheduled Term Loan Maturity Date, in the principal amount calculated with reference to an adjusted proforma forecast, based on the same methodology as the Closing Pro Forma, that reflects the event or events that resulted in Borrower not complying with the requirements of Section 5.1(p) of the Loan Agreement. The principal amount of the Adjusted Loan will be the principal amount that would be amortized in full by an amortization schedule, based on the adjusted proforma forecast, that would result in Borrower maintaining the Minimum Coverage Ratio required by Section 5.1(p) of the Loan Agreement.

"AFFECTED PARTY" has the meaning set forth in Section 2.10(a)(i) of the Loan Agreement.

"AFFILIATE" means, with respect to any Person, any other Person (excluding any Person that may otherwise be deemed an Affiliate solely because it is a trustee under, or a committee with responsibility for administering, any Plan) (a) directly or indirectly controlling, controlled by, or under common control with, such Person, (b) directly or indirectly owning or holding or receiving any equity interest or other economic interest or benefit in such Person in excess of fifty percent (50%) or (c) in which such Person directly or indirectly controls any voting stock or other equity interest in excess of fifty percent (50%). For purposes of this definition, "control" (including with correlative meanings the terms "controlling," "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise; PROVIDED, that Cascade Investments, LLC and any other direct or indirect owner of PEI will not be deemed to be Affiliates of the PEIX Parties.

"ADMINISTRATIVE AGENT" means Hudson United Capital, a division of TD Banknorth, N.A., as administrative agent for the Lenders, or any successor thereto appointed pursuant to Section 7.8 of the Loan Agreement.

"AGGREGATE CONSTRUCTION LOAN COMMITMENT" means thirty-four million Dollars ($34,000,000).

"AGGREGATE TERM LOAN COMMITMENT" means the least of (i) thirty-four million Dollars ($34,000,000), (ii) 52.25% of the total Project cost as of the Term Loan Conversion Date and (iii) an amount equal to the present value (discounted at an interest rate of 9.5% per annum) of 43.67% of the Net

Operating Cash predicted by the Closing Pro Forma from the Term Loan Conversion Date to the seventh anniversary thereof.

"APPROVALS" means any and all approvals, permits, permissions, licenses, authorizations, consents, certifications, actions, orders, waivers, exemptions, variances, franchises, filings, declarations, rulings, registrations and applications from or issued by any Government Instrumentality.

"ASSETS SALES PROCEEDS ACCOUNT" has the meaning set forth in Section 2.2(a) of the Disbursement Agreement.

"ASSIGNED APPROVALS" means all Approvals obtained by Borrower at any time during the term of the Loans.

"ASSIGNED CONTRACTS" means all Project Documents to which Borrower is a party at any time during the term of the Loans, including without limitation the Project Documents listed in Schedule A to the Security Agreement.

"BANKRUPTCY EVENT" means, with respect to a Person:

(a) a general assignment by it for the benefit of its creditors;

(b) any action by which a court takes jurisdiction of its assets or revenues that remains undismissed or undischarged for a period of thirty (30) days;

(c) any action taken or initiated by it for its winding-up or liquidation or for the appointment of a receiver, trustee, custodian or similar officer for it or for any of its assets or revenues;

(d) any corporate, limited liability company, partnership or other action taken or initiated by it authorizing, approving, consenting to or indicating acquiescence in any case, action or proceeding described in clause (a), (b), (c), (f) or (g);

(e) its insolvency, inability to pay its debts as they become due or admission in writing of its inability to pay its debts as they become due;

(f) the commencement against it by any Person of a case, action or proceeding described in clause (b) or (c) or similar in effect that remains undismissed or undischarged for a period of thirty (30) days; PROVIDED, that if such Person is diligently pursuing, and is reasonably likely to obtain, a dismissal or discharge of such an action or proceeding, then the applicable period will be ninety (90) days; or

(g) the commencement by it of any bankruptcy, insolvency, reorganization or liquidation case, action or proceeding or any other proceeding for relief under any bankruptcy Law or any other Law for the relief of debtors or affecting the rights of creditors generally.

"BORROWER" means Pacific Ethanol Madera LLC, a Delaware limited liability company.

"BORROWER LLC AGREEMENT" means the Second Amended and Restated Limited Liability Company Agreement, dated as of March 28, 2006, by and between Borrower Member and the independent director of Borrower.

"BORROWER MEMBER" means Pacific Ethanol Holding Co. LLC, a Delaware limited liability company.

"BORROWER'S COUNSEL" means Latham & Watkins LLP.

"BUDGET LINE ITEM" means a line item in a Construction Budget or in an Operating Plan and Budget, as applicable.

"BUSINESS DAY" means any day other than a Saturday, Sunday or day on which commercial banks in New York, New York, Fresno, California, or Westport, Connecticut, are required or authorized to be closed.

"CLAIM" means any claim, suit, demand, proceeding, complaint, assessment, lien, injunction, order, judgment, notice of non-compliance or violation, investigation or other action by or before any Government Instrumentality or any other Person.

"CLOSING COSTS" means all amounts payable by Borrower pursuant to Section 8.11 of the Loan Agreement in connection with the transactions contemplated by the Loan Documents (i) on the Construction Loan Closing Date,

(ii) on each Construction Loan Funding Date, (iii) on the Term Loan Conversion Date and (iv) on any other date on which such amounts are payable pursuant to Section 8.11 of the Loan Agreement.

"CLOSING PRO FORMA" means the projections of construction costs of the Project and the ten-year projections of the Net Operating Cash to be produced by the Project, prepared by the Administrative Agent and incorporating the results of the Engineer's report. The Closing Pro Forma will be updated prior to the Term Loan Conversion Date to reflect actual production capabilities of the Project as confirmed by the Engineer and with any adjustment based solely upon the Project's as-built production capacity and efficiency levels.

"CODE" means the Internal Revenue Code of 1986, as amended.

"COLLATERAL" means, collectively, the "Collateral," as such term is defined in the Security Agreement, the "Pledged Collateral," as such term is defined in the Pledge Agreement and the "Trust Property," as such term is defined in the Mortgage, together with all other property, rights and interests from time to time subject, or purported to be subject, to the Security Document Liens.

"COMMERCIAL OPERATION" means commercial operation of the Project in accordance with the performance guarantee criteria and other applicable provisions contained in the EPC Contract.

"COMMITMENT" means any Lender's respective Construction Loan Commitment or Term Loan Commitment.

"COMPLETION" means completion of construction of the Project, which will be deemed to occur when (i) Final Performance Acceptance has occurred, (ii) the Project is in Commercial Operation and in compliance with the Required Approvals, applicable Laws and prudent ethanol industry practices, and (iii) Borrower has obtained all Required Approvals and such Required Approvals are in full force and effect, final and not subject to adverse proceedings.

"COMPLETION BOND" means the completion bond provided by the EPC Contractor to the Administrative Agent, securing the performance of the EPC Contractor's "Phase I" and "Phase II" obligations under the EPC Contract.

"CONSENTS TO ASSIGNMENT" means the consent and agreements entered into among Borrower, the Administrative Agent and each of Kinergy, PAP, Delta-T, the EPC Contractor and PEC and relating to the collateral assignment of certain Project Documents by Borrower to the Administrative Agent, in form and substance satisfactory to the Administrative Agent.

"CONSTRUCTION AND DRAW SCHEDULE" means the schedule for the construction of the Project, as prepared by Borrower and as the same may be revised by Borrower from time to time with the prior written approval of the Administrative Agent.

"CONSTRUCTION BUDGET" means the budget for the construction of the Project prepared by Borrower, as such budget may be revised by Borrower from time to time with the prior written approval of the Administrative Agent.

"CONSTRUCTION DRAW ACCOUNT" has the meaning set forth in Section 2.2(a) of the Disbursement Agreement.

"CONSTRUCTION DRAW APPROVAL NOTICE" has the meaning set forth in Section 3.3(c)(ii) of the Disbursement Agreement.

"CONSTRUCTION DRAW REQUEST" means a written request delivered by Borrower to the Administrative Agent pursuant to Section 3.3(c) of the Disbursement Agreement.

"CONSTRUCTION LENDERS" means each Person identified as a Construction Lender on the signature pages of the Loan Agreement.

"CONSTRUCTION LOAN" means each loan made by the Construction Lenders to Borrower pursuant to Section 2.2(a) of the Loan Agreement.

"CONSTRUCTION LOAN CLOSING DATE" means April __, 2006.

"CONSTRUCTION LOAN COMMITMENT" means the commitment of each

Construction Lender to make the Construction Loans set forth in Section 2.1(a) of the Loan Agreement.

"CONSTRUCTION LOAN COMMITMENT TERMINATION DATE" means the date that is 545 calendar days after the Construction Loan Closing Date.

"CONSTRUCTION LOAN FUNDING DATE" means the Construction Loan Closing Date, and, thereafter, the last Business Day of each calendar month falling between the Construction Loan Closing Date and the Term Loan Conversion Date on which all conditions precedent set forth in Section 3.2 of the Loan Agreement have been satisfied and Construction Loans are funded pursuant to Section 2.2 of the Loan Agreement. No Construction Loan Funding Date may occur after the Construction Loan Commitment Termination Date.

"CONSTRUCTION LOAN INTEREST PERIOD" means each period, determined in accordance with Section 2.3(b) of the Loan Agreement, at the end of which interest is payable on the Construction Loans.

"CONSTRUCTION LOAN INTEREST RATE" means the rate of interest applicable to the Construction Loans, as calculated in accordance with Section 2.3(a) of the Loan Agreement.

"CONSTRUCTION LOAN MATURITY DATE" means the earlier to occur of (i) the Term Loan Conversion Date and (ii) the Construction Loan Commitment Termination Date.

"CONSTRUCTION LOAN NOTE" means a promissory note, in the form of Exhibit 2.4(a) to the Loan Agreement, executed and delivered by Borrower, payable to the order of a Construction Lender and evidencing such Lender's Construction Loan.

"CONTRACTUAL OBLIGATION," as applied to any Person, means any provision of any security issued by such Person or of any indenture, mortgage, deed of trust, lease, contract, undertaking, agreement or instrument to which such Person is a party or by which it or any of its property is bound or to which it or any of its property is subject.

"CONTRIBUTED CAPITAL" means the cash equity in the amount of seventeen million six hundred ninety thousand one hundred twenty-five Dollars ($17,690,125), to be arranged by or on behalf of Borrower, the full amount of which is to be deposited into the Construction Draw Account on the Construction Loan Closing Date and thereafter made available to Borrower pursuant to the provisions of the Disbursement Agreement to pay Qualified Project Construction Expenses prior to the making of any Construction Loans the proceeds of which are to be used to pay Qualified Project Construction Expenses.

"CORN PROCUREMENT AGREEMENT" means the Amended and Restated Corn Procurement Agreement (Madera Project), dated as of March 30, 2006, by and between Borrower and PAP.

"DDGS" means dried distillers' grains solubles.

"DEBT SERVICE ACCOUNT" has the meaning set forth in Section 2.2(a) of the Disbursement Agreement.

"DEBT SERVICE RESERVE ACCOUNT" has the meaning set forth in Section 2.2(a) of the Disbursement Agreement.

"DEFAULT" means any event which, with the passage of time or the giving of notice or both, would be an Event of Default.

"DEFAULT RATE" has the meaning set forth in Section 2.3(d) of the Loan Agreement.

"DELTA-T" means Delta-T Corporation, a Virginia corporation.

"DISBURSEMENT AGENT" means Comerica Bank, a national banking association, or such other Person as may from time to time be the "Disbursement Agent" under the Disbursement Agreement.

"DISBURSEMENT AGREEMENT" means the Disbursement Agreement, dated the Construction Loan Closing Date, by and among Borrower, the Administrative Agent, the Disbursement Agent, the DSRA Agent and the Securities Intermediaries, providing for the establishment and maintenance of and the flow of funds among and from the Security Accounts.

"DISTRIBUTION REQUEST" means a distribution request, substantially in the form of Exhibit 4.2(d) to the Disbursement Agreement, delivered by Borrower to the Administrative Agent pursuant to Section 4.2(d) of

the Disbursement Agreement.

"DOCUMENTS" means, collectively, the Loan Documents and the Project Documents.

"DOLLAR" and the sign "$" mean the lawful currency of the United States of America.

"DSRA AGENT" means the Wealth Management Group of TD Banknorth, N.A., or such other Person as may from time to time be the "DSRA Agent" under the Disbursement Agreement.

"DSRA ADDITIONAL REQUIRED BALANCE" means the amount that is the difference between the present value of all future payments of principal and interest on the Term Loans, discounted at the then-applicable Interest Rate, LESS the present value of all payments of principal and interest that would be payable on the Adjusted Loan, discounted at the then-applicable Interest Rate.

"DSRA REQUIRED BALANCE" has the meaning set forth in Section 4.3(d) of the Disbursement Agreement.

"ENGINEER" means Harris Group, Inc., or any successor thereto appointed by the Administrative Agent.

"ENVIRONMENTAL CLAIM" means any Claim relating to a release, discharge or emission of any Hazardous Substance or violation of an Environmental Law and includes any Claim asserted by a Government Instrumentality or any other Person for damages, injury, clean-up, remediation, contribution or indemnity or a violation of or noncompliance with any Environmental Law.

"ENVIRONMENTAL CONSULTANT" means Kleinfelder, Inc.

"ENVIRONMENTAL LAWS" means any and all applicable international, federal, state, or local laws, statutes, ordinances, regulations, rules, Approvals, orders, court decisions or rule of common law which (i) regulate or relate to the protection or clean up of the environment; the use, discharge, emission, treatment, storage, transportation, handling, disposal or release of Hazardous Substances, the preservation or protection of waterways, groundwater, drinking water, air, wildlife, plants or other natural resources; or the health and safety of persons or property, including without limitation protection of the health and safety of employees; or (ii) impose liability or responsibility with respect to any of the foregoing, including without limitation the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. ss. 9601 et seq.), or any other law of similar effect.

"EPC CONTRACT" means (a) the Amended and Restated Phase I Design Build Agreement, dated November 2, 2005, by and between Borrower and the EPC Contractor and (b) the Phase 2 Design-Build Agreement, dated November 2, 2005, by and between Borrower and the EPC Contractor.

"EPC CONTRACTOR" means Lyles, or any successor thereto appointed by the Construction Lenders.

"EQUIPMENT" means all "equipment" or "fixtures," as those terms are defined in the UCC, now or hereafter owned by Borrower, including without limitation all machinery, equipment, furnishings, fixtures, vehicles, tools, supplies and other equipment of any kind and nature, wherever situated, used in connection with the construction, operation and maintenance of the Project and the Grain Facilities and any and all additions, substitutions and replacements of any of the foregoing, wherever located, together with all attachments, components, parts, equipment and accessories, improvements, upgrades and accessories installed thereon or affixed thereto.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA AFFILIATE," with respect to any Person, means any member (whether or not incorporated) of a group that is under common control (within the meaning of the regulations under Section 414 of the Internal Revenue Code of 1986, as amended) and of which such Person is a member.

"ETHANOL MARKETING AGREEMENT" means the Amended and Restated Ethanol Marketing Agreement, dated as of March 16, 2006, by and between Borrower

and Kinergy.

"EVENT OF DEFAULT" has the meaning set forth in Section 6.1 of the Loan Agreement.

"FINAL PERFORMANCE ACCEPTANCE" means that the Project has achieved "Final Construction Completion" under the EPC Contract.

"FINANCING STATEMENTS" means all financing statements on Form UCC-1 and all similar documents and instruments executed, filed or recorded for the purpose of perfecting Liens on the Collateral.

"FIRST-PRIORITY," when used with respect to any Security Document Lien on Collateral, means that such Collateral is subject to no Liens other than Permitted Liens and that such Security Document Lien is subordinate to no Liens other than Permitted Liens and then only to the extent permitted under Section 5.2(f) of the Loan Agreement.

"FUNDING DATE" means a Construction Loan Funding Date or the Term Loan Conversion Date, as applicable.

"GAAP" means generally accepted accounting principles, consistently applied, as in effect from time to time in the United States.

"GENERAL INTANGIBLES" means all "general intangibles," as that term is defined in the UCC, now or hereafter owned by Borrower, including without limitation equipment leases, partnership interests, limited liability company interests, member interests, joint venture interests, all patent rights, trademarks, copyrights, trade names, goodwill, registrations, license rights, rights in intellectual property, licenses, permits, business records, customer and subscriber lists, computer programs, tapes, disks and related data processing software owned by or in which such Person has an interest, rights to refunds or indemnification, the right to receive any Net Insurance Proceeds and all other intangible personal property of such Person of every kind and nature.

"GOVERNMENT INSTRUMENTALITY" means any nation, government, province, state or arbitral tribunal or organization, or any political subdivision, instrumentality, ministry, department, agency, court, tribunal, authority, corporation, commission or other body or entity of, or under the direct or indirect control of, any of the foregoing, including any central bank or other fiscal, monetary or other authority.

"GRAIN FACILITIES" means the grain processing and storage facilities located on the Site and owned by Borrower and operated by Grain Operator, including two rail loops serviced directly by the adjacent Burlington Northern Santa Fe Railroad.

"GRAIN OPERATOR" means Pacific Ag. Products, LLC, a California limited liability company.

"HAZARDOUS SUBSTANCE" means any pollutant, chemical, substance and any toxic, infectious, carcinogenic, reactive, corrosive, ignitable or flammable chemical, or chemical compound, or hazardous substance, material or waste, whether solid, liquid or gas, that is subject to regulation, control or remediation under any Environmental Laws, including without limitation, asbestos, PCBs, radon gas, crude oil or any fraction thereof, all forms of natural gas, petroleum products or by-products or derivatives.

"HUDSON UNITED CAPITAL" means Hudson United Capital, a division of TD Banknorth, N.A.

"INDEBTEDNESS" means (i) indebtedness for borrowed money or for the deferred purchase price of property or services, (ii) obligations as lessee under leases which have been or should be, in accordance with GAAP, recorded as capital leases, and (iii) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clause (i) or (ii) above.

"INSURANCE CONSULTANT" means Bollinger Insurance or another insurance consultant selected by Administrative Agent.

"INTERCREDITOR AGREEMENT" means the Intercreditor and Collateral Sharing Agreement, dated the Construction Loan Closing Date, among the Administrative Agent, Sub-Debt Provider and Borrower.

"INTEREST PERIOD" means a Construction Loan Interest Period or a Term Loan Interest Period, as applicable.

"INTEREST RATE" means any rate of interest applicable to a Loan or any other obligation of a party to a Loan Document to the Administrative Agent or the Lenders.

"INVENTORY" means "inventory," as that term is defined in the UCC, now or hereafter owned by Borrower, including without limitation (a) all products, goods, materials and supplies produced, purchased or acquired by Borrower for the purpose of sale in the ordinary course of its business, (b) maintenance materials inventory and (c) goods in which such Person has an interest in mass or a joint or other interest or right of any kind.

"KINERGY" means Kinergy Marketing, LLC, an Oregon limited liability company.

"LAW" means any law, statute, act, legislation, bill, enactment, policy, treaty, international agreement, ordinance, judgment, injunction, award, decree, rule, regulation, interpretation, determination, requirement, writ or order of any Government Instrumentality.

"LENDER INCOME TAXES" means all net income, franchise or similar Taxes (including branch profits Taxes or alternative minimum Tax) imposed on the Administrative Agent or any Lender by (i) the United States or any other country in which the Administrative Agent or such Lender is based, (ii) the jurisdiction in which the Administrative Agent or such Lender is organized or has its principal office, (iii) the jurisdiction in which the Administrative Agent performs its services hereunder or in which such Lender books its portion of the Loans, (iv) any other jurisdiction as a result of a present or former connection between the Administrative Agent or any Lender and the jurisdiction of the Government Instrumentality imposing such Tax or (v) a political subdivision of any of the foregoing (including any State of the United States).

"LENDERS" means the Construction Lenders and the Term Lenders.

"LENDERS' COUNSEL" means Baker & McKenzie LLP.

"LIBOR" means, with respect to each Interest Period, (i) the per annum rate for deposits in U.S. Dollars for a period of thirty (30) days (in the case of a Construction Loan) or ninety (90) days (in the case of a Term Loan) that appears on the Telerate Page 3750 Screen as of 11:00 a.m., New York time, on the day that is two (2) Business Days prior to the first day of an Interest Period (rounded upwards, if necessary, to the nearest 1/100,000 of 1%); or (ii) if such rate does not appear on the Telerate Page 3750 Screen, the reserve adjusted rate per annum equal to the 30-day or 90-day (as applicable) London Interbank Offered Rate that appears in the "Money Rates" section of THE WALL STREET JOURNAL on the first day of such Interest Period; or (iii) if THE WALL STREET JOURNAL no longer publishes such London Interbank Offered Rate, the per annum rate will be determined by the Administrative Agent by reference to the Reuters Screen ISDA Page as of 11:00 a.m., New York time, on the day that is two (2) Business Days prior to the first day of an Interest Period. As used in this definition, "TELERATE PAGE 3750 SCREEN" means the display designated as "Page 3750" on that service or such other service as may be nominated by the British Bankers' Association as the information vendor for the purpose of displaying British Bankers' Association Interest Settlement Rates for U.S. Dollar deposits.

"LIBOR BUSINESS DAY" means any Business Day that is also a day for trading by and between banks in U.S. Dollar deposits in the London interbank market.

"LIEN" means any lien, mortgage, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest).

"LOAN" means a Construction Loan or a Term Loan.

"LOAN AGREEMENT" means the Construction and Term Loan Agreement, dated the Construction Loan Closing Date, by and among Borrower, the Administrative Agent and the Lenders from time to time party thereto.

"LOAN DOCUMENTS" means the Loan Agreement (including this Schedule X), the Notes, the Security Documents and all other letters,

agreements, guaranties and instruments delivered by any PEIX Party in connection with the Loan Agreement.

"LOSS" means any loss, theft, destruction, damage, casualty, title defect or failure, zoning change, taking, condemnation, seizure, confiscation or requisition of or with respect to the Project or the Grain Facilities or any part thereof.

"LOSS PROCEEDS ACCOUNT" has the meaning set forth in Section 2.2(a) of the Disbursement Agreement.

"LYLES" means W.M. Lyles, Co., a California corporation.

"MAJOR LOSS" means any loss, theft, destruction, damage, casualty, title defect or failure, zoning change, taking, condemnation, seizure, confiscation or requisition of or with respect to the Project or the Grain Facilities or any part thereof that, in the reasonable judgment of the Administrative Agent, makes construction or operation of the Project or the Grain Facilities uneconomical or unfeasible.

"MAJOR PROJECT DOCUMENTS" means the EPC Contract, the Ethanol Marketing Agreement, the Operations and Maintenance Agreements, the Technology License and the Corn Procurement Agreement.

"MAJORITY LENDERS" means, at any time, the holders of at least fifty-one percent (51%) in principal amount of the Notes then outstanding or, if no Notes are then outstanding, Lenders having at least fifty-one percent (51%) of the Aggregate Construction Loan Commitment; PROVIDED, that if any one Lender and its Affiliates hold more than fifty-one percent (51%) in principal amount of the Notes then outstanding, then "Majority Lenders" will mean all Lenders.

"MATERIAL ADVERSE EFFECT" means a material adverse effect on (a) the rights or interests of the Administrative Agent, the Disbursement Agent, the DSRA Agent or any Lender under any Loan Document, (b) the business, assets, property or condition (financial or otherwise) or operations of Borrower since the Construction Loan Closing Date, (c) the ability of Borrower, any other PEIX Party or the EPC Contractor to perform its obligations under any Loan Document or Major Project Document to which it is a party, or (d) the validity, enforceability or priority of the Liens granted in favor of the Administrative Agent pursuant to the Security Documents.

"MINIMUM COVERAGE RATIO" means (a) with respect to any date of calculation on or after the fourth Payment Date after the Term Loan Conversion Date, the ratio of (w) the Net Operating Cash from the Project for the preceding 12 months to (x) all scheduled payments of principal and interest (excluding the SPP Payments) on the Term Loans for the next twelve (12) month period and (b) with respect to any date of calculation on any of the first, second or third

Payment Date after the Term Loan Conversion Date, the ratio of (y) the Net Operating Cash from the Project since the Term Loan Conversion Date to (z) all scheduled payments of principal and interest (excluding the SPP Payments) on the Term Loans for the next one, two or three Payment Dates, calculated such that (1) the Minimum Coverage Ratio as calculated on the first Payment Date after the Term Loan Conversion Date will be the ratio of the Net Operating Cash from the Project since the Term Loan Conversion Date to the amount of the scheduled payments of principal and interest on the Term Loans payable on the second Payment Date after the Term Loan Conversion Date, (2) the Minimum Coverage Ratio as calculated on the second Payment Date after the Term Loan Conversion Date will be the ratio of the Net Operating Cash from the Project since the Term Loan Conversion Date to the aggregate amount of the scheduled payments of principal and interest on the Term Loans payable on the third and fourth Payment Dates after the Term Loan Conversion Date and (3) the Minimum Coverage Ratio as calculated on the third Payment Date after the Term Loan Conversion Date will be the ratio of the Net Operating Cash from the Project since the Term Loan Conversion Date to the aggregate amount of the scheduled payments of principal and interest on the Term Loans payable on the fourth, fifth and sixth Payment Dates after the Term Loan Conversion Date.

"MONTHLY CONSTRUCTION REPORT" means a report, substantially in the form of Exhibit 5.1(k)(iii) to the Loan Agreement, prepared by Borrower in good faith and with due care with respect to the construction of the Project which (i) reports and describes any delay, projected delay or event of force majeure and (ii) sets forth such other information as may be reasonably requested by the Administrative Agent.

"MORTGAGE" means the Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated the Construction Loan Closing Date, by Borrower to Chicago Title Insurance Company, as trustee, for the benefit of the Administrative Agent.

"MULTIEMPLOYER PLAN" means a Plan that is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"NET INSURANCE PROCEEDS" means all amounts payable to, on behalf of or on account of the interest of Borrower under any Required Insurance or in respect of any Loss.

"NET OPERATING CASH" means the Project's revenues less Qualified Project Expenses.

"NOTE" means a Construction Loan Note or a Term Loan Note.

"NOTICE OF BORROWING" means a notice in the form of Exhibit 2.2 to the Loan Agreement.

"OBLIGATIONS" means all principal, premium, interest (including interest which would accrue but for the filing of a petition in bankruptcy), reimbursement obligations, indemnities, fees, expenses, liabilities

and obligations of any kind, whether monetary or nonmonetary, owing from Borrower or Borrower Member to the Administrative Agent or any Lender or due to be performed by Borrower or Borrower Member for the benefit of the Administrative Agent or any Lender under or in connection with any Loan Document.

"OPERATION AND MAINTENANCE AGREEMENTS" means (a) the Amended and Restated Operation and Maintenance Services Agreement, dated as of March 16, 2006, by and between Borrower and PEC and (b) the Grain Mill Operation and Maintenance Agreement, dated as of March 30, 2006, by and between Borrower and PAP.

"OPERATING PLAN AND BUDGET," for any period, means an operating plan and budget for the Project with respect to such period prepared by Borrower in good faith and with due care that sets forth in reasonable detail (i) the projected levels of operation of the Project on a monthly basis, (ii) the projected revenues and expenses (including all scheduled payments of principal and interest on the Term Loans) of the Project on a monthly basis, (iii) the overhaul, maintenance and repair schedule for the Project, (iv) the amount and timing of expected capital expenditures, (v) cash flow projections and working capital needs and (vi) such other information as the Administrative Agent may reasonably request prior to the adoption thereof.

"ORGANIZATIONAL DOCUMENTS" means the certificates or articles of incorporation, by-laws, limited liability company agreements, operating agreements, certificates and agreements of limited partnership and other formative and governing documents relating to a Person.

"PAP" means Pacific Ag. Products, LLC, a California limited liability company.

"PAYMENT DATE" means any date on which a payment of principal of or interest on any Loan is due under the Loan Agreement.

"PEC" means Pacific Ethanol California, Inc., a California corporation.

"PEI" means Pacific Ethanol, Inc., a Delaware corporation.

"PEIX PARTIES" means, collectively, Borrower, Kinergy, PEC, Borrower Member and Grain Operator.

"PERMITTED CONSTRUCTION DELAY" has the meaning set forth in Section 3.2(a)(vi)(A) of the Loan Agreement.

"PERMITTED INVESTMENTS" means (i) securities issued or guaranteed or insured by the United States of America or any agency or instrumentality thereof maturing within one (1) year from the date of acquisition thereof, (ii) commercial paper maturing no more than ninety (90) days from the date of creation thereof and as at any date of determination rated "A-1" or better by Standard & Poor's Ratings Services and "P-1" or better by Moody's Investors Service, Inc., (iii) bankers acceptances or certificates of deposit maturing within ninety (90) days from the date of acquisition thereof

issued by any bank the short-term obligations of which are rated "A-1" or better by Standard & Poor's Rating Services and "P-1" or better by Moody's Investors Service, Inc. and (iv) any fund that invests in any of the investments described in the preceding clauses (i) through (iii); PROVIDED, that with respect to the credit ratings specified above, if neither Moody's Investors Service, Inc. nor Standard & Poor's Rating Services is in the business of rating the relevant Permitted Investment, such Permitted Investment shall have received a rating equivalent to that specified above for such Permitted Investment by another nationally recognized credit rating agency of similar standing; PROVIDED, FURTHER, that Permitted Investments purchased with funds from any Security Account shall have a scheduled maturity no later than the Business Day immediately preceding the next anticipated cash withdrawal or transfer from such Security Account; PROVIDED, FURTHER, that "Permitted Investments" also includes fully secured repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (i) above entered into with any bank meeting the qualifications established in clause (ii) above.

"PERMITTED LIENS" has the meaning set forth in Section 5.2(f) of the Loan Agreement.

"PERSON" means and includes natural persons, corporations, limited partnerships, general partnerships, limited liability companies, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies and other organizations, whether or not legal entities, and governments and agencies and political subdivisions thereof.

"PHASE I COMPLETION" means "Completion" as such term is defined in the Amended and Restated Phase I Design-Build Agreement, dated November 2, 2005, by and between Borrower and the EPC Contractor.

"PLAN" means a pension plan providing benefits for employees of a Person covered by Title IV of ERISA.

"PLANS AND SPECIFICATIONS" means the plans and specifications for the Project.

"PLEDGE AGREEMENT" means the Membership Interest Pledge Agreement, dated the Construction Loan Closing Date, between Borrower Member, on the one hand, and the Administrative Agent, on the other hand.

"PRO FORMA BALANCE SHEET" means the estimated balance sheet of Borrower as of the Construction Loan Closing Date.

"PRO RATA SHARE" means, with respect to each Lender, such Lender's pro rata share (expressed as a percentage) of the Aggregate Construction Loan Commitment or the Aggregate Term Loan Commitment, as applicable, in each case as set forth on the signature pages to the Loan Agreement.

"PROCESS AGENT" means a process agent reasonably acceptable to the Administrative Agent, or any successor thereto approved by the Administrative Agent.

"PRODUCTS" means ethanol, WDGS, DDGS, carbon dioxide and any other co-product or by-product produced in connection with the production of ethanol at the Project and all whole and processed grains handled by Borrower (or by the Grain Operator on behalf of Borrower) at the Grain Facilities.

"PROJECT" means Borrower's ethanol production facility located in Madera, California.

"PROJECT DOCUMENTS" means the agreements and documents to which Borrower is or becomes a party during the term of the Loans, relating to the development, design, ownership, construction and operation of the Project and the Grain Facilities, including Major Project Documents, all agreements relating to the Site, all agreements relating to the supply of water, natural gas, corn and electricity to the Project, all other agreements relating to the operations and maintenance of the Project and the Grain Facilities and all other documents listed on Schedule A to the Security Agreement or as may be reasonably required by the Administrative Agent.

"PROJECT PARTIES" means all parties to the Project Documents other than Borrower.

"PROJECT REVENUES ACCOUNT" has the meaning set forth in Section 2.2 of the Disbursement Agreement.

"QUALIFIED PROJECT CONSTRUCTION EXPENSES" means (a) the following costs and expenses incurred by Borrower from the Construction Loan

Closing Date to the Term Loan Conversion Date: (i) costs and expenses incurred by Borrower during such period under the EPC Contract and other costs and expenses incurred by Borrower during such period directly related to the design, engineering, construction, installation, start-up, and testing of the Project and Qualified Project Expenses payable prior to Commercial Operation; (ii) Closing Costs and other fees and expenses incurred during such period by or on behalf of Borrower in connection with the development of the Project and the consummation of the transactions contemplated by the Loan Documents (and the interest rate protection agreements), including financial, accounting, legal, environmental site assessment, surveying and consulting fees, all fees payable to the Administrative Agent or the Lenders in connection with the Loan Documents (and the interest rate protection agreements); (iii) the costs of obtaining Approvals for the Project prior to Commercial Operation; (iv) interest on the Construction Loans payable prior to Commercial Operation; (v) financing expenses, costs and charges in connection with this Agreement and the fees and expenses of Lenders' Counsel and the consultants; (vi) insurance premiums with respect to the title insurance policy and the Required Insurance incurred during such period; and (vii) all costs, fees and expenses incurred by Borrower in accordance with the construction budget and other costs directly related to the design, engineering, construction, installation, start-up and testing of the facilities being constructed thereunder incurred during such period; and (b) all other costs and expenses included in the construction budget and incurred by Borrower during such period.

"QUALIFIED PROJECT EXPENSES" means, with respect to the Project, (i) reasonable fees and expenses of accounting, legal, insurance, engineering or other professional advisors to Borrower for services relating to the Project, (ii) reasonable expenses relating to equipment rental, utility charges, administration, routine operation and maintenance of the Project and statutory representation, (iii) reasonable insurance premiums, (iv) property and other taxes and regulatory fees, (v) reasonable expenses of testing and calibration and permitting, in each case in amounts not to exceed amounts deemed reasonable by the Administrative Agent, (vi) reasonable expenses for corn, natural gas and electricity necessary to operate the Project in accordance with the Operating Plan and Budget, and (vii) out-of-pocket expenses incurred by the managers of Borrower in connection with their duties as managers of Borrower, including travel, lodging other expenses, that are either included in the then-current Operating Plan and Budget or otherwise approved in advance by the Administrative Agent, which approval will not be unreasonably withheld or delayed. Management fees and similar payments paid to any PEIX Party other than Borrower for work performed as Borrower's manager or otherwise relating to the management of Borrower or the Project (other than expenses described in clause (vii) of the preceding sentence) are not Qualified Project Expenses.

"REIMBURSABLE TAXES" has the meaning set forth in Section 2.10(a)(i) of the Loan Agreement.

"REQUIRED APPROVALS" means all Approvals required in connection with the execution, delivery, performance, admission into evidence or enforcement of the Documents or the development, construction, ownership or operation of the Project and the Grain Facilities as contemplated under the Documents, including without limitation all Approvals required for the Project to operate at the levels projected in the Closing Pro Forma.

"REQUIRED INSURANCE" means the insurance to be obtained and maintained by Borrower and the EPC Contractor, as described in Exhibit 5.1(n) to the Loan Agreement.

"SCHEDULED INSTALLMENT" has the meaning set forth in Section 2.8(a)(ii) of the Loan Agreement.

"SECURITIES INTERMEDIARIES" means Comerica Bank, a national banking association, and Hudson United Capital, and such other Persons as may from time to time be a "Securities Intermediary" under the Disbursement Agreement.

"SECURITY ACCOUNTS" means the Construction Draw Account, the Project Revenues Account, the Debt Service Account, the Debt Service Reserve Account, the Cash Sweep Account, the Asset Sales Proceeds Account and the Loss Proceeds Account.

"SECURITY AGREEMENT" means the Assignment and Security Agreement, dated the Construction Loan Closing Date, between Borrower and the Administrative Agent.

"SECURITY DOCUMENT LIENS" means the Liens created, or purported to be created, pursuant to the Security Documents.

"SECURITY DOCUMENTS" means the Mortgage, the Security Agreement, the Disbursement Agreement, the Financing Statements, the Consents to Assignment, the Pledge Agreement (including the membership interest certificates and transfer instruments delivered pursuant thereto), the Intercreditor Agreement, and all other agreements and instruments executed by the PEIX Parties or any other Person to provide security for the repayment of the Loans and the payment of all other obligations of Borrower and Borrower Member under the Loan Documents.

"SITE" means the real property on which the Project and the Grain Facilities are or are to be located and all related easements, rights-of-way and other rights and interests.

"SPP PAYMENT" has the meaning set forth in Section 2.8(a)(iii) of the Loan Agreement.

"SUB-DEBT" means the loans made to Borrower by the Sub-Debt Provider pursuant to the Sub-Debt Documents.

"SUB-DEBT DOCUMENTS" means (a) the Amended and Restated Term Loan Agreement, dated as of _____ ___, 2006, by and between Sub-Debt Provider and Borrower and (b) the Deed of Trust (Non-Construction) Security Agreement and Fixture Filing with Assignment of Rents, effective as of _____ __, 2006, by and among Borrower, Chicago Title Company and Sub-Debt Provider.

"SUB-DEBT PROVIDER" means Lyles Diversified, Inc., a California corporation.

"SUBSTANTIAL COMPLETION" means "Substantial Construction Completion" as such term is defined in the Phase 2 Design-Build Agreement, dated November 2, 2005, by and between Borrower and the EPC Contractor.

"SUPPLIES AND RAW MATERIALS" means all fuel, materials, stores, spare parts and supplies and other personal property which are consumable (other than by ordinary wear and tear) in the operation of the business of Borrower or in the production of Products by the Project.

"TAX" means all taxes, charges, duties, fees, levies and other assessments of a similar nature (whether federal, state, local or foreign) based upon or measured by income and any other tax whatsoever, including gross receipts, capital gains, license, profits, windfall profits, sales, use, occupation, value added, AD VALOREM, transfer, franchise, withholding, payroll, employment, excise, stamp, premium, capital stock, production, business and

occupation, disability, severance, or real or personal property taxes, fees, or assessments of any kind whatsoever imposed by any Government Instrumentality, together with any interest, additions to tax or penalties imposed with respect thereto.

"TECHNOLOGY LICENSE" means the License of Technology, dated September 1, 2005, between Delta-T and Borrower.

"TERM LENDERS" means each Person identified as a Term Lender on the signature pages of the Loan Agreement.

"TERM LOAN" means a term loan made to Borrower pursuant to Section 2.2(b) of the Loan Agreement.

"TERM LOAN COMMITMENT" means the commitment of each Term Lender to make Term Loans set forth in Section 2.1(a) of the Loan Agreement.

"TERM LOAN CONVERSION DATE" means the date on which all conditions precedent set forth in Section 3.3 of the Loan Agreement have been satisfied and the Term Loans are funded pursuant to Section 2.2(b) of the Loan Agreement. The Term Loan Conversion Date may not occur after the Construction Loan Commitment Termination Date.

"TERM LOAN INTEREST PERIOD" means each period, determined in accordance with Section 2.3(b) of the Loan Agreement, at the end of which interest is payable on the Term Loans.

"TERM LOAN INTEREST RATE" means the rate of interest payable on a Term Loan in accordance with Section 2.3 of the Loan Agreement.

"TERM LOAN MATURITY DATE" means the seventh anniversary of the first March 31, June 30, September 30 or December 31 following the Term Loan Conversion Date.

"TERM LOAN NOTE" means a promissory note, in the form of Exhibit 2.4(b) to the Loan Agreement, executed and delivered by Borrower, payable to the order of a Term Lender and evidencing such Term Lender's Term Loan.

"TITLE INSURER" means a national title insurance company agreed upon by Borrower and the Administrative Agent.

"TITLE POLICY" has the meaning set forth in Section 3.1 of the Loan Agreement.

"TRANSFER TAXES" has the meaning set forth in Section 3.3(h) of the Loan Agreement.

"UCC" means the Uniform Commercial Code in effect in the State of New York; PROVIDED, in the event that, by reason of mandatory provisions of Law, any or all of the perfection or priority of the security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, the term "UCC" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof and of the other Loan Documents relating to such perfection or priority and for purposes of definitions related to such provisions.

"WDGS" means wet distiller's grain solubles, which is a product of the Project.

"WDGS MARKETING AGREEMENT" means the WDG Marketing and Services Agreement, dated March 4, 2005, by and among Borrower (as assignee of PEC), Phoenix Bio Industries and Western Milling LLC.

"WITHDRAWAL APPROVAL NOTICE" has the meaning set forth in Section 3.2(d) of the Disbursement Agreement.

II. RULES OF CONSTRUCTION.

The following rules of construction will apply in the Loan Documents:

(i) titles and headings are for convenience only and will not be deemed part of the Loan Documents for purposes of interpretation;

(ii) unless otherwise stated, references in a Loan Document to "Sections," "Exhibits" and "Appendices" refer, respectively, to Sections of, and Exhibits and Appendices to, such Loan Document;

(iii) "including" means "including, but not limited to" and "include" or "includes" means "include, without limitation" or "includes, without limitation";

(iv) "month" means "calendar month";

(v) "hereunder," "herein," "hereto" and "hereof," when used in a Loan Document, refer to such Loan Document and not to a particular Section or clause of such Loan Document;

(vi) in the case of defined terms, the singular includes the plural and vice versa;

(vii) unless otherwise indicated, all accounting terms not specifically defined will be construed in accordance with GAAP;

(viii) unless otherwise indicated, each reference to a particular Law is a reference to such Law as it may be amended, modified, extended, restated or supplemented from time to time, as well as to any successor Law thereto; and

(ix) unless otherwise indicated, each reference to a particular agreement is a reference to such agreement as it may be amended, modified, extended, restated or supplemented from time to time in compliance with Section 5.2(c) of the Loan Agreement (if applicable), as well as to any successor agreement thereto entered into in compliance with Section 5.2(c) of the Loan Agreement (if applicable).

EXHIBIT 10.46

PACIFIC ETHANOL MADERA LLC

Senior Construction Loan Note Due October 13, 2007

No. 2

Amount: US$11,900,000 Date: April 13, 2006

FOR VALUE RECEIVED, PACIFIC ETHANOL MADERA LLC, a Delaware limited liability company ("PAYOR"), hereby unconditionally promises to pay to the order of COMERICA BANK, a Michigan banking corporation (herein called "NOTE HOLDER"), or its permitted assigns, the principal sum of ELEVEN MILLION, NINE HUNDRED THOUSAND Dollars ($11,900,000), or so much thereof as may be advanced pursuant to the Loan Agreement (as defined below), on the Construction Loan Maturity Date, or such earlier date as the same may become due and payable hereunder or under the Loan Agreement, payable as set forth below and in the Loan Agreement.

All payments under this Construction Loan Note will be payable without setoff, counterclaim or deduction of any kind in lawful money of the United States of America and in immediately available funds not later than 1:00 p.m., New York City time, on the date when due to Note Holder.

This Construction Loan Note is one of the Construction Loan Notes referred to in and issued subject to the Construction and Term Loan Agreement, dated April __, 2006 (as amended, modified or supplemented from time to time, the "LOAN AGREEMENT"), among Payor and Note Holder, as a Construction Lender, and the other parties thereto. Except as otherwise defined herein, each capitalized term used herein has the meaning set forth for such term in the Loan Agreement.

On each Construction Loan Funding Date and on each other day on which Note Holder makes a Construction Loan to Payor in accordance with the Loan Agreement, Note Holder is hereby authorized to make a notation on Schedule I hereto as to the date and the amount of each Construction Loan evidenced by this Construction Loan Note. Failure to make any such notation will not limit or otherwise affect the obligations of Payor hereunder or under the Loan Agreement. Payor agrees that this Construction Loan Note, upon each entry being duly made and absent manifest error, constitutes PRIMA FACIE evidence of the indebtedness of Payor and is enforceable against Payor with the same force and effect as if such amounts were set forth in separate Construction Loan Notes executed by Payor.

This Construction Loan Note is subject to mandatory prepayment in whole or in part and optional prepayment (in connection with a refinancing of the Construction Loans by Term Loans) in whole or in part as provided in the Loan Agreement.

Payor will pay interest on the unpaid principal amount hereof at the applicable interest rate per annum as determined pursuant to Section 2.3 of the Loan Agreement. Interest will be computed on the actual number of days elapsed over a 360-day year. Interest will be payable (i) in accordance with Section 2.3 of the Loan Agreement and (ii) concurrently with any prepayment, at maturity (by acceleration or otherwise) and, after such maturity, on demand. This Construction Loan Note is hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of the maturity of any indebtedness evidenced hereby or otherwise, will the interest contracted for or charged or received by Note Holder exceed the maximum amount permissible under applicable Law. If, under any circumstance whatsoever, interest would otherwise be payable to Note Holder in excess of the maximum lawful amount, the interest payable to Note Holder will be reduced to the maximum amount permitted under applicable Law, and the amount of interest for any subsequent period to the extent less than that permitted by applicable Law, will to that extent be increased by the amount of such reduction.

Payor hereby irrevocably authorizes Note Holder to calculate the amount of each interest payment to be evidenced by this Construction Loan Note in accordance with the provisions of the Loan Agreement.

Upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), Payor will pay, pursuant to the terms of the Loan Agreement, interest on all amounts outstanding hereunder (whether or not past due) at a rate per annum equal to 2% plus the Construction Loan Interest Rate; otherwise the principal hereof and accrued interest hereon will become, or may be declared to be, forthwith due and payable in the manner, on the conditions and with the effect provided in the Loan Agreement.

Payor will pay the costs and expenses, including attorneys' fees, incurred by Note Holder in enforcing any of its rights under the Loan Agreement, this Construction Loan Note, the Security Documents or any other Loan Document or in complying with any subpoena or other legal process served upon Note Holder in connection with the Loan Agreement, the Notes, the Security Documents or any other Loan Document, or the transactions contemplated thereby, including without limitation costs and expenses incurred in any bankruptcy case, in accordance with the provisions of the Loan Agreement.

This Construction Loan Note is secured by the Collateral described in the Security Documents and any other agreement which by its terms provides security for this Construction Loan Note. This Construction Loan Note is the obligation solely of Payor and Note Holder will have access only to the Collateral for repayment. This Construction Loan Note will be binding upon Payor and its successors and will inure to the benefit of Note Holder and its successors and permitted assigns.

Payor hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Construction Loan Note except as specifically provided in the Loan Agreement.

Any provision of this Construction Loan Note which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof and without affecting the validity or enforceability of such or any other provision in any other jurisdiction.

THIS CONSTRUCTION LOAN NOTE WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF (OTHER THAN SECTION 5.1401 OF THE GENERAL OBLIGATIONS LAW AND ANY SUCCESSOR STATUTE THERETO). Payor hereby knowingly, voluntarily and intentionally waives any right it may have to a trial by jury in any litigation or claim which is based hereon, or arises out of, under, or in connection with, this Construction Loan Note. Any legal action or proceeding with respect to this Construction Loan Note may be brought in the courts of the State of New York or the United States of America sitting in the Borough of Manhattan, and Payor hereby accepts for itself and in respect of its property, generally and unconditionally, the exclusive jurisdiction of the aforesaid courts. Further, Payor hereby irrevocably waives any objection, including without limitation any objection to the laying of venue or based on the grounds of forum non conveniens, which it may now or hereafter have to the bringing of any such action or proceeding in such jurisdictions.

PAYOR:

PACIFIC ETHANOL MADERA LLC

By /S/ RYAN TURNER

Name:
Title:

SCHEDULE I

Date	Amount of Construction Loan	Unpaid Aggregate Principal Amount of Construction Loans	Notation Made by

EXHIBIT 10.47

PACIFIC ETHANOL MADERA LLC

Senior Construction Loan Note Due October 13, 2007

No. 1

Amount: US$22,100,000 Date: April 13, 2006

FOR VALUE RECEIVED, PACIFIC ETHANOL MADERA LLC, a Delaware limited liability company ("PAYOR"), hereby unconditionally promises to pay to the order of HUDSON UNITED CAPITAL, A DIVISION OF TD BANKNORTH, N.A., a national banking association (herein called "NOTE HOLDER"), or its permitted assigns, the principal sum of TWENTY-TWO MILLION, ONE HUNDRED THOUSAND Dollars ($22,100,000), or so much thereof as may be advanced pursuant to the Loan Agreement (as defined below), on the Construction Loan Maturity Date, or such earlier date as the same may become due and payable hereunder or under the Loan Agreement, payable as set forth below and in the Loan Agreement.

All payments under this Construction Loan Note will be payable without setoff, counterclaim or deduction of any kind in lawful money of the United States of America and in immediately available funds not later than 1:00 p.m., New York City time, on the date when due to Note Holder.

This Construction Loan Note is one of the Construction Loan Notes referred to in and issued subject to the Construction and Term Loan Agreement, dated April __, 2006 (as amended, modified or supplemented from time to time, the "LOAN AGREEMENT"), among Payor and Note Holder, as a Construction Lender, and the other parties thereto. Except as otherwise defined herein, each capitalized term used herein has the meaning set forth for such term in the Loan Agreement.

On each Construction Loan Funding Date and on each other day on which Note Holder makes a Construction Loan to Payor in accordance with the Loan Agreement, Note Holder is hereby authorized to make a notation on Schedule I hereto as to the date and the amount of each Construction Loan evidenced by this Construction Loan Note. Failure to make any such notation will not limit or otherwise affect the obligations of Payor hereunder or under the Loan Agreement. Payor agrees that this Construction Loan Note, upon each entry being duly made and absent manifest error, constitutes PRIMA FACIE evidence of the indebtedness of Payor and is enforceable against Payor with the same force and effect as if such amounts were set forth in separate Construction Loan Notes executed by Payor.

This Construction Loan Note is subject to mandatory prepayment in whole or in part and optional prepayment (in connection with a refinancing of the Construction Loans by Term Loans) in whole or in part as provided in the Loan Agreement.

Payor will pay interest on the unpaid principal amount hereof at the applicable interest rate per annum as determined pursuant to Section 2.3 of the Loan Agreement. Interest will be computed on the actual number of days elapsed over a 360-day year. Interest will be payable (i) in accordance with Section 2.3 of the Loan Agreement and (ii) concurrently with any prepayment, at maturity (by acceleration or otherwise) and, after such maturity, on demand. This Construction Loan Note is hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of the maturity of any indebtedness evidenced hereby or otherwise, will the interest contracted for or charged or received by Note Holder exceed the maximum amount permissible under applicable Law. If, under any circumstance whatsoever, interest would otherwise be payable to Note Holder in excess of the maximum lawful amount, the interest payable to Note Holder will be reduced to the maximum amount permitted under applicable Law, and the amount of interest for any subsequent period to the extent less than that permitted by applicable Law, will to that extent be increased by the amount of such reduction.

Payor hereby irrevocably authorizes Note Holder to calculate the amount of each interest payment to be evidenced by this Construction Loan Note in accordance with the provisions of the Loan Agreement.

Upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), Payor will pay, pursuant to the terms of the Loan Agreement, interest on all amounts outstanding hereunder (whether or not past due) at a rate per annum equal to 2% plus the Construction Loan Interest Rate; otherwise the principal hereof and accrued interest hereon will become, or may be declared to be, forthwith due and payable in the manner, on the conditions and with the effect provided in the Loan Agreement.

Payor will pay the costs and expenses, including attorneys' fees, incurred by Note Holder in enforcing any of its rights under the Loan Agreement, this Construction Loan Note, the Security Documents or any other Loan Document or in complying with any subpoena or other legal process served upon Note Holder in connection with the Loan Agreement, the Notes, the Security Documents or any other Loan Document, or the transactions contemplated thereby, including without limitation costs and expenses incurred in any bankruptcy case, in accordance with the provisions of the Loan Agreement.

This Construction Loan Note is secured by the Collateral described in the Security Documents and any other agreement which by its terms provides security for this Construction Loan Note. This Construction Loan Note is the obligation solely of Payor and Note Holder will have access only to the Collateral for repayment. This Construction Loan Note will be binding upon Payor and its successors and will inure to the benefit of Note Holder and its successors and permitted assigns.

Payor hereby waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Construction Loan Note except as specifically provided in the Loan Agreement.

Any provision of this Construction Loan Note which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof and without affecting the validity or enforceability of such or any other provision in any other jurisdiction.

THIS CONSTRUCTION LOAN NOTE WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF (OTHER THAN SECTION 5.1401 OF THE GENERAL OBLIGATIONS LAW AND ANY SUCCESSOR STATUTE THERETO). Payor hereby knowingly, voluntarily and intentionally waives any right it may have to a trial by jury in any litigation or claim which is based hereon, or arises out of, under, or in connection with, this Construction Loan Note. Any legal action or proceeding with respect to this Construction Loan Note may be brought in the courts of the State of New York or the United States of America sitting in the Borough of Manhattan, and Payor hereby accepts for itself and in respect of its property, generally and unconditionally, the exclusive jurisdiction of the aforesaid courts. Further, Payor hereby irrevocably waives any objection, including without limitation any objection to the laying of venue or based on the grounds of forum non conveniens, which it may now or hereafter have to the bringing of any such action or proceeding in such jurisdictions.

PAYOR:

PACIFIC ETHANOL MADERA LLC

By /S/ RYAN TURNER

Name:
Title:

SCHEDULE I

Date	Amount of Construction Loan	Unpaid Aggregate Principal Amount of Construction Loans	Notation Made by

EXHIBIT 10.48

ASSIGNMENT AND SECURITY AGREEMENT

This ASSIGNMENT AND SECURITY AGREEMENT, dated April 13, 2006 (this "AGREEMENT"), is by and between PACIFIC ETHANOL MADERA LLC, a Delaware limited liability company ("BORROWER"), and HUDSON UNITED CAPITAL, A DIVISION OF TD BANKNORTH, N.A., a national banking association, as the Administrative Agent for the Lenders (as defined below) (together with its successors and permitted assigns in such capacity, the "ADMINISTRATIVE AGENT").

W I T N E S S E T H :
- - - - - - - - - -

WHEREAS, Borrower was formed to develop, own and operate an approximately 35 million gallon-per-year dry mill ethanol production facility to be located in Madera, California (the "PROJECT"), and other related businesses;

WHEREAS, Borrower has entered into the Construction and Term Loan Agreement, dated April 10, 2006 (as the same may be amended, modified or supplemented from time to time, the "LOAN AGREEMENT"), by and among Borrower, the lenders from time to time party thereto (the "LENDERS") and the Administrative Agent, pursuant to which the Lenders have agreed to make certain loans to Borrower; and

WHEREAS, it is a condition precedent to the Lenders making any loans pursuant to the Loan Agreement that Borrower enter into this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order to induce the Lenders to make the loans pursuant to the Loan Agreement, the parties hereto agree as follows:

Section 1. DEFINITIONS. Capitalized terms used and not otherwise defined in this Agreement have the meanings given to those terms in Schedule X to the Loan Agreement, and the rules of construction set forth in such Schedule X govern this Agreement. For purposes of this Agreement, all other undefined terms used herein, whether capitalized or not, that are defined in Article 8 or Article 9 of the UCC, will have their respective meanings as therein defined. In the event of any inconsistency expressed or implied between this Agreement and the Loan Agreement, the Loan Agreement will govern the interpretation and implementation of this Agreement.

Section 2. GRANT OF SECURITY INTEREST.

(a) COLLATERAL. As security for the prompt and complete payment and performance when due (whether at stated maturity, by acceleration or otherwise) of the Obligations (as defined below) now existing or hereafter arising, and howsoever evidenced, Borrower hereby collaterally assigns, conveys, mortgages, pledges, hypothecates and transfers to the Administrative Agent on behalf of the Lenders, and grants and creates a lien on and First-Priority security interest (the "SECURITY INTEREST") in favor of the Administrative Agent on behalf of the Lenders in, all right, title and interest of Borrower in, to and under the following, whether now existing or hereafter arising or acquired (collectively, the "COLLATERAL"):

(i) each Project Document to which Borrower is or becomes a party or by which it is bound (and any and all accounts, general intangibles, instruments and contract rights arising thereunder or related thereto), including the Project Documents listed on Schedule A hereto, as each may be amended, modified or supplemented from time to time (such Project Documents, as amended, supplemented or otherwise modified, being individually referred to herein as an "ASSIGNED AGREEMENT" and collectively referred to herein as the "ASSIGNED

AGREEMENTS"), including in each case, (A) all rights of Borrower, now or hereafter existing, to receive moneys thereunder, whether or not earned by performance or for property that has been or is to be sold, leased, licensed, assigned or otherwise disposed of pursuant to the Assigned Agreements, (B) all rights of Borrower, now or hereafter existing, to receive proceeds of any performance, payment or completion bond, insurance, indemnity, warranty or guaranty with respect to the Assigned Agreements, (C) all claims of Borrower, now or hereafter existing, for damages arising out of or for breach of or default under the Assigned Agreements, (D) all supporting obligations in favor of Borrower and incurred pursuant to the Assigned Agreements, (E) all rights of Borrower, now or hereafter existing, to request that funds be disbursed in the form of loans or equity contributions under the Assigned Agreements, and (F) all rights of Borrower, now or hereafter existing, to take any action to terminate, amend, supplement, modify or waive performance of the Assigned Agreements, to perform thereunder and to compel performance and otherwise exercise all remedies thereunder; PROVIDED, that unless an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement) has occurred and is continuing and the Administrative Agent has given notice to Borrower, Borrower may exercise all rights, interests and benefits under the Assigned Agreements in any lawful manner not prohibited by this Agreement, the Loan Agreement or any of the other Loan Documents;

(ii) all investment property, including certificated securities, uncertificated securities, securities accounts, financial assets and security entitlements, all promissory notes and other indebtedness payable to Borrower, and all deposit accounts and all other bank accounts and sub-accounts, including without limitation the Construction Draw Account, the Project Revenues Account, the Debt Service Account, the Debt Service Reserve Account and any other Security Accounts established and maintained by Disbursement Agent or the DSRA Agent in the name of the Administrative Agent in accordance with Article II of the Disbursement Agreement (each of the securities accounts, deposit accounts, other bank accounts and sub-accounts being individually referred to herein as an "ACCOUNT" and collectively referred to herein as the "ACCOUNTS"), together with all funds, cash,

monies, financial assets, investments, instruments, certificates of deposit, promissory notes and any other property (including any Permitted Investments deposited therein or credited thereto) at any time on deposit therein or credited to any of the foregoing, all rights to payment or withdrawal therefrom and all income, profits, gains and interest thereon;

(iii) all Approvals now or hereafter held in the name or for the benefit of Borrower (it being understood that in no event will the security interest and Lien granted under this Section 2(a) attach to any such Approval if the grant of such security interest or Lien is prohibited by Law or would constitute or result in either (x) the voiding, invalidation or unenforceability of such Approval or (y) in a breach or termination pursuant to the terms of, or a default under, such Approval);

(iv) all equipment, accounts, agreements, contract rights, inventory (including fuel supplies, corn and other feedstocks, ethanol, dried and wet distillers grain solubles, and other products), goods, accessions, chattel paper, electronic chattel paper, documents, instruments, letter-of-credit rights, promissory notes, general intangibles, payment intangibles, software and related licenses, supporting obligations, commercial tort claims, fixtures, trade fixtures, money, after-acquired property and other assets owned by Borrower or in which Borrower has rights, including the improvements, equipment and fixtures associated with the Project, the Site, and the Grain Facilities, designs, plans and specifications relating to the Project, the Site, and the Grain Facilities, all pollution allowances, offsets and similar rights under the Clean Air Act Amendments of 1990

and any implementing Law, and any right, title or interest of Borrower under any insurance, indemnity, warranty or guaranty and any rents, revenues, incomes and profits (including payments and the rights to receive such payments from Government Instrumentalities);

(v) all proceeds, products, offsprings, rents, profits, income, benefits, substitutions, replacements and accessions of and to any and all of the foregoing Collateral, including whatever is received upon any collection, exchange, sale or other disposition, or distribution on account of any of the Collateral, any property into which any of the Collateral is converted or any rights arising out of the Collateral, whether cash or non-cash proceeds and any and all other amounts paid or payable or in connection with any of the Collateral; and

(vi) to the extent not included in the foregoing, any other personal or fixture property of Borrower, of every kind and nature, whether now existing or hereafter arising or acquired;

PROVIDED, that (A) any distributions, payments or releases (whether in the form of cash, instruments or otherwise) properly made by or to Borrower pursuant to Articles III and IV of the Disbursement Agreement will be released from the Security Interest granted hereunder and will no longer be part of the Collateral upon the making of such distribution and (B) any physical asset that is the subject of a sale, transfer or other disposition of the Collateral permitted by

the Loan Agreement will be released from the Security Interest granted hereunder and will no longer be part of the Collateral upon consummation of such sale or other disposition. The Collateral is intended to include all of the above-described assets, wheresoever the same may be now or hereafter located.

(b) SUFFICIENCY OF COLLATERAL DESCRIPTION. It is the intention of the parties hereto that the description of the Collateral set forth in Section 2(a) be sufficient, together with the description of the Site as set forth in the Mortgage, to enable the Administrative Agent, upon exercise of its remedies set forth in this Agreement, the Mortgage and the Pledge Agreement, to take possession of, and foreclose upon, all of the right, title and interest of Borrower in and to, without limitation, the Project, the Site, the Grain Facilities, the Project Documents, the Approvals, the Accounts, any insurance obtained by Borrower, any monies payable to or accruing in favor of Borrower and any and all other real property and personal property of Borrower, tangible and intangible, used or usable in connection therewith, and to enable the Administrative Agent or its designee to operate, sell, lease, license or otherwise dispose of the entire interest of Borrower in and to the Project, Site, and the Grain Facilities and such other assets or any part thereof, in each case upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement) and subject to the limitations set forth in this Agreement and the other Loan Documents; PROVIDED, that the Collateral is assigned to the Administrative Agent solely as security and, subject to Section 14 below, the Administrative Agent will have no duty, liability or obligation whatsoever with respect to any of the Collateral, unless the Administrative Agent so elects in a written notice delivered to Borrower.

(c) OBLIGATIONS. This Agreement secures, in accordance with the provisions hereof, the following obligations, whether now existing or hereafter arising (collectively, the "OBLIGATIONS"):

(i) payment and performance of each and every obligation, indebtedness, covenant and agreement of Borrower, now or hereafter existing, contained in the Loan Agreement or any other Loan Document, in each case whether for principal, interest, premium, fees, expenses or otherwise pursuant thereto, and any amendments or supplements thereto, extensions or renewals thereof or replacements therefor;

(ii) payment of all sums advanced in accordance herewith or in accordance with any other Loan Document by or on behalf of the Administrative Agent (A) to protect, retake, hold or prepare for sale,

lease, license or other disposition of, or realize upon, any of the Collateral purported to be covered hereby or thereby, including those fees and expenses described in Section 8.11 of the Loan Agreement or (B) incurred due to the failure of Borrower to perform or observe any provision of any Assigned Agreement or any Loan Document, with interest thereon at a rate PER ANNUM equal to the Default Rate from the date of demand therefor;

(iii) performance of every obligation, covenant and agreement of Borrower contained in any agreement now or hereafter executed by Borrower that recites that the obligations thereunder are secured by this Agreement or any other Security Document; and

(iv) without duplication of amounts described in clauses (i) and (ii) of this Section 2(c), payment of all other sums, with interest thereon at a rate PER ANNUM equal to the Default Rate from the date of demand therefor, that becomes due and payable to or for the benefit of the Administrative Agent pursuant to the terms of this Agreement or any other Loan Document; in each case whether direct or indirect, joint or several, absolute or contingent, liquidated or unliquidated, now or hereafter existing, renewed or restructured, reinstated, created or incurred and including all indebtedness of Borrower under any instrument now or hereafter evidencing or securing any of the foregoing (including, in each and every case, the payment of amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code, 11 U.S.C. ss. 362(a)).

Section 3. PERFECTION OF COLLATERAL. In order to ensure the attachment, perfection and First-Priority of, and the ability of the Administrative Agent to enforce, the Security Interest in the Collateral, Borrower agrees, in each case, at Borrower's sole expense, to take, or authorize to be taken, the following actions with respect to the Collateral:

(a) FINANCING STATEMENTS. Borrower hereby authorizes the Administrative Agent to file or cause to be filed, registered and recorded all financing statements, notices, instruments, agreements, consents and other documents as are necessary in the reasonable judgment of the Administrative Agent or required by Law to create, preserve, perfect or validate the Security Interest in favor of the Administrative Agent. Each such document will be properly filed, registered or recorded in each jurisdiction in which the filing, registration or recordation thereof is necessary or required by Law to grant in favor of the Administrative Agent a perfected security interest in the Collateral. Without limiting the foregoing, Borrower consents that UCC financing statements may be filed describing the Collateral as "all assets" or "all personal property" of Borrower (provided, that no such description shall be deemed to modify the description of the Collateral set forth in Section 2(a) hereof).

(b) DELIVERY OF COLLATERAL. With respect to all instruments, promissory notes, tangible chattel paper, certificated securities and negotiable documents, whether now existing or hereinafter acquired by or arising in favor of Borrower, Borrower will deliver the same to the Administrative Agent pursuant to the terms hereof and of the other Loan Documents. All such instruments, promissory notes, tangible chattel paper, certificated securities and negotiable documents will be in suitable form for transfer by delivery or otherwise, or will be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance reasonably satisfactory to the Administrative Agent, in order to grant in favor of the Administrative Agent a perfected security interest in such instruments, promissory notes, tangible chattel paper, certificated securities and negotiable documents; PROVIDED, that unless an Event

of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement) has occurred and is

continuing, Borrower may retain for collection in the ordinary course of business any instruments, promissory notes, tangible chattel paper and negotiable documents received by Borrower and the Administrative Agent will, promptly upon request of Borrower, make appropriate arrangements for making any instrument, promissory note, tangible chattel paper or negotiable document pledged by Borrower available to Borrower for purposes of presentation, collection or renewal.

(c) COLLATERAL IN POSSESSION OF BAILEE; PERFECTION. If any goods with an aggregate fair market value in excess of $50,000 that Borrower owns or in which it has a right are now or at any time in the possession of a bailee, Borrower will promptly notify the Administrative Agent thereof and will use commercially reasonable efforts to obtain an acknowledgment from such bailee, in form and substance reasonably satisfactory to the Administrative Agent, that such bailee holds such Collateral for the benefit of the Administrative Agent and, if an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement) has occurred and is continuing, will act upon instructions from the Administrative Agent without the further consent of Borrower. If for any reason the Administrative Agent cannot perfect a Security Interest in the goods in possession of a bailee, then upon written instructions from the Administrative Agent, Borrower will promptly transport such items to the Site or to another location with respect to which the Administrative Agent is or will be able to so perfect its Security Interest. After written notice from and consultation with the Administrative Agent, Borrower will obtain such additional insurance on the Collateral stored at any location other than the Site as the Administrative Agent reasonably determines is necessary to protect the Administrative Agent's interests.

(d) ELECTRONIC CHATTEL PAPER AND TRANSFERABLE RECORDS. With respect to all electronic chattel paper or any "transferable record," as that term is defined in Section 201 of the Federal Electronic Signatures in Global and National Commerce Act or in Section 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, now or hereafter acquired by or arising in favor of Borrower, Borrower will promptly notify the Administrative Agent thereof and, at the request of the Administrative Agent, will take such action as the Administrative Agent may reasonably request to vest in the Administrative Agent "control" (as defined in the UCC) of such electronic chattel paper or "control" under Section 201 of the Federal Electronic Signatures in Global and National Commerce Act or, as the case may be, Section 16 of the Uniform Electronic Transactions Act, as so in effect in such jurisdiction, of such transferable record. The Administrative Agent will arrange, pursuant to procedures reasonably satisfactory to the Administrative Agent and so long as such procedures will not result in the Administrative Agent's loss of control, for Borrower to make alterations to the electronic chattel paper or transferable record permitted under the UCC or, as the case may be, Section 201 of the Federal Electronic Signatures in Global and National Commerce Act or Section 16 of the Uniform Electronic Transactions Act, for a party in control to make without loss of control, unless an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement) has occurred and is continuing or would occur after taking into account any action by Borrower with respect to such electronic chattel paper or transferable record.

(e) LETTER-OF-CREDIT RIGHTS. With respect to any letter of credit now or hereafter issued in favor of Borrower, Borrower will promptly notify the Administrative Agent thereof and, at the request and option of the Administrative Agent, Borrower will, pursuant to an agreement in form and substance reasonably satisfactory to the Administrative Agent, either (i) arrange for the issuer and any confirmer of such letter of credit to consent to an assignment to the Administrative Agent of the proceeds of any drawing under the letter of credit or (ii) arrange for the Administrative Agent to become the transferee beneficiary of or nominee under the letter of credit.

(f) COMMERCIAL TORT CLAIMS. With respect to any commercial tort claim that Borrower may hereafter hold with a value in excess of $100,000, Borrower will promptly notify the Administrative Agent in a writing signed by Borrower of the brief details thereof and grant to the Administrative Agent in

such writing a perfected security interest therein and the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to the Administrative Agent.

(g) FURTHER ASSURANCES. To the extent not included in the foregoing, Borrower will, from time to time at Borrower's expense, promptly execute and deliver all further agreements, instruments and documents, and take all further action, that the Administrative Agent reasonably determines to be necessary, in order to create, perfect or protect any Security Interest granted or purported to be granted hereby or to enable the Administrative Agent to exercise and enforce its rights and remedies hereunder with respect to the Collateral (except to the extent that this Agreement specifically provides that such action is not required). Without limiting the generality of the foregoing, Borrower will (i) execute and file such financing and continuation statements, or amendments thereto and such other instruments, endorsements and notices, as may be reasonably necessary, or as the Administrative Agent may reasonably request, in order to perfect and preserve the Security Interest granted or purported to be granted hereby, including consents, assignments, notices and other documentation reasonably requested by the Administrative Agent, (ii) upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement) and at the request of the Administrative Agent, cause the Administrative Agent's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of the Administrative Agent to enforce, the Administrative Agent's Security Interest in such Collateral, (iii) comply with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of the Administrative Agent to enforce, the Administrative Agent's Security Interest in such Collateral, (iv) use its commercially reasonable efforts to obtain governmental and other third-party consents and approvals, including any consent of any licensor, lessor or other Person obligated on Collateral, as the Administrative Agent may reasonably request, (v) use its commercially reasonable efforts to obtain

waivers from mortgagees and landlords in form and substance reasonably satisfactory to the Administrative Agent, (vi) execute any agreement, or deliver any Collateral to the Administrative Agent, in form and substance reasonably satisfactory to the Administrative Agent, in order to provide the Administrative Agent with "control" (as such term is defined in the UCC) with respect to the relevant Collateral in order for the Administrative Agent to obtain a perfected security interest in such Collateral and (vii) take all actions required by the UCC (or part thereof) or by other Law, except in each case to the extent that this Agreement specifically provides that such action is not required.

Section 4. REPRESENTATIONS AND WARRANTIES. Borrower hereby represents and warrants as of the date hereof as follows:

(a) REPRESENTATIONS INCORPORATED BY REFERENCE. Borrower hereby makes each and every representation and warranty made by it in Article IV of the Loan Agreement to the same extent as if each such representation and warranty had been set forth in full herein, and each such representation and warranty is hereby incorporated by reference in this Section 4.

(b) TITLE; NO OTHER LIENS. Borrower is the legal and beneficial owner of the Collateral in existence on the date hereof free and clear of any and all Liens or claims of others (other than Permitted Liens) and Borrower has full power and authority to grant the Security Interest in and to the Collateral hereunder. Except with respect to Permitted Liens, no security agreement, financing statement or other public notice with respect to all or any part of the Collateral is on file or of record in any public office. Further, no Lien or security interest on or in any membership interests of Borrower has been registered in the registration book maintained by Borrower in which all membership interests of Borrower are recorded, except for Permitted Liens. Borrower further represents that (i) none of the Collateral constitutes, or is the proceeds of, "farm products" (as defined in the UCC) and (ii) none of the account debtors or other Persons obligated on any of the Collateral is a Government Instrumentality subject to the Federal Assignment of Claims Act or

like federal, state or local statute or rule in respect of such Collateral.

(c) PERFECTION REPRESENTATIONS. The name of Borrower is Pacific Ethanol Madera LLC. Borrower is a duly formed and validly existing limited liability company under the laws of the State of Delaware, and its certificate of formation has been duly filed with the Secretary of State of the State of Delaware. Borrower's chief executive office is located at 31470 Avenue 12, Madera, California 93638, and the legal description of the Site is as set forth in the Mortgage.. The Delaware organizational identification number for Borrower is 3957429.

(d) OTHER PERFECTION MATTERS. Financing statements or other appropriate instruments have been or will be filed pursuant to the UCC in the public offices set forth in Schedule B as necessary to perfect the Security Interest granted or purported to be granted hereby to the extent any such Security Interest may be perfected by the filing of a financing statement in such public offices. All other action necessary or reasonably requested by the

Administrative Agent to protect and perfect the Security Interest in each item of the Collateral owned by Borrower, or in which Borrower has a right, as of the date hereof, has been or will be duly taken to the extent required hereunder, including those actions set forth in Section 3. Subject to the requirements contained in the UCC with respect to the filing of continuation statements, this Agreement creates a valid, continuing and perfected security interest in the Collateral in favor of the Administrative Agent, subject to no other Liens (other than Permitted Liens), and is enforceable as against creditors of and purchasers from Borrower and against any owner, lessee or mortgagee of the real property where any of the Collateral is located or to which any of the Collateral relates and against any purchaser of such real property or any present or future creditor obtaining a Lien on such real property (other than holders of Permitted Liens to the extent of such Liens).

Section 5. COVENANTS AND AGREEMENTS. Borrower hereby covenants and agrees that it will observe and fulfill, and will cause to be observed and fulfilled, each and all of the following covenants until all Obligations (exclusive of any indemnification or other obligations that are expressly stated in any Loan Document to survive termination of the Loan Documents) have been paid and performed in full:

(a) NOTICE OF ADVERSE CLAIMS AND CHANGES IN THE COLLATERAL. Borrower will, promptly, and in no event later than five (5) Business Days after Borrower becomes aware of any information of (i) any adverse claim against the Collateral or (ii) any substantial change in a material portion of the Collateral or of the occurrence of any event, occurrence or condition that could reasonably be expected to have a Material Adverse Effect, deliver to the Administrative Agent notice of each such claim, change, event, occurrence or condition.

(b) LEGAL STATUS. Borrower will not change its name, place of business or, if more than one, chief executive office, or its mailing address or organizational identification number if it has one, or change its type of organization or jurisdiction of organization, except as permitted by the Loan Documents or with the Administrative Agent's written consent, which will not be unreasonably withheld or delayed. If Borrower does not have an organizational identification number and later obtains one, Borrower will promptly notify the Administrative Agent of such organizational identification number.

(c) PROHIBITION AGAINST TRANSFER OF COLLATERAL. Borrower will not sell, lease, license, transfer or otherwise dispose of any part of the Collateral, whether in one or a series of transactions, or otherwise undertake the sale or disposal of any of the Collateral, except as otherwise permitted pursuant to this Agreement, the Loan Agreement and the other Loan Documents.

(d) FEES AND EXPENSES. Borrower will upon demand pay or arrange to pay to the Administrative Agent the amount of any and all reasonable out-of-pocket costs and expenses (including the reasonable fees and expenses of counsel, any special consultants reasonably engaged and any local counsel who might reasonably be retained by the Administrative Agent in connection with the

transactions contemplated hereby) that the Administrative Agent may incur in

connection with (i) any Event of Default, including the sale, lease, license or other disposition of, collection from or other realization upon, any of the Collateral pursuant to the exercise or enforcement of any of its rights hereunder, (ii) the exercise of the Administrative Agent's rights under this Agreement, (iii) performance by the Administrative Agent of any obligations of Borrower that Borrower has failed or refused to perform with respect to the Collateral, (iv) bankruptcy, insolvency, receivership, foreclosure, winding up or liquidation proceedings and for the care of the Collateral and defending or asserting rights and claims of the Administrative Agent in respect thereof, by litigation or otherwise, including expenses of insurance substantially similar to the insurance contemplated by Section 5.1(n) of the Loan Agreement or (v) the execution, delivery and performance of this Agreement, any agreement supplemental hereto and any instruments of further assurance; PROVIDED, that Borrower will have no obligation to pay or arrange to pay any amount pursuant to this Section 5(d) if such amount has already been paid pursuant to Section 8.11 of the Loan Agreement. Any amounts payable by Borrower pursuant to this Section 5(d) will constitute Obligations hereunder together with interest thereon at the Default Rate from the date of demand thereof and .

(e) FILING FEES, TAXES, ETC. Borrower will pay all filing, registration and recording fees or re-filing, re-registration and re-recording fees, and all federal, state, county and municipal stamp taxes and other similar taxes, duties, imposts, assessments and charges arising out of or in connection with (i) the Collateral or incurred in connection with the use or operation of such Collateral and (ii) the execution and delivery of this Agreement, any agreement supplemental hereto and any instruments of further assurance that no such tax, duty, impost, assessment or charge need be paid if being contested in good faith by appropriate proceedings with proper reserves established in accordance with GAAP.

(f) LIMITATION ON LIENS ON THE COLLATERAL. Borrower will not create, assume, incur, suffer to exist or permit to be created, assumed, incurred or suffered to exist, will defend the Collateral against, and will take such other action as is necessary to remove, any Lien or claim on or to the Collateral, other than Permitted Liens, and will defend the right, title and interest of the Administrative Agent in and to any of the Collateral against the claims and demands of all Persons whomsoever other than with respect to Permitted Liens.

(g) LOCATION OF COLLATERAL. The Collateral, to the extent (i) such Collateral (A) is not delivered to the Administrative Agent in accordance with the terms of this Agreement, (ii) is not mobile goods or (iii) is not in the possession of a bailee who has executed an acknowledgment that such bailee holds the Collateral for the benefit of the Administrative Agent as described in Section 3(c), will be kept at the Site or at Borrower's chief executive office set forth in Section 4(c), and Borrower will not remove the Collateral (other than Collateral sold, leased, licensed, transferred or otherwise disposed of in accordance with the Loan Agreement or Collateral being repaired) from such location without providing at least ten (10) Business Days' prior written notice to the Administrative Agent.

Section 6. BORROWER'S OBLIGATIONS.

(a) All payments received by Borrower under or in connection with any of the Collateral will be held by Borrower in trust for the Administrative Agent, will be segregated from other funds of Borrower and will, promptly upon receipt by Borrower, be turned over to the Administrative Agent or its designee in the same form as received by Borrower (duly endorsed by Borrower to the Administrative Agent, if requested) (except to the extent that this Agreement or any other Loan Document specifically provides that such action is not required).

(b) Any and all payments described in clause (a) above that are received by the Administrative Agent or its designee (whether from Borrower or otherwise) will be deposited into the appropriate Security Account as required by the Disbursement Agreement or, upon the occurrence and during the continuance of an Event of Default, any such payments will be applied in whole or in part by the Administrative Agent or its designee in the manner specified in the Disbursement Agreement.

Section 7. REMEDIES; RIGHTS UPON EVENT OF DEFAULT. Upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), the Administrative Agent may do one or more of the following:

(a) In addition to and without limiting any rights arising out of the Loan Agreement and the other Loan Documents, take the following enforcement actions with respect to the Security Accounts and any other securities account or deposit account constituting part of the Collateral, without being required to give any notice to Borrower: (i) direct Disbursement Agent and any other securities intermediary or bank, or Borrower (as applicable), to deliver the same to the Administrative Agent at any place or places designated by the Administrative Agent, it being understood that such obligations are of the essence under this Agreement and that, accordingly, upon application to a court of equity having jurisdiction, the Administrative Agent will be entitled to a decree requiring specific performance by Disbursement Agent, any other securities intermediary or bank or Borrower, as the case may be, of such obligations; (ii) withdraw any and all cash and liquidate any and all Permitted Investments, other financial assets and other property not constituting cash in any of the Security Accounts or any other securities account or deposit account constituting part of the Collateral, and apply such cash and the liquidation proceeds of Permitted Investments, financial assets or other property, if any, then held in any Security Account or any other securities account or deposit account constituting part of the Collateral in satisfaction of all or any part of the Obligations then due and payable in the manner specified in Section 8 hereof; and (iii) sell, assign or otherwise liquidate the Security Accounts or any other securities account or deposit account constituting part of the Collateral, or any part thereof, at a public or private disposition, for cash, upon credit, or for future delivery, and at such prices as the Administrative Agent may deem satisfactory, and take possession of the proceeds of any such sale or liquidation. Borrower acknowledges that if an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement) has occurred and is continuing, the Administrative Agent is entitled to apply amounts standing to the credit of any Security Account or any other securities account or deposit account constituting part of the Collateral as contemplated in this Section 7(a).

(b) Make such payments and do such acts as the Administrative Agent may reasonably deem necessary to protect, perfect or continue the perfection of the Security Interest in the Collateral, including (i) paying, purchasing, contesting or compromising any Lien that is, or purports to be, prior to or superior to the Security Interest granted hereunder, (ii) filing any transfer statement necessary to entitle the transferee to the transfer of record of all rights of Borrower in the Collateral referenced in such transfer statement, (iii) commencing, appearing or otherwise participating in or controlling any action or proceeding purporting to affect the Security Interest in or ownership of the Collateral and (iv) filing a copy of this Agreement and other documents in the office in which a record of the Lien on the Site created by the Mortgage is recorded.

(c) Foreclose on the Collateral as herein provided or in any manner permitted by Law and exercise any and all of the rights and remedies conferred upon the Administrative Agent by the Assigned Agreements (taking into account the Consents to Assignment) either concurrently or in such order as the Administrative Agent may determine without affecting the rights or remedies to which the Administrative Agent may be entitled under the Loan Agreement or any other Loan Document. Borrower hereby waives, to the extent permitted by Law,

notice and judicial hearing in connection with the Administrative Agent's taking possession or commencing any collection, recovery, receipt, appropriation, repossession, retention, set-off, sale, leasing, licensing, conveyance, assignment, transfer or other disposition of or realization upon any or all of the Collateral, including any and all prior judicial notice and hearing for any prejudgment remedy or remedies and any such right that Borrower would otherwise have under the constitution or any statute or other law of the United States of America or of any state thereof.

(d) Require Borrower to, and Borrower hereby agrees that it will, at its expense and upon request of the Administrative Agent, forthwith assemble all or part of the Collateral as directed by the Administrative Agent and make it available to the Administrative Agent at the Site or, with respect to any Collateral that is movable, such other location directed by the Administrative Agent that is reasonably convenient to both the Administrative Agent and Borrower.

(e) Without notice or demand or legal process (to the extent permitted by Law), enter upon any premises of Borrower and take possession of the Collateral, whereupon the Administrative Agent may use or operate the Collateral (i) for the purpose of preserving the Collateral or its value or (ii) as permitted by an order of a court having competent jurisdiction.

(f) Without notice, except as specified below, sell, lease, license or otherwise dispose of the Collateral, or any part thereof, in its then present condition or following any commercially reasonable preparation or processing. Any such disposition of the Collateral may be made by one or more contracts, in one or more parcels, at public or private disposition at any of

the Administrative Agent's offices or elsewhere, at such time or times, for cash, on credit, or for future delivery and at such price or prices and upon such other terms that the Administrative Agent reasonably believes are commercially reasonable. Borrower agrees that, to the extent notice of any such disposition will be required by Law, at least ten (10) Business Days' written notice to Borrower of the time and the place of any public disposition or the time after which any private disposition is to be made will constitute reasonable notification. The Administrative Agent may purchase Collateral at a public disposition, or at a private disposition only if the Collateral is of a kind that is customarily sold on a recognized market or the subject of widely distributed standard price quotations. The Administrative Agent will not be obligated to make any disposition of the Collateral regardless of notice of disposition having been given. The Administrative Agent may adjourn any public or private disposition from time to time by announcement at the time and place fixed therefor and such disposition may, without further notice, be made at the time and place to which it was so adjourned. The Administrative Agent will incur no liability as a result of the manner of disposition of the Collateral, or any part thereof, at any private disposition conducted in a commercially reasonable manner. Borrower hereby waives, to the extent permitted by Law, any claims against the Administrative Agent arising by reason of the fact that the price at which the Collateral, or any part thereof, may have been disposed of at a private disposition was less than the price that might have been obtained at a public disposition or was less than the aggregate amount of the Obligations, even if the Administrative Agent accepts the first offer received that the Administrative Agent deems to be commercially reasonable under the circumstances and does not offer the Collateral to more than one offeree. To the extent permitted by Law, Borrower hereby specifically waives all rights of redemption, stay or appraisal that it has or may have under any Law now existing or hereafter enacted. Borrower authorizes the Administrative Agent, at any time and from time to time, to execute, in connection with a disposition of the Collateral pursuant to the provisions of this Agreement or the other Loan Documents, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

(g) Accept the Collateral in full or partial satisfaction of the Obligations.

(h) Exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all

the rights and remedies of a secured party after default under the UCC and any relevant Law in any jurisdiction.

Section 8. APPLICATION OF PROCEEDS. The net proceeds of any enforcement, foreclosure, collection, recovery, receipt, appropriation or realization on or any sale, lease, license or other disposition of the Collateral will be applied in the following order:

(a) to the repayment of the reasonable documented costs and expenses of retaking, holding and preparing for the collection or enforcement with respect to, or sale, lease, license or other disposition of, the Collateral (including attorneys' fees and expenses, court costs and those amounts payable

pursuant to this Agreement and the other Loan Documents) and the discharge of all assessments, encumbrances, charges or Liens, if any, on the Collateral prior to the Lien created pursuant to this Agreement;

(b) to the payment in full of the Obligations in accordance with the priority of application specified in Section 2.9(b) of the Loan Agreement; and

(c) if all Obligations have been paid, satisfied and discharged in full, any surplus then remaining will be paid to Borrower, subject to the satisfaction of obligations secured by any subordinate security interest in or other Lien on the Collateral if Administrative Agent receives an authenticated demand for proceeds before distribution of the proceeds to Borrower is contemplated.

Section 9. ASSIGNMENT OF APPROVALS. Borrower will, upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), at the request of the Administrative Agent, contemporaneously with and at any other time following any foreclosure by the Administrative Agent on any part of the Collateral or any part of the Site, assign, transfer or otherwise furnish or arrange to assign, transfer or otherwise furnish to the Administrative Agent or to any transferee of the interest of the Administrative Agent (to the extent so assignable or transferable), all of Borrower's rights and interest in, to and under any Approvals, including all offsets, allowances and similar rights issued under or in connection with Law that are required to permit the Project to be operated in accordance with all Law. Upon the request of the Administrative Agent, following collection, enforcement, foreclosure, sale, lease, license or other disposition by the Administrative Agent on or with respect to the Collateral or any part of the Site, Borrower agrees to use its best efforts to assist the Administrative Agent in renewing or extending in the name of the Administrative Agent (or any other Person operating the Project) or otherwise obtaining the benefits of all of the Borrower's Approvals and other rights referred to in the immediately preceding sentence to the extent that such Approvals and other rights are not assignable or transferable.

Section 10. SECURITY INTEREST ABSOLUTE. All the rights of the Administrative Agent hereunder respecting Borrower and the Security Interest and all obligations of Borrower hereunder will be absolute and unconditional irrespective of:

(a) any lack of validity or enforceability of any of the Documents or any of the Collateral or any other agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from any Document or any of the Collateral or any other agreement or instrument related thereto;

(c) any exchange or release of any Collateral or any other collateral, or the non-perfection of any of the Security Interests or any release or amendment or waiver of or consent to or departure from any guaranty, for all or any of the Obligations; or

(d) to the fullest extent permitted by Law, any other circumstance that might otherwise constitute a defense available to, or a discharge of, Borrower or any third-party pledgor other than payment in full of the Obligations.

Section 11. ADMINISTRATIVE AGENT APPOINTED ATTORNEY-IN-FACT. Upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), Borrower irrevocably constitutes and appoints the Administrative Agent and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact (which appointment as attorney-in-fact will be coupled with an interest), with full authority in the place and stead of Borrower and in the name of Borrower or otherwise, from time to time in the Administrative Agent's discretion, to take any action and to execute any and all documents and instruments that the Administrative Agent may reasonably deem necessary to accomplish the purposes of this Agreement in a commercially reasonable manner to the extent required by the UCC, without notice to (except as specified below) or assent by Borrower, including, without limitation:

(a) to receive, endorse and collect all instruments, chattel paper or letter-of-credit rights made payable to Borrower or investment property in which Borrower has an interest, in each case representing any dividends, interest payments or other distributions constituting Collateral or any part thereof and to give full discharge for the same and, upon notice to Borrower, to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Administrative Agent for the purpose of collecting any and all of such dividends, payments or other distributions;

(b) to enforce the rights of Borrower under any provision of any Assigned Agreement to the extent permitted thereunder and under the terms of this Agreement and the applicable Consent to Assignment;

(c) to pay or discharge taxes and Liens levied or placed on the Collateral;

(d) (i) to direct any party liable for any payment under or with respect to any of the Collateral to make payment of any and all moneys due or to become due thereunder or with respect thereto directly to the Administrative Agent or as the Administrative Agent may direct, including drawing under any letter of credit rights, (ii) to ask or demand for, collect, receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any Collateral, (iii) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any part thereof and to enforce any other right in respect of any Collateral, (iv) to defend any suit, action or proceeding brought against Borrower with respect to any Collateral, (v) to settle, compromise or adjust any suit, action or proceeding described in clauses (iii) and (iv) above and, in connection therewith, to give such discharges or releases as the Administrative Agent may deem appropriate and (vi) generally, to sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though the Administrative Agent were the absolute owner thereof for all purposes;

(e) (i) to execute, in connection with any sale, lease, license or other disposition permitted to be made by the Administrative Agent hereunder, any endorsements, assignments, transfer statements or other instruments of conveyance or transfer with respect to the Collateral and to file or register the same if required by Law, (ii) to communicate in its own name with any party to any agreement or instrument included in the Collateral, at any

reasonable time, with regard to any matter relating to such agreement or instrument or (iii) to the fullest extent permitted by Law, to file one or more financing or continuation statements, and amendments thereto, relative to all or any part of the Collateral without the signature of Borrower (PROVIDED, that the Administrative Agent will give notice to Borrower promptly after taking any action described in this Section 11(e) but failure to give such notice will not subject the Administrative Agent to liability); and

(f) to take any action that the Administrative Agent may, in its reasonable discretion and at Borrower's expense, deem necessary (i) to perfect, maintain and enforce any Security Interest created in favor of the Administrative Agent, (ii) to create, perfect, maintain and enforce any Security Interest granted or purported to be granted hereby or (iii) to otherwise accomplish the purposes of this Agreement.

Section 12. ADMINISTRATIVE AGENT MAY PERFORM. Upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), the Administrative Agent, without releasing Borrower from any obligation, covenant or condition hereof, itself may (but will have no obligation to) make any payment or perform, or cause the performance of, any such obligation, covenant, condition or agreement or any other action in such manner and to such extent as the Administrative Agent may reasonably deem necessary to protect, perfect or continue the perfection of the Security Interest. The Administrative Agent will notify Borrower that it intends to take, or has taken, any such actions; PROVIDED, that any failure to provide such notice will not affect the right of the Administrative Agent to take such actions or the validity and enforceability of such actions. Any reasonable documented costs or expenses incurred by the Administrative Agent in connection with the foregoing will be governed by the Loan Documents, constitute a part of the Obligations secured by the Security Documents, bear interest at a rate per annum equal to the Default Rate and be payable by Borrower upon demand by the Administrative Agent.

Section 13. NO DUTY ON THE ADMINISTRATIVE AGENT'S PART; LIMITATION ON THE ADMINISTRATIVE AGENT'S OBLIGATIONS.

(a) The powers conferred on the Administrative Agent hereunder are solely to protect the Administrative Agent's interests in the Collateral and will not impose any duty upon the Administrative Agent to exercise any such powers, including without limitation any calls, conversions, maturities, tenders or other matters relating to the Collateral. The Administrative Agent will be accountable only for amounts that it receives as a result of the exercise of such powers.

(b) Except as provided in the next sentence, anything herein to the contrary notwithstanding, Borrower will remain liable under the Assigned Agreements and any other agreements included in the Collateral to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed. The exercise by the Administrative Agent of any of the rights or remedies hereunder will not release Borrower from any of its duties or obligations under the Assigned Agreements or any other agreements included in the Collateral unless expressly assumed by the Administrative Agent in writing. All of the Collateral is hereby assigned to the Administrative Agent solely as security, and the Administrative Agent will have no duty, liability or obligation whatsoever with respect to any of the Collateral, including without limitation the filing of any continuation statements, unless the Administrative Agent so elects in writing consistent with its rights under this Agreement or fails to act in a commercially reasonable manner to the extent required by the UCC.

Section 14. REASONABLE CARE; STANDARDS FOR EXERCISING REMEDIES; MARSHALLING COLLATERAL.

(a) The Administrative Agent will exercise the same degree of care hereunder as it exercises or would exercise in connection with similar transactions for its own account. The Administrative Agent will be deemed to have exercised reasonable care in the custody and preservation of the Collateral

in its possession if the Collateral is accorded treatment substantially equal to that which the Administrative Agent accords or would accord property held by the Administrative Agent in similar transactions for its own account; PROVIDED, that it is expressly understood that the Administrative Agent will not have responsibility for taking any steps to preserve rights against any parties with respect to the Collateral. In furtherance of the foregoing, to the extent Law imposes on the Administrative Agent an obligation to exercise remedies in a commercially reasonable manner, Borrower acknowledges and agrees that it is not commercially unreasonable for the Administrative Agent (i) to fail to incur expenses reasonably deemed significant by the Administrative Agent to prepare Collateral for disposition or otherwise to complete raw material or work in process into finished goods or other finished products for disposition, (ii) to fail to obtain third-party consents for access to Collateral to be disposed of, or to obtain or, if not required by other Law, to fail to obtain governmental or third-party consents for the collection or disposition of Collateral to be collected or disposed of, (iii) to fail to exercise collection remedies against account debtors or other Persons obligated on Collateral or to remove Liens or encumbrances on or any adverse claims against Collateral, (iv) to exercise collection remedies against account debtors and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (v) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (vi) contact other Persons, whether or not in the same business as Borrower, for expressions of interest in acquiring all or any portion of the Collateral, (vii) to hire one or more professional auctioneers to

assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature, (viii) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have reasonable capability of doing so, or that match buyers and sellers of assets, (ix) to dispose of assets in wholesale rather than retail markets, (x) to disclaim disposition warranties, (xi) to purchase insurance or credit enhancements to insure the Administrative Agent against the risk of loss, collection or disposition of Collateral or (xii) to the extent reasonably deemed appropriate by the Administrative Agent, to obtain the services of other qualified brokers, investment bankers, consultants and other professionals to assist the Administrative Agent in the collection or disposition of any of the Collateral.

(b) Without limiting the generality of the foregoing, the Administrative Agent will not be required to marshal any collateral, including the Collateral subject to the Security Interest created hereby, or to resort to any item of Collateral in any particular order, and all of the Administrative Agent's rights hereunder and in respect of such Collateral will be cumulative and in addition to all other rights, however existing or arising. To the extent that Borrower lawfully may, Borrower hereby (i) agrees that it will not invoke any Law relating to the marshaling of collateral that might cause delay in or impede the enforcement of the Administrative Agent's rights under this Agreement or under any other instrument evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured and (ii) irrevocably waives the benefits of all laws and any and all rights to equity of redemption or other rights of redemption that it may have in equity or at law with respect to the Collateral.

Section 15. ROLE OF THE ADMINISTRATIVE AGENT. The rights, duties, liabilities and immunities of the Administrative Agent, and the appointment and replacement, will be governed by this Agreement and the provisions contained in the other Loan Documents.

Section 16. ABSENCE OF FIDUCIARY RELATIONSHIP. The Administrative Agent undertakes to perform or to observe only such of its agreements and obligations as are specifically set forth in this Agreement or any other Loan Document, and no implied agreements, covenants or obligations with respect to Borrower, any Affiliate of Borrower or any other party to any of the Assigned Agreements may be read into this Agreement against the Administrative Agent or the Lenders. None of the Administrative Agent or the Lenders is a fiduciary of or will owe or be deemed to owe any fiduciary duty to Borrower, any Affiliate of Borrower or any other party to any of the Assigned

Agreements, except as otherwise specifically required by Law.

Section 17. [RESERVED.]

Section 18. NOTICES. All notices, consents, certificates, waivers, documents and other communications required or permitted to be delivered to any party under the terms of this Agreement must be in writing and must be given in accordance with Section 8.20 of the Loan Agreement.

Section 19. NO WAIVER; REMEDIES CUMULATIVE. The waiver of any right, breach or default under this Agreement by the Administrative Agent must be made specifically and in writing. Subject to the foregoing, no failure on the part of the Administrative Agent to exercise, and no forbearance or delay in exercising, any right under this Agreement will operate as a waiver thereof; no single or partial exercise of any right under this Agreement will preclude any other or further exercise thereof or the exercise of any other right; and no waiver of any breach of or default under any provision of this Agreement will constitute or be construed as a waiver of any subsequent breach of or default under that or any other provision of this Agreement. No notice to or demand upon Borrower will by itself entitle Borrower to any further, subsequent or other notice or demand in similar or any other circumstances. Each of the rights and remedies of the Administrative Agent under this Agreement is cumulative and not exclusive of any other right or remedy provided or existing by agreement or under Law.

Section 20. SEVERABILITY. Any provision of this Agreement that is invalid or prohibited in any jurisdiction will, as to such jurisdiction, be ineffective and severable from the rest of this Agreement to the extent of such invalidity or prohibition, without impairing or affecting in any way the validity of any other provision of this Agreement, or of such provision in other jurisdictions. The parties agree to replace any provision that is ineffective by operation of this Section 20 with an effective provision that as closely as possible corresponds to the spirit and purpose of such ineffective provision and this Agreement as a whole.

Section 21. [RESERVED.]

Section 22. AMENDMENT. No amendment or waiver of any provision of this Agreement, or consent to any departure by Borrower therefrom, will be effective unless it is in writing and signed by the Administrative Agent. A waiver or consent granted pursuant to this Section 22 will be effective only in the specific instance and for the specific purpose for which it is given.

Section 23. SUCCESSORS AND ASSIGNS.

(a) This Agreement will be binding upon and inure to the benefit of Borrower, the Administrative Agent and their respective successors and permitted assigns. Borrower will execute, acknowledge where appropriate and deliver, and cause to be executed, acknowledged where appropriate and delivered, from time to time promptly at the request of any successor Administrative Agent hereunder all such restatements and/or amendments to this Agreement or other instruments or documents as in the reasonable opinion of such successor Administrative Agent are necessary to carry out the intent and purpose of this Agreement. In the event of any assignment or transfer by any instrument evidencing all or any part of the Obligations, the holder of such instrument will, subject to the Loan Agreement, be entitled to the benefits of this Agreement.

(b) Borrower has no right to assign its rights or interest, or delegate its duties or obligations, under this Agreement without the prior written consent of the Administrative Agent, which consent will not be unreasonably withheld or delayed.

(c) The Administrative Agent has the right to transfer, assign, pledge and grant participations in its rights and interests in and under this Agreement as described in Section 8.7 of the Loan Agreement.

Section 24. GOVERNING LAW. THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF (OTHER THAN SECTION 5.1401 OF THE GENERAL OBLIGATIONS LAW AND ANY SUCCESSOR STATUTE THERETO).

Section 25. WAIVER OF JURY TRIAL. BORROWER AND THE ADMINISTRATIVE AGENT, AS BETWEEN THEM, WAIVE ANY RIGHTS THEY MAY HAVE TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED ON OR ARISING FROM THIS AGREEMENT, ANY TRANSACTION CONTEMPLATED HEREBY OR EFFECTED PURSUANT HERETO, ANY DEALINGS OR COURSE OF DEALING BETWEEN THEM RELATING IN ANY WAY TO THE SUBJECT MATTER OF THIS AGREEMENT OR ANY STATEMENTS OR ACTIONS OF ANY OF THEM OR THEIR AFFILIATES. Each of the parties acknowledges and agrees that this waiver is a material inducement to enter into the business relationship contemplated by this Agreement and that each has relied on this waiver in entering into this Agreement and will continue to rely on this waiver in its future dealings with the other parties. The scope of this waiver is intended to be all-encompassing, and this waiver will apply to all Claims, of any nature whatsoever, whether deriving from contract, arising by law, based on tort or otherwise. BORROWER AND THE ADMINISTRATIVE AGENT HAVE MADE THIS WAIVER KNOWINGLY AND VOLUNTARILY, AND THIS WAIVER WILL BE IRREVOCABLE. THIS WAIVER WILL ALSO APPLY TO ALL AMENDMENTS, SUPPLEMENTS, RESTATEMENTS, EXTENSIONS AND MODIFICATIONS OF THIS AGREEMENT. In the event of litigation, relevant portions of this Agreement may be filed as a written consent to a trial by the court.

Section 26. CONSENT TO JURISDICTION. Borrower hereby irrevocably submits to the jurisdiction of any New York State or United States federal court sitting in the Borough of Manhattan over any action or proceeding arising out of or relating to any Claim, and Borrower hereby irrevocably agrees that all Claims in respect of such action or proceeding may be heard and determined in such New York state or United States federal court. Borrower irrevocably waives any objection that it may now or hereafter have to the laying of venue in such forums and agrees not to plead or claim that any such action or proceeding brought in any such New York state or United States federal court has been brought in an inconvenient forum. Borrower hereby irrevocably appoints the Process Agent as its agent to receive on behalf of Borrower and its property service of copies of the summons and complaint and any other process that may be served in any such action or proceeding. Such service may be made by mailing or

delivering a copy of such process to Borrower at the address of the Process Agent and Borrower hereby irrevocably authorizes and directs the Process Agent to accept such service on its behalf. In addition and as an alternative method of service, Borrower also irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to Borrower at its address set forth in Section 18. Borrower agrees that a final judgment in any such action or proceeding will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law. Nothing in this Section 26 will affect the right of the Administrative Agent to serve legal process in any other manner permitted by Law or affect the right of the Administrative Agent to bring any action or proceeding against Borrower or its property in the courts of any other jurisdiction. If for any reason the Process Agent ceases to be available to act as Process Agent, Borrower agrees immediately to appoint a replacement Process Agent satisfactory to the Administrative Agent.

Section 27. COUNTERPARTS. This Agreement may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed will be deemed to be an original and all of which taken together will constitute one and the same instrument.

Section 28. CONTINUING SECURITY INTEREST; TERMINATION. This Agreement creates a continuing Security Interest in the Collateral and will remain in full force and effect for the benefit of the Administrative Agent until all Obligations have been paid and performed in full or released (exclusive of any indemnification or other obligations which are expressly

stated in any Loan Document to survive termination of the Loan Documents), at which time the Security Interest granted hereby will terminate. Upon such termination, the Administrative Agent will, promptly upon its receipt of a request from Borrower and at the expense of Borrower, (a) pay to Borrower or deposit into a deposit account in Borrower's name the balance on deposit in any Security Account that is a deposit account, (b) communicate the authoritative copy of any electronic chattel paper constituting part of the Collateral to Borrower or its designated custodian, (c) send to each Person having an unfulfilled obligation to pay or deliver to the Administrative Agent proceeds arising from any letter of credit right constituting Collateral an authenticated release from any further obligation to pay or deliver to the Administrative Agent proceeds arising from any such letter of credit right and (d) execute and deliver to Borrower such documents as Borrower may reasonably request to evidence such termination or expiration, including UCC-3 termination statement(s) for any financing statement on file with respect to the Collateral and a statement terminating any Consent to Assignment then in effect.

Section 29. PAYMENTS SET ASIDE. To the extent that Borrower or any other Person on behalf of Borrower makes a payment of the Obligations to the Administrative Agent, or the Administrative Agent enforces its rights hereunder or exercises its rights of set-off, and such payment or payments or the proceeds of such enforcement or set-off or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such

recovery, the Obligations or any part thereof originally intended to be satisfied, and this Agreement and all Security Interests, rights and remedies therefor, will be revived and continued in full force and effect as if such payment had not been made or such enforcement or set-off had not occurred.

Section 30. NO CONSEQUENTIAL DAMAGES. Borrower agrees, regardless of cause, not to assert any claim whatsoever against the Administrative Agent for loss of anticipatory profits or consequential damages.

[THE REMAINDER OF THIS PAGE WAS LEFT BLANK INTENTIONALLY.]

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have caused this Assignment and Security Agreement to be signed on the date first above written.

PACIFIC ETHANOL MADERA LLC

By /S/ RYAN TURNER

Name:
Title:

HUDSON UNITED CAPITAL, A DIVISION OF TD BANKNORTH, N.A., as the Administrative Agent

By /S/ JEROME P. PETERS, JR.

Name: Jerome P. Peters, Jr.
Title: Senior Vice President

Schedule A to
Assignment and Security Agreement

PROJECT DOCUMENTS AND ASSIGNED APPROVALS

As each of the following may be amended, modified or supplemented from time to time in accordance with the provisions of the Loan Documents:

Amended and Restated Corn Procurement Agreement, dated March 30, 2006, between Pacific Ethanol Madera LLC, a Delaware limited liability company ("BORROWER"), and Pacific Ag. Products, LLC, a California limited liability company ("PAP").

Amended and Restated Ethanol Marketing Agreement, dated March 16, 2006, between Kinergy Marketing LLC, an Oregon limited liability company, and Borrower.

Amended and Restated Operation and Maintenance Services Agreement, dated March 16, 2006, between Pacific Ethanol California, Inc., a California corporation ("PEC"), and Borrower.

Amended and Restated Phase I Design-Build Contract, dated November 2, 2005, between Borrower and W.M. Lyles Co., a California corporation ("LYLES").

Assignment and Assumption Agreement, dated November 4, 2005, between PEC and Borrower.

1st Amendment to the Assignment and Assumption Agreement, dated November 11, 2005, between PEC and Borrower.

2nd Amendment to the Assignment and Assumption Agreement, dated November 11, 2005, between PEC and Borrower.

Construction Performance and Completion Bond, dated November 4, 2005, issued by Travelers Casualty and Surety Company of America, with Dual-Obligee Rider, dated February 24, 2006, issued by Travelers Casualty and Surety Company.

Grain Mill Operation and Maintenance Agreement, dated March 30, 2006, between Borrower and PAP.

License of Technology, dated September 1, 2005, between Delta-T Corporation, a Virginia corporation, and Borrower.

Phase II Design-Build Contract, dated November, 2, 2005, between Borrower and Lyles.

WDG Marketing and Services Agreement, dated March 4, 2005, between Western Milling LLC, a California limited liability company, and Borrower, as assignee of PEC.

Schedule B to
Assignment and Security Agreement

FINANCING STATEMENT FILINGS

Debtor:	Pacific Ethanol Madera LLC
Secured Party:	Hudson United Capital, a division of TD Banknorth,

N.A., as Administrative Agent

Jurisdiction: Secretary of State of the State of Delaware

EXHIBIT 10.49

MEMBER INTEREST PLEDGE AGREEMENT

This MEMBER INTEREST PLEDGE AGREEMENT, dated April 13, 2006 (this "AGREEMENT"), is made by PACIFIC ETHANOL HOLDING CO. LLC, a Delaware limited liability company ("PLEDGOR"), in favor of HUDSON UNITED CAPITAL, A DIVISION OF TD BANKNORTH, N.A., a national banking association, as the Administrative Agent to the Lenders (as defined below) (together with its successors and permitted assigns in such capacity, the "ADMINISTRATIVE AGENT").

W I T N E S S E T H:
- - - - - - - - - -

WHEREAS, Pacific Ethanol Madera LLC, a Delaware limited liability company ("Borrower"), was formed to develop, own and operate an approximately 35 million gallon-per-year dry mill ethanol production facility to be located in Madera, California (the "PROJECT"), and other related businesses;

WHEREAS, Borrower has entered into the Construction and Term Loan Agreement, dated April 10, 2006 (as the same may be amended, modified or supplemented from time to time, the "LOAN AGREEMENT"), by and among Borrower, the lenders from time to time party thereto (the "LENDERS") and the Administrative Agent, pursuant to which the Lenders have agreed to make certain loans to Borrower; and

WHEREAS, it is a condition precedent to the Lenders making any loans pursuant to the Loan Agreement that Pledgor enter into this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in order to induce the Lenders to make the loans pursuant to the Loan Agreement, the parties hereto agree as follows:

Section 1. DEFINITIONS. Capitalized terms used and not otherwise defined in this Agreement have the meanings given to those terms in Schedule X hereto, and the rules of construction set forth in Schedule X govern this Agreement. In the event of any inconsistency expressed or implied between this Agreement and the Loan Agreement, the Loan Agreement will govern the interpretation and implementation of this Agreement.

Section 2. PLEDGE. As security for the prompt and complete payment and performance when due of:

(a) the Obligations (whether due because of stated maturity, acceleration, mandatory prepayment or otherwise); and

(b) all obligations of Pledgor under this Agreement;

(in each case, including the payment of amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code) (collectively, the "SECURED OBLIGATIONS"), and to induce the Lenders to make the Loans, Pledgor hereby pledges and grants to the Administrative Agent on behalf of the Lenders a continuing First-Priority Lien on and security interest in the following (collectively, the "PLEDGED COLLATERAL"):

(i) all of Pledgor's membership interests in Borrower (the "PLEDGED INTERESTS"), and all of Pledgor's rights, privileges, authority and powers as an owner of the Pledged Interests;

(ii) all additional membership interests, shares, securities and/or equity interests in Borrower, and all warrants, rights and options to purchase or receive any membership interests, shares, securities and/or equity interests in Borrower, in each case that Pledgor at any time owns or acquires or in which Pledgor at any time

obtains any right, title or interest;

(iii) all certificates, instruments or other writings, whether now existing or hereafter arising, representing or evidencing the Pledged Interests or other equity interests described in clauses (i) and (ii) above;

(iv) the right to receive any distribution in respect of the property described in clauses (i) and (ii) above, whether now owned or hereafter acquired, including without limitation the rights to receive any payment in connection with the declaration or payment of any dividend or distribution in respect of any such property, or the purchase, redemption or other retirement of any Pledged Interests or other equity interests of any class in Borrower, or of options, warrants or other rights for the purchase of such Pledged Interests or other equity interests, directly or indirectly through a subsidiary or parent or otherwise;

(v) all of Pledgor's capital or ownership interest, including any capital accounts, in Borrower, and all of Pledgor's accounts, deposits or credits of any kind with Borrower; and

(vi) any and all additions and accessions to any of the foregoing, all improvements thereto, all substitutions and replacements therefor and all products and proceeds thereof (including without limitation whatever is received upon the sale, exchange, collection or other disposition of the Pledged Collateral or proceeds, including insurance payable by reason of loss, damage or other event affecting the Pledged Collateral, and all "proceeds," as such term is defined in the UCC) and all dividends, interest, revenues, income, distributions and proceeds of any kind, whether cash, instruments, securities or other property, received by or distributable to Pledgor in respect of, or in exchange for, the Pledged Interests or any other Pledged Collateral;

PROVIDED, that any distributions or payments (whether in the form of cash, instruments or otherwise) properly made by Borrower to Pledgor in accordance with the Loan Documents will not constitute Pledged Collateral and will be free and clear of the Administrative Agent's Liens (as defined below) for all purposes.

The security interest granted to the Administrative Agent pursuant to this Agreement extends to all Pledged Collateral of the kind that is the subject of this Agreement that Pledgor may acquire at any time during the continuation of this Agreement, whether such Pledged Collateral is in transit or in Pledgor's, the Administrative Agent's or any other Person's constructive, actual or exclusive control or possession.

Section 3. CONTINUING SECURITY INTEREST. This Agreement creates a continuing security interest in the Pledged Collateral and will remain in full force and effect until the payment or satisfaction in full of the Secured Obligations (exclusive of any indemnification or other obligations which are expressly stated in any Loan Document to survive termination of the Loan Documents). If, at any time for any reason (including the insolvency, bankruptcy, dissolution, liquidation or reorganization of Pledgor or Borrower, or the appointment of any intervener or conservator of, or agent or similar official for, Pledgor, Borrower or any of their respective properties), any payment received by the Administrative Agent or the Lenders in respect of the Secured Obligations is rescinded or must otherwise be restored or returned by the Administrative Agent or the Lenders, this Agreement will continue to be effective or will be reinstated, if necessary, as if such payment had not been made.

Section 4. DELIVERY OF CERTIFICATES. Pledgor agrees to deliver to the Administrative Agent, promptly upon receipt thereof, all certificates and instruments evidencing or representing the Pledged Interests or any other Pledged Collateral, in each case properly endorsed in blank and in suitable form for transfer by delivery and accompanied by undated instruments of transfer

endorsed in blank, in form and substance reasonably satisfactory to the Administrative Agent. The Administrative Agent will hold such certificates and instruments until the Secured Obligations have been paid and satisfied in full (exclusive of any indemnification or other obligations which are expressly stated in any Loan Document to survive termination of the Loan Documents), at which time such certificates and instruments will be promptly returned to Pledgor. Upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), the Administrative Agent will have the right to exchange certificates or instruments evidencing or representing the Pledged Interests or any other Pledged Collateral for certificates or instruments of smaller or larger denominations.

Section 5. CONTRACTUAL OBLIGATIONS. Pledgor agrees that:

(a) its liabilities and obligations in respect of the Pledged Collateral will not be affected by this Agreement or any other Document to which Pledgor is a party (this Agreement and such other Documents are herein referred to, collectively, as the "PLEDGOR DOCUMENTS"), the Lien on the Pledged Collateral created in favor of the Administrative Agent pursuant to this Agreement (the "ADMINISTRATIVE AGENT'S LIEN") or the exercise by the Administrative Agent of any of its rights under and in accordance with any Pledgor Document;

(b) unless expressly agreed in writing, neither the Administrative Agent nor the Lenders will have any liabilities or obligations of Pledgor as a result of any Pledgor Document, the exercise by the Administrative Agent of its rights under and in accordance with any Pledgor Document or otherwise; and

(c) the Administrative Agent has no obligation to enforce any obligation, liability or claim with respect to the Pledged Collateral, or to take any other action with respect to the Pledged Collateral, except as expressly set forth in this Agreement.

Section 6. REPRESENTATIONS AND WARRANTIES. Pledgor represents and warrants on the date hereof as follows to the Administrative Agent:

(a) EXISTENCE; AUTHORITY.

(i) Pledgor is a limited liability company duly formed, validly existing and in good standing under the laws of the State of Delaware and is duly qualified to do business as a limited liability company and is in good standing in each jurisdiction in which such qualification is necessary in view of its current or proposed business and operations or the ownership of its properties (except to the extent that such non-qualification could not reasonably be expected to have a Material Adverse Effect).

(ii) Pledgor has all necessary rights, franchises, privileges, power and authority to execute, deliver and perform its obligations under this Agreement, and to conduct its business as currently conducted and as proposed to be conducted (except to the extent that such failure could not reasonably be expected to have a Material Adverse Effect). Pledgor has taken all necessary limited liability company action to execute, deliver and perform its obligations under this Agreement and to grant the Lien in favor of the Administrative Agent created hereby, and this Agreement has been duly executed and delivered by Pledgor and constitutes the legally valid and binding obligation of Pledgor, enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally or by general principles of equity.

(b) PLEDGED INTERESTS; CAPITALIZATION OF BORROWER.

(i) The Pledged Interests constitute all of the issued and outstanding membership interests, shares or other ownership

interests of any class or character of Borrower and such membership interests are and have been duly and validly authorized, issued and subscribed and are fully paid and non-assessable.

(ii) Borrower does not have outstanding (A) any securities convertible into or exchangeable for any membership interests of Borrower or (B) any rights to subscribe for or to purchase, or any options, warrants or other rights to acquire any membership interests of Borrower or securities convertible into or

exchangeable or exercisable for any membership interests of Borrower, or any agreements, arrangements or understandings providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, any membership interests of Borrower, except for any such rights, options, warrants or other arrangements made in favor of or exercisable by the Administrative Agent in accordance with the Documents.

(c) NAME, ADDRESS AND RECORDS. The name of Pledgor set forth in the first paragraph of this Agreement is the true, correct and complete name of Pledgor and Pledgor does not conduct business under any other name or tradestyle. The legal address of Pledgor and the address of its chief executive office and principal place of business is 5711 N. West Avenue, Fresno, California 93711. Pledgor keeps all of its records and all documents evidencing or relating to the Pledged Collateral at such address. Borrower keeps all records and documents relating to the Pledged Collateral at 31470 Avenue 12, Madera, California 93638.

(d) NO VIOLATIONS, DEFAULTS OR LIENS.

(i) Pledgor (A) is not in violation of or default under any of its or of Borrower's constituent documents, (B) is not in violation of any Applicable Law, except to the extent that any such violation could not reasonably be expected to have a Material Adverse Effect and (C) is not in violation of or default under any Document to which it is a party, except to the extent that any such violation or default could not reasonably be expected to have a Material Adverse Effect.

(ii) Pledgor is the legal and beneficial owner of, and has good, marketable and valid title to, the Pledged Collateral, and none of the Pledged Collateral is subject to any Lien other than the Lien granted in favor of the Administrative Agent hereby, and no effective mortgage, deed of trust, Financing Statement, security agreement or other instrument similar in effect that is not a Security Document is on file or of record in the office of any Government Instrumentality with respect to any Pledged Collateral.

(iii) The execution, delivery and performance of this Agreement and the creation and grant of the Lien in favor of the Administrative Agent hereunder do not and will not (A) violate any Applicable Law with respect to Pledgor except to the extent that any such violation could not reasonably be expected to have a Material Adverse Effect, (B) violate, or result in a default under, the Borrower LLC Agreement or any other of Borrower's or of Pledgor's constituent documents, (C) violate, or result in a default under, any Document to which any of Pledgor or Borrower is a party, except to the extent that any such violation or default could not reasonably be expected to have a Material Adverse Effect, (D) result in or require the creation or imposition of any Lien on the Pledged Collateral other than the Lien in favor of the Administrative Agent granted hereby or as stated in (d)(ii) above, or (E) require an Approval from any Person that has not been obtained or that will not be obtained in due course.

(e) PLEDGOR REQUIRED APPROVALS. All Approvals required for the execution, delivery and performance of this Agreement and the creation and grant of the Lien in favor of the Administrative Agent hereunder (collectively, the "PLEDGOR REQUIRED APPROVALS"), in each case that are required to be obtained on or prior to the date hereof have been obtained (except to the extent the failure to obtain such Approvals could not reasonably be expected to have a Material Adverse Effect), and Pledgor has no reason to believe that any of the Pledgor Required Approvals not yet obtained cannot or will not be obtained in the normal course of business as and when required and without significant expense. Pledgor has provided the Administrative Agent with a true, correct and complete copy of each Pledgor Required Approval obtained. All Pledgor Required Approvals obtained by Pledgor (i) are validly issued, (ii) are in full force and effect, (iii) are free from any condition or requirement that cannot be met or that could materially adversely affect Pledgor's ability to execute, deliver and perform its obligations under this Agreement and (iv) are not subject to pending appeal, review or cancellation. No proceeding or other action is pending or threatened in writing with respect to any Pledgor Required Approval.

(f) [RESERVED.]

(g) NO PROCEEDINGS. There is no pending or, to the knowledge of Pledgor, threatened action, suit, litigation, investigation, arbitration or other proceeding involving or affecting the Pledged Collateral before any Government Instrumentality, and the Pledged Collateral is not subject to any order, writ or injunction. There is no pending or, to the knowledge of Pledgor, threatened action, suit, litigation, investigation, arbitration or other proceeding involving or affecting Pledgor or any of its properties or assets before any Government Instrumentality, that could reasonably be expected to have a Material Adverse Effect. Pledgor is not subject to any order, writ or injunction that prohibits, enjoins or limits any aspect of the transactions contemplated by this Agreement or the Documents or that could reasonably be expected to have a Material Adverse Effect.

(h) NO ADVERSE AGREEMENTS. Pledgor is not a party to or affected by any charter, bylaw, partnership agreement, membership agreement or other constituent document, as the case may be, or any Contractual Obligation that could reasonably be expected to have a Material Adverse Effect.

(i) INVESTMENT COMPANY REGULATION. Pledgor is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or an "investment advisor" within the meaning of the Investment Company Act of 1940, as amended.

(j) [RESERVED.]

(k) ENFORCEABILITY. The description of the Pledged Collateral contained in this Agreement is true, correct and complete and is sufficient to describe the Pledged Collateral and to create and attach (and to allow the perfection of) the Lien intended to be created by this Agreement. As of the date

hereof, all necessary and appropriate deliveries, notices, recordings, filings and registrations have been made and effected or will be made and effected to perfect a First-Priority Lien on the Pledged Collateral in favor of the Administrative Agent in all relevant jurisdictions, and the Administrative Agent has and will have a duly and validly created, attached, perfected and enforceable First-Priority Lien on the Pledged Collateral in all relevant jurisdictions.

(l) PLEDGED INTERESTS AS SECURITY. The Pledged Interests (i) are represented by a certificate in bearer or registered form, or the transfer of which may be registered upon books maintained for that purpose by or on behalf of Borrower and (ii) are, or are of a type of, securities governed by Article 8 of the UCC.

(m) FULL DISCLOSURE. To Pledgor's knowledge, the representations and warranties contained in this Agreement are true, correct and complete in all material respects as of the date made, except to the extent such

representations and warranties specifically relate to an earlier date, in which case such representations and warranties are true, correct and complete as of such earlier date.

Section 7. AFFIRMATIVE COVENANTS. Pledgor covenants and agrees that, until the payment or satisfaction in full of the Secured Obligations (exclusive of any indemnification or other obligations which are expressly stated in any Loan Document to survive termination of the Loan Documents), it will perform and observe each of the following covenants:

(a) EXISTENCE. Pledgor will preserve and maintain in full force and effect its legal existence as a Delaware limited liability company, and qualify and remain qualified as a foreign limited liability company in each jurisdiction in which such qualification is necessary in view of its ownership of its interest in Borrower and any other of its property constituting Pledged Collateral, except to the extent that any non-qualification could not reasonably be expected to have a Material Adverse Effect.

(b) COMPLIANCE WITH LAWS, APPROVALS AND OBLIGATIONS. Pledgor will comply with this Agreement and all Pledgor Required Approvals and will comply in all material respects with all Applicable Laws and the other Documents to which it is a party. Pledgor will obtain and maintain in full force and effect all Pledgor Required Approvals required from time to time for the execution, delivery, performance or enforcement of this Agreement or the Lien created and granted in favor of the Administrative Agent hereunder. Pledgor will furnish the Administrative Agent with true, correct and complete copies of all Pledgor Required Approvals promptly after receipt thereof.

(c) PLEDGED COLLATERAL.

(i) Pledgor will maintain good and marketable title to the Pledged Collateral and will at all times warrant and defend its title to, and the Administrative Agent's Lien on, the Pledged Collateral against all claims other than the Administrative Agent's Lien thereon and Liens for Taxes permitted by the first sentence of Section 8(d).

(ii) Pledgor will take all actions necessary to ensure that the Administrative Agent has and continues to have in all relevant jurisdictions a duly and validly created, attached, perfected and enforceable First-Priority Lien on the Pledged Collateral (including after-acquired Pledged Collateral). Pledgor will deliver possession of any Pledged Collateral, or cause control over any Pledged Collateral to be given, to the Administrative Agent or its designee promptly upon acquiring rights therein, to the extent the Administrative Agent is required to take or maintain possession or control thereof in order to perfect its security interest in such Pledged Collateral.

(d) [RESERVED.]

(e) RECORDS AND INSPECTION RIGHTS. Pledgor will keep and maintain at its address indicated in Section 6(c) true, correct and complete books and records related to the Pledged Interests. At any reasonable time and from time to time during normal business hours and upon at least seven days' advance notice to Pledgor by the Administrative Agent, Pledgor will permit the Administrative Agent and its representatives to examine and make copies of and abstracts from such books and records, and to discuss the affairs, finances and accounts of Pledgor directly with Pledgor's officers or managers, if any; PROVIDED, that, notwithstanding anything to the contrary herein provided, (i) so long as no Default or Event of Default has occurred and is continuing, Pledgor shall only be required to reimburse the Administrative Agent for costs with respect to one visit or inspection per calendar year and shall not be required to reimburse Lenders for costs with respect to visits or inspections.

(f) NOTICE REQUIREMENTS. Promptly and in any event within three (3) Business Days after Pledgor obtains knowledge thereof, Pledgor will give the Administrative Agent notice of the occurrence of any of the following

events of which Pledgor has or acquires knowledge:

(i) any pending or threatened in writing claim, action, attachment, proceeding, suit, litigation, investigation or arbitration by any Person or before any Government Instrumentality involving or affecting Pledgor or any Pledged Collateral or, to Pledgor's knowledge, Borrower, that could reasonably be expected to have a Material Adverse Effect;

(ii) any termination, revocation, suspension or modification of any Pledgor Required Approval, or any action or proceeding that could reasonably be expected to result in any of the foregoing; or

(iii) any event or circumstance that could reasonably be expected to have a Material Adverse Effect.

In each notice delivered pursuant to this Section 7(f), Pledgor will include reasonable details concerning the occurrence that is the subject of such notice as well as Pledgor's proposed course of action, if any. Delivery of a notice pursuant to this Section 7(f) will not affect Pledgor's obligations under any other provision of any Document to which it is a party.

(g) LITIGATION. In any claim, action, suit, litigation, investigation, arbitration or other proceeding involving the Pledged Collateral that is brought by any Person other than the Administrative Agent, Pledgor will use commercially reasonable efforts to make all filings and responses in a timely manner, pursue all remedies and appeals, defend its rights and properties therein with diligence and take all lawful action to avoid impairment of the Administrative Agent's Lien or material impairment of the Administrative Agent's other rights under this Agreement.

(h) COSTS. Pledgor will bear all costs and expenses involved in complying with its obligations under Section 7 and Section 8 hereof.

Section 8. NEGATIVE COVENANTS. Pledgor covenants and agrees that, until the payment or satisfaction in full of the Secured Obligations (exclusive of any indemnification or other obligations which are expressly stated in any Loan Document to survive termination of the Loan Documents), it will perform and observe each of the following covenants:

(a) BUSINESS. Pledgor will not (i) make any material change in the nature of its business, or (ii) change the jurisdiction of its formation, without the Administrative Agent's prior written consent, which consent will not be unreasonably withheld or delayed.

(b) MERGERS AND SALES OF ASSETS. Except as otherwise permitted by the Loan Agreement, Pledgor will not:

(i) merge or consolidate with any Person, or liquidate or dissolve, or sell, assign, lease or otherwise dispose of (whether in one transaction or in a series of transactions), such a portion of its assets as would cause Pledgor's liabilities to exceed its assets or Pledgor otherwise to become insolvent; or

(ii) sell, convey, exchange, dispose of, assign, transfer, pledge or encumber, or grant any option, warrant or right with respect to, any of the Pledged Collateral, or agree or contract to do any of the foregoing except as may be specifically permitted by this Agreement.

(c) CONSTITUENT DOCUMENTS AND CONTRACTUAL OBLIGATIONS. Without the prior written consent of the Administrative Agent, which will not be unreasonably withheld or delayed, Pledgor will not (i) amend its articles of organization, operating agreement or other constituent documents in any material respect, (ii) amend any Document to which it is a party in any material respect or (iii) waive any provision of any of the foregoing.

(d) LIENS. Pledgor will not, and will not knowingly permit any other Person to, create, incur, assume or suffer to exist any Lien upon or with respect to any of the Pledged Collateral other than (i) the Lien created in favor of the Administrative Agent hereunder and (ii) Liens for Taxes if such

Taxes (A) are not at the time delinquent and thereafter can be paid without penalty or (B) are being contested in good faith by appropriate proceedings with reserves established in accordance with GAAP and such Liens have been bonded over or do not involve any risk that a significant interest in or right to any Pledged Collateral may be sold, lost or forfeited or that the Lien created by this Agreement may be impaired. If foreclosure or enforcement of any Lien upon any of the Pledged Collateral (other than the Administrative Agent's Lien) is at any time initiated, the Administrative Agent will have the right, but not the obligation, to take any action it deems appropriate, including payment of the obligation secured by such Lien, and Pledgor will promptly upon demand reimburse or arrange to reimburse the Administrative Agent for all reasonable documented sums expended by the Administrative Agent in taking any such action.

(e) DISTRIBUTIONS. Pledgor will not take any action to cause Borrower to make, declare or pay any distributions, dividends or returns of capital, or purchase, redeem or otherwise acquire for value any membership interests or other ownership interests in Borrower now or hereafter outstanding, or make any distribution of assets or property to its members as such, except to the extent permitted by the Loan Documents.

(f) CAPITAL STOCK AND CHANGES IN CONTROL. Except as permitted pursuant to the terms of the Loan Agreement, Pledgor will not (i) permit Borrower to cancel or change the terms of the Pledged Interests, (ii) permit Borrower to authorize, create or issue any additional membership interests or ownership interests in Borrower, (iii) effect or permit any change of control of Borrower, except a change of control reflecting the Administrative Agent's acquisition of any ownership or other interests in Borrower in accordance with the Documents or (iv) approve or consent to the sale, conveyance, exchange, disposition, assignment, transfer, pledge or encumbrance of any ownership interest in Borrower by any Person, except for any sale, conveyance, exchange, disposition, assignment, transfer, pledge or encumbrance of any ownership interest in Borrower to or for the benefit of the Administrative Agent in accordance with the Documents.

Section 9. NATURE OF PLEDGOR'S OBLIGATIONS. Pledgor's obligations under this Agreement are independent of any obligation of Borrower, and separate action or actions may be brought and prosecuted against Pledgor whether or not such action or actions are brought or prosecuted against Borrower or any other Person and whether or not Borrower or any other Person is joined in any such action or actions. Upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), the Administrative Agent may proceed against the Pledged Collateral to collect and recover the full amount or any portion of the Secured Obligations so due and payable, without first proceeding against Borrower or against any other security or Collateral provided by Borrower or any other Person with respect to the Secured Obligations. Pledgor's obligations hereunder are independent of, and not in consideration of or contingent upon, the existence of any other guaranty of any or all of the Secured Obligations, and the release or cancellation of any such other guaranty will not affect Pledgor's obligations hereunder. Pledgor's

obligations hereunder are in addition to its obligations under any other existing or future guaranties or agreements, each of which will remain in full force and effect until it is expressly modified or revoked by the Administrative Agent in writing or otherwise in accordance with its terms.

Section 10. AUTHORIZATIONS.

(a) Pledgor irrevocably and unconditionally authorizes the Administrative Agent to:

(i) approve or consent to any amendment, renewal, restatement, termination, modification or revision of any Loan Document;

(ii) modify, amend, supplement or waive any provision of any Loan Document, including changing the terms and conditions of disbursement of Loan proceeds, renewing, compromising, extending or accelerating, or otherwise changing the time for payment of, or increasing or decreasing the rate of interest on the Loans or any part thereof;

(iii) advance additional funds, extend additional credit or afford other financial accommodations to or for Borrower;

(iv) accelerate or postpone the time for performance of, or otherwise modify, amend, supplement or waive, any of the Secured Obligations, or grant a forbearance with respect thereto;

(v) take and hold other security for the performance of any Secured Obligation, accept additional or substituted security for the same and exchange, enforce, waive, release, compromise, fail to perfect and sell or otherwise dispose of any such security;

(vi) apply any security for the performance of any Secured Obligation and direct the order or manner of sale thereof as the Administrative Agent, in its sole discretion, may determine;

(vii) release or discharge Borrower; and

(viii) accept, add, settle, compromise with, release or substitute endorsers, guarantors or other obligors of or with respect to the Secured Obligations.

(b) Pledgor authorizes the Administrative Agent, at any time and from time to time, without notice to or demand upon Pledgor, irrespective of any change in the financial condition of Borrower or Pledgor, and without affecting Pledgor's obligations hereunder, to perform any or all of the foregoing acts. Pledgor agrees that its obligations hereunder will not be impaired or affected by the performance by the Administrative Agent of any of such acts and that Pledgor will not be released by any act or event that might otherwise be deemed a legal or equitable discharge of a surety, it being the purpose and intent of the parties to this Agreement that the obligations of Pledgor hereunder will be absolute and unconditional under any and all circumstances.

(c) Nothing in this Section 10 will impair the rights of Borrower under the Loan Agreement.

Section 11. REINSTATEMENT. This Agreement will continue to be effective or be reinstated, as the case may be, if at any time any amount received by the Administrative Agent or the Lenders in respect of the Secured Obligations is rescinded or must otherwise be restored or returned by the Administrative Agent and the Lenders upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of Pledgor or Borrower or upon the appointment of any intervener or conservator of, or agent or similar official for, Pledgor or Borrower or any of their respective assets, or otherwise, all as though such payments had not been made.

Section 12. ELECTION OF REMEDIES. Pledgor acknowledges and agrees that the exercise by the Administrative Agent of certain rights and remedies contained in the Loan Documents may affect or eliminate Pledgor's right of subrogation and reimbursement against Borrower and that Pledgor may therefore incur a partially or wholly nonreimbursable liability hereunder. It is the intent and purpose of Pledgor that its obligations under this Agreement will be absolute, independent and unconditional under all circumstances. Accordingly,

Pledgor (a) expressly authorizes the Administrative Agent to pursue its rights and remedies with respect to the Secured Obligations in any order or fashion it deems appropriate, in its sole and absolute discretion, and (b) to the extent permitted by Applicable Law, waives any defense arising out of the absence, impairment or loss of any or all rights of recourse, reimbursement, contribution or subrogation or any other rights or remedies of Pledgor against Borrower, any other Person or any security, except any defense of payment in full of the Secured Obligations, whether resulting from an election by the Administrative Agent to foreclose on any real property security by trustee's sale rather than judicial foreclosure, or from any other election of rights or remedies by the Administrative Agent or otherwise.

Section 13. INFORMATION CONCERNING BORROWER. Pledgor represents and warrants to the Administrative Agent that Pledgor owns all of the membership interests in Borrower and is in a position to have access to any and all relevant information bearing upon the present and continuing creditworthiness of Borrower and the risk that Borrower will be unable to pay the Secured Obligations when due. Pledgor waives any requirement that the Administrative Agent advise Pledgor of information known to the Administrative Agent regarding the financial condition or business of Borrower, or any other circumstance bearing upon the risk of non-performance of the Secured Obligations, and Pledgor assumes sole responsibility for keeping informed of each such condition and circumstance.

Section 14. SUBORDINATION. Pledgor subordinates all present and future indebtedness of Borrower to Pledgor (the "SUBORDINATED INDEBTEDNESS") to the Secured Obligations. Upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), the Administrative

Agent is authorized and empowered, in its sole and absolute discretion, to collect, enforce and submit claims in the name and on behalf of Pledgor in respect of the Subordinated Indebtedness and to apply any amounts received thereon to the Secured Obligations, and to require Pledgor to collect, enforce and submit claims in respect of the Subordinated Indebtedness and to remit any amounts received thereon to the Administrative Agent. All amounts received by Pledgor on account of any Subordinated Indebtedness after the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement) will be held in trust for the Administrative Agent and will, upon request of the Administrative Agent, be paid over to the Administrative Agent as security for or application to the Secured Obligations (whether such obligations are unmatured, contingent or otherwise) in accordance with the terms of the Loan Documents.

Section 15. DIVIDEND AND VOTING RIGHTS.

(a) As long as no Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement) has occurred and is continuing, Pledgor will be entitled to exercise any and all voting and other consensual rights with respect to the Pledged Collateral for any purpose not inconsistent with the terms of this Agreement and the other Loan Documents and to receive and retain any and all dividends and other payments in respect of the Pledged Collateral.

(b) Upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), and after the Administrative Agent has given notice of such Event of Default to Pledgor, all rights of Pledgor to exercise voting and other consensual rights with respect to the Pledged Collateral and to receive dividends and other payments in respect of the Pledged Collateral will be suspended, and all such rights will immediately become vested solely in the Administrative Agent or its nominees. After the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), and after the Administrative Agent has given notice of such Event of Default to Pledgor, any dividends and other payments in respect of the Pledged Collateral received by Pledgor will be held in trust for

the Administrative Agent, and Pledgor will keep all such amounts separate and apart from all other funds and property so as to allow identification of such amounts as the property of the Administrative Agent, and will deliver such amounts at such time as the Administrative Agent may reasonably request to the Administrative Agent in the identical form received, properly endorsed or assigned when required to enable the Administrative Agent to complete collection thereof.

Section 16. THE ADMINISTRATIVE AGENT'S RIGHTS UPON DEFAULT. Upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), the Administrative Agent may, in its sole

discretion and in addition to any other right or remedy provided for herein or otherwise available to it, take any or all of the following actions, in each case at Pledgor's expense and without prior notice to Pledgor except as required under Applicable Law:

(a) Declare, without presentment, demand, protest or notice of any kind (except as specifically required by any Loan Document), all of which Pledgor hereby expressly waives, the entire amount of Secured Obligations to be immediately due and payable, whereupon all of such Secured Obligations declared due and payable will be and become immediately due and payable.

(b) Exercise the powers of attorney set forth in Section 17 of this Agreement to manage (or designate another Person to manage) the operations, business and affairs of Borrower to the extent that Pledgor was theretofore entitled to manage such operations, business and affairs.

(c) Make such payments and do such acts as the Administrative Agent may deem necessary to protect, perfect or continue the perfection of the Administrative Agent's Lien on and against the Pledged Collateral, including (i) paying, purchasing, contesting or compromising any Lien that is, or purports to be, prior to or superior to the Administrative Agent's Lien, (ii) filing a copy of this Agreement and other documents in the office in which a record of the Lien on the Site created by the Mortgage is recorded, (iii) filing any transfer statement necessary to entitle the transferee to the transfer of record of all rights of Borrower in the Collateral referenced in such transfer statement and (iv) commencing, appearing or otherwise participating in or controlling any action or proceeding purporting to affect the Administrative Agent's Lien.

(d) Foreclose on the Pledged Collateral as herein provided and in any manner permitted by Applicable Law. Pledgor hereby waives, to the extent permitted by Applicable Law, notice (other than notices expressly provided for hereunder) and judicial hearing in connection with the Administrative Agent's taking possession or commencing any collection, recovery, receipt, appropriation, repossession, retention, set-off, sale, leasing, licensing, conveyance, assignment, transfer or other disposition of or realization upon any or all of the Pledged Collateral, including any and all prior notice (other than notices expressly provided for hereunder) and hearing for any prejudgment remedy or remedies and any such right that Pledgor would otherwise have under the constitution or any statute or other law of the United States of America, the state of New York or any other state.

(e) Without notice, except as specified below or contemplated by any Loan Document, sell, lease, license or otherwise dispose of the Pledged Collateral, or any part thereof, in its then present condition or following any commercially reasonable preparation or processing. Any such disposition of the Pledged Collateral may be made by one or more contracts, in one or more parcels, at public or private disposition at any of the Administrative Agent's offices or elsewhere, at such time or times, for cash, on credit or for future delivery, and at such price or prices and upon such other terms that the Administrative Agent reasonably believes are commercially reasonable. Pledgor agrees that, to the extent notice of any such disposition is required by Applicable Law, at

least 10 Business Days' written notice to Pledgor of the time and place of any public disposition or the time after which any private disposition is to be made will constitute reasonable notification. The Administrative Agent may purchase the Pledged Collateral at a public disposition or at a private disposition. The Administrative Agent will not be obligated to make any disposition of the Pledged Collateral regardless of notice of disposition having been given. The Administrative Agent may adjourn any public or private disposition from time to time by announcement at the time and place fixed therefor, and such disposition may, without further notice, be made at the time and place to which it was so adjourned. The Administrative Agent will incur no liability as a result of the manner of disposition of the Pledged Collateral, or any part thereof, at any private disposition conducted in a commercially reasonable manner. Pledgor hereby waives, to the extent permitted by Applicable Law, any claims against the Administrative Agent arising by reason of the fact that the price at which the Pledged Collateral, or any part thereof, may have been disposed of at a private disposition was less than the price that might have been obtained at a public disposition or was less than the aggregate amount of the Secured Obligations, even if the Administrative Agent accepts the first offer received that the Administrative Agent deems to be commercially reasonable under the circumstances and does not offer the Pledged Collateral to more than one offeree. To the full extent permitted by Applicable Law, Pledgor will have the burden of proving that any such disposition of the Pledged Collateral was conducted in a commercially unreasonable manner. To the extent permitted by Applicable Law, Pledgor hereby specifically waives all rights of redemption, stay or appraisal that it has or may have under any Applicable Law now existing or hereafter enacted. Pledgor authorizes the Administrative Agent, at any time and from time to time, to execute, in connection with a disposition of the Pledged Collateral pursuant to the provisions of this Agreement, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Pledged Collateral.

(f) In accordance with Applicable Law, accept the Pledged Collateral in full or partial satisfaction of the Secured Obligations.

(g) Exercise in respect of the Pledged Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party after default under the UCC and any relevant Applicable Law in any jurisdiction.

Section 17. POWER OF ATTORNEY.

(a) Upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement), Pledgor irrevocably constitutes and appoints the Administrative Agent, with full power of substitution, as Pledgor's true and lawful attorney-in-fact, in the name of Pledgor or the Administrative Agent or otherwise, and at the expense of Pledgor, to take any or all of the following actions, without notice to or the consent of Pledgor:

(i) take any or all of the actions described in Section 15 and Section 16 of this Agreement, and exercise any other right or power granted to the Administrative Agent under this Agreement or any other Pledgor Document;

(ii) transfer to, or register in the name of, the Administrative Agent or its nominees any or all of the Pledged Collateral;

(iii) perform or comply with any obligation or agreement that constitutes part of the Pledged Collateral;

(iv) endorse or execute and deliver any check, draft, note, acceptance or instrument, document, contract, agreement, receipt, release, bill of lading, invoice, endorsement, assignment, bill of sale, deed or instrument of conveyance or transfer constituting or relating to any Pledged Collateral;

(v) pay or discharge Taxes and Liens which are levied or placed on the Pledged Collateral and which are or are purported to be superior to the Administrative Agent's Lien;

(vi) assert, institute, file, defend, settle, compromise or adjust any claim constituting or relating to any Pledged Collateral; and

(vii) do any and all things necessary and proper to carry out the purposes of this Agreement or any other Pledgor Document.

(b) Pledgor recognizes and agrees that the power of attorney granted pursuant to this Section 17 is coupled with an interest and is not revocable. Pledgor ratifies and confirms all actions taken by the Administrative Agent or its agents pursuant to and in accordance with this power of attorney; PROVIDED that no such ratification will apply to acts of or on behalf of the Administrative Agent that constitute gross negligence or willful misconduct.

Section 18. OTHER RIGHTS OF THE ADMINISTRATIVE AGENT.

(a) The Administrative Agent will have, with respect to the Pledged Collateral, in addition to the rights and remedies set forth in this Agreement, all of the rights and remedies available to a secured party under Applicable Law and under the UCC as in effect in the State of New York or the State of Delaware, whichever is applicable, as if such rights and remedies were fully set forth in this Agreement.

(b) The Administrative Agent may at any time and from time to time release or relinquish any right, remedy or Lien it has with respect to a particular item of Pledged Collateral without thereby releasing, relinquishing or in any way affecting its rights, remedies or Lien with respect to any other item of Pledged Collateral.

Section 19. REASONABLE CARE; STANDARDS FOR EXERCISING REMEDIES; MARSHALING COLLATERAL.

(a) The Administrative Agent will exercise the same degree of care hereunder as it exercises or would exercise in connection with similar transactions for its own account, but in all events reasonable care. The Administrative Agent will be deemed to have exercised reasonable care in the custody and preservation of the Pledged Collateral in its possession if the Pledged Collateral is accorded treatment substantially equal to that which the Administrative Agent accords or would accord collateral held by the Administrative Agent in similar transactions for its own account; PROVIDED, that it is expressly understood that the Administrative Agent will have no responsibility for taking any steps to preserve rights against any parties with respect to the Pledged Collateral. In furtherance of the foregoing, to the extent Applicable Law imposes on the Administrative Agent an obligation to exercise remedies in a commercially reasonable manner, Pledgor acknowledges and agrees that it is not commercially unreasonable for the Administrative Agent (i) to fail to incur expenses reasonably deemed significant by the Administrative Agent to prepare the Pledged Collateral for disposition, (ii) to fail to obtain third-party consents for access to Pledged Collateral to be disposed of, or to obtain or, if not required by other Applicable Law, fail to obtain governmental or third-party consents for the collection or disposition of Pledged Collateral to be collected or disposed of, (iii) to fail to exercise collection remedies against account debtors or other Persons obligated on Pledged Collateral or to remove Liens or encumbrances on or any adverse claims against Pledged Collateral, (iv) to exercise collection remedies against account debtors and other Persons obligated on Pledged Collateral directly or through the use of collection agencies and other collection specialists, (v) to advertise dispositions of Pledged Collateral through publications or media of general circulation, whether or not the Pledged Collateral is of a specialized nature, (vi) to contact other Persons, whether or not in the same business as Pledgor, in connection with expressions of interest in acquiring all or any portion of the Pledged Collateral, (vii) to hire one or more professional auctioneers to assist in the disposition of Pledged Collateral, whether or not the Pledged

Collateral is of a specialized nature, (viii) to dispose of Pledged Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Pledged Collateral or that have reasonable capability of doing so, or that match buyers and sellers of assets, (ix) to dispose of assets in wholesale rather than retail markets, (x) to disclaim disposition warranties, (xi) to purchase insurance or credit enhancements to insure the Administrative Agent against the risk of loss, collection or disposition of Pledged Collateral or (xii) to the extent deemed appropriate by the Administrative Agent, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Administrative Agent in the collection or disposition of any of the Pledged Collateral.

(b) Without limiting the generality of the foregoing and except as otherwise provided by Applicable Law, the Administrative Agent will not be required to marshal any of the Pledged Collateral, or to resort to any item of Pledged Collateral in any particular order, and all of the Administrative Agent's rights hereunder and in respect of such Pledged Collateral will be cumulative and in addition to all other rights, however existing or arising. To the extent that Pledgor lawfully may, Pledgor hereby (i) agrees that it will not invoke any Law relating to the marshaling of collateral

that might cause delay in or impede the enforcement of the Administrative Agent's rights under this Agreement or under any other instrument evidencing any of the Secured Obligations or under which any of the Secured Obligations is outstanding or by which any of the Secured Obligations is secured or guaranteed and (ii) irrevocably waives the benefits of all laws and any and all rights to equity of redemption or other rights of redemption that it may have in equity or at law with respect to the Pledged Collateral.

Section 20. APPLICATION OF PROCEEDS. Any cash held by the Administrative Agent as Pledged Collateral and all cash proceeds received by the Administrative Agent from any realization upon Pledged Collateral may, in accordance with this Agreement and the other Loan Documents and in the sole discretion of the Administrative Agent, be held by the Administrative Agent as collateral security for the payment of the Secured Obligations or applied by the Administrative Agent in accordance with the Loan Agreement and the Loan Documents.

Section 21. THE ADMINISTRATIVE AGENT'S DUTIES. The grant to the Administrative Agent under this Agreement of any right or power does not impose upon the Administrative Agent any duty to exercise such right or power. The Administrative Agent will have no obligation to take any steps to preserve any claim or other right against any Person or with respect to any Pledged Collateral.

Section 22. EXCULPATORY PROVISIONS; RELIANCE BY THE ADMINISTRATIVE AGENT.

(a) EXCULPATORY PROVISIONS. Neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates will be liable to Pledgor for any action taken or omitted to be taken by it under or in connection with this Agreement or any other Loan Document, or responsible in any manner to any Person for any recitals, statements, representations or warranties made by Pledgor or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or for any failure of Borrower or Pledgor, as applicable, to perform any of the Obligations. The Administrative Agent will not be under any obligation to any Person to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document or to inspect the properties or records of Pledgor. Notwithstanding anything to the contrary contained herein, neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates will be exonerated from any liability arising from its or their own gross negligence or willful misconduct.

(b) RELIANCE BY THE ADMINISTRATIVE AGENT. The Administrative Agent will be fully protected in relying upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, electronic mail, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it in good faith to be genuine and correct

and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including without limitation counsel to Pledgor and counsel to Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent will have no obligation to any Person to act or refrain from acting or exercising any of its rights under this Agreement; PROVIDED, that anything to the contrary contained herein notwithstanding, the Administrative Agent will be liable for its own gross negligence or willful misconduct.

Section 23. COUNTERPARTS. This Agreement may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed will be deemed to be an original and all of which taken together will constitute one and the same instrument.

Section 24. INTEGRATION. This Agreement and the other Pledgor Documents contain the complete agreement between Pledgor and the Administrative Agent with respect to the matters contained herein and therein and supersede all prior commitments, agreements and understandings, whether written or oral, with respect to the matters contained herein and therein.

Section 25. SEVERABILITY. Any provision of this Agreement or any other Pledgor Document that is invalid or prohibited in any jurisdiction will, as to such jurisdiction, be ineffective and severable from the rest of this Agreement or such other Pledgor Document to the extent of such invalidity or prohibition, without impairing or affecting in any way the validity of any other provision of this Agreement or such other Pledgor Document, or of such provision in other jurisdictions. The parties agree to replace any provision that is ineffective by operation of this Section 25 with an effective provision that as closely as possible corresponds to the spirit and purpose of such ineffective provision and this Agreement and the other Pledgor Documents as a whole.

Section 26. FURTHER ASSURANCES. At any time and from time to time upon the request of the Administrative Agent, Pledgor will execute and deliver such further documents and instruments and do such other acts as the Administrative Agent may reasonably request in order to effect fully the purposes of this Agreement, to create, perfect, maintain and preserve the Administrative Agent's First Priority Lien on the Pledged Collateral, to facilitate any sale of or other realization upon Pledged Collateral in accordance with this Agreement and the other Loan Documents, to make any sale of or other realization upon Pledged Collateral in accordance with this Agreement and the other Loan Documents valid, binding and in compliance with Applicable Law, and to provide for the payment of the Secured Obligations in accordance with the terms of the Loan Documents (except, in each case, to the extent that this Agreement specifically provides that such action is not required). Pledgor will execute, acknowledge where appropriate and deliver, and cause to be executed, acknowledged where appropriate and delivered, from time to time promptly at the request of any successor Administrative Agent hereunder, such restatements and/or amendments to this Agreement or other instruments or documents as, in the reasonable determination of the successor Administrative Agent, are necessary to carry out the intent and purpose of this Agreement.

Pledgor irrevocably constitutes and appoints the Administrative Agent, with full power of substitution, as Pledgor's true and lawful attorney-in-fact, in the name and on behalf of Pledgor, and at Pledgor's expense, to execute and deliver any documents and instruments and to do and to perform any acts referred to in

this Section 26, upon the occurrence and during the continuance of an Event of Default (other than an Event of Default caused solely by Borrower's failure to comply with Section 5.1(p) of the Loan Agreement) and in the event that Pledgor does not do so promptly upon the Administrative Agent's request therefor. This power of attorney is a power coupled with an interest and cannot be revoked.

Section 27. AMENDMENTS AND WAIVERS. No amendment or waiver of any provision of this Agreement, or consent to any departure by Pledgor from the terms hereof, will be effective unless it is in writing and signed by Pledgor and the Administrative Agent. A waiver or consent granted pursuant to this Section 27 will be effective only in the specific instance and for the specific purpose for which it is given.

Section 28. NO WAIVER; REMEDIES CUMULATIVE. The waiver of any right, breach or default under this Agreement by the Administrative Agent must be made specifically and in writing. Subject to the foregoing, no failure on the part of the Administrative Agent to exercise, and no forbearance or delay in exercising, any right under this Agreement will operate as a waiver thereof; no single or partial exercise of any right under this Agreement will preclude any other or further exercise thereof or the exercise of any other right; and no waiver of any breach of or default under any provision of this Agreement will constitute or be construed as a waiver of any subsequent breach of or default under that or any other provision of this Agreement. No notice to or demand upon Pledgor will entitle Pledgor to any further, subsequent or other notice or demand in similar or any other circumstances. Each of the rights and remedies of the Administrative Agent under this Agreement is cumulative and not exclusive of any other right or remedy provided or existing by agreement or under Applicable Law.

Section 29. SUCCESSORS AND ASSIGNS.

(a) This Agreement will be binding upon and inure to the benefit of the parties hereto and all future holders of the Notes and their respective successors and permitted assigns. Pledgor will execute, acknowledge where appropriate and deliver, and cause to be executed, acknowledged where appropriate and delivered, from time to time promptly at the request of any successor Administrative Agent hereunder such restatements and/or amendments to this Agreement or other instruments or documents as in the reasonable determination of such successor Administrative Agent are necessary to carry out the intent and purpose of this Agreement. In the event of any assignment or transfer by any instrument evidencing all or any part of the Obligations, the holder of such instrument will be entitled to the benefits of this Agreement to the extent of the Secured Obligation so assigned or transferred.

(b) Pledgor has no right to assign its rights or interest, or delegate its duties or obligations, under this Agreement without the prior written consent of the Administrative Agent, which consent will not be unreasonably withheld or delayed.

(c) The Administrative Agent has the right to transfer, assign, pledge and grant participations in its rights and interests in and under this Agreement as described in Section 8.7(c) of the Loan Agreement.

Section 30. NO AGENCY. Pledgor is not a representative of the Administrative Agent, and is not authorized to act on behalf of or bind the Administrative Agent in any way.

Section 31. NO THIRD PARTY BENEFICIARIES. Except as otherwise expressly stated herein, this Agreement is intended to be solely for the benefit of the parties hereto and their respective successors and permitted assigns and is not intended to and will not confer any rights or benefits on any third party.

Section 32. [RESERVED.]

Section 33. INDEMNIFICATION. Pledgor will defend, indemnify and hold harmless the Administrative Agent and its officers, directors, employees, agents and advisors from and against any and all costs, expenses,

disbursements, liabilities, obligations, losses, damages, injunctions, judgments, suits, actions, causes of action, fines, penalties, claims and demands, of every kind or nature (including without limitation reasonable attorneys' fees and expenses) (herein collectively called the "INDEMNIFIED LIABILITIES") that are occasioned by or result from or in connection with any of the terms, agreements or covenants to be performed by Pledgor or any party thereto under this Agreement, other than Indemnified Liabilities to the extent resulting from the Administrative Agent's gross negligence or willful misconduct; PROVIDED that, this indemnity will expire three (3) years after the repayment in full of the Obligations.

Section 34. GOVERNING LAW. THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF (OTHER THAN SECTION 5.1401 OF THE GENERAL OBLIGATIONS LAW AND ANY SUCCESSOR STATUTE THERETO).

Section 35. WAIVER OF JURY TRIAL. PLEDGOR AND ADMINISTRATIVE AGENT, AS BETWEEN THEM, WAIVE ANY RIGHTS THEY MAY HAVE TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED ON OR ARISING FROM THIS AGREEMENT, ANY TRANSACTION CONTEMPLATED HEREBY OR EFFECTED PURSUANT HERETO, ANY DEALINGS OR COURSE OF DEALING BETWEEN THEM RELATING IN ANY WAY TO THE SUBJECT MATTER OF THIS AGREEMENT OR ANY STATEMENTS OR ACTIONS OF ANY OF THEM OR THEIR AFFILIATES. Each of the parties acknowledges and agrees that this waiver is a material inducement to enter into the business relationship contemplated by this Agreement and that each has relied on this waiver in entering into this Agreement to which it is a party and will continue to rely on this waiver in its future dealings with the other parties. The scope of this waiver is intended to be all-encompassing, and this waiver will apply to all Claims, of any nature whatsoever, whether deriving

from contract, arising by law, based on tort or otherwise. PLEDGOR AND ADMINISTRATIVE AGENT HAVE MADE THIS WAIVER KNOWINGLY AND VOLUNTARILY, AND THIS WAIVER WILL BE IRREVOCABLE. THIS WAIVER WILL ALSO APPLY TO ALL AMENDMENTS, SUPPLEMENTS, RESTATEMENTS, EXTENSIONS AND MODIFICATIONS OF THIS AGREEMENT. In the event of litigation, relevant portions of this Agreement may be filed as a written consent to a trial by the court.

Section 36. CONSENT TO JURISDICTION. Pledgor hereby irrevocably submits to the jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan over any action or proceeding arising out of or relating to any Claim, and Pledgor hereby irrevocably agrees that all Claims in respect of such action or proceeding may be heard and determined in such New York state or United States federal court. Pledgor irrevocably waives any objection that it may now or hereafter have to the laying of venue in such forums and agrees not to plead or claim that any such action or proceeding brought in any such New York state or United States federal court has been brought in an inconvenient forum. Pledgor hereby irrevocably appoints the Process Agent as its agent to receive on behalf of Pledgor and its property service of copies of the summons and complaint and any other process that may be served in any such action or proceeding. Such service may be made by mailing or delivering a copy of such process to Pledgor at the address of the Process Agent and Pledgor hereby irrevocably authorizes and directs the Process Agent to accept such service on its behalf. In addition and as an alternative method of service, Pledgor also irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to Pledgor at its address set forth in Section 38. Pledgor agrees that a final judgment in any such action or proceeding will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law. Nothing in this Section 36 will affect the right of the Administrative Agent to serve legal process in any other manner permitted by Law or affect the right of the Administrative Agent to bring any action or proceeding against Pledgor or its property in the courts of any other jurisdiction. If for any reason the Process Agent ceases to be available to act as Process Agent, Pledgor agrees promptly upon receiving knowledge of that fact to appoint a replacement Process Agent satisfactory to the Administrative Agent.

Section 37. CONFIDENTIALITY. The Administrative Agent and Pledgor agree to use reasonable efforts to keep confidential the Documents and each document and all information delivered to them by the other party to this

Agreement and marked "confidential." Notwithstanding the foregoing, each party will be permitted to disclose confidential documents and information (a) to another party, (b) to its Affiliates, advisers and consultants, (c) to prospective participants or prospective purchasers or transferees of interests in Notes and their respective affiliates, advisers and consultants, (d) to any Government Instrumentality having jurisdiction over such party, (e) in response to any subpoena or other legal process or to comply with Law, (f) to the extent reasonably required in connection with any litigation to which such party is a party, (g) to the extent reasonably required in connection with the exercise of its rights or remedies under any Loan Document or (h) to the extent such documents or information already have been publicly disclosed by another Person. Each prospective participant, purchaser and transferee and each adviser and consultant to which confidential documents or information is disclosed will be required to execute a confidentiality agreement containing the provisions of this Section 37.

Section 38. NOTICES. All notices, consents, certificates, waivers, documents and other communications required or permitted to be delivered to any party under the terms of this Agreement (a) must be in writing, (b) must be personally delivered, transmitted by an internationally recognized courier service or transmitted by facsimile and (c) must be directed to such party at its address or facsimile number set forth below. All notices will be deemed to have been duly given and received on the Business Day of delivery if delivered personally, three (3) days after delivery to the courier if transmitted by courier, or the date of transmission with telephone confirmation if transmitted by facsimile, whichever occurs first. Any party may change its address or facsimile number for purposes hereof by notice to all other parties.

For Pledgor:	Pacific Ethanol Holding Co. LLC 5711 N. West Avenue Fresno, California 93711 Facsimile: (559) 435-1478
With a copy to:	Latham & Watkins LLP 885 Third Avenue Suite 1000 New York, New York 10022-4834 Attention: Jeffrey B. Greenberg, Esq. Facsimile: (212) 751-4864
For the Administrative Agent:	Hudson United Capital, A Division of TD Banknorth, N.A. 101 Post Road East Westport, Connecticut 06880 Attention: Mr. Jerome P. Peters, Jr. Facsimile: (203) 291-6652

Section 39. RELEASE OF LIENS. Upon the payment or satisfaction in full of all Secured Obligations (exclusive of any indemnification or other obligations which are expressly stated in any Loan Document to survive termination of the Loan Documents), or as otherwise mutually agreed, the Administrative Agent will, promptly upon the written request of Pledgor and at Pledgor's expense, take all reasonable measures, or authorize the taking of such measures, to effect or evidence the release of the Pledged Collateral from the Lien created hereby.

Section 40. WAIVER OF DEFENSES. To the extent permitted by Applicable Law, Pledgor unconditionally and irrevocably waives:

(a) any right to require the Administrative Agent to proceed against Borrower, to proceed against any other Person, to proceed against or exhaust any security held by the Administrative Agent or to pursue any other

remedy in the Administrative Agent's power before proceeding against the Pledged Collateral or Pledgor or exercising the Administrative Agent's rights and remedies under Pledgor Documents;

(b) any defense arising by reason of any disability or other similar defense of Borrower or by reason of any invalidity, ineffectiveness or unenforceability of any or all of the Secured Obligations or any Loan Document;

(c) diligence, presentment, demand for performance, notice of nonperformance, protest, notice of protest, notice of dishonor, notice of the creation or incurring of new or additional indebtedness of Borrower to the Administrative Agent, notice of acceptance of this Agreement and notices of any other kind whatsoever;

(d) the filing of any claim with any court in the event of a receivership or bankruptcy;

(e) the benefit of any statute of limitations affecting Pledgor's obligations under any Pledgor Document or the enforcement thereof;

(f) any defense based upon any taking, modification, impairment or release of any collateral or guaranty for any Secured Obligation, or any failure to perfect any security interest in or any other act or omission with respect to any collateral or guaranty securing payment or performance of any Secured Obligation;

(g) any defenses or benefits that may be derived from or afforded by Applicable Law that limit the disability of or exonerate guarantors or sureties, or that may conflict with the terms of this Agreement; and

(h) any offset or counterclaim or other right, defense or claim based on, or in the nature of, any obligation now or hereafter owed to Pledgor by Borrower or the Administrative Agent.

[THE REMAINDER OF THIS PAGE WAS LEFT BLANK INTENTIONALLY.]

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have caused this Member Interest Pledge Agreement to be signed on the date first above written.

PACIFIC ETHANOL HOLDING CO. LLC,
as Pledgor

By /S/ RYAN TURNER

Name:
Title:

HUDSON UNITED CAPITAL, A DIVISION OF TD BANKNORTH, N.A., as the Administrative Agent

By /S/ JEROME P. PETERS, JR.

Name: Jerome P. Peters, Jr.
Title: Senior Vice President

EXHIBIT 10.50

INTERCREDITOR AND COLLATERAL SHARING AGREEMENT

This INTERCREDITOR AND COLLATERAL SHARING AGREEMENT, dated April 13, 2006 (as amended, modified or supplemented, this "AGREEMENT"), is by and among HUDSON UNITED CAPITAL, A DIVISION OF TD BANKNORTH, N.A., a national banking association ("HUDSON UNITED CAPITAL"), as the agent pursuant to the Construction and Term Loan Agreement, dated the date hereof (the "SENIOR LOAN AGREEMENT"), among Pacific Ethanol Madera LLC, a Delaware limited liability company ("BORROWER"), the lenders from time to time party thereto (the "SENIOR LENDERS"), and Hudson United Capital, as administrative agent for the Senior Lenders (in such capacity, together with its successors and assigns, the "SENIOR AGENT"), LYLES DIVERSIFIED, INC., a California corporation, as lender (in such capacity, together with its permitted successors and assigns, the "JUNIOR LENDER" and, together with the Senior Lenders, the "LENDERS"), pursuant to the Amended and Restated Term Loan Agreement, dated as of April 13, 2006 (the "JUNIOR LOAN AGREEMENT"), by and between the Junior Lender and Borrower, and PACIFIC ETHANOL MADERA LLC, a Delaware limited liability company.

RECITALS

WHEREAS, pursuant to the Senior Loan Agreement, the Senior Lenders have agreed to make certain construction and term loans (the "SENIOR LOANS") to Borrower;

WHEREAS, the Senior Loans are and will be secured by first priority pledges of, mortgages on and security interests in the Collateral (as defined below);

WHEREAS, pursuant to the Junior Loan Agreement, Junior Lender has made one or more loans to Borrower in the aggregate original principal amount of $5,100,000 (such loans and all other obligations of Borrower to Junior Lender pursuant to the Junior Loan Agreement, the "JUNIOR LOAN");

WHEREAS, the obligations of Borrower in respect of the Junior Loan have been secured by liens on a portion of the Collateral, which liens are intended to be junior to the liens securing the Senior Loans; and

WHEREAS, the Senior Agent and the Junior Lender desire by entering into this Agreement to define the rights and responsibilities as between them concerning the Collateral;

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 DEFINITIONS. Capitalized terms used and not otherwise defined in this Agreement have the meanings given to those terms in Schedule X hereto.

ARTICLE II
SENIOR AGENT'S RIGHT TO FORECLOSE

Section 2.1 SENIOR AGENT'S RIGHT TO FORECLOSE. Junior Lender hereby agrees that nothing in the Junior Loan Agreement or the related security documents or this Agreement will restrict any right of the Senior Agent or the Senior Lenders to foreclose on or exercise any other right or remedy with respect to the Senior Agent's and the Senior Lenders' security interests in the Collateral, and the Senior Agent or any Senior Lender may foreclose on or exercise any other right or remedy with respect to the Collateral, to the

exclusion of any similar right or remedy that the Junior Lender many have, in any manner or order and at any time.

ARTICLE III
RIGHTS OF THE LENDERS

Section 3.1 LIEN PRIORITY. The Junior Lender acknowledges and agrees that (x) it does not have, and will not assert, any Lien against any asset of Borrower other than the Junior Lender Collateral and (y) the Liens on the Collateral granted to the Senior Agent for the benefit of the Senior Lenders pursuant to the security documents executed in connection with the Senior Loan Agreement will at all times be superior in priority to any Lien on the Collateral, including the Junior Lender Collateral, granted to the Junior Lender pursuant to the security documents executed in connection with the Junior Loan Agreement, regardless of the order or time of the granting of any Lien, the order or time as to which any Lien attached to any or all of the Collateral or the order or time of any UCC filing or other filing or recording.

Section 3.2 SUBORDINATION.

(a) The Junior Lender may not commence any action or proceeding against Borrower to exercise remedies under the documents relating to the Junior Obligations with respect to any Collateral, or receive any proceeds from the sale or disposition thereof, unless and until the Senior Obligations have been paid in full.

(b) The Senior Agent and the Senior Lenders may, at any time and from time to time, without the consent of or notice to the Junior Lender, without incurring responsibility or liability to the Junior Lender and without impairing or releasing any right or obligation of the Senior Agent or the Senior Lenders hereunder:

(i) amend the Senior Loan Agreement in any manner or enter into or amend in any manner any other agreement relating to the Senior Obligations;

(ii) sell, exchange, release or otherwise deal with any property by whomsoever at any time pledged or mortgaged to secure, or howsoever securing, the Senior Obligations;

(iii) release any Person liable in any manner for the payment or collection of the Senior Obligations, including without limitation Borrower;

(iv) exercise or refrain from exercising any right against Borrower or any other Person; and

(v) apply any sum by whomsoever paid or however realized to the Senior Obligations.

(c) Subject to the payment in full of the Senior Obligations in cash, the Junior Lender will be subrogated to the Senior Agent's and the Senior Lenders' rights to receive payments or distributions in cash or property applicable to the Senior Obligations and, as among Borrower and its creditors other than the Senior Agent, the Senior Lenders and the Junior Lender, no such payment or distribution made to the Senior Agent or the Senior Lenders by virtue of this Agreement that otherwise would have been made to the Junior Lender will be deemed to be a payment by Borrower on account of the Junior Obligations, it being understood that the provisions of this Section 3.2(c) are intended solely for the purpose of defining the relative rights of the Junior Lender, the Senior Agent and the Senior Lenders.

(d) The Junior Lender will not sell, assign, transfer or otherwise dispose of the Junior Obligations to any Person that is not an Affiliate of the Junior Lender without the prior written consent of the Senior Agent, which consent will not be unreasonably withheld or delayed.

Section 3.3 NOTICES. The Junior Lender agrees that it will provide the Senior Agent with prompt notice of any default under the Junior Loan Agreement of which the Junior Lender has knowledge.

ARTICLE IV
APPLICATION OF COLLATERAL

Section 4.1 PAYMENTS. Except as otherwise expressly provided in this Agreement, all amounts received by or available to the Senior Agent, the Senior Lenders or the Junior Lender in respect of proceeds from the disposition of any Collateral on which the Junior Lender has a lien will be applied as follows:

FIRST: Payment of all fees, costs and expenses of the Senior Agent in accordance with the Senior Loan Agreement to the extent not paid by Borrower;

SECOND: Payment of all accrued and unpaid interest on the Senior Loans;

THIRD: Payment of all other Senior Obligations due and owing to the Senior Lenders;

FOURTH: Payment of all Junior Obligations due and owing to the Junior Lender; and

FIFTH: As required by applicable law, payment of any remaining balance to Borrower or as Borrower may direct in writing.

Section 4.2 RETURN OF COLLATERAL. The Junior Lender hereby agrees that (a) if at any time it receives proceeds from the disposition of any Collateral (other than in accordance with this Agreement), it will promptly pay or deliver the same to the Senior Agent for application in accordance with this Agreement and (b) it will not take or cause to be taken any action, including the commencement of any legal or equitable proceeding, if the purpose is to give it any preference or priority with respect to any Collateral.

ARTICLE V
TERMINATION

Section 5.1 TERMINATION. This Agreement will terminate and cease to be of further effect upon the payment in full in cash of the Senior Obligations.

ARTICLE VI
MISCELLANEOUS PROVISIONS

Section 6.1 BENEFIT OF AGREEMENT; COMPLIANCE WITH JUNIOR LOAN AGREEMENT.

(a) Nothing in this Agreement, expressed or implied, gives or may be construed to give to any Person other than the Senior Agent and the Junior Lender any legal or equitable right, remedy or claim under this Agreement, or under any covenant or provision herein contained, all such covenants and provisions being for the sole benefit of the Senior Agent and the Junior Lender; PROVIDED, that Borrower will be entitled to rely on and benefit from the provisions of Sections 2.1, 3.2(a), 3.2(d) and 5.1 and Article VI of this Agreement.

(b) The Junior Lender acknowledges and agrees that none of (i)

Borrower's execution of and compliance with the terms of this Agreement, (ii) Borrower's entering into the Senior Loan Agreement and the related loan and security documents and (iii) the grant and pledge by Borrower and its member of real and personal property as collateral security to the Senior Agent for the benefit of the Senior Lenders will result in a default under the Junior Loan Agreement and all such acts are taken (or will be deemed to have been taken) by Borrower in compliance with the Junior Loan Agreement.

Section 6.2 SUCCESSORS OR ASSIGNS. This Agreement will be binding upon and inure to the benefit of and be enforceable by and against the respective permitted successors and assigns of the Senior Agent and the Junior Lender.

Section 6.3 NOTICES. All notices, consents, certificates, waivers, documents and other communications required or permitted to be delivered to any party under the terms of this Agreement (a) must be in writing, (b) must be personally delivered, transmitted by a recognized courier service or transmitted by facsimile, and (c) must be directed to such party at its address or facsimile number set forth below. All notices will be deemed to have been duly given and received on the date of delivery if delivered personally, three (3) days after delivery to the courier if transmitted by courier, or the date of transmission with confirmation if transmitted by facsimile, whichever occurs first. Any party may change its address or facsimile number for purposes hereof by notice to all other parties.

Addresses:	Senior Agent:	Hudson United Capital, a division of TD Banknorth, N.A. 101 Post Road East Westport, Connecticut 06880 Attn: Mr. Jerome P. Peters, Jr. Telephone: (203) 291-6639 Facsimile: (203) 291-6652
	Junior Lender:	Lyles Diversified Post Office Box 4376 Fresno, California 93744 Attn: Will Lyles Facsimile: (559) 487-7948
	Borrower:	Pacific Ethanol Madera LLC 31470 Avenue 12 Madera, California 93638 Attn: Jeff Manternach Facsimile: (559) 435-1478

Section 6.4 COUNTERPARTS. This Agreement may be executed in counterparts and by the different parties hereto in separate counterparts, each of which when so executed will be deemed to be an original and all of which taken together will constitute one and the same instrument.

Section 6.5 HEADINGS DESCRIPTIVE. The headings of the several Articles and Sections of this Agreement are inserted for convenience only and will not in any way affect the meaning or construction of any provision of this Agreement.

SECTION 6.6 GOVERNING LAW. THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF (OTHER THAN SECTION 5.1401 OF THE GENERAL OBLIGATIONS LAW AND ANY SUCCESSOR STATUTE THERETO).

Section 6.7 NO WAIVER; CUMULATIVE REMEDIES. No failure or delay on the part of any party in exercising any right, power or privilege hereunder will impair any such right, power or privilege or operate as a waiver thereof, nor will any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder or thereunder. The rights, powers and remedies herein or provided in this Agreement are cumulative and not exclusive of any right, power or remedy which any party would otherwise

have.

Section 6.8 SEVERABILITY. Any provision of this Agreement that is invalid or prohibited in any jurisdiction will, as to such jurisdiction, be ineffective and severable from the rest of this Agreement to the extent of such invalidity or prohibition, without impairing or affecting in any way the validity of any other provision of this Agreement or of such provision in other jurisdictions. The parties agree to replace any provision that is ineffective by operation of this Section 6.8 with an effective provision which as closely as possible corresponds to the spirit and purpose of such ineffective provision and this Agreement as a whole.

Section 6.9 AMENDMENTS. Neither this Agreement nor any of the terms hereof may be changed, waived, discharged or terminated unless such change, waiver, discharge or termination is in writing signed by each party hereto.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have caused this Intercreditor and Collateral Sharing Agreement to be signed on the date first above written.

HUDSON UNITED CAPITAL, A DIVISION OF TD BANKNORTH, N.A.
as Senior Agent

By /S/ JEROME P. PETERS, JR.

Name: Jerome P. Peters, Jr.
Title: Senior Vice President

LYLES DIVERSIFIED, INC.
as Junior Lender

By /S/ MICHAEL F. ELKINS

Name: Michael F. Elkins
Title: Vice President/CFO

PACIFIC ETHANOL MADERA LLC,
as Borrower

By /S/ RYAN TURNER

Name:
Title:

Schedule X
to Intercreditor and
Collateral Sharing Agreement

Definitions

When used in the Intercreditor and Collateral Sharing Agreement, the following capitalized defined terms have the meanings set forth below:

"AFFILIATE" means, with respect to any Person, any other Person (a) directly or indirectly controlling, controlled by, or under common control with, such Person, (b) directly or indirectly owning or holding or receiving any equity interest or other economic interest or benefit in such Person in excess of fifty percent (50%) or (c) in which such Person directly or indirectly controls any voting stock or other equity interest in excess of fifty percent (50%). For purposes of this definition, "control" (including with correlative meanings the terms "controlling," "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"COLLATERAL" means, collectively, the "Collateral," as such term is defined in the Senior Security Agreement, the "Pledged Collateral," as such term is defined in the Senior Pledge Agreement and the "Mortgaged Property," as such term is defined in the Senior Mortgage, together with all other property, rights and interests from time to time subject, or purported to be subject, to the liens securing the payment of the Senior Obligations.

"JUNIOR LENDER COLLATERAL" means the "Collateral," as defined in the Junior Loan Agreement.

"JUNIOR OBLIGATIONS" means and includes the principal of, premium, if any, and interest on all liabilities of Borrower to the Junior Lender, together with all costs and expenses relating thereto, direct or contingent, now or hereafter existing, due or to become due to, or held or to be held by, the Junior Lender, whether created directly or acquired by assignment or otherwise, including without limitation all indebtedness of Borrower for principal of, premium, if any, and interest on the Junior Loans.

"LIEN" means any lien, mortgage, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest).

"PERSON" means and includes natural persons, corporations, limited partnerships, general partnerships, limited liability companies, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies and other organizations, whether or not legal entities, and governments and agencies and political subdivisions thereof.

"SENIOR MORTGAGE" means the Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing to be entered into by and between Borrower and a trustee for the benefit of the Senior Agent.

"SENIOR OBLIGATIONS" means and includes the principal amount of, premium, if any, and interest on all liabilities of Borrower to the Senior Agent and the Senior Lenders, together with all costs and expenses relating thereto, whether direct or contingent, now or hereafter existing, due or to become due to, or held or to be held by, the Senior Agent or the Senior Lenders, whether created directly or acquired by assignment or otherwise, including without limitation all indebtedness of Borrower for principal of, premium, if any, and interest on the Senior Loans.

"SENIOR PLEDGE AGREEMENT" means the Membership Interest Pledge Agreement entered into between Pacific Ethanol Holding Co. LLC, on the one hand, and the Senior Agent, on the other hand.

"SENIOR SECURITY AGREEMENT" means the Assignment and Security Agreement entered into between Borrower and the Senior Agent.

"UCC" means the Uniform Commercial Code in effect in the State of

New York or any other applicable jurisdiction from time to time.

EXHIBIT 10.51

DISBURSEMENT AGREEMENT

This DISBURSEMENT AGREEMENT, dated April 13, 2006 (as amended, modified or supplemented, this "DISBURSEMENT AGREEMENT"), is by and among PACIFIC ETHANOL MADERA LLC, a Delaware limited liability company ("BORROWER"), HUDSON UNITED CAPITAL, A DIVISION OF TD BANKNORTH, N.A., a national banking association, as administrative agent for the Lenders (as defined below) (together with its successors and assigns, the "ADMINISTRATIVE AGENT"), COMERICA BANK, a national banking association, as disbursement agent (together with its successors and assigns, the "DISBURSEMENT AGENT"), WEALTH MANAGEMENT GROUP OF TD BANKNORTH, N.A., a national banking association, as the debt service reserve account agent (together with its successors and assigns, the "DSRA AGENT"), and COMERICA BANK, a national banking association, and WEALTH MANAGEMENT GROUP OF TD BANKNORTH, N.A., a national banking association, as securities intermediaries, banks and depositary agents (together with their successors and assigns, each a "SECURITIES INTERMEDIARY" and together the "SECURITIES INTERMEDIARIES").

RECITALS

WHEREAS, Borrower has entered into the Construction and Term Loan Agreement, dated April 10, 2006 (as amended, modified or supplemented, the "LOAN AGREEMENT"), with the Administrative Agent and the Lenders pursuant to which the Lenders have agreed to make certain loans to Borrower;

WHEREAS, it is a condition precedent to the obligation of the Lenders to make such loans that Borrower have established the Security Accounts (as defined below) with the Disbursement Agent and the DSRA Agent in accordance with the terms of this Disbursement Agreement; and

WHEREAS, the Disbursement Agent, the DSRA Agent and the Securities Intermediaries are willing to serve in such capacities on the terms and subject to the conditions of this Disbursement Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein, and other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
DEFINED TERMS AND RULES OF CONSTRUCTION

Section 1.1 DEFINED TERMS AND RULES OF CONSTRUCTION. Capitalized terms used and not otherwise defined in this Disbursement Agreement have the meanings given to those terms in Schedule X to the Loan Agreement, and the rules of construction set forth in Schedule X to the Loan Agreement govern this Disbursement Agreement. In the event of any inconsistency expressed or implied between this Disbursement Agreement and the Loan Agreement, the Loan Agreement will govern the interpretation and implementation of this Agreement.

ARTICLE II
APPOINTMENT OF THE DISBURSEMENT AGENT AND THE DSRA AGENT; CREATION OF SECURITY ACCOUNTS

Section 2.1 APPOINTMENT OF THE DISBURSEMENT AGENT AND THE DSRA AGENT.

(a) Each of Borrower and the Administrative Agent appoints the Disbursement Agent to act as disbursement agent hereunder and the Disbursement Agent agrees to act as such, to accept all cash, payments and other amounts delivered to or held by it pursuant to the terms of this Disbursement Agreement or any other Loan Document and to distribute all such funds and perform all of its other obligations in accordance with this Disbursement Agreement. The Disbursement Agent will hold and safeguard its Security Accounts and will treat the cash, instruments and securities in its Security Accounts as funds, instruments and securities pledged by Borrower to the Administrative Agent to be held in the custody of the Disbursement Agent, as agent solely for the benefit of the Administrative Agent and the Lenders, in trust and in accordance with the provisions of this Disbursement Agreement.

(b) Each of Borrower and the Administrative Agent appoints the DSRA Agent to act as the agent with respect to the Debt Service Reserve Account hereunder and the DSRA Agent agrees to act as such, to accept all cash, payments and other amounts delivered to or held by it pursuant to the terms of this Disbursement Agreement or any other Loan Document and to distribute all such funds and perform all of its other obligations in accordance with this Disbursement Agreement. The DSRA Agent will hold and safeguard the Debt Service Reserve Account and will treat the cash, instruments and securities in the Debt

Service Reserve Account as funds, instruments and securities pledged by Borrower to the Administrative Agent to be held in the custody of the DSRA Agent, as agent solely for the benefit of the Administrative Agent and the Lenders, in trust and in accordance with the provisions of this Disbursement Agreement.

Section 2.2 CREATION OF SECURITY ACCOUNTS.

(a) Borrower directs and authorizes the Disbursement Agent and the DSRA Agent to establish, and the Disbursement Agent and the DSRA Agent hereby establish, as described below, the following special and segregated accounts (collectively, the "SECURITY ACCOUNTS"):

(i) an account entitled the Pacific Ethanol Madera Construction Draw Account, with account number 1892639004 (the "CONSTRUCTION DRAW ACCOUNT"), to be established by the Disbursement Agent at its office in Fresno, California;

(ii) an account entitled the Pacific Ethanol Madera Project Revenues Account, with account number 1892639012 (the "PROJECT REVENUES ACCOUNT"), to be established by the Disbursement Agent at its office in Fresno, California;

(iii) an account entitled the Pacific Ethanol Madera Debt Service Account, with account number 1892639020 (the "DEBT SERVICE ACCOUNT"), to be established by the Disbursement Agent at its office in Fresno, California;

(iv) an account entitled the Pacific Ethanol Madera Cash Sweep Account, with account number 1892639038 (the "CASH SWEEP ACCOUNT"), to be established by the Disbursement Agent at its office in Fresno, California;

(v) an account entitled the Pacific Ethanol Madera Loss Proceeds Account, with account number 1892630755 (the "LOSS PROCEEDS ACCOUNT"), to be established by the Disbursement Agent at its office in Fresno, California;

(vi) an account entitled the Pacific Ethanol Madera Asset Sales Proceeds Account, with account number 1892630763 (the "ASSET SALES PROCEEDS ACCOUNT"), to be established by the Disbursement Agent at its office in Fresno, California; and

(vii) an account entitled the Pacific Ethanol Madera Debt Service Reserve Account, with account number _____ (the "DEBT SERVICE RESERVE ACCOUNT"), to be established by the DSRA Agent at its trust office in Westport, Connecticut;

all such accounts to be held in trust for the benefit of Borrower, as "entitlement holder" (as defined in Section 8--102(a)(7) of the UCC) subject to the security interest of the Administrative Agent, and which accounts will be maintained at all times as segregated accounts by the Disbursement Agent or the DSRA Agent, as the case may be, as a custodian until the termination of this Disbursement Agreement.

(b) All amounts from time to time held in each Security Account shall be disbursed in accordance with the terms hereof, shall constitute property of Borrower and shall be held in the sole custody and "control" (within the meaning of Section 8-106(d) of the UCC) of the Administrative Agent for the purposes and on the terms set forth herein. Each Security Account will be subject to debit or withdrawal solely as provided in this Disbursement Agreement, and no Person will have any control over or right of withdrawal from the Security Accounts except as provided in this Disbursement Agreement. Each Security Account constitutes a part of the Collateral and does not constitute payment of the Obligations until applied or credited as provided in this Disbursement Agreement or the Loan Agreement.

Section 2.3 SECURITY INTEREST. As collateral security for the prompt and complete payment and performance when due of all of the Obligations, Borrower has granted to the Administrative Agent pursuant to the Security Agreement First-Priority Liens and collateral security interests in and to (a) the Security Accounts and (b) all cash, investments and securities at any time on deposit in the Security Accounts, including all income or gain earned thereon.

ARTICLE III
DEPOSITS INTO AND DISTRIBUTIONS FROM

THE CONSTRUCTION DRAW ACCOUNT

Section 3.1 DEPOSITS INTO THE CONSTRUCTION DRAW ACCOUNT.

(a) On or prior to the Construction Loan Closing Date, Borrower will deposit, or will cause to be deposited for its benefit, $17,690,125.00 into the Construction Draw Account.

(b) On each Construction Loan Funding Date after the Construction Loan Closing Date and on each other date on which the Construction Lenders make Construction Loans to or for the benefit of Borrower pursuant to Section 2.2(a) of the Loan Agreement, the Administrative Agent will cause the Construction Lenders to disburse their Pro Rata Shares of the requested Construction Loans into the Construction Draw Account.

(c) If at any time after the Construction Loan Closing Date Borrower makes available to the Administrative Agent and the Lenders cash or cash equivalents (including letters of credit) in order to qualify a delay in construction of the Project as a Permitted Construction Delay, such cash or cash equivalents will be deposited into or made payable to the Construction Draw Account.

Section 3.2 PERMITTED USES OF FUNDS ON DEPOSIT IN THE CONSTRUCTION DRAW ACCOUNT. Funds on deposit in the Construction Draw Account may be used only to pay (a) Qualified Project Construction Expenses and (b) interest, fees and other expenses payable pursuant to Sections 2.3, 2.5, 2.10 and 8.11 of the Loan Agreement; PROVIDED, that amounts deposited in the Construction Draw Account pursuant to Section 3.1(c) may be used only to pay interest on the Construction Loans.

Section 3.3 WITHDRAWALS FROM THE CONSTRUCTION DRAW ACCOUNT.

(a) From and after the first disbursement of Construction Loans and until the Construction Loans have been repaid in full, on the last Business Day of each calendar month, the Disbursement Agent will pay from the Construction Draw Account to the Lenders the amount of their respective accrued and unpaid interest then due and payable on all then-outstanding Construction Loans, as set forth in a Construction Draw Approval Notice or other written instruction from the Administrative Agent to the Disbursement Agent.

(b) Subject to the restrictions contained in Section 3.3(c), on the Construction Loan Closing Date, on the last Business Day of each calendar month thereafter until the Construction Loans have been repaid in full, and on no more than one additional Business Day per calendar month as requested by Borrower, the Disbursement Agent will pay from the Construction Draw Account to Borrower, or to such other payees as are specified in the applicable Construction Draw Approval Notice, the Qualified Project Construction Expenses and all other fees and expenses payable by Borrower pursuant to Sections 2.3, 2.5, 2.10 and 8.11 of the Loan Agreement and set forth in the applicable Construction Draw Approval Notice.

(c) No withdrawal from the Construction Draw Account pursuant to Section 3.3(b) will be permitted unless:

(i) Borrower has delivered a Construction Draw Request to the Administrative Agent at least (5) Business Days prior to the date such withdrawal is scheduled to be made;

(ii) The Administrative Agent has confirmed the accuracy or acceptability of the information set forth in such Construction Draw Request (including the conformity of such Construction Draw Request with the Construction and Draw Schedule) and, by the Administrative Agent's delivery to the Disbursement Agent of such Construction Draw Request and a written notice from the Administrative Agent authorizing the Disbursement Agent to permit such withdrawal (which may take the form of the Administrative Agent's countersignature on the Construction Draw Request) (a "CONSTRUCTION DRAW APPROVAL NOTICE") at least one (1) Business Day prior to the date such withdrawal is scheduled to be made, confirms that Borrower is entitled to such withdrawal; and

(iii) no Event of Default has occurred and is continuing.

(d) No failure of Borrower to deliver a Construction Draw Request to the Administrative Agent will restrict or otherwise affect the Administrative Agent's right to cause the Disbursement Agent to withdraw and transfer funds pursuant to Section 3.3(a).

(e) On the Term Loan Conversion Date, after making the distributions described in Sections 3.3(a) and (b), if any, the Disbursement Agent will, on the written direction of the Administrative Agent, either (i) pay

all amounts remaining in the Construction Draw Account (or such lesser amount as the Administrative Agent may direct) to the Lenders in proportion to their Pro Rata Shares of the outstanding Construction Loans and the Lenders will apply such amounts in repayment of the outstanding Construction Loans or (ii) transfer all amounts remaining in the Construction Draw Account (or such lesser amount as the Administrative Agent may direct) to the Project Revenues Account and/or the Debt Service Reserve Account.

ARTICLE IV
DEPOSITS INTO AND DISTRIBUTIONS FROM THE OTHER SECURITY ACCOUNTS

Section 4.1 DEPOSITS INTO THE PROJECT REVENUES ACCOUNT.

(a) Borrower agrees, and confirms to the Administrative Agent that it has instructed (and will so instruct) the Project Parties, that all payments due or to become due to Borrower on and after the Term Loan Conversion Date under all Project Documents or in connection with the operation of the Grain Facilities or otherwise in connection with the conduct of Borrower's business (other than amounts that are required to or may be deposited into the Assets Sales Proceeds Account or the Loss Proceeds Account in accordance with Sections 4.5 and 4.6 of this Disbursement Agreement and Section 2.8 of the Loan Agreement) will be paid directly to the Project Revenues Account. In the event that, notwithstanding the foregoing, any such payment is remitted directly to Borrower, Borrower will promptly (but in any event within three (3) Business Days of receipt thereof) deliver such payment or other amount to the Disbursement Agent for deposit in the Project Revenues Account.

(b) Borrower agrees, and confirms to the Administrative Agent that it has instructed (and will so instruct) all insurers with which Borrower maintains Required Insurance, that all insurance proceeds payable to Borrower in connection with such insurance, and all condemnation proceeds, will be paid directly to the Disbursement Agent, as agent for the Administrative Agent, as loss payee, for deposit in the Project Revenues Account or the Loss Proceeds Account as the case may be. In the event that, notwithstanding the foregoing, any such proceeds are remitted directly to Borrower or any other Person, then Borrower or such Person will promptly (but in any event within three (3) Business Days of receipt thereof) deliver such proceeds to the Disbursement Agent for deposit in the Project Revenues Account or the Loss Proceeds Account, as the case may be.

(c) The Disbursement Agent will only be required to accept such monies as are delivered to it for deposit in the Project Revenues Account and will not be required to monitor the amount of such deposits or pursue the collection of such sums from any Person.

Section 4.2 WITHDRAWALS FROM THE PROJECT REVENUES ACCOUNT.

(a) On the last Business Day of each calendar month following the Term Loan Conversion Date, the Disbursement Agent will distribute funds from the Project Revenues Account and pay the same at the times, in the amounts and in the following priorities:

FIRST: subject to the restriction of Section 4.2(d), to Borrower an amount equal to the amount of Qualified Project Expenses that the then-effective Operating Plan and Budget (as amended or otherwise modified in accordance with the provisions of Section 5.1(g) of the Loan Agreement) indicates are expected to be paid by Borrower in the next calendar month, as set forth in a Withdrawal Approval Notice (as defined in Section 4.2(c) below);

SECOND: to the Debt Service Account, to the extent available, an amount equal to one-third (1/3) of the total of all next-payable Scheduled Installments on the Term Loans, and interest expected to be accrued thereon as of the next Payment Date, as set forth in a Withdrawal Approval Notice; and

THIRD: so long as no Event of Default has occurred and is continuing, to Borrower an amount in addition to the amount disbursed to Borrower pursuant to priority FIRST above but within the limits set by Section 5.1(g) of the Loan Agreement, as requested by Borrower in its Distribution Request and as set forth in a Withdrawal Approval Notice, which amounts Borrower may use only to pay unbudgeted fees, costs and other expenses payable pursuant to Sections 2.3, 2.5, 2.10 and 8.11 of the Loan Agreement and Qualified Project Expenses then due and payable (PROVIDED, that this priority THIRD shall not operate on any date on

which distributions will be made pursuant to Section 4.2(b)).

(b) On each March 31, June 30, September 30 or December 31 following the Term Loan Conversion Date (or, if such date is not a Business Day, on the Business Day next preceding such date), the Disbursement Agent will distribute funds from the Project Revenues Account (including all gains from investments in Permitted Investments pursuant to Section 6.5) and apply the same at the times, in the amounts and in the following priorities; PROVIDED, that the Disbursement Agent will make the withdrawals specified in priorities FIRST and SECOND of Section 4.2(a) prior to making any withdrawal specified in this Section 4.2(b):

FIRST: withdraw and transfer to the Disbursement Agent and the DSRA Agent the amount of any reasonable documented fee or expense then due and owing to them (including in respect of the making of any Permitted Investment) by Borrower, as set forth in a Withdrawal Approval Notice;

SECOND: after making the withdrawal, if any, specified in priority FIRST above, withdraw and transfer to the Administrative Agent and the Term Lenders the amount of all fees and expenses then owed to the Administrative Agent and the Term Lenders, as set forth in a Withdrawal Approval Notice;

THIRD: after making the withdrawal, if any, specified in priority SECOND above, withdraw and transfer to the Term Lenders an aggregate amount equal to the amount of interest then due on the Term Loans made by them plus their Pro Rata Shares of the aggregate amount of principal then due on the Term Loans, as set forth in a Withdrawal Approval Notice; PROVIDED, that prior to making the withdrawal specified in this priority THIRD, the Disbursement Agent will first withdraw from the Debt Service Account and transfer to the Term Lenders, in accordance with their Pro Rata Shares, all funds then on deposit in the Debt Service Account, which funds the Term Lenders will apply to such principal and interest amounts then due on the Term Loans;

FOURTH: after making the withdrawal specified in priority THIRD above, withdraw and transfer to the Term Lenders their Pro Rata Shares of the amounts equal to (x) the principal, interest and prepayment penalty or fee, if any, then due on the Term Loans in connection with any mandatory prepayment required pursuant to clause (iv) or (v) of Section 2.8(a) of the Loan Agreement, in each case as set forth in a Withdrawal Approval Notice;

FIFTH: after making the withdrawal, if any, specified in priority FOURTH above, withdraw and transfer to the DSRA Agent for deposit into the Debt Service Reserve Account the amount that is necessary for the balance of the Debt Service Reserve Account to equal the amount required by Section 4.3, as set forth in a Withdrawal Approval Notice (PROVIDED, that if an Event of Default that is not caused solely by Borrower's failure to comply with its obligation to maintain the Minimum Coverage Ratio pursuant to Section 5.1(p) of the Loan Agreement has occurred and is continuing, then the Disbursement Agent will withdraw and transfer to the DSRA Agent for deposit into the Debt Service Reserve Account all sums remaining in the Project Revenues Account without regard to such required amount or the remaining priorities of this Section 4.2(b));

SIXTH: after making the withdrawal specified in priority FIFTH above, withdraw and transfer to the Term Lenders, in accordance with their Pro Rata Shares, an amount equal to the SPP Payments then due in connection with the Term Loans, as set forth in a Withdrawal Approval Notice, for application to the principal amounts then due on the Term Loans in the inverse order of maturity; and

SEVENTH: after making the withdrawal specified in priority SIXTH above, and subject to the restrictions of Section 4.2(c) and Section 4.4, withdraw and transfer to Borrower or as directed by Borrower all or (at Borrower's option) a portion of any funds remaining in the Project Revenues Account, as set forth in a Withdrawal Approval Notice.

(c) No withdrawal pursuant to priority FIRST or THIRD of Section 4.2(a) or priority SEVENTH of Section 4.2(b) will be permitted unless:

(i) Borrower has delivered an appropriately completed Distribution Request to the Disbursement Agent and the Administrative Agent at least five (5) Business Days prior to the date such withdrawal is scheduled to be made; and

(ii) The Administrative Agent has confirmed the accuracy or acceptability of the information set forth in such Distribution Request (including that no Event of Default has occurred and is continuing) and, by the Administrative Agent's delivery to the Disbursement Agent of such Distribution Request and a written notice

from the Administrative Agent authorizing the Disbursement Agent to permit such withdrawal (which may take the form of the Administrative

Agent's countersignature on a Distribution Request) (a "WITHDRAWAL APPROVAL NOTICE") at least one (1) Business Day prior to the date such withdrawal is scheduled to be made, confirms that Borrower is entitled to such withdrawal.

(d) No failure of Borrower to deliver a Distribution Request or other schedule to the Administrative Agent will restrict or otherwise affect the Administrative Agent's right to cause the Disbursement Agent or the DSRA Agent to withdraw and transfer funds pursuant to priorities FIRST through SIXTH of Section 4.2(b).

Section 4.3 DEPOSITS INTO AND WITHDRAWALS FROM THE DEBT SERVICE RESERVE ACCOUNT.

(a) On the Term Loan Conversion Date, Borrower will, with Term Loan proceeds, amounts transferred from the Construction Draw Account or other funds, fund the Debt Service Reserve Account in the aggregate amount of all payments of principal and interest (but not SPP Payments) on the Term Loans scheduled to be made on the first two Payment Dates following the Term Loan Conversion Date, which amount will be notified by the Administrative Agent to Borrower, the Disbursement Agent and the DSRA Agent in writing.

(b) On each of the first three Payment Dates after the Term Loan Conversion Date, the Debt Service Reserve Account will be required to be funded in the aggregate amount of all payments of principal and interest (but not SPP Payments) on the Term Loans scheduled to be made on the next two Payment Dates after the reference Payment Date, which amount will be notified by the Administrative Agent to Borrower, the Disbursement Agent and the DSRA Agent in writing.

(c) On the fourth and each subsequent Payment Date after the Term Loan Conversion Date, the Debt Service Reserve Account will be required to be funded in the aggregate amount of all payments of principal and interest (but not SPP Payments) on the Term Loans scheduled to be made on the next four Payment Dates after the reference Payment Date, which amount will be notified by the Administrative Agent to Borrower, the Disbursement Agent and the DSRA Agent in writing.

(d) Notwithstanding the provisions of Sections 4.3(a)-(c), if an Event of Default has occurred and is continuing on any Payment Date after the Term Loan Conversion Date, and if such Event of Default is caused solely by Borrower's failure to comply with its obligation to maintain the Minimum Coverage Ratio pursuant to Section 5.1(p) of the Loan Agreement, then the Debt Service Reserve Account will be funded in the amount then required to be on deposit in the Debt Service Reserve Account pursuant to Section 4.3(b) or (c) (the "DSRA REQUIRED BALANCE") plus the DSRA Additional Required Balance. If Borrower has deposited the DSRA Additional Required Balance in the Debt Service Reserve Account then, upon Borrower's achieving a Minimum Coverage Ratio of not less than 1.50 to 1 for the preceding twelve-month period (based on actual results) and forecasting a Minimum Coverage Ratio of not less than 1.50 to 1 for each of the next two succeeding twelve-month periods (which forecast will be based on assumptions reasonably acceptable to the Administrative Agent), and so

long as no Event of Default is continuing, the Administrative Agent will direct the DSRA Agent in writing to release the funds constituting the DSRA Additional Required Balance to Borrower on the first Payment Date following the date of Borrower's achieving such Minimum Coverage Ratio or, at Borrower's option, Borrower may instruct the DSRA Agent to pay the released DSRA Additional Required Balance to the Term Lenders for application against the principal amounts of the Term Loans in the inverse order of maturity and Borrower will have no obligation to pay any prepayment penalty in connection with such prepayments.

(e) On any Payment Date on which the balance of the Debt Service Reserve Account equals or exceeds the outstanding balance of the Term Loans (including all accrued interest) and all fees and other amounts then payable under the Loan Documents, the Administrative Agent will instruct the DSRA Agent in writing to withdraw and transfer to the Administrative Agent and the Term Lenders the funds on deposit in the Debt Service Reserve Account, who will apply such funds to pay the Term Loans and all other amounts then due to them in full and will refund any excess funds to Borrower.

(f) In the event funds available in the Project Revenues Account and the Debt Service Account are insufficient to make the payments set forth in priorities THIRD, FOURTH and SIXTH of Section 4.2(b), the

Administrative Agent will direct the DSRA Agent in writing (with a copy simultaneously delivered to Borrower and the Disbursement Agent) to withdraw funds from the Debt Service Reserve Account and pay the same to the Term Lenders for application towards the payment of such priorities THIRD, FOURTH and SIXTH and thereafter the Debt Service Reserve Account will be replenished pursuant to the operation of priority FIFTH of Section 4.2(b).

(g) On each date on which distributions are made to Borrower pursuant to priority SEVENTH of Section 4.2(b), if the funds on deposit in the Debt Service Reserve Account (including any gain realized from investments in Permitted Investments pursuant to Section 6.5) exceed the amount required to be on deposit in the Debt Service Reserve Account pursuant to this Section 4.3 (other than by operation of Section 4.3(d)) (which amount will be notified by the Administrative Agent to the Disbursement Agent, the DSRA Agent and Borrower in each Withdrawal Approval Notice or in another notice delivered in accordance with Section 10.2), subject to the prior written approval of the Administrative Agent (which will not be unreasonably withheld or delayed), Borrower may direct the DSRA Agent in writing to withdraw and transfer to Borrower or as directed by Borrower all or a portion of such excess funds.

Section 4.4 DEPOSITS INTO AND WITHDRAWALS FROM THE CASH SWEEP ACCOUNT. No withdrawal pursuant to priority SEVENTH of Section 4.2(b) will be permitted if an Event of Default has occurred and is continuing and if such Event of Default is caused solely by Borrower's failure to comply with its obligation to maintain the Minimum Coverage Ratio required by Section 5.1(p) of the Loan Agreement. During the continuance of such Event of Default, all funds remaining in the Project Revenues Account after the operation of priority SIXTH of Section 4.2(b) will be deposited into the Cash Sweep Account and thereafter applied as follows:

(a) If such Event of Default continues for three or more consecutive Payment Dates, then the Disbursement Agent, on each such Payment Date, upon receiving written instructions from the Administrative Agent (a copy of which will be provided to Borrower), will withdraw from the Cash Sweep Account and transfer to the Term Lenders all funds then on deposit in the Cash Sweep Account, which funds the Term Lenders will apply as prepayments of the Term Loans in the inverse order of maturity; PROVIDED, that the operation of this paragraph will cease upon the operation of paragraph (b) below; and

(b) If such Event of Default is cured, and if Borrower thereafter achieves as of any Payment Date a Minimum Coverage Ratio of 1.5 to 1 for the preceding twelve-month period, then the Disbursement Agent, upon receiving written instructions from the Administrative Agent (a copy of which will be provided to Borrower), will on such Payment Date withdraw from the Cash Sweep Account and transfer to the Project Revenues Account all funds then on deposit in the Cash Sweep Account and such funds will be applied or paid pursuant to the operation of Section 4.2(b).

Section 4.5 DEPOSITS INTO AND WITHDRAWALS FROM THE LOSS PROCEEDS ACCOUNT.

(a) Borrower will cause all proceeds received by it in connection with a Loss other than a Loss that requires mandatory prepayment of Loans pursuant to Section 2.8(a)(v)(A) of the Loan Agreement to be deposited in the Loss Proceeds Account subject to disbursement for repair or replacement of the assets affected, or otherwise, as follows:

(i) If Borrower certifies to the Administrative Agent that the affected portion of the Project can be rebuilt, repaired, restored or replaced in a manner that will permit operation of the Project in accordance in all material respects with the terms of the Project Documents and the Loan Documents (including without limitation compliance with Section 5.1(p) of the Loan Agreement), and if the Administrative agrees, in its reasonable discretion and following consultation with the Engineer, with such certification of Borrower, then promptly after receipt of such certificate the Administrative Agent will instruct the Disbursement Agent to transfer all proceeds then on deposit in the Loss Proceeds Account to Borrower for application solely to the payment of the costs of rebuilding, restoring or repairing the Project and Borrower will deposit any amounts remaining from the Loss proceeds following completion of such rebuilding, restoration or repairs in the Project Revenues Account.

(ii) If Borrower determines in accordance with the terms hereof not to rebuild, repair, restore or replace the affected portion of the Project, or if the Administrative Agent (following consultation with the Engineer) reasonably determines that the affected portion of the Project is not capable of being or cannot be rebuilt, repaired, restored or replaced in all material respects in accordance with the terms of the Project Documents and the Loan Documents (including without limitation compliance with Section 5.1(p)

of the Loan Agreement), or if Borrower otherwise fails to provide a

certification or other notice to the Administrative Agent pursuant to Section 4.5(a)(i) or this Section 4.5(a)(ii) within ten (10) Business Days after deposit of the Loss proceeds into the Loss Proceeds Account, then the Administrative Agent will instruct the Disbursement Agent to transfer all proceeds then on deposit in the Loss Proceeds Account to the Lenders in accordance with their Pro Rata Shares of the outstanding Loans for application as prepayments of the outstanding Loans in the inverse order of maturity.

Section 4.6 DEPOSITS INTO AND WITHDRAWALS FROM THE ASSET SALES PROCEEDS ACCOUNT. Borrower will deposit or cause to be deposited the proceeds of any conveyance, sale, lease, transfer or other disposition of assets not required by Section 2.8(a)(iv) of the Loan Agreement to be applied as mandatory repayments of the Loans into the Asset Sales Proceeds Account upon receipt and such proceeds may be used by Borrower to purchase or acquire other assets reasonably associated with the conduct of Borrower's business within thirty (30) days of such conveyance, sale, lease, transfer or disposition. Borrower may on any Business Day (but not more frequently than once per calendar week) request in writing (with a copy to the Administrative Agent) that the Disbursement Agent withdraw and pay to or to the direction of Borrower funds from the Asset Sales Proceeds Account for the purchase, lease or acquisition of such other assets and the Disbursement Agent will pay such funds to or as requested by Borrower following the Disbursement Agent's receipt of the Administrative Agent's approval of such disbursement, which approval will not be unreasonably withheld or delayed. On the thirtieth (30th) day after the date on which such proceeds are deposited in the Asset Sales Proceeds Account, the Disbursement Agent will transfer all amounts then remaining on deposit in the Asset Sales Proceeds Account to the Project Revenue Account for subsequent application in accordance with Sections 4.1 and 4.2 of this Disbursement Agreement.

ARTICLE V
CONTROL PROVISIONS

Section 5.1 ESTABLISHMENT OF SECURITIES ACCOUNTS. Each Securities Intermediary hereby agrees and confirms that (i) it has established the appropriate Security Accounts as set forth in Article II of this Disbursement Agreement, (ii) each Security Account is and will be maintained as a "securities account" (within the meaning of Section 8-501 of the UCC), (iii) Borrower is the "entitlement holder" (within the meaning of Section 8-102(a)(7) of the UCC) in the "security entitlements" (within the meaning of Section 8-102(a)(17) of the UCC) to the "financial assets" (within the meaning of Section 8-102(a)(9) of the UCC) credited to the Security Accounts (subject to the security interest of the Administrative Agent), (iv) all property delivered to such Securities Intermediary pursuant to the Loan Documents or this Disbursement Agreement will be held by such Securities Intermediary and promptly credited to the applicable Security Account by an appropriate entry in its records in accordance with the terms of this Disbursement Agreement, (v) all "financial assets" (within the meaning of Section 8-102(a)(9) of the UCC) in

registered form or payable to or to the order of and credited to the Security Accounts will be registered in the name of, payable to or to the order of, or endorsed to, the applicable Securities Intermediary or in blank, or credited to another securities account maintained in the name of the applicable Securities Intermediary and if not so registered, payable, endorsed or credited, the applicable Securities Intermediary agrees to hold such financial assets as a bailee for the Administrative Agent, and in no case will any financial asset credited to the Security Accounts be registered in the name of, payable to or to the order of, or endorsed to, Borrower except to the extent the foregoing have been subsequently endorsed by Borrower to the applicable Securities Intermediary or in blank, and (vi) the Securities Intermediary will not change the name or account number of any Security Account without the prior written consent of the Administrative Agent and Borrower.

Section 5.2 SECURITIES INTERMEDIARY. Each Securities Intermediary hereby represents and warrants that it is a "securities intermediary" (within the meaning of Section 8-102(a)(14) of the UCC) and that it will act in that capacity with respect to the applicable Security Accounts and the financial assets contained therein. Each Securities Intermediary and the other parties hereto agree that, for purposes of the UCC, the jurisdiction of each such Securities Intermediary is the State of New York and the laws of the State of New York govern the establishment of the Security Accounts.

Section 5.3 FINANCIAL ASSETS ELECTION. Each Securities Intermediary agrees that each item of property (including any cash, security,

instrument or obligation, share, participation, interest or other property whatsoever) credited to the applicable Security Accounts will be treated as a "financial asset" (within the meaning of Section 8-102(a)(9) of the UCC). Notwithstanding any provision in this Disbursement Agreement to the contrary, any property contained in the Security Accounts that is not deemed to be a financial asset under applicable law will be deemed to be deposited in a "deposit account" (within the meaning of Section 9-102(29) of the UCC) and subject to Section 5.9, or will be under the exclusive dominion and control of the Disbursement Agent or the DSRA Agent, as the case may be.

Section 5.4 ENTITLEMENT ORDERS. If at any time a Securities Intermediary receives any "entitlement order" (within the meaning of Section 8-102(a)(8) of the UCC) or any other order from the Administrative Agent directing the transfer or redemption of any financial asset carried in any Security Account or any instruction originated by the Administrative Agent directing the disposition of any funds held in any Security Account, the Securities Intermediary will comply with such entitlement order, instruction or other order without further consent by Borrower or any other Person. The parties hereto agree that the Administrative Agent has "control" (within the meaning of Section 8-106(d) of the UCC) of the "security entitlements" (within the meaning of Section 8-102(a)(17) of the UCC) and the financial assets carried in the Security Accounts and Borrower hereby disclaims any "control" over such "security entitlements" and financial assets. Borrower hereby irrevocably directs, and each Securities Intermediary hereby agrees, that each Securities Intermediary will comply with all instructions and orders (including entitlement orders within the meaning of Section 8-102(8) of the UCC) regarding each Security Account and financial asset therein originated by the Administrative Agent without the further consent of Borrower or any other Person.

Section 5.5 NOTICE OF ADVERSE CLAIMS. Except for the claims and interest of the Disbursement Agent, the DSRA Agent, the Administrative Agent, the Lenders and Borrower in the Security Accounts, each Securities Intermediary does not, on the date of this Disbursement Agreement, know of any claim to, or interest in, the Security Accounts or in any financial asset credited thereto. If any Person asserts any lien, encumbrance or adverse claim (including any writ, garnishment, judgment, warrant of attachment, execution or similar process) against the Security Accounts or any financial asset credited thereto, the Securities Intermediaries will promptly notify the Disbursement Agent, the DSRA Agent, the Administrative Agent and Borrower in writing of such assertion.

Section 5.6 NO OTHER AGREEMENTS. The Securities Intermediaries have not entered into and will not enter into any agreement with Borrower or any other Person with respect to the Security Accounts or any financial assets credited to the Security Accounts other than this Disbursement Agreement. The Securities Intermediaries have not entered into and will not enter into any agreement with Borrower or any other Person purporting to limit or condition the obligation of the Securities Intermediaries to comply with entitlement orders originated by the Administrative Agent in accordance with Section 5.4.

Section 5.7 RIGHTS AND POWERS OF THE ADMINISTRATIVE AGENT. The rights and powers granted herein to the Administrative Agent, the DSRA Agent and the Disbursement Agent have been granted in order to perfect the Administrative Agent's lien and security interests in the Security Accounts, are powers coupled with an interest and will not be affected by the bankruptcy or insolvency of Borrower or any other Person or the lapse of time.

Section 5.8 SUBORDINATION. The Securities Intermediaries hereby subordinate to the security interests of the Administrative Agent under the Loan Documents any and all security interests in, liens on, rights of set-off against and claims to (whether by agreement or under law) the Security Accounts, "security entitlements" carried in the Security Accounts and financial assets or funds credited to the Security Accounts.

Section 5.9 ACCOUNT CHARACTERIZATION.

(a) In the event that a Security Account is not considered a "securities account" (within the meaning of Section 8-501 of the UCC), such Security Account will be deemed to be a "deposit account" (as defined in Section 9-102(a)(29) of the UCC) to the extent a security interest can be granted and perfected under the UCC in the Security Account as a deposit account, which the Administrative Agent will maintain with the applicable Securities Intermediary acting not as a securities intermediary but as a "bank" (within the meaning of Section 9-102(a)(8) of the UCC). The Administrative Agent will be deemed to be the customer of the applicable Securities Intermediary for purposes of such

Security Account and as such will be entitled to all rights that customers of banks have under law with respect to deposit accounts, including the right to

withdraw funds from, or close, such Security Account. The Securities Intermediaries will not have title to the funds on deposit in any Security Account and will credit the Security Accounts with all receipts of interest, dividends and other income received on the property held in the Security Accounts. The Securities Intermediaries will administer and manage the Security Accounts in strict compliance with all terms applicable to the Security Accounts pursuant to this Disbursement Agreement and will be subject to and comply with all obligations that the Securities Intermediaries owe to the Administrative Agent with respect to the Security Accounts, including all subordination obligations, pursuant to the terms of this Disbursement Agreement. The Securities Intermediaries hereby agree to comply with any and all instructions originated by the Administrative Agent directing disposition of funds and all other property in the Security Accounts without any further consent of Borrower or any other Person. Borrower hereby agrees to indemnify and hold harmless the Disbursement Agent, the DSRA Agent and the Administrative Agent from all taxes, fees and expenses arising from or relating to the Administrative Agent's acting as the customer of the Securities Intermediaries for purposes of the Security Accounts, other than any such taxes, fees and expenses arising out of such Person's breach of this Disbursement Agreement or its gross negligence or willful misconduct.

(b) In the event that a Security Account is not considered a "securities account" or "deposit account" (each as defined in the UCC) or a security interest cannot be granted and perfected in a Security Account under the UCC, then such Security Account and all property deposited therein shall be deemed to be under the exclusive dominion and control of the Administrative Agent, which the Administrative Agent maintains through the Securities Intermediaries, the DSRA Agent and the Disbursement Agent, as its agents, for such purpose, and the Disbursement Agent and the Securities Intermediaries will act and be deemed to be acting as the Administrative Agent's agents in respect of such Security Account for the purpose of maintaining such exclusive dominion and control for the purpose of the creation and perfection of security interests in favor of the Administrative Agent.

ARTICLE VI
SECURITY ACCOUNTS GENERALLY

Section 6.1 BENEFIT OF SECURITY ACCOUNTS. Subject to the limitations on withdrawals set forth in this Disbursement Agreement and the other provisions hereof, all right, title and interest in and to the Security Accounts and the funds in the Security Accounts and any interest accrued on such funds will be vested in Borrower in accordance with the terms of the Security Documents until the payment in full of all Obligations. Funds will be distributed from the Security Accounts only in accordance with this Disbursement Agreement and funds deposited in the Security Accounts will be applied as provided in this Disbursement Agreement and the other Loan Documents, as applicable. Notwithstanding the foregoing, none of the Disbursement Agent, the DSRA Agent or the Administrative Agent will be liable for any tax, assessment, fee or other governmental or other charge or claim on or arising out of the

Security Accounts or any interest or earnings thereon (other than any such taxes, assessments, fees or charges arising out of such Person's breach of this Disbursement Agreement or its gross negligence or willful misconduct), all of which will be for the account of Borrower.

Section 6.2 BOOKS OF ACCOUNT; STATEMENTS.

(a) The Disbursement Agent and the DSRA Agent will maintain books of account on a cash basis and record therein all deposits into and transfers to and from the Security Accounts and all investment transactions effected by the Disbursement Agent or the DSRA Agent, as the case may be, all in accordance with its normal record-keeping practices. The Disbursement Agent and the DSRA Agent will make such books of account available during normal business hours for inspection and audit by the Administrative Agent, Borrower and their respective representatives.

(b) Not later than the tenth Business Day of each month during the term of this Disbursement Agreement, the Disbursement Agent and the DSRA Agent will deliver to each of the other parties hereto a statement setting forth the transactions into and out of each applicable Security Account during the preceding month and specifying the amounts held in each applicable Security Account at the close of business on the last Business Day of such preceding month. In addition, the Disbursement Agent will promptly notify Borrower in writing of each deposit into the Project Revenues Account, including the payor and the date and amount of each such deposit.

Section 6.3 SECURITY ACCOUNTS GENERALLY.

(a) Except as agreed with the Administrative Agent or as specifically set forth in this Disbursement Agreement, Borrower has no right of withdrawal in respect of any of the Security Accounts. Borrower will not make,

attempt to make or consent to the making of any withdrawal or transfer from any Security Account except in strict adherence to this Disbursement Agreement.

(b) The Administrative Agent will have sole signatory authority with respect to directing the Disbursement Agent and the DSRA Agent to make withdrawals from the Security Accounts. Those persons at the Administrative Agent who are authorized to sign with respect to the Security Accounts will be designated by the Administrative Agent from time to time by written notice to the Disbursement Agent, the DSRA Agent and Borrower.

(c) Subject to (i) the timely receipt of a Withdrawal Approval Notice (which, for purposes of this Disbursement Agreement, means not later than 3:00 p.m. (New York City time) on the Business Day preceding the requested date of payment), (ii) the availability of cash in the applicable Security Account, (iii) the federal wire transfer system functioning in a normal fashion and (iv) other unforeseeable circumstances beyond the reasonable control of the Disbursement Agent, the Disbursement Agent will make any payment hereunder required (except transfers between Security Accounts and between Security Accounts and other accounts) by means of wire transfer of immediately available funds to the address of the payee(s) set forth in such Withdrawal Approval

Notice prior to 11:00 a.m. (New York City time) on the date specified therein for such payment, or by such other means of payment, to such other address or at such later time as may be specified by Borrower, if applicable, or the Administrative Agent.

Section 6.4 THE DISBURSEMENT AGENT'S AND THE DSRA AGENT'S OBLIGATIONS. Neither the Disbursement Agent nor the DSRA Agent has any obligation to Borrower or any other Person to make any payment (or authorize any withdrawal with respect thereto) for which the appropriate Security Account does not contain adequate funds.

Section 6.5 PERMITTED INVESTMENTS. All funds paid to or retained by the Disbursement Agent or the DSRA Agent in the Security Accounts (other than the Loss Proceeds Account and the Assets Sales Proceeds Account) may, until paid or applied as provided herein, be invested by the Disbursement Agent or the DSRA Agent, as the case may be, at the written authorization and direction of Borrower from time to time and at the risk and expense of Borrower in Permitted Investments (and in the absence of a written authorization and direction from Borrower, to invest such money in U.S. Government obligations or mutual funds, dollar to dollar stated, holding exclusively such obligations); PROVIDED, that upon the occurrence and during the continuance of an Event of Default, such funds will be invested in Permitted Investments at the Administrative Agent's written direction and at the risk and expense of Borrower. All gains (including interest received) realized as the result of any such investment (net of all fees, commissions and other expenses, if any, incurred in connection with such investment) will be deposited into the respective Security Account. Neither the Disbursement Agent nor the DSRA Agent will have any liability for any loss resulting from any Permitted Investment other than by reason of its willful misconduct, gross negligence or bad faith. The Disbursement Agent and the DSRA Agent may sell any Permitted Investment (without regard to its maturity date) whenever it, in its reasonable discretion, deems it necessary to make any distribution required by this Disbursement Agreement and neither the Disbursement Agent nor the DSRA Agent will be liable to any Person for any loss suffered because of any such sale. In the event that an investment made at the written authorization and direction of Borrower becomes non-negotiable by reason of a "call" of the security (the so-called "frozen period"), during a period when payments are required to be made, and is therefore illiquid and not available to make such payments, Borrower will provide cash equal to the non-negotiable amount to the Disbursement Agent or the DSRA Agent, as the case may be, immediately upon notice of the "frozen security" status. Upon receipt of the proceeds of the "call," the Disbursement Agent or the DSRA Agent will transfer the proceeds to Borrower without any liability to either such Person.

Section 6.6 DEPOSITS IRREVOCABLE. All deposits made into any Security Account, absent manifest error, will be irrevocable and such deposits and all instruments or securities held in the Security Accounts and all interest thereon will be held in trust by the Disbursement Agent or the DSRA Agent, as the case may be, and applied solely as provided herein.

Section 6.7 INFORMATION TO ACCOMPANY AMOUNTS DELIVERED TO THE DISBURSEMENT AGENT AND THE DSRA AGENT. All amounts delivered to the Disbursement Agent and the DSRA Agent must be accompanied by information in reasonable detail specifying the source and nature of the amounts.

Section 6.8 DEFAULTS; MANDATORY PREPAYMENTS. Notwithstanding any other provision of this Disbursement Agreement, upon receipt by the

Disbursement Agent or the DSRA Agent of a written notice from the Administrative Agent stating that an Event of Default has occurred and is continuing or that a mandatory prepayment is required (upon which notice the Disbursement Agent and the DSRA Agent will be entitled to rely without independent investigation), the Disbursement Agent and the DSRA Agent will (i) in the case of an Event of Default, thereafter distribute cash from the Security Accounts only upon the express written instructions of, and in accordance with the priorities established by, the Administrative Agent in its sole discretion, until notified in writing by the Administrative Agent that such Event of Default has been waived or cured, (ii) in the case of a mandatory prepayment, make such mandatory prepayment to the Lenders, and (iii) in each case, notify Borrower prior to such action except to the extent the Disbursement Agent and/or the DSRA Agent is assured that such notice has been provided to Borrower by the Administrative Agent.

ARTICLE VII
REPRESENTATIONS AND WARRANTIES

Section 7.1 REPRESENTATIONS AND WARRANTIES OF THE DISBURSEMENT AGENT, THE DSRA AGENT AND THE SECURITIES INTERMEDIARIES. Each of the Disbursement Agent, the DSRA Agent and the Securities Intermediaries represents and warrants to the Administrative Agent and Borrower as follows:

(a) EXISTENCE. It is a national banking association, duly organized, validly existing and in good standing under the federal laws of the United States of America.

(b) POWER AND AUTHORIZATION; ENFORCEABLE OBLIGATIONS.

(i) It has full power and authority and the legal right to conduct its business as now conducted and as proposed to be conducted by it, to execute, deliver and perform this Disbursement Agreement and to take all actions necessary to complete the transactions contemplated by this Disbursement Agreement. It has taken all necessary action to authorize the transactions contemplated hereby on the terms and conditions of this Disbursement Agreement and to authorize the execution, delivery and performance of this Disbursement Agreement.

(ii) This Disbursement Agreement has been duly executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, except as enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally or by limitation upon the availability of equitable remedies.

(c) NO LEGAL BAR. The execution, delivery and performance of this Disbursement Agreement by it will not (i) violate any Applicable Law governing its banking and trust powers or (ii) result in a breach of any provision of any security issued by it or of any indenture, mortgage, deed of trust, lease, contract, undertaking, agreement or instrument to which it is a party or by which it or any of its property is bound or to which it or any of its property is subject. The execution, delivery and performance of this Disbursement Agreement will not result in, or require the creation or imposition of any lien on any of its properties or revenues pursuant to any Applicable Law or any indenture, mortgage, deed of trust, lease, contract, undertaking, agreement or instrument to which it is a party or by which it or any of its property is bound or to which it or any of its property is subject. No approval or consent of any Person is required in connection with the execution, delivery and performance by it of this Disbursement Agreement, except such approvals or consents as have been duly obtained and are in full force and effect.

(d) GOVERNMENTAL APPROVALS. No Approval of any Governmental Instrumentality governing its banking and trust powers, except for such Approvals as have been obtained and are in full force and effect and are not subject to appeal or judicial or other governmental review, are required to be obtained by it in connection with the execution, delivery and performance of this Disbursement Agreement or the taking of any action by it contemplated hereby.

ARTICLE VIII
DISBURSEMENT AGENT AND THE DSRA AGENT

Section 8.1 ACCEPTANCE. The acceptance by the Disbursement Agent and the DSRA Agent of their duties hereunder is subject to the following terms and conditions, which the parties to this Disbursement Agreement agree govern and control with respect to the rights, duties, liabilities and immunities of the Disbursement Agent and the DSRA Agent:

(a) Neither the Disbursement Agent nor the DSRA Agent will be responsible or liable in any manner whatsoever for the sufficiency, correctness, genuineness or validity of the amounts deposited with or held by it;

(b) Neither the Disbursement Agent nor the DSRA Agent will be liable for any error of judgment or for any act done or step taken or omitted except in the case of its gross negligence, willful misconduct or bad faith;

(c) The Disbursement Agent and the DSRA Agent may consult with and obtain advice from qualified counsel and other skilled Persons (at the expense of Borrower, but only to the extent such costs are reasonable and documented) in the event of any dispute or question as to the construction of any provision hereof and will be fully protected in taking or not taking any action in good faith in reliance on such advice;

(d) Neither the Disbursement Agent nor the DSRA Agent, in its respective capacity, will be charged with responsibilities under any agreement other than this Disbursement Agreement, and has no duties other than those expressly set forth herein and in any modification or amendment hereof; PROVIDED, that no such modification or amendment will affect its duties unless it has given its written consent thereto;

(e) The Disbursement Agent and the DSRA Agent may execute or perform any duty hereunder either directly or through agents or attorneys;

(f) The Disbursement Agent and the DSRA Agent may engage or be interested in any financial or other transaction with any party hereto and may act on, or as depository, trustee or agent for, any committee or body of holders of obligations of such persons as freely as if it were not the Disbursement Agent or DSRA Agent, as the case may be;

(g) Neither the Disbursement Agent nor the DSRA Agent is obligated to take any action that in its reasonable judgment would involve it in expense or liability unless it has been furnished with reasonable indemnity (it being understood and agreed that the general indemnity of the Administrative Agent will constitute a reasonable indemnity);

(h) Neither the Disbursement Agent nor the DSRA Agent will take instructions from any Person except those given in accordance with this Disbursement Agreement; and

(i) The Disbursement Agent and the DSRA Agent will be protected in acting upon any written notice, certificate, instruction, request or other paper or document as to the due execution thereof and the validity and effectiveness of the provisions thereof and as to the truth of any information therein contained that the Disbursement Agent or the DSRA Agent, as the case may be, in good faith believes to be genuine.

Section 8.2 REPLACEMENT OR RESIGNATION OF THE DISBURSEMENT AGENT OR THE DSRA Agent.

(a) The Disbursement Agent and the DSRA Agent may at any time resign by giving notice to each other party to this Disbursement Agreement, such resignation to be effective upon the appointment of a successor Disbursement Agent or DSRA Agent as hereinafter provided. If a successor is not appointed within thirty (30) days after the giving of written notice of such resignation, the Disbursement Agent or DSRA Agent, as the case may be, may apply to any court of competent jurisdiction to appoint a successor to act until such time, if any, as a successor is appointed as herein provided.

(b) The Administrative Agent may remove the Disbursement Agent or the DSRA Agent at any time by giving notice to each other party to this Disbursement Agreement, such removal to be effective upon the appointment of a successor as hereinafter provided.

(c) In the event of any resignation or removal of the Disbursement Agent or the DSRA Agent, a successor, which must be a bank or trust company organized under the laws of the United States of America or of any state thereof, will be appointed by the Administrative Agent and, unless an Event of Default has occurred and is continuing, with the consent of Borrower, which shall not be unreasonably withheld or delayed. Any such successor will deliver to each party to this Disbursement Agreement a written instrument accepting such appointment hereunder and thereupon such successor will succeed to all the rights and duties of the Disbursement Agent or DSRA Agent, as the case may be, hereunder and will be entitled to receive the Security Accounts from its predecessor. The appointment of a successor will not result in any increased fees or costs payable by Borrower.

(d) Any Person into which the Disbursement Agent or the DSRA Agent may be merged or converted or with which it may be consolidated, or any Person resulting from any merger, conversion or consolidation to which the Disbursement Agent or the DSRA Agent is a party, or any Person to which substantially all of the corporate trust business of the Disbursement Agent or the DSRA Agent may be transferred, will be the Disbursement Agent or DSRA Agent, as the case may be, under this Disbursement Agreement without further act.

Section 8.3 INDEMNITY BY BORROWER. Whether or not the transactions contemplated hereby are consummated, Borrower will, subject to the provisions of this Section 8.3, indemnify, pay and hold the Disbursement Agent and the DSRA Agent, and their officers, directors, employees, agents, affiliates and attorneys, (collectively, the "INDEMNITEES") harmless from and against any and all out-of-pocket liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, expenses and disbursements of any kind or nature whatsoever (including without limitation reasonable documented attorneys' fees and costs of the Indemnitees in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not the Indemnitees are designated a party thereto) that are imposed on, reasonably incurred by or asserted against any Indemnitee, in any manner relating to or arising out of this Disbursement Agreement or the other Loan Documents or the exercise of any right or remedy hereunder or under any other Loan Document (collectively, the "INDEMNIFIED LIABILITIES"); PROVIDED, that Borrower will have no obligation to any Indemnitee if a court of competent jurisdiction renders a judgment, final and not subject to appeal or review, that such Indemnified Liabilities arise from the gross negligence, willful misconduct or bad faith of such Indemnitee. Borrower will arrange to pay or reimburse each Indemnitee for all reasonable documented out-of-pocket costs and expenses (including without limitation reasonable attorneys' fees and expenses) reasonably incurred by such Indemnitee in the defense of any claim arising out of any Indemnified Liability at the time such costs and expenses are incurred and such Indemnitee has given Borrower written notice thereof and an opportunity to consult or participate in such defense or otherwise mitigate such costs. The foregoing indemnity will remain operative and in full force and effect for one year from the earlier of (x) the termination of this Disbursement Agreement or (y) the resignation or removal of the Disbursement Agent or the DSRA Agent by the Administrative Agent. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section 8.3 may be unenforceable because it

is violative of any law or public policy, Borrower will contribute the maximum portion that it is permitted to pay and satisfy under applicable laws to the payment and satisfaction of all Indemnified Liabilities incurred by the Indemnitees or any of them.

ARTICLE IX
DETERMINATIONS

Section 9.1 DISPUTES. In the event of any dispute as to any amount to be transferred or paid pursuant to this Disbursement Agreement, the Disbursement Agent and the DSRA Agent are authorized and directed to retain in their possession, without liability to any Person, the disputed amount until such dispute has been settled by agreement of the other parties hereto or by legal proceedings, but the Disbursement Agent and the DSRA Agent are under no duty whatsoever to institute or defend any such proceeding; PROVIDED, that neither the Disbursement Agent nor the DSRA Agent has any right to retain any amount necessary to pay principal, fees or interest payable to the Lenders in accordance with this Disbursement Agreement (under the circumstances contemplated by Section 4.2(b)). The Disbursement Agent and the DSRA Agent have the right to interplead the parties to a dispute in any court of competent jurisdiction and to ask such court to determine the respective rights of such parties with respect to this Disbursement Agreement.

Section 9.2 CASH AVAILABLE. In determining the amount of funds on deposit in a Security Account at any time, the Disbursement Agent and the DSRA Agent will treat as cash available the net amount that the Disbursement Agent or the DSRA Agent would receive on such day if it liquidated all the securities then on deposit in such Security Account (at then-prevailing market prices and assuming normal sales expenses). The Disbursement Agent and the DSRA Agent will use their best efforts to sell securities as necessary in order that actual cash is available on each date on which a transfer or payment is to be made pursuant to this Disbursement Agreement.

ARTICLE X
MISCELLANEOUS

Section 10.1 AMENDMENTS; ETC. No amendment of this Disbursement Agreement will be effective unless it is in writing and signed by the parties hereto.

Section 10.2 NOTICES. All notices, consents, certificates, waivers, documents and other communications required or permitted to be delivered to any party under the terms of this Disbursement Agreement (a) must be in writing, (b) must be personally delivered, transmitted by an internationally recognized courier service or transmitted by facsimile and (c) must be directed to such party at its address or facsimile number set forth below. All notices will be deemed to have been duly given and received on the Business Day of delivery if delivered personally, two (2) Business Days after delivery to the courier if transmitted by courier, or the date of transmission with telephone confirmation if transmitted by facsimile on a Business Day, whichever occurs first. Any party may change its address or facsimile number for purposes hereof by notice to all other parties.

For Borrower:
31470 Avenue 12
Madera, California 93638
Attention: Jeff Manternach
Telephone: (559) 435-1771
Facsimile No: (559) 435-1478

For the Administrative Agent:

Hudson United Capital, a Division of
TD Banknorth N.A.
101 Post Road East
Westport, Connecticut 06880
Attention: Mr. Jerome P. Peters, Jr.
Telephone: (203) 291-6639
Facsimile: (203) 291-6652

For Disbursement Agent (and the associated Securities Intermediary):

Comerica Bank
5200 N. Palm Avenue
Suite 320
Fresno, California 93704
Attention: Mr. Robert J. Harlan
Telephone: (559) 244-3928
Facsimile: (559) 244-3909

For DSRA Agent (and the associated Securities Intermediary):

Wealth Management Group of
TD Banknorth N.A.
90 Post Road East
Third Floor
Westport, Connecticut 06880
Attention: Mr. James N. Donaldson
Telephone: (203) 291-6705
Facsimile: (203) 291-6707

Section 10.3 GOVERNING LAW. THIS DISBURSEMENT AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF (OTHER THAN SECTION 5.1401 OF THE GENERAL OBLIGATIONS LAW AND ANY SUCCESSOR STATUTE THERETO).

Section 10.4 NO WAIVER; REMEDIES CUMULATIVE. The waiver of any right, breach or default under this Disbursement Agreement by the Administrative Agent, Borrower, the DSRA Agent or the Disbursement Agent must be made specifically and in writing. Subject to the foregoing, no failure on the part of the Administrative Agent, Borrower, the DSRA Agent or the Disbursement Agent to exercise, and no forbearance or delay in exercising, any right under this Disbursement Agreement will operate as a waiver thereof; no single or partial exercise of any right under this Disbursement Agreement will preclude any other or further exercise thereof or the exercise of any other right; and no waiver of any breach of or default under any provision of this Disbursement Agreement will constitute or be construed as a waiver of any subsequent breach of or default under this Disbursement Agreement. Except as otherwise provided in any Loan Document, no notice to or demand upon Borrower will entitle it to any further, subsequent or other notice or demand in similar or any other circumstances. Each of the rights and remedies of the Administrative Agent, Borrower, the DSRA Agent and the Disbursement Agent is cumulative and not exclusive of any other right or remedy provided or existing by agreement or under Law.

Section 10.5 SEVERABILITY. Any provision of this Disbursement Agreement that is invalid or prohibited in any jurisdiction will, as to such jurisdiction, be ineffective and severable from the rest of this Disbursement

Agreement to the extent of such invalidity or prohibition, without impairing or affecting in any way the validity of any other provision of this Disbursement Agreement or of such provision in other jurisdictions. The parties agree to replace any provision that is ineffective by operation of this Section 10.5 with an effective provision that as closely as possible corresponds to the spirit and purpose of such ineffective provision and this Disbursement Agreement as a whole.

Section 10.6 COUNTERPARTS. This Disbursement Agreement may be executed by facsimile and in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed will be deemed to be an original and all of which taken together will constitute one and the same instrument.

Section 10.7 SUCCESSORS AND ASSIGNS. This Disbursement Agreement will be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Borrower has no right to assign its rights hereunder or any interest herein without the prior written consent of the Administrative Agent, which consent will not be unreasonably withheld or delayed.

Section 10.8 TERMINATION. This Disbursement Agreement will terminate upon the payment in full in cash of the Loans and all other Obligations, including the principal of, premium, if any, and interest on the Loans and all such other Obligations. Upon the termination of this Disbursement Agreement in accordance with this Section 10.8, the Securities Intermediaries will disburse all remaining funds in the Security Accounts to or as directed by Borrower in a written request.

Section 10.9 WAIVER OF JURY TRIAL. EACH PARTY HERETO, AS AMONG THEM, WAIVES ANY RIGHT IT MAY HAVE TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED ON OR ARISING FROM ANY LOAN DOCUMENT, ANY TRANSACTION CONTEMPLATED THEREBY OR EFFECTED PURSUANT THERETO, ANY DEALING OR COURSE OF DEALING BETWEEN OR AMONG THEM RELATING IN ANY WAY TO THE SUBJECT MATTER OF THE LOAN DOCUMENTS OR ANY STATEMENT OR ACTION OF ANY OF THEM OR THEIR AFFILIATES. Each of the parties acknowledges and agrees that this waiver is a material inducement to enter into the business relationship contemplated by the Loan Documents and that each has relied on this waiver in entering into the Loan Documents to which it is a party and will continue to rely on this waiver in its future dealings with the other parties. The scope of this waiver is intended to be all-encompassing and this waiver will apply to all Claims of any nature whatsoever, whether deriving from contract, arising by law, based on tort or otherwise. EACH PARTY HERETO HAS MADE THIS WAIVER KNOWINGLY AND VOLUNTARILY AND THIS WAIVER IS IRREVOCABLE. THIS WAIVER ALSO APPLIES TO ALL AMENDMENTS, SUPPLEMENTS, RESTATEMENTS, EXTENSIONS AND MODIFICATIONS OF ANY LOAN DOCUMENT AS WELL AS TO ANY LOAN DOCUMENT ENTERED INTO AFTER THE DATE OF THIS DISBURSEMENT AGREEMENT. In the event of litigation, relevant portions of this Disbursement Agreement may be filed as a written consent to a trial by the court.

Section 10.10 CONSENT TO JURISDICTION. Each party hereto irrevocably submits to the jurisdiction of any New York state or United States federal court sitting in the Borough of Manhattan over any action or proceeding arising out of or relating to any Claim, and each party hereto irrevocably agrees that all Claims in respect of such action or proceeding may be heard and determined in such New York state or United States federal court. Each party hereto irrevocably waives any objection that it may now or hereafter have to the laying of venue in such forums and agrees not to plead or claim that any such action or proceeding brought in any such New York state or United States federal court has been brought in an inconvenient forum. Each party hereto irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to it at its address set forth in Section 10.2. Each party hereto agrees that a final judgment in any such action or proceeding will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law. Nothing in this Section 10.10 affects the right of any party hereto to serve legal process in any other manner permitted by Law or affects the right of any other party hereto to bring any action or proceeding against any other party hereto or its property in the courts of any other jurisdiction.

Section 10.11 INTEGRATION. The Loan Documents contain the complete agreement among Borrower, the Administrative Agent, the Disbursement Agent, the DSRA Agent, the Securities Intermediaries and the other parties thereto with respect to the matters contained therein and supersede all prior commitments, agreements and understandings, whether written or oral, with respect to the matters contained therein.

[THE REMAINDER OF THIS PAGE WAS LEFT BLANK INTENTIONALLY.]

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound, have caused this Disbursement Agreement to be signed on the date first above written.

PACIFIC ETHANOL MADERA LLC

By /S/ RYAN TURNER

Name:
Title:

HUDSON UNITED CAPITAL, A DIVISION OF TD BANKNORTH, N.A.,
as the Administrative Agent

By /S/ JEROME P. PETERS, JR.

Name: Jerome P. Peters, Jr.
Title: Senior Vice President

COMERICA BANK,
as the Disbursement Agent

By /S/ ROBERT J. HARLAN

Name: Robert J. Harlan
Title: Vice President

WEALTH MANAGEMENT GROUP OF TD BANKNORTH, N.A.,
as the DSRA Agent

By /S/ JAMES N. DONALDSON

Name: James N. Donaldson
Title: Senior Vice President

WEALTH MANAGEMENT GROUP OF TD BANKNORTH, N.A.,
as Securities Intermediary

By /S/ JAMES N. DONALDSON

Name: James N. Donaldson
Title: Senior Vice President

COMERICA BANK,
as Securities Intermediary

By /S/ ROBERT J. HARLAN

Name: Robert J. Harlan
Title: Vice President

<TABLE>
<S> <C>

FORM OF DISTRIBUTION REQUEST

	CONSTRUCTION DRAW ACCOUNT	PROJECT REVENUES ACCOUNT	DEBT SERVICE ACCOUNT	DEBT SERVICE RESERVE ACCOUNT	CASH SWEEP ACCOUNT
BALANCE PRIOR TO THIS REQUEST					
1. Ethanol/DGS sales					
2. Interest income					
3. Other income					
MONTHLY DISTRIBUTIONS:					
Section 4.2(a) FIRST					
4. Budgeted Qualified Project Expenses					
Section 4.2(a) SECOND					
5. 1/3 next Scheduled Installment					
Section 4.2(a) THIRD					
QUARTERLY DISTRIBUTIONS:					
(First meet monthly distribution requirements)					
Section 4.2(b) FIRST					
6. Agent Fees					
Section 4.2(b) SECOND					
7. Administrative Agent and Lender fees/expenses					
Section 4.2(b) THIRD					
8. Scheduled principal installment and interest					
Section 4.2(b) FOURTH					
Mandatory Prepayments					
Section 4.2(b) FIFTH					
DSRA Funding					
Section 4.2(b) SIXTH					
10. SPP Payments					
Section 4.2(b) SEVENTH					
14. Payments to Borrower/Other					
TOTAL TRANSFERS IN/(OUT)					
BALANCE SUBSEQUENT TO THIS REQUEST					

</TABLE>

WIRE TO AGENT/LENDERS

WIRE TO DSRA AGENT

WIRE TO BORROWER

WIRE TO OTHER (specify below) Account detail subject to change.

Borrower hereby certifies to the Administrative Agent that no Default or Event of Default has occurred and is continuing or will occur as a result of the Disbursement Agent's or the DSRA Agent's making of any of the payments or deposits requested herein.

Submitted by:	Approved by:
Date of Submission:	Date of Approval:

EXHIBIT 10.52

AMENDED AND RESTATED TERM LOAN AGREEMENT
(LYLES DIVERSIFIED, INC. - PACIFIC ETHANOL MADERA LLC)

THIS AMENDED AND RESTATED TERM LOAN AGREEMENT (this "Agreement") is made effective as of April 13, 2006, by and between LYLES DIVERSIFIED, INC., a California corporation ("Lender") and PACIFIC ETHANOL MADERA LLC, a Delaware limited liability company ("Borrower").

R E C I T A L S:
- - - - - - - -

A. Pacific Ethanol California, Inc., a California corporation (formerly known as Pacific Ethanol, Inc., "PEI California") and Borrower are, respectively, direct and indirect wholly-owned subsidiaries of Pacific Ethanol, Inc., a Delaware corporation ("PEIX").

B. PEI California and Lender are parties to the Term Loan Agreement, dated as of June 16, 2003 (the "Original Agreement"); the Original Agreement was assigned to PEIX by PEI California pursuant to the Assignment of Term Loan Agreement and Deed of Trust, dated as of March 23, 2005, by and among PEIX, PEI California, William L. Jones and Lender.

C. PEI California owns certain real property consisting of approximately 137 acres located in Madera County, California, on Avenue 12 about four miles east of Highway 99 (the "Real Property"). The Real Property includes certain improvements and fixtures, including, but not limited to, a grain storage and processing facility, an office building, and two railroad sidings. Concurrently with the execution of this Agreement, PEI California will contribute the Real Property to Borrower pursuant to a grant deed.

D. Borrower is developing a denatured ethanol production facility on the Real Property (the "Madera Facility"). Borrower and its affiliates intend, at some future date, to construct a second ethanol production facility in California (the "Second Facility"). Borrower has selected W.M. Lyles Co. ("Builder") as the general contractor for the Madera Facility and the Second Facility. Lender is the parent company of Builder. Borrower and Builder are parties to the Amended and Restated Phase 1 Design-Build Agreement and the Phase 2 Design-Build Agreement, each dated as of November 2, 2005 (collectively, the "Design-Build Contract"), pursuant to which Builder is providing design-build services to Borrower for the construction of the Madera Facility. Borrower or one of its affiliates and Builder intend, at a later date, to enter into a second design-build contract for the Second Facility.

E. Borrower will obtain the financing necessary to complete the construction of the Madera Facility pursuant to the Construction and Term Loan Agreement of even date herewith (the "HUD Loan Agreement") by and among Borrower, the lenders from time to time party thereto and Hudson United Capital, a Division of TD Banknorth, N.A., a national banking association, as administrative agent for the lenders (the "Administrative Agent").

F In order for Borrower to complete the financing for the construction of the Madera Facility, Lender has agreed to amend and restate the Original Agreement to, among other things, (i) transfer the loan from PEIX to Borrower and (ii) subordinate its rights, remedies and security interest hereunder and under the Deed of Trust (as defined herein) to the rights, remedies and security interest of the lenders under the HUD Loan Agreement.

NOW THEREFORE, in consideration of the mutual terms and conditions contained herein, the parties agree as follows:

SECTION 1

FACILITIES

1.1 THE TERM LOAN: Lender agrees to make a term loan to Borrower in the amount of $5,100,000.00. The credit facility described in this Section shall be referred to below as the "Term Loan". Borrower will pay interest on all amounts owing under the Term Loan until payment in full of any principal outstanding thereunder. Lender and Borrower acknowledge and agree that, as of the date hereof, the outstanding principal amount of the term loan

is $3,600,000.

1.2 INITIAL ADVANCE; DEPOSIT: On March 24, 2003 Lender made an initial advance to Borrower under the Term Loan in the principal amount of $510,000.00, which PEI California used as a good-faith deposit for the purchase of the Real Property (the "Deposit"). Interest will accrue from March 24, 2003 on the principal amount of the Deposit, at the rates indicated in Paragraph 1.3 of this Agreement.

1.3 REPAYMENT TERMS:

(a) INTEREST RATE. Interest under the Term Loan will accrue at the following rates:

(1) A rate of five percent (5.00%) per annum through June 19, 2004.

(2) A rate per annum equal to the "Wall Street Journal Prime Rate" (as defined in Section 1.2(b)) plus two percentage points (2.00%) from June 20, 2004 until the Maturity Date (as defined in Section 1.3(d)).

(b) DEFINITION OF WALL STREET JOURNAL PRIME RATE. The "Wall Street Journal Prime Rate" for any day is a fluctuating rate of interest equal to the highest rate published from time to time in the "Money Rates" section of The Wall Street Journal as the Prime Rate for such day (or, if such source is not available, such alternate source as determined by Lender).

(c) COMPUTATION AND PAYMENT OF INTEREST. Interest shall be based on a 365 day year and compounded monthly. Interest shall be paid monthly commencing on June 20, 2004, and continuing on the twentieth (20th) day of each month thereafter. If interest is not paid as it becomes due, it may be added to, become and be treated as a part of the principal, and shall thereafter bear like interest.

(d) PRINCIPAL PAYMENTS/MATURITY DATE. One third of the principal outstanding on June 20, 2006 shall be paid on that date. Half of the principal outstanding on June 20, 2007 shall be paid on that date. All remaining outstanding principal, together with any accrued interest thereon, shall be due and payable on June 20, 2008, (the "Maturity Date").

(e) ADDITIONAL PRINCIPAL PAYMENTS. Borrower shall be required to prepay the principal owing under the Term Loan in the following circumstances:

(i) should the construction cost for the Madera Facility to be constructed on the Real Property be less than $42.6 million then Borrower shall promptly pay lender the difference between the actual construction cost and $42.6 million; and

(ii) should Borrower or any of its affiliates obtain construction funding for the Second Facility, Borrower shall promptly pay Lender all principal and accrued interest then outstanding.

1.4 PREPAYMENT: Borrower may prepay any amount owing under the Term Loan, in whole or in part, at any time and without penalty, provided, however, that any partial prepayment shall first be applied, at Lender's option, to accrued and unpaid interest and next to the outstanding principal balance.

1.5 [INTENTIONALLY OMITTED.]

1.6 PAYMENT: If any payment required to be made by Borrower hereunder becomes due and payable on a day other than a Business Day (as defined below), the due date thereof shall be extended to the next succeeding Business Day and interest thereon shall be payable at the then applicable rate during such extension. Both principal and interest are payable in lawful money of the United States of America in same day funds at any place that Lender may, from time to time, in writing designate. "Business Day" shall mean a day, other than a Saturday or Sunday, on which commercial Lenders are open for business in

California.

1.7 DEFAULT RATE: If any amount owing under the Term Loan is not paid when due, whether at stated maturity, by acceleration, or otherwise, will bear interest from the date on which that amount is due until the amount is paid in full, payable on demand, at a rate which is two percent (2.00%) in excess of the rate or rates then in effect (the "Default Rate").

1.8 LATE PAYMENT: In addition to any other rights Lender may have hereunder, if any payment of principal or interest, or any portion thereof, under this Agreement is not paid in accordance with the terms herein, a late payment charge equal to five percent (5%) of such past due payment may be assessed and shall be immediately payable.

SECTION 2

COLLATERAL, SUBORDINATION AND GUARANTY

2.1 REAL PROPERTY SECURITY: Borrower agrees to execute and deliver to Lender a deed of trust dated concurrently with this Agreement (the "Deed of Trust") granting to Lender a security interest in the Real Property (the "Collateral"), to secure the payment and performance of the obligations

hereunder. Notwithstanding any provision to the contrary herein, Lender acknowledges and agrees that the lien created by the Deed of Trust is subject and subordinate to the lien created by that certain Deed of Trust, Assignment of Lease and Rents and Security Agreement of even date herewith, made by Borrower to Chicago Title Company, as trustee, for the benefit of the Administrative Agent, as beneficiary.

2.2 SUBORDINATION TO FINANCING: Notwithstanding any provision to the contrary herein, Lender acknowledges and agrees that all of its rights and remedies under this Agreement shall be governed by, and subject to, that certain Intercreditor and Collateral Sharing Agreement of even dated herewith by and between Lender and the Administrative Agent.

2.3 [INTENTIONALLY OMITTED.]

2.4 ADDITIONAL CONSIDERATION: As additional consideration, Borrower agrees it will, or will cause its affiliates to engage Lender at the appropriate time, on mutually acceptable terms substantially similar to the Design-Build Contract for the Madera Facility, on a design-build agreement for the Second Facility irrespective of whether the Term Loan is repaid at the time Borrower or its affiliates is prepared to contract for the design and construction of that facility.

SECTION 3

CONDITIONS OF LENDING

3.1 CONDITIONS PRECEDENT TO THE EFFECTIVENESS OF THIS AGREEMENT: The effectiveness of this Agreement is subject to the conditions precedent that Lender shall have received, before making such Term Loan, all of the following, in form and substance satisfactory to Lender:

(a) Evidence that the execution, delivery and performance by Borrower of the "Loan Documents" (as defined below) have been duly authorized. The term "Loan Documents" shall mean this Agreement, the Deed of Trust, and all other documents or instruments entered into between either Borrower and Lender, or by Borrower in favor of, or for the benefit of Lender, that recite that they are to secure the Obligations;

(b) The executed Deed of Trust;

(c) Lender holds a duly authorized, created and perfected security interest in the Collateral; and

(d) The representations contained in Section 4 and in any other document, instrument or certificate delivered to Lender hereunder are true, correct and complete.

3.2 CONSENT OF OBLIGEES: As long as any principal amount of

the Term Loan remains due and owing to Lender, consent of at least a majority of the obligees thereunder shall be required for any action that:

(a) alters or changes the rights, preferences or privileges of such obligees; or

(b) amends or waives any provision contained in any document evidencing Borrower's corporate existence, including, but not limited to, articles of incorporation and by-laws, related to the Obligations hereunder.

SECTION 4

REPRESENTATIONS AND WARRANTIES

Borrower hereby makes the representations and warranties to Lender set forth in this Section. Borrower agrees that each representation and warranty is continuing.

4.1 STATUS: Borrower is a limited liability company, duly formed and validly existing under the laws of the State of Delaware.

4.2 AUTHORITY: The execution, delivery and performance by Borrower of the Loan Documents have been duly authorized and do not and will not: (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having application to Borrower, or (ii) result in a breach of or constitute a default under any material indenture or loan or credit agreement or other material agreement, lease or instrument to which Borrower is a party or by which it or its properties may be bound or affected.

4.3 LEGAL EFFECT: The Loan Documents, and any instrument, document or agreement required thereunder, when delivered to Lender, will constitute, legal, valid and binding obligations of Borrower and are enforceable against Borrower in accordance with their respective terms.

4.4 FINANCIAL STATEMENTS: All financial statements, information and other data which may have been or which may hereafter be submitted by Borrower to Lender are true, accurate and correct and have been or will be prepared in accordance with generally accepted accounting principles consistently applied and accurately represent the financial condition or, as applicable, the other information disclosed therein. Since the most recent submission of such financial information or data to Lender, Borrower represents and warrants that no material adverse change in Borrower's financial condition or operations has occurred which has not been fully disclosed to Lender in writing.

4.5 LITIGATION: Except as have been disclosed to Lender in writing, there are no actions, suits or proceedings pending or, to the knowledge of Borrower, threatened against or affecting Borrower or its properties before any court or administrative agency which, if determined adversely to Borrower, would have a material adverse effect on Borrower's financial condition or operations or on the Collateral.

4.6 TITLE TO ASSETS; PERMITTED LIENS: Borrower has good and marketable title to all of its assets and the same are not subject to any security interest, encumbrance, lien or claim of any third person other than: (i) liens and security interests securing indebtedness owed by Borrower to

Lender; (ii) liens for taxes, assessments or similar charges either not yet due or being duly contested in good faith; (iii) liens of mechanics, materialmen, warehousemen or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (iv) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by Lender in writing; (v) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date hereof or permitted to be incurred hereunder; (vi) liens in favor of any lender

providing annual crop financing to Borrower; (vii) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets, and (viii) liens permitted under the HUD Loan Agreement (collectively "Permitted Liens").

SECTION 5

COVENANTS

Borrower covenants and agrees that, during the term of this Agreement, and so long thereafter as Borrower is indebted to Lender under this Agreement, Borrower will, unless Lender shall otherwise consent in writing:

5.1 [INTENTIONALLY OMITTED.]

5.2 REPORTING AND CERTIFICATION REQUIREMENTS: Borrower shall deliver or cause to be delivered to Lender, so long as five percent of the total amount of the Term Loan (principal and accrued interest) remains outstanding, the following financial and other information:

(a) Not later than 120 days after the end of each of Borrower's fiscal years, a copy of Borrower's annual financial report for such year.

(b) Not later than 60 days after the end of each of Borrower's fiscal quarters, a copy of Borrower's financial report for that quarter.

(c) Not later than February 15 of any year, provide monthly cash flow and budget projections for such calendar year beginning.

5.3 PRESERVATION OF EXISTENCE; COMPLIANCE WITH APPLICABLE LAWS: Maintain and preserve the existence of its business and all rights and privileges now enjoyed; and conduct its business and operations in accordance with all applicable laws, rules and regulations.

5.4 MAINTENANCE OF INSURANCE: Maintain insurance in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which Borrower owns property. With respect to insurance covering properties in which Lender maintains a security interest or lien, such insurance shall name Lender as loss payee pursuant to a loss payable endorsement satisfactory to Lender and shall not be altered or canceled except upon 30 days' prior written notice to Lender.

5.5 INSPECTION RIGHTS: Lender may, at any reasonable time and from time to time, conduct inspections and audits of the Collateral.

5.6 [INTENTIONALLY OMITTED.]

5.7 [INTENTIONALLY OMITTED.]

5.8 NOTICE: Give Lender prompt written notice of any and all (i) Events of Default; (ii) litigation, arbitration or administrative proceedings to which Borrower is a party or which affects the Collateral, and in which the claim or liability exceeds $500,000.00; (iii) other matters which have resulted in, or might result in a material adverse change in the Collateral or the financial condition or business operations of Borrower.

SECTION 6

EVENTS OF DEFAULT

Any one or more of the following described events shall constitute an event of default (an "Event of Default") under this Agreement:

6.1 NON-PAYMENT: Borrower shall fail to pay any Obligations when due.

6.2 NON-PERFORMANCE: Borrower shall fail in any material respect to perform or observe any term, covenant or agreement contained in the Loan Documents and any such failure shall continue unremedied for more than 60

days after the occurrence thereof.

6.3 REPRESENTATIONS AND WARRANTIES; FINANCIAL STATEMENTS: Any representation or warranty made by Borrower under or in connection with the Loan Documents or any financial statement given by Borrower, or any representation made by Borrower in any other document, instrument or certificate provided to Lender, shall prove to have been incorrect in any material respect when made or given or when deemed to have been made or given.

6.4 INSOLVENCY: Borrower shall: (i) become insolvent or be unable to pay its debts as they mature; (ii) make an assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its properties and assets; (iii) file a voluntary petition in Lenderruptcy or seeking reorganization or to effect a plan or other arrangement with creditors; (iv) file an answer admitting the material allegations of an involuntary petition relating to Lenderruptcy or reorganization or join in any such petition; (v) become or be adjudicated a Lenderrupt; (vi) apply for or consent to the appointment of, or consent that an order be made, appointing any receiver, custodian or trustee, for itself or any of its properties, assets or businesses; or (vii) any receiver, custodian or trustee shall have been appointed for all or substantial part of its properties, assets or businesses and shall not be discharged within 60 days after the date of such appointment.

6.5 EXECUTION: Any writ of execution or attachment or any judgment lien shall be issued against any property of either Obligor and shall not be discharged or bonded against or released within 60 days after the issuance or attachment of such writ or lien.

6.6 SUSPENSION: Borrower shall voluntarily suspend the transaction of business or allow to be suspended, terminated, revoked or expired any permit, license or approval of any governmental body necessary to conduct Borrower's business as now conducted.

SECTION 7

REMEDIES ON DEFAULT

Upon the occurrence of any Event of Default, Lender may, at its sole and absolute election, without demand and only upon such notice as may be required by law:

7.1 ACCELERATION: Declare any or all of Borrower's indebtedness owing to Lender, whether under this Agreement or any other document, instrument or agreement, immediately due and payable, whether or not otherwise due and payable.

7.2 PROTECTION OF SECURITY INTEREST: Make such payments and do such acts as Lender, in its sole judgment, considers necessary and reasonable to protect its security interest or lien in the Collateral. Borrower hereby irrevocably authorizes Lender to pay, purchase, contest or compromise any encumbrance, lien or claim which Lender, in its sole judgment, deems to be prior or superior to its security interest.

7.3 FORECLOSURE: Enforce any security interest or lien given or provided for under this Agreement or under any security agreement, mortgage, deed of trust or other document, in such manner and such order, as to all or any part of the properties subject to such security interest or lien, as Lender, in its sole judgment, deems to be necessary or appropriate and Borrower hereby waives any and all rights, obligations or defenses now or hereafter established by law relating to the foregoing.

SECTION 8

MISCELLANEOUS

8.1 FURTHER ASSURANCES: From and after the date of this Agreement, Lender and Borrower agree to do such things, perform such acts, and make, execute, acknowledge and deliver such documents as may be reasonably necessary or proper and usual to carry out the purpose of the Loan Documents in accordance with their terms.

8.2 SURVIVAL OF REPRESENTATIONS: All representations, warranties, covenants, agreements, terms and conditions made herein shall

survive the execution, delivery and closing of this Agreement and all transactions contemplated hereunder.

8.3 NOTICES: Any notice herein required or permitted to be given shall be in writing and may be (i) personally served, (ii) sent by United States mail and shall be deemed to have been given when deposited in the United States mail, registered or certified, with return receipt requested, with postage prepaid and properly addressed or (iii) sent by an established commercial courier service with written acknowledgment of receipt requested. For the purposes hereof, the addresses of the parties hereto (until notice of a change thereof is served as provided in this section) shall be as follows:

To Borrower:	To Lender:
PACIFIC ETHANOL MADERA LLC	LYLES DIVERSIFIED, INC.
5711 North West Avenue	Post Office Box 4376
Fresno, California 93711	Fresno, California 93744
Fax: (559) 435-1478	Fax: (559) 487-7948

8.4 DESCRIPTIVE HEADINGS: The descriptive headings of the several sections of this Agreement are inserted for convenience and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

8.5 COSTS AND EXPENSES: Lender and Borrower shall each pay their own respective costs and expenses incurred, or to be incurred, by said party in negotiating and preparing this Agreement, and all exhibits hereto, and in closing and carrying out the transactions contemplated by this Agreement (including, without limitation, attorneys', paralegals', and other professionals' fees and costs).

8.6 SEVERABILITY: In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

8.7 AMENDMENT PROVISION: The term "Agreement" or "this Agreement" and all reference thereto as used throughout this instrument shall mean this instrument as originally executed or, if later amended or supplemented, then as so amended or supplemented. Any amendment to this Agreement must be in writing signed by the party to be charged.

8.8 COUNTERPARTS: This Agreement may be executed in counterparts, each of which shall be an original, but all of which shall constitute one and the same Agreement.

8.9 APPLICABLE LAW: The Loan Documents and the rights and obligations of the parties thereto shall be governed by the laws of the State of California except to the extent that Lender has greater rights or remedies under federal law, in which case such choice of California law shall not be deemed to deprive Lender of such rights and remedies as may be available under federal law.

8.10 ASSIGNABILITY: The Loan Documents shall be binding upon the parties hereto and their respective successors and assigns, and shall inure to the benefit of the parties hereto and the successors and assigns of Lender. Lender may transfer or assign all or part of its interest hereunder to one or more of Lender's affiliated partnerships or funds managed by it or any of their respective directors, officers or partners.

8.11 INTEGRATED AGREEMENT: The Loan Documents constitute the entire and integrated agreement between Lender and Borrower relating to the Term Loan and all matters addressed herein and supersede all prior negotiations, communications, understandings and commitments relating thereto, whether written or oral.

8.12 JURY TRIAL WAIVER; REFERENCE: In any judicial action or proceeding arising from or relating to this Agreement or the other Loan Documents, including any action or proceeding involving a claim based on or

arising from an alleged tort, (i) Lender and Borrower hereby waive any right it or they may have to request or demand a trial by jury and (ii) if the action is before a court of any judicial district of the State of California, either Lender or Borrower may elect to have all decisions of fact and law determined by a reference in accordance with California Code of Civil Procedure section 638 ET SEQ. If such an election is made, the parties shall designate to the court referee or referees selected under the auspices of the American Arbitration Association in the same manner as arbitrators are selected in Association-sponsored proceedings. The presiding referee of the panel, or the referee if there is a single referee, shall be an active attorney or retired judge. Judgment upon the award rendered by such referee or referees shall be entered in the court in which such proceeding was commenced in accordance with California Code of Civil Procedure sections 644 and 645.

8.13 VENUE: Venue for any action hereunder shall be in an appropriate court in Fresno, California, selected by Lender to which Borrower hereby.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Term Loan Agreement to be executed as of the date first above written.

<TABLE>
<S> <C>

LENDER:	BORROWER:
LYLES DIVERSIFIED, INC., a California corporation	PACIFIC ETHANOL MADERA LLC, a Delaware limited liability company
By: /S/ WILLIAM M. LYLES, IV	By: /S/ RYAN TURNER
Name: William M. Lyles, IV	Name:
Title: Vice President	Title:
By: /S/ MICHAEL F. ELKINS	By: /S/ JEFFREY MANTERNACH
Name: Michael F. Elkins	Name:
Title: Vice President/CFO	Title:

</TABLE>

EXHIBIT 10.53

April 13, 2006

Lyles Diversified, Inc.
P.O. Box 4377
Fresno, California 93744-4377

Re: Madera Project - Amended and Restated Term Loan Agreement

Ladies and Gentlemen:

Reference is made to (a) that certain Amended and Restated Term Loan Agreement, dated as of April 13, 2006 (as amended, supplemented, amended and restated or otherwise modified from time to time, the "LDI LOAN AGREEMENT"), between Pacific Ethanol Madera LLC, a Delaware limited liability company ("MADERA"), and Lyles Diversified, Inc., a California corporation ("LENDER") and (b) that certain Intercreditor and Collateral Sharing Agreement, dated as of April 13, 2006 (the "INTERCREDITOR AGREEMENT"), by and among Lender and Hudson United Capital, a Division of TD Banknorth, N.A., a national banking association, as the agent pursuant to the Construction and Term Loan Agreement, dated as of April 10, 2006 (the "HUC LOAN AGREEMENT"), by and among Madera, HUC and the lenders from time to time party thereto. Unless otherwise defined herein, capitalized terms used in this letter agreement have the meanings provided to such terms in the LDI Loan Agreement.

As contemplated by and more particularly provided for in the Intercreditor Agreement, Lender has agreed to completely subordinate its lien in the Collateral and its rights under the LDI Loan Agreement to the rights of the Senior Lenders (as defined in the Intercreditor Agreement) under the HUC Loan Agreement.

In consideration for Lender's subordination of its lien and the waiver of its rights under the LDI Loan Agreement pursuant to the terms of the Intercreditor Agreement, the undersigned agrees that, in the event that Madera is prevented from making any principal payment due to Lender by the operation of the terms of the Intercreditor Agreement, the undersigned shall repay to Lender all principal then due under the Term Loan (the "REPAYMENT OBLIGATION"). In the event the undersigned fails to pay the Repayment Obligation to Lender within 3 Business Days of the date such Repayment Obligation arises, then, from and after such date, the outstanding amount of such Repayment Obligation shall accrue interest at a per annum rate equal to the Default Rate PLUS 5% per annum until such time as the Repayment Obligation is paid in full. Lender further acknowledges and agrees that Madera shall not be responsible for the payment of the Repayment Obligation or any interest thereon.

This letter agreement shall be governed by, and shall be construed and enforced in accordance with, the internal laws of the State of California, without regard to conflicts of laws principles. Any disputes or controversies arising under this letter agreement shall be resolved in accordance with and subject to the dispute resolution provisions set forth in the LDI Loan Agreement.

This letter agreement and any agreement, document or instrument attached hereto or referred to herein integrate all the terms and conditions mentioned herein or incidental hereto and supersede all oral negotiations and prior writings in respect to the subject matter hereof. In case any one or more of the provisions contained in this letter agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby, and the parties hereto shall enter into good faith negotiations to replace the invalid, illegal or unenforceable provision with a view to obtaining the same commercial effect as this letter agreement would have had if such provision had been legal, valid and enforceable. No amendment or waiver of any provision of this letter agreement shall be effective unless such

amendment or waiver is in writing and signed by each of the parties hereto. This letter agreement shall be binding upon and shall inure to the benefit of each of the parties hereto, Madera and their respective successors or assigns.

This letter agreement may be executed in counterparts, each of which shall constitute an original but all of which when taken together shall constitute one contract. Delivery by facsimile by any of the parties hereto of an executed counterpart of this letter agreement shall be as effective as an original executed counterpart hereof.

(SIGNATURE PAGE FOLLOWS)

We appreciate your assistance in this very important transaction.

Very truly yours,

PACIFIC ETHANOL CALIFORNIA, INC.

By: /S/ RYAN TURNER

Name: Ryan Turner
Title: Chief Operating Officer and Secretary

Accepted and agreed to as of
April 13, 2006 by:

LYLES DIVERSIFIED, INC.

By: /S/ MICHAEL F. ELKINS

Name: Michael F. Elkins
Title: Vice President/CFO

Acknowledged as of
April 13, 2006 by:

PACIFIC ETHANOL MADERA LLC

By: /S/ RYAN TURNER

Name: Ryan Turner
Title: President

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

<TABLE>
<CAPTION>

Subsidiary Name	Names Under Which Subsidiary Does Business	State or Jurisdiction of Incorporation or Organization
<S>	<C>	<C>
Pacific Ethanol California, Inc.	Pacific Ethanol	California
Kinergy Marketing, LLC	Kinergy Marketing	Oregon
ReEnergy, LLC	ReEnergy	California
Pacific Ag Products, LLC	Pacific Ag Products/PAP	California
Pacific Ethanol Madera LLC	Pacific Ethanol Madera	Delaware
Pacific Ethanol Holding Co. LLC	Pacific Ethanol Holding	Delaware
Pacific Ethanol Finance Co. LLC	Pacific Ethanol Finance	Delaware
Pacific Ethanol Visalia LLC	Pacific Ethanol Visalia	Delaware
Pacific Ethanol Columbia, LLC	Pacific Ethanol Columbia	Delaware

</TABLE>

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Pacific Ethanol, Inc.

We consent to incorporation by reference in the Registration Statements (Nos. 333-106554, 333-123538 and 333-123539) on Form S 8 of Pacific Ethanol, Inc. of our report dated April 14, 2006, relating to our audits of the consolidated financial statements, which appear in the December 31, 2005 annual report on Form 10 KSB of Pacific Ethanol, Inc.

/s/ HEIN & ASSOCIATES LLP

Hein & Associates LLP
Irvine, California
April 14, 2006

EXHIBIT 31.1

CERTIFICATION

I, Neil M. Koehler, certify that:

1. I have reviewed this Form 10-KSB of Pacific Ethanol, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) [language omitted pursuant to SEC Release 34-47986] for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Omitted pursuant to SEC Release 34-47986];

(c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors, and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's control over financial reporting.

Date: April 14, 2006

/S/ NEIL M. KOEHLER

Neil M. Koehler, Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

I, William G. Langley, certify that:

1. I have reviewed this Form 10-KSB of Pacific Ethanol, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) [language omitted pursuant to SEC Release 34-47986] for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Omitted pursuant to SEC Release 34-47986];

(c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's control over financial reporting.

Date: April 14, 2006

/s/ WILLIAM G. LANGLEY

William G. Langley, Chief Financial Officer
(principal financial officer)

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the report on Form 10-KSB of Pacific Ethanol, Inc. (the "Company") for the year ended December 31, 2005 (the "Report"), the undersigned hereby certify in their capacities as Chief Executive Officer and Chief Financial Officer of the Company, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 14, 2006 By: /s/ NEIL M. KOEHLER

Neil M. Koehler
Chief Executive Officer (principal executive officer)

Dated: April 14, 2006 By: /s/ WILLIAM G. LANGLEY

William G. Langley
Chief Financial Officer (principal financial officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.