AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON AUGUST 19, 2005
REGISTRATION NO. 333-_____

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PACIFIC ETHANOL, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

<TABLE>
<S> <C>

DELAWARE	2860	41-2170618
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

</TABLE>

5711 N. WEST AVENUE
FRESNO, CALIFORNIA 93711
(559) 435-1771
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

NEIL KOEHLER
CHIEF EXECUTIVE OFFICER
PACIFIC ETHANOL, INC.
5711 N. WEST AVENUE
FRESNO, CALIFORNIA 93711
(559) 435-1771 / (559) 435-1478 (FAX)
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES OF ALL CORRESPONDENCE TO:
LARRY A. CERUTTI, ESQ.
JOHN T. BRADLEY, ESQ.
RUTAN & TUCKER, LLP
611 ANTON BOULEVARD, 14TH FLOOR
COSTA MESA, CALIFORNIA 92626
(714) 641-5100 / (714) 546-9035 (FAX)

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. [ ]

<TABLE>

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per share(2)	Proposed maximum aggregate offering price(2)	Amount of registration fee
<S>	<C>	<C>	<C>	<C>
Common stock, $.001 par value	11,503,454(3)	$8.76	$100,770,257	$11,861

</TABLE>

(1) In the event of a stock split, stock dividend, anti-dilution adjustment or similar transaction involving common stock of the registrant, in order to prevent dilution, the number of shares registered shall be automatically increased to cover the additional shares in accordance with Rule 416(a) under the Securities Act.

(2) The proposed maximum offering price per share has been estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of the Securities Act of 1933 and is based upon the average of high and low sales prices of the Registrant's common stock on the Nasdaq SmallCap Market on August 17, 2005.

(3) Includes 2,927,587 shares of common stock issuable upon exercise of warrants.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

SUBJECT TO COMPLETION, DATED AUGUST 19, 2005

PROSPECTUS

11,503,454 SHARES

PACIFIC ETHANOL, INC.

COMMON STOCK

This a public offering of 11,503,454 shares of our common stock. All shares are being offered by selling security holders identified in this prospectus. We will not receive any of the proceeds from the sale of shares by the selling security holders. Our common stock is quoted on the Nasdaq SmallCap Market under the symbol "PEIX." On August 18, 2005, the closing sale price of our common stock on the Nasdaq SmallCap Market was $8.78 per share.

The mailing address and the telephone number of our principal executive offices are 5711 N. West Avenue, Fresno, California 93711, (559) 435-1771.

Investing in our shares of common stock involves risks. See "Risk Factors" beginning on page 5 for factors you should consider before buying shares of our common stock.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES, AND WE ARE NOT SOLICITING OFFERS TO BUY THESE SECURITIES, IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROSPECTUS IS , 2005.

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PROSPECTUS SUMMARY

TO FULLY UNDERSTAND THIS OFFERING AND ITS CONSEQUENCES TO YOU, YOU SHOULD READ THE FOLLOWING SUMMARY ALONG WITH THE MORE DETAILED INFORMATION AND OUR CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES TO THOSE STATEMENTS APPEARING ELSEWHERE IN THIS PROSPECTUS. IN THIS PROSPECTUS, THE WORDS "WE," "US," "OUR" AND SIMILAR TERMS REFER TO PACIFIC ETHANOL, INC. TOGETHER WITH ITS SUBSIDIARIES UNLESS THE CONTEXT PROVIDES OTHERWISE.

PACIFIC ETHANOL, INC.

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.

In March 2005, we completed a share exchange transaction, or the Share Exchange Transaction, with the shareholders of Pacific Ethanol, Inc., a California corporation, or PEI California, and the holders of the membership interests of each of Kinergy Marketing, LLC, or Kinergy, and ReEnergy, LLC, or 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. We have three principal wholly-owned subsidiaries: Kinergy, PEI California and ReEnergy.

We are currently in the business of marketing ethanol in the Western United States. Through third-party service providers, we provide transportation, storage and delivery of ethanol. We sell ethanol primarily into California, Nevada, Arizona and Oregon and have extensive customer relationships throughout the Western United States and extensive supplier relationships throughout the Western and Midwestern United States.

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 four years have enabled us to establish valuable relationships in the ethanol marketing industry and understand the business of marketing ethanol.

In August 2005, we executed an agreement to acquire Phoenix Bio-Industries, LLC, or PBI, a company that has completed construction of what we believe is the first large-scale ethanol production facility in California. The PBI facility has an annual ethanol production capacity of approximately 25 million gallons, is located in Goshen, California and is currently undergoing initial start-up testing. The closing of the acquisition of PBI is contingent upon certain events, including our obtaining all necessary funding to complete the acquisition, which we currently estimate at approximately $40.0 million, the satisfactory completion of our due diligence on PBI and on the ethanol production facility and our ability to purchase all of the membership interests of PBI. We expect that the closing of this acquisition, if it occurs, will occur in October 2005. We cannot provide any assurances that the closing of our acquisition of PBI will not be delayed or that the closing will occur at all. See "Risk Factors."

We are constructing an ethanol production facility to begin, or in the event the acquisition of PBI is consummated, to expand, the production and sale of ethanol and its co-products if we are able to secure all the necessary financing to complete construction of this facility. To date, we have not obtained all of this financing. See "Risk Factors." We also intend to construct or otherwise acquire, including through the acquisition of PBI as discussed above, one or more additional ethanol production facilities as financing resources and business prospects make the construction or acquisition of these facilities advisable. PEI California has, to date, not conducted any significant business operations other than the acquisition of real property located in

Madera County, California, on which we are constructing our first ethanol production facility. ReEnergy, does not presently have any significant business operations or plans but does hold an option to acquire real property in Visalia, California, on which we may build an ethanol production facility.

CORPORATE INFORMATION

Our principal executive offices are located 5711 N. West Avenue, Fresno, California 93711. Our telephone number is (559) 435-1771. Our Internet address is http://www.pacificethanol.net. Information contained on, or that is accessible through, our websites should not be considered to be part of this prospectus.

<TABLE>
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THE OFFERING

Common stock offered by the selling security holders	11,503,454 shares
Common stock to be outstanding after this offering	31,536,078 shares
Use of proceeds	All proceeds of this offering will be received by selling security holders for their own accounts. See "Use of Proceeds."
Nasdaq SmallCap Market symbol	PEIX

</TABLE>

The number of shares of common stock being offered by the selling security holders includes 8,575,867 outstanding shares of common stock held by certain security holders and assumes the exercise of warrants whose underlying shares of common stock are covered by this prospectus in exchange for 2,927,587 shares of common stock, and the immediate resale of all of those 11,503,454 shares of common stock. The number of shares of common stock that will be outstanding upon the completion of this offering is based on the 28,608,491 shares outstanding as of August 18, 2005, and excludes the following:

- 133,000 shares of common stock reserved for issuance under our

Amended 1995 Incentive Stock Plan, of which options to purchase 133,000 shares were outstanding as of that date, at a weighted average exercise price of $5.54 per share;

- 2,500,000 shares of common stock reserved for issuance under our 2004 Stock Option Plan, of which options to purchase 662,500 shares were outstanding as of that date, at a weighted average exercise price of $8.05 per share;
- 201,251 shares of common stock underlying warrants outstanding as of that date, not including warrants covered by the registration statement of which this prospectus is a part, at an exercise price of $0.0001 per share; and
- any additional shares of common stock we may issue from time to time after that date.

You should read the discussion under "Management -- Stock Option Plans" for additional information about our stock option plans.

SUMMARY CONSOLIDATED HISTORICAL FINANCIAL DATA

The following financial data should be read in conjunction with the consolidated financial statements and the notes to those statements beginning on page F-1 of this prospectus, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. The consolidated statements of operations data for the six months ended June 30, 2005 and 2004 and the consolidated balance sheet data as of June 30, 2005 and 2004 are derived from unaudited financial statements included in the prospectus that, in the opinion of our management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial data for these periods.

The consolidated statements of operations data for the years ended December 31, 2004 and 2003 and the consolidated balance sheet data at December 31, 2004 and 2003 are derived from the consolidated audited financial statements included in this prospectus. The historical results that appear below are not necessarily indicative of results to be expected for any future periods.

<TABLE>

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,	
	2005	2004	2004	2003
<S>	<C>	<C>	<C>	<C>
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:				
Net sales	$ 25,116,430	$ 16,003	$ 19,764	$ 1,016,594
Cost of goods sold	24,917,278	10,789	12,523	946,012
Gross profit	199,152	5,214	7,241	70,582
Selling, general and administrative expenses	1,792,668	427,058	1,070,010	647,731
Non-cash compensation and consulting fees	1,343,636	517,500	1,207,500	--
Loss from operations	(2,937,152)	(939,344)	(2,270,269)	(577,149)
Total other expense	(89,559)	(266,944)	(530,698)	(279,930)
Loss from operations before income taxes	(3,026,711)	(1,206,288)	(2,800,967)	(857,079)
Provision for income taxes	4,800	2,400	(1,600)	(1,600)
Net loss	$ (3,031,511)	$ (1,208,688)	$ (2,802,567)	$ (858,679)
Basic loss per share	$ (0.14)	$ (0.10)	$ (0.23)	$ (0.09)
Diluted loss per share	$ (0.14)	$ (0.10)	$ (0.23)	$ (0.09)
Weighted-average shares outstanding, basic	21,415,102	11,927,493	12,396,895	9,578,866
Weighted-average shares outstanding, diluted	21,415,102	11,927,493	12,396,895	9,578,866
CONSOLIDATED BALANCE SHEET DATA:				
Cash and cash equivalents	$ 16,427,839	$ 138,048	$ 42	$ 249,084
Working capital (deficit)	15,734,748	311,096	(1,024,747)	(357,576)
Total assets	41,537,605	7,786,802	7,179,263	6,559,634
Stockholders' equity	33,604,133	2,387,729	1,355,732	1,367,828

</TABLE>

No cash dividends on our common stock were declared during any of the periods presented above.

Various factors materially affect the comparability of the information presented in the above table. These factors relate primarily to a Share Exchange Transaction that was consummated on March 23, 2005 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 capital stock of PEI California and all of the outstanding membership interests of Kinergy and ReEnergy. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview."

SUMMARY UNAUDITED CONDENSED CONSOLIDATED PRO FORMA FINANCIAL DATA

The following tables present a summary of our unaudited condensed

consolidated pro forma financial data for the six months ended June 30, 2005 and the year ended December 31, 2004. You should read this financial data together with "Unaudited Condensed Consolidated Pro Forma Financial Data," "Selected Historical Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our historical audited and unaudited consolidated financial statements and the related notes thereto and the historical audited financial statements of Kinergy and ReEnergy appearing elsewhere in this prospectus.

On March 23, 2005, we 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 we acquired all of the issued and outstanding capital stock of PEI California and all of the outstanding membership interests of Kinergy and ReEnergy. This transaction has been accounted for as a reverse acquisition whereby PEI California is the accounting acquiror. Accordingly, the unaudited condensed consolidated statements of operations data for the year ended December 31, 2004 give effect to the acquisition by PEI California of Accessity Corp., Kinergy and ReEnergy as if the acquisitions had been consummated on January 1, 2004. Pro forma condensed consolidated balance sheet data is not presented because the balance sheets of Accessity Corp., Kinergy and ReEnergy and related purchase accounting adjustments are consolidated and included in the financial statements included in our quarterly report on Form 10-QSB for the quarterly period ended June 30, 2005 filed with the Securities and Exchange Commission on August 15, 2005. Pro forma adjustments for Accessity Corp. are not included because they would have no material impact on the pro forma financial information presented.

The summary unaudited condensed consolidated pro forma financial data are presented for illustrative purposes only and do not represent what our results of operations actually would have been if the transactions referred to above had occurred as of the dates indicated or what our results of operations will be for future periods. The presented information does not include certain cost savings and operational synergies that we expect to achieve upon fully consolidating our acquisitions.

<TABLE>

	SIX MONTHS ENDED JUNE 30, 2005		YEAR ENDED DECEMBER 31, 2004	
	PACIFIC ETHANOL	PRO FORMA PACIFIC ETHANOL AND ACQUISITIONS	PACIFIC ETHANOL	PRO FORMA PACIFIC ETHANOL AND ACQUISITIONS
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:				
<S>	<C>			
Net sales	$ 25,116,430	$ 48,721,682	$ 19,764	$ 82,810,168
Cost of goods sold	24,917,278	48,124,880	12,523	79,593,420
Gross profit	199,512	596,802	7,241	3,216,748
Selling, general and administrative expenses	1,792,668	2,185,535	1,070,010	2,686,452
Non-cash compensation and consulting fees	1,343,636	1,590,500	1,207,500	2,681,750
Loss from operations	(2,937,152)	(3,179,233)	(2,270,269)	(2,151,454)
Total other expense	(89,559)	(88,943)	(530,698)	(535,535)
Loss from operations before income taxes	(3,026,711)	(3,268,176)	(2,800,967)	(2,686,989)
Provision for income taxes	4,800	5,600	(1,600)	2,400
Net loss	$ (3,031,511)	$ (3,273,776)	$ (2,802,567)	$ (2,689,389)
Basic loss per share	$ (0.14)	$ (0.12)	$ (0.23)	$ (0.10)
Diluted loss per share	$ (0.14)	$ (0.12)	$ (0.23)	$ (0.10)
Weighted-average shares outstanding, basic	21,415,102	27,799,611	12,396,895	26,486,309
Weighted-average shares outstanding, diluted	21,415,102	27,799,611	12,396,895	26,486,309

</TABLE>

RISK FACTORS

THE FOLLOWING SUMMARIZES MATERIAL RISKS THAT YOU SHOULD CAREFULLY CONSIDER BEFORE YOU DECIDE TO BUY OUR COMMON STOCK IN THIS OFFERING. ANY OF THE FOLLOWING RISKS, IF THEY ACTUALLY OCCUR, WOULD LIKELY HARM OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS. AS A RESULT, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE, AND YOU COULD LOSE THE MONEY YOU PAID TO BUY OUR COMMON STOCK.

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 June 30, 2005, we had an accumulated deficit of approximately $6.7 million. For the six months ended June 30, 2005, we incurred a net loss of approximately $3.0 million. We expect to incur losses for the foreseeable future and at least until the completion of our planned ethanol production facility. Unless we are able to complete our acquisition of PBI, we estimate that the earliest completion date of our ethanol production facility in Madera County, 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 debt and equity financing 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 cannot assure you that we will attain, sustain or increase profitability on a quarterly or annual basis in the future. If we do not achieve, sustain or increase profitability, our business will be adversely affected and our stock price may decline.

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. There can be no assurance that we will be able 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 sale and profitability.

WE PLAN TO FUND A SUBSTANTIAL MAJORITY OF THE ACQUISITION COSTS OF PBI AND THE CONSTRUCTION COSTS OF OUR PLANNED ETHANOL PRODUCTION FACILITY THROUGH THE ISSUANCE OF A SUBSTANTIAL AMOUNT OF DEBT, RESULTING IN SUBSTANTIAL DEBT SERVICE REQUIREMENTS THAT COULD REDUCE THE VALUE OF YOUR INVESTMENT.

We have executed an agreement to acquire PBI, a company that has constructed an ethanol production facility in Goshen, California. We plan to fund a substantial majority of the acquisition costs of PBI and construction costs of our planned ethanol production facility through the issuance of a substantial amount of debt. We anticipate that we will need to raise approximately $40.0 million and another $60.0 million in debt financing to acquire PBI and to complete construction of our first ethanol production

facility, respectively. As a result, our capital structure will be 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 all or substantially all of our 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 we are unable to pay our 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 our debt on substantially less favorable terms. In the event that we are unable to refinance all or a portion of our debt or raise funds through asset sales, sales of equity or otherwise, our business may be adversely affected, we may be forced to liquidate and you could lose your entire investment.

FOLLOWING THE CLOSING OF OUR ANTICIPATED DEBT FINANCING, OUR LENDERS MAY REQUIRE US TO ABIDE BY RESTRICTIVE LOAN COVENANTS THAT MAY HINDER OUR ABILITY TO OPERATE AND REDUCE OUR PROFITABILITY.

We expect that following the closing of our anticipated debt financing, the loan agreements governing our debt financing will contain a number of restrictive affirmative and negative covenants. These covenants may limit our ability to, among other things:

- incur additional indebtedness;
- make capital expenditures in excess of prescribed thresholds;
- pay dividends to our stockholders;
- make various investments;
- create liens on our assets;
- utilize the proceeds of asset sales; or
- merge or consolidate or dispose of all or substantially all of our assets.

We also will likely be required to maintain specified financial ratios, including minimum cash flow coverage, minimum working capital and minimum net worth. We also may be required to utilize a portion of any excess cash flow generated by operations to prepay our debt. A breach of any of these covenants or requirements could result in a default under our debt agreements. If we default, and if such default is not cured or waived, a lender could, among other remedies, accelerate our debt and declare the debt immediately due and payable. If this occurs, we may not be able to repay or borrow sufficient funds to

refinance our debt. Even if new financing is available, it may not be on terms that are acceptable. Such an occurrence could cause us to cease building our ethanol production facility, or if our facility is already constructed, such an occurrence could cause us to cease or curtail operations. We cannot assure you that our future operating results will be sufficient to achieve compliance with such covenants and requirements, or in the event of a default, to remedy such default.

GOVERNMENTAL REGULATIONS OR THE REPEAL OR MODIFICATION OF VARIOUS TAX INCENTIVES FAVORING THE USE OF ETHANOL COULD ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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 recent energy bill signed into law by President Bush includes a national renewable fuels standard that requires refiners to blend a percentage of renewable fuels into gasoline. This legislation replaces the 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 Sate of California decreases, our business, financial condition and results of operations would be materially and adversely affected.

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 business and results of operations.

VIOLATIONS OF ENVIRONMENTAL REGULATIONS COULD SUBJECT US TO SEVERE PENALTIES AND MATERIALLY AND ADVERSELY AFFECT OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

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 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 business, results of operations and financial condition 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 significantly delay or prevent the achievement of our business objectives. Consequently, the loss of Mr. Koehler could adversely affect our business, financial condition and results of operations.

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.

The ethanol production and marketing industry is extremely competitive. Many of our significant competitors in the ethanol production and marketing industry have substantially greater production, financial, research and development, personnel and marketing resources than we do. As a result, each of these companies 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 and sales.

OUR FAILURE TO ATTRACT AND RETAIN KEY PERSONNEL COULD ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Our future success is dependent in part on our ability to attract and retain certain key personnel. We currently have few employees and need to attract additional skilled technical, clerical and managerial personnel in all areas of our business to continue to grow. The competition for such individuals in the growing ethanol production and marketing industry is intense. There can be no assurance that we will be able to retain our existing personnel or attract additional qualified personnel in the future. If we are unable to attract and retain key personnel, our business, financial condition and results of operations could be adversely affected.

OUR MANAGEMENT MAY FAIL TO SUCCESSFULLY INTEGRATE THE BUSINESS OF KINERGY WITH THE PROPOSED ETHANOL PRODUCTION BUSINESS OF PBI OR PEI CALIFORNIA, OR BOTH, WHICH COULD ADVERSELY AFFECT OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Integrating the business of Kinergy with the proposed ethanol production businesses of PBI and PEI California will be complex, time-consuming and expensive, and our management may fail to successfully integrate these businesses. Each of Kinergy, PBI and PEI California were previously operated independently, each with its own business or proposed business, culture, clients, employees and systems. Since March 2005, Kinergy and PEI California have been be operated as a combined organization, utilizing common information and communication systems, operating procedures, financial controls and human resources practices, including benefits, training and professional development programs. If the acquisition of PBI occurs, it will be consolidated with the businesses of Kinergy and PEI California. We may experience substantial difficulties, costs and delays relating to our efforts to integrate the business of Kinergy and the proposed ethanol production business of PBI or PEI California. These may include the diversion of management resources from our core ethanol marketing business, the potential incompatibility of business cultures and the costs and delays in implementing common systems and procedures. Any one or all of these factors may cause increased operating costs or the loss of key customers and employees, either of which could adversely affect our business, financial condition and results of operations.

OUR FAILURE TO MANAGE OUR GROWTH EFFECTIVELY COULD IMPAIR OUR BUSINESS.

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 proposed acquisition of PBI and the completion of construction of our planned ethanol production facility, will require significant investments of capital and management's close attention. 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.

There can be no assurance that we will be able 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, our business, financial condition and results of operations could be materially and adversely affected.

INSURANCE COVERAGE MAY BE INADEQUATE OR UNAVAILABLE TO PROTECT US FROM LOSSES ASSOCIATED WITH OUR PLANS AND OPERATIONS, WHICH MAY ADVERSELY AFFECT OUR BUSINESS AND FINANCIAL CONDITION.

Insurance coverage may be inadequate or unavailable to protect us from losses associated with our plans and operations. Events may occur for which no insurance is available or for which insurance is not available on terms that are reasonably acceptable. In addition, events may occur for which our insurance inadequately covers the associated losses. Losses from an uninsured or underinsured event, such as, but not limited to, earthquakes, floods, war, riot, acts of terrorism or other risks may be uninsured or underinsured and such a loss may adversely affect our business and financial condition. In addition, we operate in an industry that is subject to heavy environmental regulation and we are undertaking to acquire PBI, a company that owns an existing ethanol production facility, and complete construction of an additional ethanol production facility, all of which subject us to substantial losses upon the occurrence of certain events such as the discharge of a hazardous substance or a catastrophic event such as an explosion or fire during or following the acquisition of PBI or completion of construction of our ethanol production facility. In the event of a loss, any failure to obtain and maintain insurance, with adequate policy limits and/or self-retention limits, may adversely affect our business and financial condition.

RISKS RELATED TO 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 August 18, 2005, we had outstanding approximately 28.6 million shares of our common stock. Approximately 25.2 million of these shares were restricted under the Securities Act of 1933, including 9.3 million shares beneficially owned, as a group, by our executive officers, directors and 10% stockholders. Accordingly, our common stock has a public float of approximately 3.4 million shares held by a relatively small number of public investors.

We expect to register for resale approximately 11.5 million shares of our common stock, including shares of our common stock underlying warrants. If and when a registration statement covering these shares of common stock is declared effective, holders of these shares will be permitted, subject to few limitations, to freely sell such shares of common stock. We cannot predict the effect, if any, that future sales of shares of our common stock into the public market will have on the market price of our common stock. However, 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 new products and processes 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 products 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 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 business, financial condition and results of operations and also the price of our common stock.

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 MARGINS AND WHICH COULD MATERIALLY AND ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

Kinergy's purchases and sales of ethanol are not always matched with sales and purchases of ethanol at established prices. As a standard business practice, 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. As a standard business practice, 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's inventory of ethanol held for sale subjects us to the risk of a

decline in the price of ethanol. 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 results of operations.

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 SALES AND RESULTS OF OPERATIONS.

The vast majority of Kinergy's sales are generated from a small number of customers. During the first six months of 2005, sales to Kinergy's two largest customers that provided 10% or more of total sales represented approximately 18% and 11%, respectively, representing an aggregate of approximately 29%, of our total sales. During 2004, sales to Kinergy's four largest customers that provided 10% or more of the total sales represented approximately 13%, 12%, 12% and 12%, respectively, representing an aggregate of approximately 49%, of our total sales. We expect that Kinergy will continue to depend for the foreseeable future upon a small number of customers for a significant majority 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, we cannot assure you that, in any future period, Kinergy's sales generated from these customers, individually or in the aggregate, will equal or exceed historical levels. We also cannot assure you that, if sales to any of these customers cease or decline, Kinergy will be able 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 net sales and results of operations.

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 the vast majority 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, KINERGY MAY BE UNABLE TO SATISFY THE DEMANDS OF ITS CUSTOMERS AND OUR BUSINESS AND RESULTS OF OPERATIONS WILL BE ADVERSELY AFFECTED.

Kinergy depends on a small number of suppliers for the vast majority of the ethanol that it sells. During the first six months of 2005, Kinergy's four largest suppliers that provided 10% or more of total purchases made represented approximately 26%, 21%, 21% and 11%, respectively, representing an aggregate of approximately 79%, of the total ethanol Kinergy purchased for resale. During 2004, Kinergy's three largest suppliers that provided 10% or more of the total purchases made represented approximately 27%, 23% and 14%, respectively, 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. We cannot assure you that, if any of these suppliers is unable or declines for any reason to continue to supply Kinergy with ethanol, Kinergy will be able 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 any of these suppliers is unable or decides not to continue to supply Kinergy with ethanol, Kinergy may be unable to satisfy the demands of its customers and our business and results of operations will be adversely affected.

INTERRUPTIONS OR DELAYS IN KINERGY'S SUPPLY OF ETHANOL COULD CAUSE KINERGY TO BE UNABLE TO SATISFY THE DEMANDS OF ITS CUSTOMERS AND ADVERSELY AFFECT OUR BUSINESS AND RESULTS OF OPERATIONS.

Kinergy sources the ethanol that it sells primarily from suppliers thousands of miles away 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. The quantity of ethanol in Kinergy's inventory fluctuates and during periods of low inventory levels, Kinergy is more vulnerable to the effects of interruptions and delays in its supply of ethanol. Accordingly, interruptions or delays in Kinergy's supply of ethanol from the Midwest could cause Kinergy to be unable to satisfy the demands of its customers and adversely affect our business and results of operations.

RISKS RELATING TO THE BUSINESS OF PEI CALIFORNIA

THE ACQUISITION OF PBI AND THE COMPLETION OF CONSTRUCTION OF OUR PLANNED ETHANOL PRODUCTION FACILITY WILL REQUIRE SIGNIFICANT ADDITIONAL FUNDING, WHICH WE EXPECT TO RAISE THROUGH DEBT FINANCING. WE CANNOT ASSURE YOU THAT WE WILL BE SUCCESSFUL IN RAISING ADEQUATE CAPITAL.

We anticipate that we will need to raise approximately $40.0 million and an additional $60.0 million in debt financing to complete the acquisition of PBI and complete construction of our first ethanol production facility in Madera County, respectively. We have no contracts with or binding commitments from any bank, lender or financial institution for this debt financing. We cannot assure

you that any funding from one or more lenders will be obtained, or if it 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 an ethanol production facility.

NEITHER PBI NOR PEI CALIFORNIA HAS CONDUCTED ANY SIGNIFICANT BUSINESS OPERATIONS AND HAVE BEEN UNPROFITABLE TO DATE. IF EITHER PBI OR PEI CALIFORNIA FAILS TO COMMENCE SIGNIFICANT BUSINESS OPERATIONS, IT WILL BE UNSUCCESSFUL, WILL FAIL TO CONTRIBUTE POSITIVELY TO OUR PROFITABILITY AND WILL HAVE AN ADVERSE EFFECT ON OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Neither PBI nor PEI California has conducted any significant business operations and have been unprofitable to date. Accordingly, there is no prior operating history by which to evaluate the likelihood of PBI's or PEI California's success or its contribution to our profitability. We cannot assure you that our acquisition of PBI will ever be consummated or, if consummated, that PBI will ever commence significant business operations or ever be successful or contribute positively to our profitability. We also cannot assure you that PEI California will ever complete construction of an ethanol production facility and commence significant operations or, if PEI California does complete the construction of an ethanol production facility, that PEI California will ever be successful or contribute positively to our profitability. If PBI or PEI California fails to commence significant business operations, it will be unsuccessful and will fail to contribute positively to our profitability, which will have an adverse effect on our financial condition and results of operations.

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

The market price of ethanol is somewhat dependent 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 three months from January 2005 through March 2005 and has reversed this decline and increased by approximately 25% from its 2004 average price per gallon in only four months from April 2005 through July 2005. If PEI California fails to price its ethanol consistently in a manner that is profitable, our business, financial condition and results of operations will be adversely affected.

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. We cannot assure you that there will be any material or significant increases in the demand for ethanol commensurate with increasing supplies of ethanol. Accordingly, 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 or WDG. Any material decline in the price of ethanol or WDG may adversely affect our business, financial condition and results of operations.

THE CONSTRUCTION AND OPERATION OF OUR PLANNED ETHANOL PRODUCTION FACILITY, AND, IN THE EVENT WE CONSUMMATE THE ACQUISITION OF PBI, THE OPERATION OF PBI'S ETHANOL PRODUCTION FACILITY, MAY BE ADVERSELY AFFECTED BY ENVIRONMENTAL REGULATIONS AND PERMIT REQUIREMENTS.

The production of ethanol involves the emission of various airborne pollutants, including particulates, 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 facility. In addition, PBI will be subject to these regulations in connection with the operation of its ethanol production facility. 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 facility are likely to increase; in addition, the facility may not be fully constructed at all. It is also likely that operations at the facility 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, which could have a material and adverse effect on our business and results of operations.

VARIOUS RISKS ASSOCIATED WITH THE CONSTRUCTION OF OUR PLANNED ETHANOL PRODUCTION FACILITY AND, IN THE EVENT WE CONSUMMATE THE ACQUISITION OF PBI, THE OPERATION OF PBI'S ETHANOL PRODUCTION FACILITY, MAY ADVERSELY AFFECT OUR BUSINESS AND FINANCIAL CONDITION.

We cannot assure you that delays in the construction of our planned ethanol production facility or defects in materials and/or workmanship will not occur. Any defects could delay the commencement of operations of the facility, or, if such defects are discovered after operations have commenced, could halt or discontinue operation of the facility indefinitely. These risks also apply to the operation of PBI's ethanol production facility. 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 business and financial condition.

There can be no assurance that PEI California will not encounter hazardous conditions at or near the Madera County site. PEI California may encounter conditions at or near the site that may delay construction of the facility. If PEI California encounters a hazardous condition at or near the 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 the facility and may require significant expenditure of resources to correct the condition. In addition, W. M. Lyles Co., the company we have selected to construct our Madera County, California 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 California encounters any hazardous condition during construction, our business and financial condition may be adversely affected.

We have based our estimated capital resource needs on a design for the planned ethanol production facility and related co-generation facility that we estimate will cost approximately $60.0 million. The estimated cost of the facility is based on preliminary discussions and estimates, and we cannot assure you that the final construction cost of the facility will not be significantly higher. Any significant increase in the final construction cost of the facility may adversely affect our business, financial condition and results of operations.

PEI CALIFORNIA'S DEPENDENCE ON AND AGREEMENTS WITH W. M. LYLES CO. FOR THE CONSTRUCTION OF OUR PLANNED ETHANOL PRODUCTION FACILITY COULD ADVERSELY AFFECT OUR BUSINESS AND FINANCIAL CONDITION.

PEI California will be highly dependent upon W. M. Lyles Co. to design and build our planned ethanol production facility in Madera County, California. PEI California 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 California. These agreements also include a provision that requires PEI California 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 California terminates it in favor of another contractor. Consequently, if PEI California terminates these agreements, the requirement that it pay the termination fee and costs could adversely affect our business and financial condition. 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 planned facility. As a result, PEI California's ability to commence production of and sell ethanol would be delayed, which would adversely affect our business, financial condition and results of operations.

THE RAW MATERIALS AND ENERGY NECESSARY TO PRODUCE ETHANOL MAY BE UNAVAILABLE OR MAY INCREASE IN PRICE, ADVERSELY AFFECTING OUR BUSINESS AND RESULTS OF OPERATIONS.

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 planned 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. In addition, we estimate that PBI's ethanol production facility will require approximately 9.0 million bushels or more of corn each year and also will require 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. We cannot assure you that local water, electricity and gas utilities will be able to reliably supply the water, electricity and natural gas that our planned ethanol production facility will need or will 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 or PBI'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 or PBI paying higher prices than its competitors. In addition, PEI California and PBI 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 financial condition and results of operation will be significantly affected by the prices and supplies of raw materials and energy.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, including statements concerning future conditions in the electronic components and communications equipment industries, and concerning our future business, financial condition, operating strategies, and operational and legal risks. We use words like "believe," "expect," "may," "will," "could," "seek," "estimate," "continue," "anticipate," "intend," "goal," "future," "plan" or variations of those terms and other similar expressions, including their use in the negative, to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as to our expectations as of the date of this prospectus. These forward-looking statements are subject to a number of risks and uncertainties, including those identified under "Risk Factors" and elsewhere in this prospectus. Although we believe that the expectations reflected in these forward-looking statements are reasonable, actual conditions in the ethanol production and distribution industries, and actual conditions and results in our business, could differ materially from those expressed in these forward-looking statements. In addition, none of the events anticipated in the forward-looking statements may actually occur. Any of these different outcomes could cause the price of our common stock to decline substantially. Except as required by law, we undertake no duty to update any forward-looking statement after the date of this prospectus, either to conform any statement to reflect actual results or to reflect the occurrence of unanticipated events.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of shares of our common stock in this offering. Rather, all proceeds will be received by selling security holders.

DIVIDEND POLICY

We have not declared or paid any cash dividends on our capital stock in the past, and we do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future.

We will pay dividends on our common stock only if and when declared by our board of directors. Our board of directors' ability to declare a dividend is subject to restrictions imposed by Delaware law. In determining whether to declare dividends, the board of directors will consider these restrictions as well as our financial condition, results of operations, working capital requirements, future prospects and other factors it considers relevant.

PRICE RANGE OF COMMON STOCK

Our common stock has been traded on the Nasdaq SmallCap Market under the symbol "PEIX" since March 24, 2005. 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, 2003		
First Quarter	$ 5.05	$ 1.35
Second Quarter	2.80	1.80
Third Quarter	2.90	1.75
Fourth Quarter	3.90	2.35
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 ENDING DECEMBER 31, 2005		
First Quarter	$ 10.25	$ 5.49
Second Quarter	12.94	8.58
Third Quarter (through August 18, 2005)	9.99	7.78

As of August 18, 2005, we had 28,608,491 shares of common stock outstanding held of record by approximately 500 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 August 18,

2005, the closing sale price of our common stock on the Nasdaq SmallCap Market was $8.78 per share.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2005. The information in the table below should be read in conjunction with our consolidated financial statements and related notes beginning on page F-1 of this prospectus.

	JUNE 30, 2005
Long-term debt, less current portion	$ 2,887,947
Stockholders' equity:	
Preferred Stock, $0.001 par value per share, 10,000,000 shares authorized; no shares issued and outstanding	--
Common Stock, $0.001 par value, 100,000,000 shares authorized; 28,608,491 shares issued and outstanding	28,608
Additional paid-in capital	42,119,996
Unvested consulting expense	(1,851,114)
Due from stockholders	(600)
Accumulated deficit	(6,692,757)
Total stockholders' equity	33,604,133
Total capitalization	$ 36,492,080

SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA

The following financial data should be read in conjunction with the consolidated financial statements and the notes to those statements beginning on page F-1 of this prospectus, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus. The consolidated statements of operations data for the six months June 30, 2005 and 2004 and the consolidated balance sheet data as of June 30, 2005 and 2004 are derived from unaudited financial statements included in this prospectus that, in the opinion of our management, reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial data for these periods.

The consolidated statements of operations data for the years ended December 31, 2004 and 2003 and the consolidated balance sheet data at December 31, 2004 and 2003 are derived from the consolidated audited financial statements included in this prospectus. The historical results that appear below are not necessarily indicative of results to be expected for any future periods.

<TABLE>

	SIX MONTHS ENDED JUNE 30,		YEAR ENDED DECEMBER 31,	
	2005	2004	2004	2003
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:				
<S>	<C>	<C>	<C>	<C>
Net sales	$ 25,116,430	$ 16,003	$ 19,764	$ 1,016,594
Cost of goods sold	24,917,278	10,789	12,523	946,012
Gross profit	199,152	5,214	7,241	70,582
Selling, general and administrative expenses	1,792,668	427,058	1,070,010	647,731
Non-cash compensation for consulting fees	1,343,636	517,500	1,207,500	--
Loss from operations	(2,937,152)	(939,344)	(2,270,269)	(577,149)
Total other expense	(89,559)	(266,944)	(530,698)	(279,930)
Loss from operations before income taxes	(3,026,711)	(1,206,288)	(2,800,967)	(857,079)
Provision for income taxes	4,800	2,400	(1,600)	(1,600)
Net loss	$ (3,031,511)	$ (1,208,688)	$ (2,802,567)	$ (858,679)
Basic loss per share	$ (0.14)	$ (0.10)	$ (0.23)	$ (0.09)
Diluted loss per share	$ (0.14)	$ (0.10)	$ (0.23)	$ (0.09)
Weighted-average shares outstanding, basic	21,415,102	11,927,493	12,396,895	9,578,866
Weighted-average shares outstanding, diluted	21,415,102	11,927,493	12,396,895	9,578,866
CONSOLIDATED BALANCE SHEET DATA:				
Cash and cash equivalents	$ 16,427,839	$ 138,048	$ 42	$ 249,084
Working capital (deficit)	15,734,748	311,096	(1,024,747)	(357,576)
Total assets	41,537,605	7,786,802	7,179,263	6,559,634
Stockholders' equity	33,604,133	2,387,729	1,355,732	1,367,828

</TABLE>

No cash dividends on our common stock were declared during any of the periods presented above.

Various factors materially affect the comparability of the information presented in the above table. These factors relate primarily to a Share Exchange Transaction that was consummated on March 23, 2005 with the shareholders of Pacific Ethanol, Inc., a California corporation, or PEI California, and the holders of the membership interests of each of Kinergy Marketing, LLC and ReEnergy, LLC, pursuant to which we acquired all of the issued and outstanding capital stock of PEI California and all of the outstanding membership interests of Kinergy Marketing, LLC and ReEnergy, LLC. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview."

UNAUDITED CONDENSED CONSOLIDATED PRO FORMA FINANCIAL DATA

The following tables present our unaudited condensed consolidated pro forma financial data for the six months ended June 30, 2005 and for the year ended December 31, 2004. You should read this financial data together with "Unaudited Condensed Consolidated Pro Forma Financial Data," "Selected Historical Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our historical audited and unaudited consolidated financial statements and the related notes thereto and the historical audited financial statements of Kinergy and ReEnergy appearing elsewhere in this prospectus.

On March 23, 2005, we 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 we acquired all of the issued and outstanding capital stock of PEI California and all of the outstanding membership interests of Kinergy and ReEnergy. This transaction has been accounted for as a reverse acquisition whereby PEI California is the accounting acquiror. Accordingly, the unaudited condensed consolidated statements of operations data for the year ended December 31, 2004 give effect to the acquisition by PEI California of Accessity Corp., Kinergy and ReEnergy as if the acquisitions had been consummated on January 1, 2004. Pro forma condensed consolidated balance sheet data is not presented because the balance sheets of Accessity Corp., Kinergy and ReEnergy and related purchase accounting adjustments are consolidated and included in the financial statements included in our quarterly report on Form 10-QSB for the quarterly period ended June 30, 2005 filed with the Securities and Exchange Commission on August 15, 2005. Pro forma adjustments for Accessity Corp. are not included because they would have no material impact on the pro forma financial information presented.

The financial information for Pacific Ethanol contained on the Pro Forma Condensed Consolidated Statements of Operations for the Six Months ended June 30, 2005 set forth below is comprised of financial information for Kinergy and ReEnergy for the period beginning on March 24, 2005 and ending on June 30, 2005 and financial information for PEI California for the period beginning on January 1, 2005 and ending on June 30, 2005.

The acquisition was accounted for under the purchase method of accounting in accordance with accounting principles generally accepted in the United States. Under this method, tangible and identifiable intangible assets acquired and liabilities assumed are recorded at their fair values based on the valuation by an independent valuation firm and its determination of the excess consideration given allocated between the identifiable intangible assets and goodwill. The excess of the purchase price, plus estimated fees and expenses related to the acquisitions, over the fair value of net assets acquired are recorded as goodwill.

The summary unaudited condensed consolidated pro forma financial data are presented for illustrative purposes only and do not represent what our results of operations actually would have been if the transactions referred to above had occurred as of the dates indicated or what our results of operations will be for future periods. The presented information does not include certain cost savings and operational synergies that we expect to achieve upon fully consolidating our acquisitions.

<TABLE>

PACIFIC ETHANOL, INC., REENERGY, LLC AND KINERGY MARKETING, LLC
PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2005

	REENERGY	KINERGY	PACIFIC ETHANOL	PRO FORMA ADJUSTMENTS(1)	PRO FORMA COMBINED
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$ --	$ 23,605,252	$ 25,116,430	$ --	$ 48,721,682
Cost of goods sold	--	23,207,602	24,917,278	--	48,124,880
Gross profit	--	397,650	199,152	--	596,802
Selling, general and administrative expenses	346	72,240	1,792,668	320,281	2,185,535
Non-cash compensation and consulting fees	--	--	1,343,636	246,864	1,590,500
Net income (loss) from operations	(346)	325,410	(2,937,152)	(567,145)	(3,179,233)
Total other income (expense)	--	616	(89,559)	--	(88,943)
Net income (loss) from operations before income taxes	(346)	326,026	(3,026,711)	(567,145)	(3,268,176)

Provision for income taxes	800	--	4,800	--	5,600
Net income (loss)	$ (1,146)	$ 326,026	$ (3,031,511)	$ (567,145)	$ (3,273,776)
Basic loss per share (2)			$ (0.22)		$ (0.12)
Diluted loss per share (2)			$ (0.22)		$ (0.12)
Weighted-average shares outstanding, basic			13,710,197		27,799,611
Weighted-average shares outstanding, diluted			13,710,197		27,799,611

- ----------

(1) For an explanation of the pro forma adjustments see Notes to Unaudited Pro Forma Combined Consolidated Statements of Operations for the Six Months Ended June 30, 2005 on page F-56.

(2) The following table summarizes the combined pro forma basic and diluted loss per share as if the acquisitions had occurred as of January 1, 2005:

	REENERGY	KINERGY	PACIFIC ETHANOL	PRO FORMA ADJUSTMENTS(1)	PRO FORMA COMBINED
Loss per share	$ --	$ --	$ (0.22)	$ --	$ (0.12)
Numerator:					
Net income (loss) attributable to common stockholders	(1,146)	326,026	(3,031,511)	(567,145)	(3,273,776)
Denominator:					
Weighted average number of common shares outstanding during the period, basic			13,710,197	7,089,414	20,799,611
Additional weighted average common shares if private placement occurred at January 1, 2005 (considered necessary to complete acquisitions)				7,000,000	7,000,000
Adjusted weighted average shares			13,710,197	14,089,414	27,799,611
Basic loss per share			$ (0.22)	$ (0.04)	$ (0.12)
Diluted loss per share			$ (0.22)	$ (0.04)	$ (0.12)

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(1) For an explanation of the pro forma adjustments see Notes to Unaudited Pro Forma Combined Consolidated Statements of Operations for the Six Months Ended June 30, 2005 on page F-56.

PACIFIC ETHANOL CALIFORNIA, INC., REENERGY, LLC AND
KINERGY MARKETING, LLC
PRO FORMA CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2004

	REENERGY	KINERGY	PEI CALIFORNIA	PRO FORMA ADJUSTMENTS(1)	PRO FORMA COMBINED
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Net sales	$ --	$ 82,790,404	$ 19,764	$ --	$ 82,810,168
Cost of goods sold	--	79,580,897	12,523	--	79,593,420
Gross profit	--	3,209,507	7,241	--	3,216,748
Selling, general and administrative expenses	9,854	275,588	1,070,010	1,331,000	2,686,452
Non-cash compensation and consulting fees	--	--	1,207,500	1,474,250	2,681,750
Net income (loss) from operations	(9,854)	2,933,919	(2,270,269)	(2,805,250)	(2,151,454)
Total other expense	--	(4,837)	(530,698)	--	(535,535)
Net income (loss) from operations before income taxes	(9,854)	2,929,082	(2,800,967)	(2,805,250)	(2,686,989)
Provision for income taxes	(800)	--	1,600	--	2,400
Net income (loss)	$(10,654)	$ 2,929,082	$ (2,802,567)	$(2,805,250)	$ (2,689,389)
Basic loss per share (2)			$ (0.23)		$ (0.10)
Diluted loss per share (2)			$ (0.23)		$ (0.10)
Weighted-average shares outstanding, basic			12,396,895		26,486,309
Weighted-average shares outstanding, diluted			12,396,895		26,486,309

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(1) For an explanation of the pro forma adjustments see Notes to Unaudited Pro Forma Combined Consolidated Statements of Operations for the Year Ended December 31, 2004 on page F-58.

(2) The following table summarizes the combined pro forma basic and diluted loss per share as if the acquisitions had occurred as of January 1, 2004:

	REENERGY	KINERGY	PEI CALIFORNIA	PRO FORMA ADJUSTMENTS(1)	PRO FORMA COMBINED

Loss per share	$ --	$ --	$ (0.23)	$ --	$ (0.10)
Numerator:					
Net income (loss) attributable to common stockholders	(10,654)	2,929,082	(2,802,567)	(2,805,250)	(2,689,389)
Denominator:					
Weighted average number of common shares outstanding during the period, basic			12,396,895	7,089,414	19,486,309
Additional weighted average common shares if private placement occurred at January 1, 2004 (considered necessary to complete acquisitions)			--	7,000,000	7,000,000
Adjusted weighted average shares			12,396,895	14,089,414	26,486,309
Basic loss per share			$ (0.23)	$ (0.20)	$ (0.10)
Diluted loss per share			$ (0.23)	$ (0.20)	$ (0.10)

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(1) For an explanation of the pro forma adjustments see Notes to Unaudited Pro Forma Combined Consolidated Statements of Operations for the Year Ended December 31, 2004 on page F-58.

</TABLE>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and notes to financial statements included elsewhere in this prospectus. This prospectus and our condensed consolidated financial statements and notes to 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 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;
- our business strategy for expanding, maintaining or contracting our presence in this market;
- our ability to efficiently and effectively integrate and operate the businesses of our newly-acquired subsidiaries, Pacific Ethanol, Inc., a California corporation that was organized in 2003 ("PEI California"), Kinergy Marketing, LLC, an Oregon limited liability company that was organized in 2000 ("Kinergy") and ReEnergy, LLC, a California limited liability company that was organized in 2001 ("ReEnergy");
- our ability to consummate the purchase of the membership interests of Phoenix Bio-Industries, LLC;
- our ability to obtain the necessary financing to complete construction of an ethanol plant in Madera County;
- 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 set forth 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.

We are currently in the business of marketing ethanol in the Western United States. Through third-party service providers, we provide transportation, storage and delivery of ethanol. We sell ethanol primarily into California, Nevada, Arizona and Oregon and have extensive customer relationships throughout the Western United States and extensive supplier relationships throughout the Western and Midwestern United States.

In August 2005, we executed an agreement to acquire Phoenix Bio-Industries, LLC, or PBI, a company that has completed construction of what we believe is the first large-scale ethanol production facility in California. The PBI facility has an annual ethanol production capacity of approximately 25 million gallons, is located in Goshen, California and is currently undergoing initial start-up testing. The closing of the acquisition of PBI is contingent upon certain events, including our obtaining all necessary funding to complete the acquisition, which we currently estimate at approximately $40.0 million, the

satisfactory completion of our due diligence on PBI and on the ethanol production facility and our ability to purchase all of the membership interests of PBI. We expect that the closing of this acquisition, if it occurs, will occur in October 2005. We cannot provide any assurances that the closing of our acquisition of PBI will not be delayed or that the closing will occur at all. See "Risk Factors."

Unless we are able to complete our acquisition of PBI, we expect that until we complete the construction of our planned 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 agreement with PBI which provides that we will market and sell PBI's entire ethanol production from its plant located in Goshen, California. The term of this agreement is two years from the date that ethanol is first available for marketing from PBI's plant. This agreement will remain in effect if we are not successful in acquiring PBI.

We are constructing an ethanol production facility to begin, or in the event the acquisition of PBI is consummated, to expand, the production and sale of ethanol and its co-products if we are able to secure all the necessary financing to complete construction of this facility. To date, we have not obtained all of this financing. See "Risk Factors." We also intend to construct or otherwise acquire, including through the acquisition of PBI as discussed above, one or more additional ethanol production facilities as financing resources and business prospects make the construction or acquisition of these facilities advisable. PEI California has, to date, not conducted any significant business operations other than the acquisition of real property located in Madera County, California, on which we are constructing our first ethanol production facility. ReEnergy, does not presently have any significant business operations or plans but does hold an option to acquire real property in Visalia, California, on which we may build an ethanol production facility.

Historically, Kinergy's gross profit as a percentage of sales has averaged between 2.0% and 4.4%, primarily due to increases in the value of the inventory we held for sale during periods in which ethanol prices generally increased. However, in light of recent overall volatility in ethanol prices, we anticipate that until we either complete the acquisition of PBI and/or complete our facility and commence the business of ethanol production thereby obtaining the benefits of higher profit margins associated with production activities as compared to marketing and distribution activities, our gross profit as a percentage of sales will be close to 1.0%. This is also true in light of our agreement with PBI, which we expect will result in obtaining a 1.0% gross profit on the sale of PBI's ethanol. We believe that this level of gross profit is more typical of the ethanol marketing industry.

Ethanol represents only up to 3% of the total annual gasoline supply in the United States, therefore we believe that the ethanol industry has substantial room to grow to reach what we believe is an achievable level of 10% of the total annual gasoline supply in the United States. In California alone, an increase in the demand for ethanol to 10% of the total annual gasoline supply would result in demand for approximately 650 million additional gallons of ethanol, which amounts represents an increase in demand of approximately 16%.

The market price of ethanol is volatile and subject to significant fluctuations, which may cause our results of operations to fluctuate significantly. The market price of ethanol is somewhat dependent on the price of gasoline, which is in turn dependent on the price of petroleum. We cannot predict the future price of gasoline or oil and we may realize 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 three months from January 2005 through March 2005 and has reversed this decline and increased to approximately 25% above its 2004 average price per gallon in only four months from April 2005 through July 2005. If we fail to price our ethanol consistently in a manner that is profitable, our business, financial condition and results of operations will be adversely affected.

We typically match ethanol purchase and sale contracts of like quantities and delivery period, which ordinarily range from one to twelve months. From time to time, we attempt to take advantage of what we perceive to be favorable industry trends and maintain net long or short ethanol positions. This practice does subject us to the risk of prices moving in unanticipated directions, which may result in losses, but also enables us to benefit from above normal margins.

SHARE EXCHANGE TRANSACTION

On March 23, 2005, we completed a share exchange transaction, or 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., a New York corporation, 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 have three wholly-owned subsidiaries: Kinergy, PEI California and ReEnergy.

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 the six months ended June 30, 2004 consist of the operations of PEI California only. We have consolidated the results of Kinergy and ReEnergy beginning March 23, 3005, the date of the Share Exchange Transaction. Accordingly, our results of operations for the six months ended June 30, 2005 consist of the operations of PEI California for the entire six month period and the operations of Kinergy and ReEnergy from March 23, 2005 through June 30, 2005.

PEI California has, to date, not conducted any significant business operations other than the acquisition of real property located in Madera County, California, on which we are construction our first ethanol production facility. ReEnergy does not presently have any significant business operations or plans but does hold an option to acquire real property in Visalia, California, on which we may build an ethanol production facility.

We have consolidated the results of operations of Kinergy beginning from March 23, 2005, the date of the closing of the Share Exchange Transaction. Unless we are able to complete our acquisition of PBI, we expect that until we complete construction of our planned ethanol production facility in Madera County, our operations will consist solely of operations conducted by Kinergy.

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

Current assets	$ 7,014,196
Property, plant and equipment	6,224
Intangibles, including goodwill	11,788,000
Total assets acquired	18,808,420
Current liabilities	4,253,177
Other liabilities	83,017
Total liabilities assumed	4,336,194
Net assets acquired	$ 14,472,226
Shares of common stock issued	6,489,414

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 among Kinergy's and ReEnergy's businesses 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.

	Six Months Ended June 30,	
	2005	2004
Net sales	$ 48,721,682	$ 37,842,788
Net loss	$ (3,273,776)	$ (1,374,834)
Loss per share of common stock		
Basic	$ (0.12)	$ (0.05)
Diluted	$ (0.12)	$ (0.05)

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 revenues 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. We recognize revenue upon delivery of ethanol to a customer's designated ethanol tank. Shipments are made to customers directly from suppliers and from our inventory. We ship ethanol 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 we ship by truck and deliver the product the same day as shipment.

INVENTORY

Inventory consists 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 as well as 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 $5,600,000 and the trade name is valued at $3,100,000. 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. 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 and ReEnergy acquisitions therefore totaled $2,952,000.

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 and customer relationships were estimated to have a ten-year life and, as a result, will be amortized accordingly, unless otherwise impaired at an earlier time.

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.

SIX MONTHS ENDED JUNE 30, 2005 COMPARED TO SIX MONTHS ENDED JUNE 30, 2004

<TABLE>

	SIX MONTHS ENDED JUNE 30,		DOLLAR VARIANCE	PERCENTAGE VARIANCE	RESULTS AS A PERCENTAGE OF NET SALES FOR THE SIX MONTHS ENDED JUNE 30,	
	2005	2004	FAVORABLE (UNFAVORABLE)	FAVORABLE (UNFAVORABLE)	2005	2004
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales	$25,116,430	$ 16,003	$ 25,100,427	156,848.3%	100.0%	100.0%
Cost of sales	24,917,278	10,789	(24,906,489)	(230,850.8)	99.2	67.4

Gross profit	199,152	5,214	193,938	3,719.6	0.8	32.6
Selling, general and administrative expenses	1,792,668	427,058	(1,365,610)	(319.8)	7.1	2,668.6
Non-cash compensation and consulting fees.	1,343,636	517,500	(826,136)	(159.6)	5.4	3,233.8
Loss from operations	(2,937,152)	(939,344)	(1,997,808)	(212.7)	(11.7)	(5,869.8)
Total other expense	(89,559)	(266,944)	177,385	66.5	0.4	1,668.1
Loss from operations before income taxes..	(3,026,711)	(1,206,288)	(1,820,423)	150.9	(12.1)	(7,537.9)
Provision for income taxes	4,800	2,400	(2,400)	(100.0)	--	15.0
Net loss	$(3,031,511)	$(1,208,688)	$ (1,822,823)	(150.8)%	(12.1)%	(7,552.9)%

</TABLE>

NET SALES. Net sales for the six months ended June 30, 2005 increased by $25,110,427 to $25,116,430 as compared to $16,003 for the six months ended June 30, 2004. Sales attributable to the acquisition of Kinergy on March 23, 2005 contributed $25,100,522 of this increase. Without the acquisition of Kinergy, our net sales would have decreased by $95 to $15,908.

GROSS PROFIT. Gross profit for the six months ended June 30, 2005 increased by $193,938 to $199,152 as compared to $5,214 for the six months ended June 30, 2004, primarily due to the acquisition of Kinergy on March 23, 2005. Gross profit as a percentage of net sales decreased to 0.8% for the six months ended June 30, 2005 as compared to 33% for the six months ended June 30, 2004. This difference is attributable to the acquisition of Kinergy on March 23, 2005.

Historically, Kinergy's gross profit as a percentage of sales has averaged between 2.0% and 4.4%, primarily due to increases in the value of the inventory held for sale during periods in which ethanol prices generally increased. However, in light of recent overall volatility in ethanol prices, we anticipate that until we either complete the acquisition of PBI and/or complete our facility and commence the business of ethanol production thereby obtaining the benefits of higher profit margins associated with production activities as compared to marketing and distribution activities, our gross profit as a percentage of sales will be closer to 1.0%. This is also true in light of our agreement with PBI, which we expect will result in obtaining a 1.0% gross profit on the sale of PBI's ethanol. We believe that this level of gross profit is more typical of the ethanol marketing industry.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses for the six months ended June 30, 2005 increased by $1,365,610 (319.8%) to $1,792,668 as compared to $427,058 for the six months ended June 30, 2004. This increase was primarily due to additional headcount, legal, accounting and insurance 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, the filing of a registration statement with the Securities and Exchange Commission to register for resale the shares of common stock and shares of common stock underlying warrants we issued in our private offering in March 2005, increased employee costs associated with planned staffing increases, increased sales and marketing expenses, increased activities related to the construction of our Madera County, California ethanol production facility and increased activity in searching for and analyzing potential acquisitions.

NON-CASH COMPENSATION AND CONSULTING FEES. Non-cash compensation and consulting fees for the six months ended June 30, 2005 increased by $826,136 (166%) to $1,343,636 as compared to $517,500 for the six months ended June 30, 2004. $460,386 of these fees related to non-cash consulting fees for warrants, $651,000 related to non-cash compensation from stock grants in connection with the hiring of two employees and 232,250 related to a stock grant that vested upon closing of the share exchange transaction, March 23, 2005. We expect to incur non-cash consulting fee expense in the amount of $89,125 per month for the remainder of the two-year term ending on March 23, 2007.

TOTAL OTHER EXPENSE. Total other expense decreased by $177,385 to $(89,559) for the six months ended June 30, 2005 as compared to ($266,944) for the six months ended June 30, 2004, primarily due to interest income on cash in seven day investment accounts and decrease in expense related to construction payables.

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

<TABLE>

	YEAR ENDED DECEMBER 31,		DOLLAR VARIANCE FAVORABLE (UNFAVORABLE)	PERCENTAGE VARIANCE FAVORABLE (UNFAVORABLE)	RESULTS AS A PERCENTAGE OF NET SALES FOR THE YEAR ENDED DECEMBER 31,	
	2004	2003			2004	2003
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales	$ 19,764	$1,016,594	(996,830)	(98.1)%	100.0%	100.0%
Cost of sales	12,523	946,012	933,489	98.7	63.4	93.1
Gross profit	7,241	70,582	(63,341)	(89.7)	36.6	6.9
Selling, general and administrative expenses	1,070,010	647,731	(422,279)	(65.2)	5,413.9	63.7

Non-cash compensation and consulting fees ...	1,207,500	--	(1,207,500)	--	6,109.6	--
Loss from operations	(2,270,269)	(577,149)	(1,693,120)	(293.4)	(11,486.9)	(56.8)
Total other expense.....	(530,698)	(279,930)	(250,768)	(89.6)	2,685.2	27.5
Loss from operations before income taxes.....	(2,800,967)	(857,079)	(1,943,888)	(226.8)	(14,172.1)	(84.3)
Provision for income taxes.....	(1,600)	(1,600)	--	--	8.1	0.2
Net loss.....	$(2,802,567)	$ (858,679)	$(1,943,888)	(226.4)%	(14,180.2)%	(84.5)

</TABLE>

NET SALES. Net sales for the year ended December 31, 2004 decreased by $996,830 to $19,764 as compared to $1,016,594 for the year ended December 31, 2003. This decrease resulted primarily from the decrease in sales of grain inventory acquired in the purchase of a grain facility.

GROSS PROFIT. Gross profit for the year ended December 31, 2004 decreased by $63,341 to $7,241 as compared to $70,582 for the year ended December 31, 2003, primarily due to the decrease in grain inventory sales. Gross profit as a percentage of net sales increased to 36.6% for the year ended December 31, 2004 as compared to 6.9% for the year ended December 31, 2003. This difference is attributable to the relative decrease in net sales and decrease in cost of sales for the year ended December 31,2004 compared to the year ended December 31, 2003.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses for the year ended December 31, 2004 increased by $422,279 (65.2%) to $1,070,010 as compared to $647,731 for the year ended December 31, 2003. This increase was primarily due to additional headcount, legal, accounting and insurance expenses. We expect that over the near term, our selling, general and administration expenses will increase as a result of continued company growth.

NON-CASH COMPENSATION AND CONSULTING FEES. Non-cash compensation and consulting fees for the year ended December 31, 2004 increased to $1,207,500 as compared to none for the year ended December 31, 2003. All of this $1,027,500 increase related to non-cash consulting fees for warrants.

TOTAL OTHER EXPENSE. Total other expense increased by $250,768 to $530,698 for the year ended December 31, 2004 as compared to $279,930 for the year ended December 31, 2003, primarily due to interest expense on debt that arose in connection with the acquisition of a grain facility.

LIQUIDITY AND CAPITAL RESOURCES

During the six months ended June 30, 2005, we funded our operations primarily from the approximately $18,879,749 in net proceeds we received in connection with a private offering of equity securities on March 23, 2005, as described below. As of June 30, 2005, we had working capital of $15,734,748, which represented a $16,759,495 increase from negative working capital of $1,024,747 at December 31, 2004, primarily due to the proceeds from the private offering. As of June 30, 2005 and December 31, 2004, we had accumulated deficits of $6,692,757 and $3,661,246, respectively, and cash and cash equivalents of $16,427,839 and $42, respectively.

Accounts receivable increased $2,103,736 during the six months ended June 30, 2005 from $8,464 as of December 31, 2004 to $2,112,200 as of June 30, 2005. Sales attributable to the acquisition of Kinergy contributed substantially all of this increase.

Inventory balances increased $1,111,960 during the six months ended June 30, 2005, from $0 as of December 31, 2004 to $1,111,960 as of June 30, 2005 because of the acquisition of Kinergy. Inventory represented 2.7% of our total assets as of June 30, 2005.

Cash used in our operating activities totaled $695,259 for the six months ended June 30, 2005 as compared to cash used by operating activities of $270,529 for the six months ended June 30, 2004. This $424,730 increase in cash used in operating activities primarily resulted from an increase in inventories and pre-paid expenses.

Cash used in our investing activities totaled $2,156,696 for the six months ended June 30, 2005 as compared to $556,846 of cash used for the six months ended June 30, 2004. Included in the results for the six months ended June 30, 2005 are net cash of $457,808 used to acquire Kinergy and ReEnergy, net cash of $2,845,742 used to purchase property, plant and equipment and net cash of $1,146,854 that we acquired in connection with the acquisition of Accessity, Kinergy and ReEnergy.

Cash provided by our financing activities totaled $19,279,752 for the six months ended June 30, 2005 as compared to $716,339 for the six months ended June 30, 2004. The change is primarily due to the net proceeds of $18,879,749 from a private offering of equity securities on March 23, 2005, as described below.

On March 23, 2005, we 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. We 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 $270,658 through June 30, 2005 and continue to be incurred in connection with various securities filings and the resale registration statement described below.

We are obligated under a Registration Rights Agreement 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 we (i) do not file the Registration Statement within the time period prescribed, or (ii) fail 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 is not declared effective by the Commission on or before 225 days following March 23, 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 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.

We have used a portion of the net proceeds from the March 2005 private placement to fund our working capital requirements and begin site preparation at the Madera County, California facility. We expect to use the remainder of the net proceeds to fund our working capital requirements over the next 12 months and to continue construction of our first ethanol production facility in Madera County, California. We expect that the proceeds used to continue construction will be used primarily for site preparation, acquisition of equipment and engineering services. Significant additional funding is required to complete construction of our first ethanol facility in Madera County, California. No assurances can me be made that we will be successful in obtaining these additional funds. See "Risk Factors."

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 the March 2005 private offering, 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, limit our development of new products 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 November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4,"

SFAS No. 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period costs. The provisions of SFAS No. 151 are effective for our fiscal 2006. We are currently evaluating the provisions of SFAS No. 151 and do not expect that adoption will have a material effect on our financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS 123R, SHARE-BASED PAYMENT ("SFAS 123R") which is a revision of SFAS 123 and supersedes Accounting Principles Board ("APB") 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES ("APB 25"). Among other items, SFAS 123R eliminates the use of APB 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The effective date of SFAS 123R is the first reporting period beginning after December 15, 2005. SFAS 123R permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective" method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after that date, and based on the requirements of SFAS 123 for all unvested awards granted prior to the effective date of SFAS 123R. Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS 123.

We currently utilize a standard option pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees. While SFAS 123R permits entities to continue to use such a model, the standard also permits the use of a "lattice" model. We have not yet determined which model we will use to measure the fair value of employee stock options upon the adoption of SFAS 123R.

We currently expect to adopt SFAS 123R effective January 1, 2006. However, because we have not yet determined which of the aforementioned adoption methods we will use, we have not yet determined the impact of adopting SFAS 123R.

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.

In March 2005, we completed a share exchange transaction, or the Share Exchange Transaction, with the shareholders of Pacific Ethanol, Inc., a California corporation, or PEI California, and the holders of the membership interests of each of Kinergy Marketing, LLC, or Kinergy, and ReEnergy, LLC, or ReEnergy. This transaction has been accounted for as a reverse acquisition whereby PEI California is the accounting acquiror. 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, our predecessor, Accessity Corp., a New York corporation, 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 have three principal wholly-owned subsidiaries: Kinergy, PEI California and ReEnergy.

We are currently in the business of marketing ethanol in the Western United States. Through third-party service providers, we provide transportation, storage and delivery of ethanol. We sell ethanol primarily into California, Nevada, Arizona and Oregon and have extensive customer relationships throughout the Western United States and extensive supplier relationships throughout the Western and Midwestern United States.

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 four years have enabled us to establish valuable relationships in the ethanol marketing industry and understand the business of marketing ethanol.

In August 2005, we executed an agreement to acquire Phoenix Bio-Industries, LLC, or PBI, a company that has completed construction of what we believe is the first large-scale ethanol production facility in California. The PBI facility has an annual ethanol production capacity of approximately 25 million gallons, is located in Goshen, California and is currently undergoing initial start-up testing. The closing of the acquisition of PBI is contingent upon certain events, including our obtaining all necessary funding to complete the acquisition, which we currently estimate at approximately $40.0 million, the satisfactory completion of our due diligence on PBI and on the ethanol production facility and our ability to purchase all of the membership interests of PBI. We expect that the closing of this acquisition, if it occurs, will occur in October 2005. We cannot provide any assurances that the closing of our acquisition of PBI will not be delayed or that the closing will occur at all. See "Risk Factors." If the acquisition of PBI is not consummated, an existing marketing agreement between us and PBI will allow Kinergy to market and sell all of the ethanol produced by PBI at its Goshen, California facility.

We are constructing an ethanol production facility to begin, or in the event the acquisition of PBI is consummated, to expand, the production and sale of ethanol and its co-products if we are able to secure all the necessary financing to complete construction of this facility. To date, we have not obtained all of this financing. See "Risk Factors." We also intend to construct or otherwise acquire, including through the acquisition of PBI as discussed above, one or more additional ethanol production facilities as financing resources and business prospects make the construction or acquisition of these

facilities advisable. PEI California has, to date, not conducted any significant business operations other than the acquisition of real property located in Madera County, California, on which we are constructing our first ethanol production facility. ReEnergy, does not presently have any significant business operations or plans but does hold an option to acquire real property in Visalia, California, on which we may build an ethanol production facility.

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. According to the California Air Resources Board, ethanol is the only commercially available fuel additive that can replace MTBE to meet the federal Clean Air Act's oxygenate requirement in the State of California. According to the United States Energy Information Administration, or the USEIA, ethanol accounted for more than 67% of the oxygenate market nationwide during February 2005.

California is the nation's largest market for gasoline. According to California Department of Motor Vehicles, approximately 28 million motor vehicles were registered in California 2003 and were estimated to use over 15 billion gallons of gasoline during 2003. 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 production capacity in the United States. According to the California Energy Commission, California imports approximately 10% of its finished fuel products and during 2004 over 55% of its total petroleum supply.

We expect the ethanol industry to produce up to 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. According to the Renewable Fuels Association, in its ETHANOL INDUSTRY OUTLOOK 2004, the ethanol market in California was expected to exceed 950 million gallons, or more than 25% of the national market. However, also according to the Renewable Fuels Association, in its ETHANOL INDUSTRY OUTLOOK 2004, California has only two small ethanol plants with a combined production capacity of less than 10 million gallons per year, leaving California with ethanol production levels substantially below the demand for ethanol in California. The PBI ethanol production facility, with an estimated capacity of approximately 25 million gallons per year, is anticipated to commence production of ethanol in October 2005. 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.

According to material published by the Renewable Fuels Association, 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 CO2 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 2004. We believe that through Kinergy, we could market and sell locally all of the 25 million gallons expected to be produced at PBI's Goshen, California ethanol production facility as well as all or substantially all of the 35 million gallons of ethanol expected to be produced at our planned Madera County, California ethanol production facility.

According to BBI International, in an Ethanol Feasibility Study prepared in March 2003 for ReEnergy, over the course of a decade, prices for ethanol delivered by rail car into California have ranged between $.90 and $1.75 per gallon, averaging approximately $1.27 per gallon. Of the many factors influencing the price of ethanol, we believe that the price of gasoline has the largest influence. 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 $.10 to $.12 per gallon higher than in the Midwest due to the freight costs of delivering ethanol from Midwest production facilities.

Ethanol represents only up to 3% of the total annual gasoline supply in the United States, therefore we believe that the ethanol industry has substantial room to grow to reach what we believe is an achievable level of 10% of the total annual gasoline supply in the United States. In California alone, an increase in the demand for ethanol to 10% of the total annual gasoline supply would result in annual demand for approximately 650 million additional gallons of ethanol, which represents an increase in demand on a national basis of approximately 16%. Although the short-term supply of ethanol has recently increased at a faster rate than the increase in demand over the same period, we believe that in the long-term supply and demand for ethanol will be more balanced.

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 CO2 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 4.0 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 milk production at dairies. 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.

- 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, as in the case of the PBI ethanol production facility in Goshen, California, represents an opportunity to more quickly or successfully meet our business goals, we intend to undertake to consummate these acquisitions.

- COMPLETE CONSTRUCTION OF AN ETHANOL PRODUCTION FACILITY AND BEGIN PRODUCING ETHANOL AND CO-PRODUCTS. We are constructing an ethanol production facility to produce ethanol and its co-products, specifically, WDG and CO2, for sale in the Central Valley. We believe that, following our acquisition of PBI, which has constructed a 25 million gallon per year ethanol plan in Goshen, California, if it occurs, or the completion of construction of our 35 million gallon per year ethanol plant in Madera County, California, if it occurs, we will be the largest producer of ethanol in California 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.

- IDENTIFY AND EXPLOIT NEW RENEWABLE FUELS AND TECHNOLOGIES. We plan to identify and exploit new renewable fuels and technologies. For example, we are examining new technologies enabling the conversion of cellulose, which is generated predominantly from wood waste, paper waste and agricultural waste, into ethanol.

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 the first six months of 2005, we purchased and resold an aggregate of approximately 32 million gallons of fuel grade ethanol to approximately 23 customers. Sales to Kinergy's three largest customers represented in the aggregate approximately 35% of our net sales in the first six months of 2005. Sales to each of our other customers did not represent more than approximately 9% of our net sales in the first six months of 2005.

During 2004, we purchased and resold an aggregate of approximately 52.5 million gallons of fuel grade ethanol to approximately 25 customers. Sales to

Kinergy's five largest customers represented in the aggregate approximately 58% of Kinergy's total revenues in 2004. Sales to each of our other customers did not represent more than approximately 5% of our revenue in 2004.

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.

We typically match ethanol purchase and sale contracts of like quantities and delivery period, which ordinarily range from one to twelve months. From time to time, we attempt to take advantage of what we perceive to be favorable industry trends and maintain net long or short ethanol positions. This practice does subject us to the risk of prices moving in unanticipated directions, which may result in losses, but also enables us to benefit from above normal gross profit margins. Historically, our gross profit as a percentage of sales has averaged between 2.0% to 4.4%, primarily due to increases in the values of our inventory we held for sale during periods in which ethanol prices generally increased. However, we anticipate that until we complete our facility and commence the business of ethanol production thereby obtaining the benefits of higher profit margins associated with production activities as compared to marketing and distribution activities, our gross profit as a percentage of sales will be approximately 1.0%. This is especially true in light of our recent entry into a marketing agreement with PBI to market and sell, in the event our pending acquisition of PBI is not consummated, all of PBI's ethanol production from its plant located in Goshen, California. We expect initial production to be approximately 25 million gallons per year once PBI commences ethanol production, which is anticipated to occur during the third quarter of 2005. We also expect, in the event our pending acquisition of PBI is not consummated, to obtain a 1.0% gross profit on the sale of PBI's ethanol, a profit level which we believe to be typical of the ethanol marketing industry.

We expect to begin to market and sell ethanol we produce following our acquisition of PBI and the commencement of operations at PBI's Goshen, California facility, or in the event that our acquisition of PBI is not consummated, upon completion of construction of our ethanol production facility in Madera County, California. We believe that most or all of the ethanol produced at PBI's facility and upon completion of construction of our Madera County, California facility can be sold into local markets. We will 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

We do not presently engage in any ethanol production activities. However, we have executed an agreement to acquire PBI, a company that has completed construction of what we believe is the first large-scale ethanol production facility in California with an annual ethanol production capacity of approximately 25 million gallons. In addition, we are in the process of constructing an ethanol plant in Madera County for the production of up to 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. In the event that 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.

We do not own or lease any rail cars, tanker trucks or other fuel transportation vehicles. Instead, we contract 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.

PEI CALIFORNIA CUSTOMERS

If the acquisition of PBI is consummated, we expect to market and sell ethanol produced at PBI's ethanol production facility through Kinergy. If the acquisition of PBI is not consummated, an existing marketing agreement between us and PBI will allow Kinergy to market and sell all of the ethanol produced by PBI at its Goshen, California facility. Upon completion of our ethanol plant in

Madera County, we also 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 and approximately 35 miles northwest of our potential Visalia site and PBI's Goshen site. The greater Fresno area is experiencing rapid population growth. The Fresno/Clovis metro area population is nearly 700,000. 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 PBI's Goshen, California facility and at our planned 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. There are approximately 500,000 dairy cows within a 50-mile radius of our planned production site in Madera County and within the same approximate distance of our potential sites in Visalia and Goshen, California, for a combined total, excluding any overlap, of over 750,000 dairy cows. We expect that our planned ethanol production facility in Madera County as well as our potential sites in Visalia and Goshen, California will each 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.

We also have a proposal from Airgas Dry Ice to purchase substantially all the CO2 from our Madera County facility once construction is completed and production of ethanol is commenced. The proposal also provides that Airgas Dry Ice would lease land adjacent to the Madera County ethanol plant and capitalize the costs of the CO2 recovery and processing plant.

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 25 to 35 million gallon per year ethanol facility requires approximately 9.0 to 12.5 million bushels of corn each year or, according to the United States Department of Agriculture--National Agricultural Statistics Survey, nearly 50% of California's total 2004 annual corn production of approximately 26 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 also expect PBI's Goshen facility to be highly-efficient and have capacities commensurate with that of a modern ethanol production facility.

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 has entered into a construction agreement with W.M. Lyles Co. for the construction of an ethanol plant at our Madera County site and a potential second ethanol plant, currently considered for location in Visalia, California. The construction agreement provides that W.M. Lyles Co. will provide pricing choices in the construction of the plant. The first option is a lump sum pricing option in which W.M. Lyles Co. sets a fixed price for the construction of the plant. The second pricing option is a guaranteed maximum price, or GMP, contract that sets a cap on total construction costs while providing for shared savings if the actual cost falls below the GMP price. W.M. Lyles Co. provided us with a lump sum price bid of $51.8 million and a GMP price of $52.8 million in January 2005, that expired on April 1, 2005. We expect to receive a final price for both of these options from W.M. Lyles Co. in the near future. In addition, the contract provides that if we cancel the construction contract in favor of another contractor, we would be required to pay a termination fee of $5.0 million. We are working to secure the financing necessary to complete construction of this facility. See "Risk Factors."

Responsibility for the proper and timely construction of our planned ethanol production facility 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 are currently negotiating the appropriate levels of performance guarantees and associated liquidated damages. We have currently authorized W. M. Lyles Co. to expend up to $15.0 million on site development work.

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 assisting in the minimization of water use. Also, our Madera County property has one deep-water well on the property, with another deep-water well scheduled for drilling, which we believe will be able to supply nearly twice the annual requirements of our proposed ethanol production facility. In addition, we have initiated the application process to annex the Madera County property into the Madera Irrigation District, or the MID. Having the Madera County site in the MID would allow us to buy water from the MID if water quality degradation issues arise from drawing down the water table on the property.

ACQUISITION OF ETHANOL PLANT

In August 2005, we executed an agreement to acquire PBI, a company that has completed construction of what we believe is the first large-scale ethanol production facility in California. The PBI facility has an annual ethanol production capacity of approximately 25 million gallons, is located in Goshen, California and is currently undergoing initial start-up testing. The closing of the acquisition of PBI is contingent upon certain events, including our obtaining all necessary funding to complete the acquisition, which we currently estimate at approximately $40.0 million, the satisfactory completion of our due diligence on PBI and on the ethanol production facility and our ability to purchase all of the membership interests of PBI. We expect that the closing of this acquisition, if it occurs, will occur in October 2005. We cannot provide any assurances that the closing of our acquisition of PBI will not be delayed or that the closing will occur at all.

Many of the challenges related to the construction of our Madera County facility also apply to the new PBI ethanol production facility. Prior to consummating the acquisition of PBI, we will have to undertake and complete extensive due diligence, including obtaining satisfactory results from various testing programs and engineering studies. See "Risk Factors."

COMPETITION

We operate in the highly-competitive ethanol marketing industry and plan acquire an existing ethanol production facility and construct an additional ethanol production facility 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 1.0 billion gallons per year, or about 30% of total United States ethanol production. According to the Renewable Fuels Association, in its May 2005 report entitled U.S. FUEL ETHANOL PRODUCTION CAPACITY, there are approximately 100 ethanol plants currently operating or under construction located primarily in the Midwest with a combined annual production capacity of approximately 4.5 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.

We are aware of one ethanol production facility currently undergoing initial start-up testing in Goshen, California, located approximately fifty miles southeast of our Madera County site. This facility is owned by PBI. In March 2005, we agreed with PBI, the owner of the Goshen production facility, to market and sell PBI's entire ethanol production from this facility. We expect initial production to be approximately 25 million gallons per year once PBI commences operation of the facility, which is anticipated to occur during the third quarter of 2005. The term of the agreement is two years from the date that ethanol is first available for marketing from PBI's production facility. In August 2005, we executed an agreement to acquire PBI.

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

- 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.

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

- OUR LOCATION IN CALIFORNIA. We believe that, after the earlier of our planned acquisition of PBI, if it occurs, or completion of construction of an ethanol production plant, 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 expect 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 consummation of our planned acquisition of PBI, if it occurs, and upon completion of our ethanol production facility in Madera County, if it occurs, we expect to market and sell ethanol produced at these facilities through Kinergy. We estimate that ethanol demand in the Central Valley was approximately 200 million gallons in 2004. Kinergy is currently purchasing and reselling 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, California 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 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 ninety-six 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 August 18, 2005, we employed 14 persons on a full-time basis, including through our Kinergy and PEI California 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.

FACILITIES

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 an annual basis an office in Davis, California, consisting of 500 square feet.

We have acquired real property located in Madera County, California consisting of approximately 137 acres on which we are constructing an ethanol production facility. We have an option to acquire additional real property

located in Visalia, California consisting of approximately 89 acres on which we may construct another ethanol production facility and expand our operations. In addition, we have executed an agreement to acquire PBI, a company that has completed construction of what we believe is the first large-scale ethanol production facility in California. The PBI facility is located in Goshen, California and consists of approximately 20 acres.

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.

GERALD ZUTLER

In January 2003, DriverShield CRM Corp. ("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. Mr. Zutler is seeking damages aggregating $3.0 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. ("Presidion") alleging that Presidion breached the terms of the Memorandum of Understanding (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 ("Mercator") and various related and affiliated parties and (iii) Taurus Global LLC ("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. 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 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 twenty-five percent (25%) contingency fee to the law firm, shareholders of record on the closing date of the share exchange transaction will receive two-thirds of the net proceeds from any Mercator Action recovery and we will retain the remaining one-third for the benefit of the shareholders at that time.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The names, ages and positions held by our directors and executive officers as of August 18, 2005 are as follows:

NAME	AGE	POSITIONS HELD
William L. Jones.....	55	Chairman of the Board and Director
Neil M. Koehler.....	46	Chief Executive Officer, President and Director
Ryan W. Turner.....	31	Chief Operating Officer and Secretary
William G. Langley.....	55	Chief Financial Officer
Frank P. Greinke.....	49	Director
Charles W. Bader.....	65	Director
John L. Prince (2).....	62	Director
Terry L. Stone (1).....	56	Director
Kenneth J. Friedman (1).....	52	Director

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(1) Member of the Audit, Nominating and Governance and Compensation Committees.
(2) Member of the Audit Committee.

WILLIAM L. ("BILL") 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 of 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 SC Fuels, Inc., a petroleum distributor. 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.

CHARLES W. BADER has served as a director since July 2005. Mr. Bader has been a lobbyist to the California State government, specializing in education and municipal government, since 1993. Prior to that time, Mr. Bader served for eight years as a member of the California State Assembly from 1982 to 1990. Mr. Bader is a former business owner and a former elected Mayor and Councilman for the City of Pomona, California. Mr. Bader owned and served as the President of Condominium Management Services, a condominium management services company, from 1973 to 1992. Mr. Bader was Mayor of the City of Pomona from 1977 to 1981, and prior to that time, was a city Councilman for the City of Pomona from 1971 to 1977. Mr. Bader has a B.S. degree in Business Administration from the University of California, Los Angeles.

JOHN L. ("JACK") 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. Mr. Stone has experience in accounting and taxation in a wide range of industries, including agriculture, manufacturing, retail, equipment leasing, professionals and not-for-profit organizations. Mr. Stone served as a part-time instructor at California State University, Fresno at various times throughout the 1990s and taught classes in taxation, auditing, and financial and management accounting. Mr. Stone also has various professional certifications in addition to his Certified Public Accountant certification, including Series 7 and 66 NASD securities licenses. Mr. Stone has a B.S. in Accounting from California State University, Fresno.

KENNETH J. FRIEDMAN has served as a director since March 2005. Mr. Friedman was a director of Accessity Corp., our predecessor, since October 1998. Mr. Friedman has for more than five years served as President of the Primary Group, Inc., an executive search consultancy firm.

Our business, property and affairs are managed under the direction of our board. 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 and its committees. During 2004, our board of directors held two meetings attended by members of the board either in person or via telephone, and on six 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 Bill Jones is the father-in-law of Ryan Turner.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended ("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, 2004 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 2004, all Section 16(a) filing requirements applicable to our reporting persons were met.

CODE 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-K, 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 prospectus or incorporated into any other filings we make with the Commission.

COMPENSATION OF EXECUTIVE OFFICERS

The following table shows for the fiscal years ended December 31, 2004, 2003 and 2002, compensation awarded or paid to, or earned by, our former Chief Executive Officer and each of our other most highly compensated former executive officers who earned more than $100,000 in salary for the year ended December 31, 2004, or the Named Executive Officers. Each of Messrs. Siegel and Kart resigned their positions in connection with the Share Exchange Transaction that was consummated on March 23, 2005 and Mr. Delisi resigned his position prior to that time. Accordingly, none of the information set forth below relates to any of our current executive officers. See "Management - Directors and Executive Officers" for a list of our current executive officers, "Management - Employment Contracts and Termination of Employment and Change-in-Control Arrangements" and "Certain Relationships and Related Transactions" for a description of the compensation arrangements we have with these executive officers.

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SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION AWARDS	
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS	SECURITIES UNDERLYING OPTIONS/SARS (#)	ALL OTHER COMPENSATION ($)
Barry Siegel	2004	300,000	--	--	--
Former Chairman of the Board, President	2003	300,000	--	--	--
and Chief Executive Officer	2002	300,000	250,000	110,000	12,500(1)
Philip B. Kart	2004	155,000	--	--	--
Former Senior Vice President, Secretary,	2003	155,000	10,000	--	62,000(2)
Treasurer and Chief Financial Officer	2002	155,000	--	30,000	--
Steven DeLisi	2004	175,000	--	--	--
Former President, Sentaur Corp.	2003	175,000	10,000	--	--
	2002	68,654	5,000	50,000	--

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(1) Reimbursed to Mr. Siegel for direct costs he incurred in connection with his relocation.
(2) Provided to Mr. Kart, upon his relocation, for costs incurred in connection with his relocation.

STOCK OPTION GRANTS AND EXERCISES

We made no awards of stock options during the last fiscal year to the Named Executive Officers as part of their employment. The following table indicates the number of exercised and unexercised stock options held by each Named Executive Officer as of December 31, 2004.

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

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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
Barry Siegel.....	--	--	80,000/36,667	0/0
Philip B. Kart.....	--	--	65,000/10,000	$197,438/0
Steven DeLisi.....	--	--	33,333/16,667	0/0

EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	SHARES TO BE ISSUED UPON EXERCISE OF OUTSTANDING, OPTIONS, WARRANTS OR STOCK RIGHTS (#)	WEIGHTED AVERAGE EXERCISE PRICE ($)	NUMBER OF SECURITIES AVAILABLE FOR FUTURE ISSUANCE
APPROVED BY SHAREHOLDERS:			
1995 Plan.....	377,667	$5.98	822,333
2004 Plan.....	--	--	2,500,000
NOT APPROVED BY SHAREHOLDERS:			
Consultant's Warrants	25,000	$2.99	--

</TABLE>

LONG-TERM INCENTIVE PLAN AWARDS

In fiscal 2004, no awards were given to named executives under long-term incentive plans.

REPORT ON REPRICING OF OPTIONS AND SARS

No adjustments to or amendments of the exercise price of stock options or stock appreciation rights previously awarded to the named executives occurred in fiscal 2004.

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

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

The Executive Employment Agreement with Neil 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 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 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 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.

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 any 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 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 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; but notwithstanding anything in the foregoing subsections (iii) or (iv) to the contrary, we shall not terminate the employee unless the board first provides the employee with a written memorandum describing in detail how his performance thereunder 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 Securities Exchange Act of 1934 ("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 LANGLEY

The Executive Employment Agreement with William 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. Mr. Langley is obligated to relocate to Fresno, California within six months of the date of his Executive Employment Agreement.

BOARD COMMITTEES

Our board of directors currently has an audit committee, a compensation committee and a nominating committee. Our board of directors has determined that Terry L. Stone, Kenneth J. Friedman and John L. Prince, 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, Friedman 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. This committee consists of Messrs. Stone, Friedman and Prince. The audit committee operates pursuant to a charter approved by our board of directors and 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. Since March 23, 2005, this committee has consisted of Messrs. Stone and Friedman. 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. Since March 23, 2005, the nominating committee has consisted of Messrs. Stone and Friedman. The nominating committee utilizes a variety of methods for identifying and evaluating nominees for director, including candidates that may be referred by stockholders. Stockholders who desire to recommend candidates for the board for evaluation may do so by contacting Pacific Ethanol in writing, identifying the potential candidate and providing background information. Candidates may also come to the attention of the nominating committee through current board members, professional search firms and other persons. The nominating committee operates pursuant to a charter approved by our board of directors and Nominating Committee.

During the fiscal year ended December 31, 2004, all directors attended at least 75% of the aggregate of the meetings of the board of directors and of the committees on which he served, held during the period for which he was a director or committee member, respectively.

COMPENSATION OF DIRECTORS

The Chairman of the Board 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 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.

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 Friedman.

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 terminates in 2005. As of August 18, 2005, options to purchase up to 133,000 shares of common stock were outstanding under the Amended 1995 Incentive Stock Plan. Our board 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 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 May 14, 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.

As of August 18, 2005, we had approximately 14 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 662,500 shares of common stock were outstanding under the 2004 Stock Option Plan and 1,837,500 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 were 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 or a combination of cash and shares of our common stock.

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 May 14, 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.
- 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.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

TRANSACTIONS WITH ACCESSITY 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, under the amendment referenced above, 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 shareholders of which, Barry Siegel, was our former Chairman of the Board, President and Chief Executive Officer, another shareholder of which, Ken 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. Our company 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 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 the 2004 Period 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 WITH OUR NOW-WHOLLY-OWNED SUBSIDIARIES 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 WITH PEI CALIFORNIA

Neil 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 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, California 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 is purchased by PEI California pursuant to the terms of the Option to Purchase Land dated August 28, 2003, Kent Kaulfuss and his wife will realize a gain on sale of approximately $178,600.

PEI California entered into a consulting agreement with Ryan Turner, our Chief Operating Officer and Secretary, and a former director, for consulting services at $6,000 per month. During 2004, PEI California paid Mr. Turner a total of $72,000 pursuant to such 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."

PEI California sold various cattle feed products in 2003 totaling $109,698, to a business owned by William Jones, our Chairman of the Board and a director.

PEI California reimbursed Mr. Jones an aggregate of $200,000 during 2003 for expenses paid on behalf of PEI California.

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.

Barry Siegel, on the one hand, and William and Maurine Jones, Ryan and Wendy Turner and Andrea Jones, on the other, negotiated the terms of 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 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 Jones sold 300,000 shares of common stock of PEI California to Neil 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 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 WITH KINERGY

Neil 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 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 is SC Fuels, Inc. Southern Counties Oil Co., an affiliate of SC Fuels, Inc., was a principal shareholder of PEI California and is now one of our shareholders and owns 1,500,000 shares of our common stock. Mr. Frank P. Greinke, the President of SC Fuels, Inc., is one of our directors and is a director of PEI California. During the six months ended June 30, 2005 and during the fiscal year ended December 31, 2004, SC Fuels, Inc. accounted for approximately 7% and 13%, respectively, of the total revenues of Kinergy.

TRANSACTIONS WITH REENERGY

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 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, California 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 is purchased by PEI California pursuant to the terms of the Option to Purchase Land dated August 28, 2003, Kent Kaulfuss and his wife will realize a gain on sale of approximately $178,600.

TRANSACTIONS WITH PACIFIC ETHANOL AT THE TIME OF OR AFTER THE SHARE EXCHANGE TRANSACTION

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.

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 connection with the Share Exchange Transaction, we entered into Confidentiality, Non-Competition and Non-Solicitation Agreements with each of Neil Koehler, Tom Koehler, William Jones and Ryan 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 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.

In connection with the Share Exchange Transaction, we became the sole owner of the membership interests of Kinergy. Neil 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 Jones, options to purchase up to 20,000 shares of our common stock to Terry Stone, options to purchase up to 15,000 shares of our common stock to Frank 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. 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 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 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 Bader, a director, and options to purchase up to 15,000 shares of our common stock to John 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.

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.

PRINCIPAL STOCKHOLDERS

The following table sets forth information with respect to the beneficial ownership of our common stock as of August 18, 2005, 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 prospectus; 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 28,608,491 shares of common stock outstanding as of the date of the table.

The address of each of the following stockholders, unless otherwise indicated in the footnotes to the table, is c/o Pacific Ethanol, Inc., 5711 N. West Avenue, Fresno, California 93711. Messrs. Jones, Koehler, Greinke, Bader, Prince, Stone and Friedman are directors of Pacific Ethanol. Messrs. Koehler, Turner and Langley are executive officers of Pacific Ethanol.

<TABLE>

NAME OF BENEFICIAL OWNER	TITLE OF CLASS	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
<S>	<C>	<C>	<C>
William L. Jones	Common	2,500,000 (1)	8.74%
Neil M. Koehler	Common	4,188,889	14.64%
Ryan W. Turner	Common	914,166 (2)	3.20%
William G. Langley	Common	85,000 (3)	*
Frank P. Greinke	Common	1,500,000 (4)	5.24%
Charles W. Bader	Common	--	*
John L. Prince	Common	--	*
Terry L. Stone	Common	--	*
Kenneth J. Friedman	Common	73,399 (5)	*
Crestview Capital Master, LLC	Common	2,704,000 (6)	9.25%
Lyles Diversified, Inc	Common	2,000,000 (7)	6.99%
Rubicon Master Fund	Common	1,742,000 (8)	6.00%
All executive officers and directors as a group (9 persons)	Common	9,261,454 (9)	32.26%

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</TABLE>

* Less than 1.00%

(1) Represents shares held by William L. Jones and Maurine Jones, husband and wife, as community property.
(2) Represents shares held by Ryan W. Turner and Wendy Turner, husband and wife, as community property.
(3) Represents shares of common stock underlying options.
(4) Represents shares held by Southern Counties Oil Co., a California limited partnership. Mr. Greinke is the Chief Executive Officer of Southern Counties Oil Co., a California corporation, which is the General Partner of Southern Counties Oil Co., a California limited partnership. Mr. Greinke has sole voting and sole investment power over the shares held by the partnership.
(5) Includes 16,000 shares underlying options.
(6) Includes 624,000 shares underlying warrants. Power to vote or dispose of the shares is shared by Daniel Warsh, Stewart Flink and Robert Hoyt as Managing Members of Crestview Capital Master, LLC. The address for Messrs. Warsh, Flink and Hoyt is c/o Crestview Capital Master, LLC, 95 Revere Drive, Suite A, Northbrook, IL 60062.
(7) 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.
(8) Includes 402,000 shares underlying warrants. Power to vote or dispose of the shares is shared by Rubicon Fund Management Ltd. and Rubicon Fund Management LLP. Each of Rubicon Fund Management Ltd., Rubicon Fund Management LLP, Paul Anthony Brewer, Jeffrey Eugene Brummette, William Francis Callanan, Vilas Gadkari, Robert Michael Greenshields and Horace Joseph Leitch III may be deemed to be beneficial owners of the securities held by Rubicon Master Fund, each of whom disclaim beneficial ownership of the securities held by Rubicon Master Fund. The address for each of the foregoing entities and individuals is c/o Rubicon Master Fund, 103 Mount Street, London W1K2TJ, United Kingdom.
(9) Includes 101,000 shares underlying options.

SELLING SECURITY HOLDERS

SELLING SECURITY HOLDER TABLE

This prospectus covers the offer and sale by the selling security holders of up to an aggregate of 11,503,454 shares of common stock, including an aggregate of 8,575,867 issued and outstanding shares of our common stock and an aggregate of 2,927,587 shares of our common stock underlying warrants. The following table sets forth, to our knowledge, certain information about the selling security holders as of August 18, 2005, the date of the table, based on information furnished to us by the selling security holders. Except as indicated in the private placement descriptions or footnotes following the table, each selling security holder has indicated to us that it is acting individually, not as a member of a group, and none of the selling security holders or their affiliates has held any position or office or had any other material relationship with us in the past three years.

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 28,608,491 shares of common stock outstanding as of the date of the table. Shares shown as beneficially owned after the offering assume that all shares being offered are sold.

The shares of common stock being offered under this prospectus may be offered for sale from time to time during the period the registration statement of which this prospectus is a part remains effective, by or for the accounts of the selling security holders described below.

The following entities or persons are NASD-registered broker-dealers, or affiliates of NASD-registered broker-dealers, who initially acquired their securities in connection with certain private placement transactions of PEI California that occurred prior the consummation of the Share Exchange Transaction described elsewhere in this prospectus:

- Stewart Flink, a Managing Member of Crestview Capital Master, LLC, is the controlling shareholder of Dillon Capital, Inc., an NASD-registered broker dealer;
- LibertyView Funds, LP and LibertyView Special Opportunity Fund, LP are subsidiaries of Neuberger Berman, LLC, an NASD-registered broker dealer;
- Benchmark Partners, LP is a subsidiary of Northeast Securities, Inc., an NASD-registered broker-dealer;
- Peter S. Rawlings is Chairman and Chief Executive Officer of US ReSecurities, LLC, an NASD-registered broker dealer;
- Richard Zorn is an executive officer of Benchmark Capital Advisors, a subsidiary of Northeast Securities, Inc., an NASD-registered broker dealer;
- W. Denman Zirkle is registered as an agent with First Dominion Capital Corp., an NASD-registered broker dealer;
- Paul Coviello, President of Linden Capital Management, LLC as General Partner of Linden Growth Partners, L.P., is a Registered Representative of First Montauk, an NASD-registered broker dealer;

- James George is a Senior Vice President, Institutional Bond Sales of Countrywide Securities, an NASD-registered broker dealer; and
- Laird Q. Cagan, Registered Representative of Chadbourn Securities, Inc., an NASD-registered broker-dealer.

The following entities or persons are NASD-registered broker-dealers, or affiliates of NASD-registered broker-dealers, who received warrants as compensation for services rendered as placement agents, or who are transferees of those placement agents, in certain private placement transactions of PEI California that occurred prior to the consummation of the Share Exchange Transaction described elsewhere in this prospectus:

- Laird Q. Cagan, Registered Representative of Chadbourn Securities, Inc., an NASD-registered broker-dealer; and
- Robert A. Bonelli, Stephen J. Perrone, William P. Behrens, Danny Nicholas, David T. R. Tsiang, Yaudoon Chiang, William T. Behrens, Orrie L. Tawes, III, and Stephan H. Kim are each officers of Northeast Securities, Inc., an NASD-registered broker-dealer.

Each of the selling security holders has represented to us that it is not acting as an underwriter in this offering, any warrants it received whose underlying shares are offered under this prospectus, and other shares of common stock offered under this prospectus, were received only in the ordinary course of business, and at the time of such receipt and through the effective date of the information contained in the selling security holder table, it had no agreements or understandings, directly or indirectly, with any person to distribute the warrants, the underlying shares or other shares of common stock offered under this prospectus.

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NAME OF BENEFICIAL OWNER	SHARES OF COMMON STOCK BENEFICIALLY OWNED PRIOR TO OFFERING		SHARES OF COMMON STOCK BEING OFFERED	SHARES OF COMMON STOCK BENEFICIALLY OWNED AFTER OFFERING	
	NUMBER	PERCENTAGE		NUMBER	PERCENTAGE
Crestview Capital Master, LLC	2,704,000 (1)	9.25%	2,704,000 (1)	-	-
Rubicon Master Fund	1,742,000 (2)	6.00%	1,742,000 (2)	-	-
Toibb Investment LLC	1,001,000 (3)	3.47%	1,001,000 (3)	-	-
Benchmark Partners, LP	455,000 (4)	1.58%	351,000 (4)	-	-
LibertyView Special Opportunities Fund, LP	429,000 (5)	1.49%	299,000 (5)	-	-
Nite Capital LP	260,000 (6)	*	260,000 (6)	-	-
Straus Partners, LP	429,000 (7)	*	234,000 (7)	-	-
Dolphin Offshore Partners, L.P	221,000 (8)	*	221,000 (8)	-	-
Western Milling, LLC	286,000 (9)	1.00%	221,000 (9)	-	-
GCE Property Holdings Inc	208,000 (10)	*	208,000 (10)	-	-
Straus-GEPT Partners, LP	429,000 (11)	*	195,000 (11)	-	-
JSH Partners, L.P	169,000 (12)	*	130,000 (12)	-	-
LibertyView Funds, LP	429,000 (13)	1.49%	130,000 (13)	-	-
Maurice Marciano, Trustee of the Maurice Marciano Trust dated 2/24/1986	130,000 (14)	*	130,000 (14)	-	-
Lorraine Dipaolo	455,000 (15)	1.58%	104,000 (15)	-	-
Fenway Advisory Group Pension Plan	91,000 (16)	*	91,000 (16)	-	-
Craton Capital, LP	286,000 (17)	1.00%	65,000 (17)	-	-
Michael Brown, Trustee of the Michael C. Brown Trust dated 6/30/2000	165,000 (18)	*	65,000 (18)	100,000	*
The Churchill Fund, QP	117,000 (19)	*	65,000 (19)	-	-
Barry H. Garfinkel	52,000 (20)	*	52,000 (20)	-	-

NAME OF BENEFICIAL OWNER	SHARES OF COMMON STOCK BENEFICIALLY OWNED PRIOR TO OFFERING		SHARES OF COMMON STOCK BEING OFFERED	SHARES OF COMMON STOCK BENEFICIALLY OWNED AFTER OFFERING	
	NUMBER	PERCENTAGE		NUMBER	PERCENTAGE
The Churchill Fund, LP	117,000 (21)	*	52,000 (21)	-	-
Jean F. Hieber	65,000 (22)	*	65,000 (22)	-	-
Civic Capital Fund I, LLC	39,000 (23)	*	39,000 (23)	-	-
Jacob S. Harris	169,000 (24)	*	39,000 (24)	-	-
Jeremy Harding	39,000 (25)	*	39,000 (25)	-	-
Peter S. Rawlings	39,000 (26)	*	39,000 (26)	-	-
Richard Zorn	39,000 (27)	*	39,000 (27)	-	-
Scott M. Hergott and Cheryl L. Hergott, Trustees of the Scott M. and Cheryl L. Hergott Living Trust 2003 dated 12/18/03	39,000 (28)	*	39,000 (28)	-	-
Erik Kuntz	26,000 (29)	*	26,000 (29)	-	-
Growth Ventures Inc. Pension Plan & Trust	26,000 (30)	*	26,000 (30)	-	-
Harry Haushalter and Theresa Haushalter JTROW	26,000 (31)	*	26,000 (31)	-	-
Mitchell N. Kessler	26,000 (32)	*	26,000 (32)	-	-
Ronald B. Sunderland	26,000 (33)	*	26,000 (33)	-	-
Sensus LLC	26,000 (34)	*	26,000 (34)	-	-
Bette-Lee Jablow and Jay T. Jablow, Trustees of the Jablow Family Trust Under Agreement Dated 11/25/1991	13,000 (35)	*	13,000 (35)	-	-
Brent Saunders and Amy Saunders JTROW	13,000 (36)	*	13,000 (36)	-	-
Cantybay Enterprises, Ltd	13,000 (37)	*	13,000 (37)	-	-
Christina J. Hieber	13,000 (38)	*	13,000 (38)	-	-
Daniel J. Hurley, III	13,000 (39)	*	13,000 (39)	-	-
Douglas M. Kerr and Joan Walter JTROW	13,000 (40)	*	13,000 (40)	-	-
Edmund Karam and Barbara Karam JTROW	13,000 (41)	*	13,000 (41)	-	-
Gem Holdings, LLC	13,000 (42)	*	13,000 (42)	-	-
Georgeanne S. Eaton	13,000 (43)	*	13,000 (43)	-	-
Gregg Mullery	23,000 (44)	*	23,000 (44)	-	-
Harvey B. Jacobson, Jr	13,000 (45)	*	13,000 (45)	-	-
Jack Fishman	13,000 (46)	*	13,000 (46)	-	-
Jennifer M. Hieber	13,000 (47)	*	13,000 (47)	-	-
Marie Carlino	13,000 (48)	*	13,000 (48)	-	-
Mary A. Susnjara IRA	13,000 (49)	*	13,000 (49)	-	-
Dana Miller	13,000 (50)	*	13,000 (50)	-	-
Paul B. Waine and Dale W. Waine, Trustees of the Josephine P. Waine 1992 Trust dated 12/14/1992	13,000 (51)	*	13,000 (51)	-	-
Robert P. Maerz	13,000 (52)	*	13,000 (52)	-	-
Roger L. Goettsche	13,000 (53)	*	13,000 (53)	-	-
Swartz Family Holdings, LLC	13,000 (54)	*	13,000 (54)	-	-
Estate of Barbara White Fishman	13,000 (55)	*	13,000 (55)	-	-
William Alexander	13,000 (56)	*	13,000 (56)	-	-
William D. Hyler	13,000 (57)	*	13,000 (57)	-	-
Anne O'Malley	6,500 (58)	*	6,500 (58)	-	-
Venkata Kollipara	46,500 (59)	*	16,500 (59)	10,000	*
James and Bernice Campbell	8,500 (60)	*	8,500 (60)	-	-

	SHARES OF COMMON STOCK BENEFICIALLY OWNED	SHARES OF COMMON	SHARES OF COMMON STOCK BENEFICIALLY OWNED

NAME OF BENEFICIAL OWNER	PRIOR TO OFFERING NUMBER	PRIOR TO OFFERING PERCENTAGE	STOCK BEING OFFERED	AFTER OFFERING NUMBER	AFTER OFFERING PERCENTAGE
Malcolm B. O'Malley	6,500 (61)	*	6,500 (61)	-	-
W. Denman Zirkle	126,666	*	126,666	-	-
Bradley Rotter, as Trustee of the Bradley N. Rotter Self-Employed Pension & Trust	216,667 (62)	*	66,667 (62)	-	-
Joseph B. Childrey	40,000	*	40,000	-	-
Barry Fay	35,000	*	35,000	-	-
David DeSilva	35,000	*	35,000	-	-
Teixeira Investments, L.P	34,000 (63)	*	34,000 (63)	-	-
James A. Turner and Jennifer L. Turner, Trustees, Turner Family Trust dated February 18, 2004	26,667 (64)	*	20,000 (64)	6,667	*
Clark M. Abramson and Patti L. Abramson	20,000 (65)	*	20,000 (65)	-	-
Micaela Zirkle Shaughnessy	20,000	*	20,000	-	-
Elizabeth A. Reed	17,000	*	17,000	-	-
Luise Bettina Zirkle-Garcia	16,667	*	16,667	-	-
Sigrid Anne Zirkle Carroll	16,667	*	16,667	-	-
William Wade Zirkle	16,667	*	16,667	-	-
Illiquid Assets Trust, U/T/A dated November 22, 1999, FBO Peter H. Koehler, Jr.	16,667 (66)	*	16,667 (66)	-	-
Roger H. Manternach	16,667	*	16,667	-	-
Michael Kemp	14,000	*	14,000	-	-
Michael A. Frangopoulos	10,000 (67)	*	10,000 (67)	-	-
Venkata Kollipara, Custodian for Priya Kollipara	46,500 (68)	*	10,000 (68)	10,000	*
Venkata Kollipara, Custodian for Puneet Kollipara	46,500 (69)	*	10,000 (69)	10,000	*
Robert E. Dettle, as Trustee of the Robert E. and Rosalie T. Dettle Living Trust, dtd Feb. 29, 1980	10,000	*	10,000	-	-
Daniel J. Yates	10,000	*	10,000	-	-
Alex Jachno and Agafia Jachno	12,000	*	12,000	-	-
Armen Arzoomanian	10,000	*	10,000	-	-
Lakshmana R. Madala, M.D. Defined Benefits Plan	13,400 (70)	*	10,000 (70)	-	-
Dermot Fallon	8,000	*	8,000	-	-
Jay D. Scott	8,000	*	8,000	-	-
John G. Fallon and Anne M. Fallon	8,000	*	8,000	-	-
Henry H. Mauz, Jr.	8,000	*	8,000	-	-
Katharine B. Moore	7,000	*	7,000	-	-
Louis S. Lyras	7,000	*	7,000	-	-
Edward W. Muransky, as Trustee of the Edward W. Muransky Revocable Trust, dtd July 24, 1995	7,000	*	7,000	-	-
Kennon Harlen White	7,000	*	7,000	-	-
R.V. Edwards, Jr.	17,000	*	17,000	-	-
Janet Dumper	5,000	*	5,000	-	-
Robert A. Dumper	5,000	*	5,000	-	-

NAME OF BENEFICIAL OWNER	SHARES OF COMMON STOCK BENEFICIALLY OWNED PRIOR TO OFFERING NUMBER	SHARES OF COMMON STOCK BENEFICIALLY OWNED PRIOR TO OFFERING PERCENTAGE	SHARES OF COMMON STOCK BEING OFFERED	SHARES OF COMMON STOCK BENEFICIALLY OWNED AFTER OFFERING NUMBER	SHARES OF COMMON STOCK BENEFICIALLY OWNED AFTER OFFERING PERCENTAGE
John Burke	5,000	*	5,000	-	-
Howard Kaplan	10,000	*	10,000	-	-
James Burkdoll	4,000	*	4,000	-	-
Richard DeSousa	4,000	*	4,000	-	-
Steve Elefter	4,000	*	4,000	-	-
David Jessen	4,000	*	4,000	-	-
Boyd and Barbara LaCosse	3,400	*	3,400	-	-
Lakshmana R. Madala	13,400 (71)	*	3,400 (71)	-	-
Thomas McFaul	3,400	*	3,400	-	-
Anne P. Zirkle	3,333	*	3,333	-	-
Rogene Scott Turner TTEE Rogene Scott Turner Trust dtd. 9/10/91	3,000	*	3,000	-	-
Samuel Kozasky	2,000	*	2,000	-	-
Linden Growth Partners, L.P	625,000 (72)	2.18%	250,000 (72)	375,000	1.19%
Bradley N. Rotter	216,667 (73)	*	150,000 (73)	-	-
Michael L. Peterson	287,500 (74)	1.00%	37,500 (74)	250,000	*
Andrew Hoffman	25,000	*	25,000	-	-
Barry J. Uphoff	12,500	*	12,500	-	-
Stephen J. George	12,500	*	12,500	-	-
James George	12,500	*	12,500	-	-
R. Oliver Bock and Deirdre A. Stegman, as Trustees of the Bock Stegman Trust dated January 11, 2000	43,333 (75)	*	43,333 (75)	-	-
Michael T. Bock, Trustee of the Michael T. Bock Revocable Trust dated November 10, 2003	43,333 (76)	*	43,333 (76)	-	-
Jon Spar and Karen A. Kulikowski	35,100 (77)	*	35,100 (77)	-	-
Peter A. Bock	13,000 (78)	*	13,000 (78)	-	-
Helain Kaplan	150,000	*	150,000	-	-
Doug Dickson	45,000	*	45,000	-	-
Paul P. Koehler	72,223	*	25,000	47,223	*
Jeffrey H. Manternach	25,000 (79)	*	25,000 (79)	-	-
Laird Q. Cagan	848,949 (80)	2.94%	236,449 (80)	612,500	1.94%
Frank Siefert	1,000 (81)	*	1,000 (81)	-	-
Prima Capital Group, Inc	30,320 (82)	*	30,320 (82)	-	-
Chadbourn Securities, Inc	12,918 (83)	*	12,918 (83)	-	-
Fairmont Analytics, Inc	12,500 (84)	*	12,500 (84)	-	-
Demetri Argyropoulos	5,300 (81)	*	5,300 (81)	-	-
Kathleen Cole	5,000 (81)	*	5,000 (81)	-	-

Patricia Prass	2,000 (81)	*	2,000 (81)	-	-
Barbara Hall	2,000 (81)	*	2,000 (81)	-	-
Robert A. Bonelli	50,000 (81)	*	50,000 (81)	-	-
Stephen J. Perrone	50,000 (81)	*	50,000 (81)	-	-
William P. Behrens	40,000 (81)	*	40,000 (81)	-	-
Danny Nicholas	15,000 (81)	*	15,000 (81)	-	-
David T. R. Tsiang	33,000 (81)	*	33,000 (81)	-	-
Yaudoon Chiang	34,000 (81)	*	34,000 (81)	-	-

NAME OF BENEFICIAL OWNER	SHARES OF COMMON STOCK BENEFICIALLY OWNED PRIOR TO OFFERING		SHARES OF COMMON STOCK BEING OFFERED	SHARES OF COMMON STOCK BENEFICIALLY OWNED AFTER OFFERING	
	NUMBER	PERCENTAGE		NUMBER	PERCENTAGE
William T. Behrens	10,000 (81)	*	10,000 (81)	-	-
Orrie L. Tawes, III	200,000 (81)	*	200,000 (81)	-	-
Stephan H. Kim	13,000 (81)	*	13,000 (81)	-	-
James E. McMahan	5,800 (81)	*	5,800 (81)	-	-
Ramin Azar	2,500 (81)	*	2,500 (81)	-	-
Blair Capital, Inc	700 (85)	*	700 (85)	-	-
Sycamore Capital Partners, Inc	10,000 (86)	*	10,000 (86)	-	-

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* Less than 1.00%

(1) Includes 624,000 shares underlying warrants. Power to vote or dispose of the shares is shared by Daniel Warsh, Stewart Flink and Robert Hoyt as Managing Members of Crestview Capital Master, LLC. The address for Messrs. Warsh, Flink and Hoyt is c/o Crestview Capital Master, LLC, 95 Revere Drive, Suite A, Northbrook, IL 60062.

(2) Includes 402,000 shares underlying warrants. Power to vote or dispose of the shares is shared by Rubicon Fund Management Ltd. and Rubicon Fund Management LLP. Each of Rubicon Fund Management Ltd., Rubicon Fund Management LLP, Paul Anthony Brewer, Jeffrey Eugene Brummette, William Francis Callanan, Vilas Gadkari, Robert Michael Greenshields and Horace Joseph Leitch III may be deemed to be beneficial owners of the securities held by Rubicon Master Fund, each of whom disclaim beneficial ownership of the securities held by Rubicon Master Fund. The address for each of the foregoing entities and individuals is c/o Rubicon Master Fund, 103 Mount Street, London W1K2TJ, United Kingdom.

(3) Includes 231,000 shares underlying warrants. Power to vote or dispose of the shares is held by Harris Toibb as sole manager and member of Toibb Management LLC, as Manager of Toibb Investment LLC.

(4) Includes 81,000 shares underlying warrants and 270,000 shares of common stock. Power to vote or dispose of the shares is shared by Lorraine DiPaolo and Richard Whitman as Managing Members of Benchmark Partners, LP. Also includes 104,000 shares, including 24,000 shares underlying warrants, held by Lorraine DiPaolo, which shares are also being offered under this prospectus; accordingly, no shares are shown as being beneficially owned after the offering.

(5) Includes 69,000 shares underlying warrants and 230,000 shares of common stock. Power to vote or dispose of the shares is held by Neuberger Berman, Inc. as sole managing member of Neuberger Berman Asset Management, LLC, as General Partner of LibertyView Special Opportunities Fund, LP. Also includes 130,000 shares, including 30,000 shares underlying warrants, held by LibertyView Funds, LP, which shares are also offered under this prospectus, the power to vote or dispose of which is also held by Neuberger Berman, Inc. as sole managing member of Neuberger Berman Asset Management, LLC, as General Partner of LibertyView Funds, LP; accordingly, no shares are shown as being beneficially owned after the offering.

(6) Includes 60,000 shares underlying warrants. Power to vote or dispose of the shares is held by Keith Goodman as Manager of Nite Capital LLC, as General Partner of Nite Capital LP.

(7) Includes 54,000 shares underlying warrants and 180,000 shares of common stock. Power to vote or dispose of the shares is held by Melville Straus as Managing Principal of Straus Partners, LP. Also includes 195,000 shares, including 45,000 shares underlying warrants, the power to vote or dispose of which is held by Melville Straus as Managing Principal of Straus-GEPT Partners, LP., which shares are also being offered under this prospectus; accordingly, no shares are shown as being beneficially owned after the offering.

(8) Includes 51,000 shares underlying warrants. Power to vote or dispose of the shares is held by Peter E. Salas as General Partner of Dolphin Offshore Partners, L.P.

(9) Includes 51,000 shares underlying warrants and 170,000 shares of common stock. Power to vote or dispose of the shares is held by Ejnar Knudsen as Executive Vice President of Western Milling LLC. Also includes 65,000 shares, including 15,000 shares underlying warrants, held by Craton Capital, LP, which shares are also being offered under this prospectus, the power to vote or dispose of which is shared by Raju Shah and Ejnar Knudsen as members of Craton Capital GP, LLC, as the sole General Partner of Craton Capital, LP; accordingly, no shares are shown as being beneficially owned after the offering.

(10) Includes 48,000 shares underlying warrants. Power to vote or dispose of the shares is held by Kenneth L. Henderson as President of GCE Property

Holdings Inc.

(11) Includes 45,000 shares underlying warrants and 150,000 shares of common stock. Power to vote or dispose of the shares is held by Melville Straus as Managing Principal of Straus-GEPT Partners, LP. Also includes 234,000 shares, including 54,000 shares underlying warrants, the power to vote or dispose of which is held by Melville Straus as Managing Principal of Straus Partners, LP. , which shares are also being offered under this prospectus; accordingly, no shares are shown as being beneficially owned after the offering.

(12) Includes 30,000 shares underlying warrants and 100,000 shares of common stock. Power to vote or dispose of the shares is held by Jacob S. Harris as Managing Member of JSH Management Company, LP, as General Partner of JSH Partners, L.P. Also includes 39,000 shares, including 9,000 shares underlying warrants, held by Jacob S. Harris, which shares are also being offered under this prospectus; accordingly, no shares are shown as being beneficially owned after the offering.

(13) Includes 30,000 shares underlying warrants and 100,000 shares of common stock. Power to vote or dispose of the shares is held by Neuberger Berman, Inc. as sole managing member of Neuberger Berman Asset Management, LLC, as General Partner of LibertyView Funds, LP. Also includes 299,000 shares, including 69,000 shares underlying warrants, held by LibertyView Special Opportunity Fund, LP, which shares are also offered under this prospectus, the power to vote or dispose of which is also held by Neuberger Berman, Inc. as sole managing member of Neuberger Berman Asset Management, LLC, as General Partner of LibertyView Special Opportunity Fund, LP; accordingly, no shares are shown as being beneficially owned after the offering.

(14) Includes 30,000 shares underlying warrants.

(15) Includes 24,000 shares underlying warrants and 80,000 shares of common stock. Also includes 351,000 shares, including 81,000 shares underlying warrants, held by Benchmark Partners, LP., which shares are also being offered under this prospectus, the power to vote or dispose of which is shared by Lorraine DiPaolo and Richard Whitman as Managing Members of Benchmark Partners, LP; accordingly, no shares are shown as being beneficially owned after the offering.

(16) Includes 21,000 shares underlying warrants. Power to vote or dispose of the shares is held by Neil C. Sullivan as Trustee of Fenway Advisory Group Pension Plan.

(17) Includes 15,000 shares underlying warrants and 50,000 shares of common stock. Power to vote or dispose of the shares is shared by Raju Shah and Ejnar Knudsen as members of Craton Capital GP, LLC, as the sole General Partner of Craton Capital, LP. Also includes 221,000 shares, including 51,000 shares underlying warrants, held by Western Milling LLC, which shares are also being offered under this prospectus, the power to vote or dispose of which is held by Ejnar Knudsen as Executive Vice President of Western Milling LLC; accordingly, no shares are shown as being beneficially owned after the offering.

(18) Includes 15,000 shares underlying warrants. Also includes 100,000 shares held by the Michael Brown Trust dated 6/30/2000.

(19) Includes 15,000 shares underlying warrants and 50,000 shares of common stock. Power to vote or dispose of the shares is held by Cecilia Brancato as Managing Director of The Churchill Fund, QP. Also includes 52,000 shares, including 12,000 shares underlying warrants, held by The Churchill Fund, LP, which shares are also offered under this prospectus, the power to vote or dispose of which is also held by Cecilia Brancato as Managing Director of The Churchill Fund, LP; accordingly, no shares are shown as being beneficially owned after the offering.

(20) Includes 12,000 shares underlying warrants.

(21) Includes 12,000 shares underlying warrants and 40,000 shares of common stock. Power to vote or dispose of the shares is held by Cecilia Brancato as Managing Director of The Churchill Fund, LP. Also includes 65,000 shares, including 15,000 shares underlying warrants, held by The Churchill Fund, QP, which shares are also offered under this prospectus, the power to vote or dispose of which is also held by Cecilia Brancato as Managing Director of The Churchill Fund, QP; accordingly, no shares are shown as being beneficially owned after the offering.

(22) Includes 15,000 shares underlying warrants.

(23) Includes 9,000 shares underlying warrants. Power to vote or dispose of the shares is held by John F. DeSantis as President of Civic Capital Fund I, LLC.

(24) Includes 9,000 shares underlying warrants and 30,000 shares of common stock. Also includes 130,000 shares, including 30,000 shares underlying warrants, the power to vote or dispose of which is held by Jacob S. Harris as Managing Member of JSH Management Company, LP, as General Partner of JSH Partners, L.P., which shares are also being offered under this prospectus; accordingly, no shares are shown as being beneficially owned after the offering.

(25) Includes 9,000 shares underlying warrants.

(26) Includes 9,000 shares underlying warrants.

(27) Includes 9,000 shares underlying warrants.

(28) Includes 9,000 shares underlying warrants. Power to vote or dispose of the shares is shared by Scott M. Hergott and Cheryl L. Hergott as Trustees of the Scott M. and Cheryl L. Hergott Living Trust 2003 dated 12/18/03.

(29) Includes 6,000 shares underlying warrants.

(30) Includes 6,000 shares underlying warrants. Power to vote or dispose of the shares is held by Gary J. McAdam as Trustee of Growth Ventures, Inc. Pension Plan & Trust.

(31) Includes 6,000 shares underlying warrants.

(32) Includes 6,000 shares underlying warrants.

(33) Includes 6,000 shares underlying warrants.

(34) Includes 6,000 shares underlying warrants. Power to vote or dispose of the shares is held by James Pizzo as President of Sensus LLC.

(35) Includes 3,000 shares underlying warrants. Power to vote or dispose of the shares is shared by Bette-Lee Jablow and Jay T. Jablow as Trustees of the Jablow Family Trust Under Agreement Dated 11/25/1991.
(36) Includes 3,000 shares underlying warrants.
(37) Includes 3,000 shares underlying warrants. Power to vote or dispose of the shares is held by Thomas S. Torrance as Secretary and Director of Cantybay Enterprises, Ltd.
(38) Includes 3,000 shares underlying warrants.
(39) Includes 3,000 shares underlying warrants.
(40) Includes 3,000 shares underlying warrants.
(41) Includes 3,000 shares underlying warrants.
(42) Includes 3,000 shares underlying warrants. Power to vote or dispose of the shares is held by Marc Stern as Manager of Gem Holdings, LLC.
(43) Includes 3,000 shares underlying warrants.
(44) Includes 3,000 shares underlying warrants.
(45) Includes 3,000 shares underlying warrants.
(46) Includes 3,000 shares underlying warrants.
(47) Includes 3,000 shares underlying warrants.
(48) Includes 3,000 shares underlying warrants.
(49) Includes 3,000 shares underlying warrants. Power to vote or dispose of the shares is held by Mary A. Susnjara.
(50) Includes 3,000 shares underlying warrants.
(51) Includes 3,000 shares underlying warrants. Power to vote or dispose of the shares is shared by Paul B. Waine and Dale W. Waine as Trustees of the Josephine P. Waine 1992 Trust dated 12/14/1992.
(52) Includes 3,000 shares underlying warrants.
(53) Includes 3,000 shares underlying warrants.
(54) Includes 3,000 shares underlying warrants. Power to vote or dispose of the shares is held by Richard Swartz as Member of Swartz Family Holdings, LLC.
(55) Includes 3,000 shares underlying warrants. Power to vote or dispose of the shares is held by Leslie Fishman as Executor of the Estate of Barbara White Fishman.
(56) Includes 3,000 shares underlying warrants.
(57) Includes 3,000 shares underlying warrants.
(58) Includes 1,500 shares underlying warrants.
(59) Includes 1,500 shares underlying warrants. Also includes 25,000 shares held directly by Venkata Kollipara, 15,000 shares of which are being offered under this prospectus; and includes 10,000 shares held by Venkata Kollipara as Custodian for Priya Kollipara and 10,000 shares held by Venkata Kollipara as Custodian for Puneet Kollipara, all of which 20,000 shares are being offered under this prospectus; accordingly, 10,000 shares are shown as being beneficially owned after the offering.
(60) Includes 1,500 shares underlying warrants.
(61) Includes 1,500 shares underlying warrants.

(62) Includes 66,667 shares held by the Bradley N. Rotter Self-Employed Pension & Trust and 150,000 shares held directly by Bradley N. Rotter as an individual, for total of 216,667 shares, all of which are being offered under this prospectus; accordingly, no shares are shown as being beneficially owned after the offering.
(63) Power to vote or dispose of the shares is shared by Norman Teixeria, Allan Teixeria, Marvin Teixeria, Glenn Teixeria and Dean Teixeria as members of TLM, LLC, as General Partner of Teixeira Investments, L.P.
(64) Power to vote or dispose of the shares is shared by James A. Turner and Jennifer L. Turner as Trustees of the Turner Family Trust dated February 18, 2004.
(65) Represents shares held in the name of Clark M. Abramson and Patti L. Abramson.
(66) Power to vote or dispose of the shares is shared by Robert Hirshon, Jon P. Stride and Darcy M. Norville, Trustees of the Illiquid Assets Trust U/T/A dated November 22, 1999 FBO Peter H. Koehler.
(67) Shares held in the name of Morgan Stanley DW Inc., Custodian for Michael Frangopoulos IRA STD/Rollover dtd. 01/30/01. Power to vote or dispose of the shares is held by Michael A. Frangopaulos.
(68) Includes 1,500 shares underlying warrants. Also includes 25,000 shares held directly by Venkata Kollipara, 15,000 shares of which are being offered under this prospectus; and includes 10,000 shares held by Venkata Kollipara as Custodian for Priya Kollipara and 10,000 shares held by Venkata Kollipara as Custodian for Puneet Kollipara, all of which 20,000 shares are being offered under this prospectus; accordingly, 10,000 shares are shown as being beneficially owned after the offering.
(69) Includes 1,500 shares underlying warrants. Also includes 25,000 shares held directly by Venkata Kollipara, 15,000 shares of which are being offered under this prospectus; and includes 10,000 shares held by Venkata Kollipara as Custodian for Priya Kollipara and 10,000 shares held by Venkata Kollipara as Custodian for Puneet Kollipara, all of which 20,000 shares are being offered under this prospectus; accordingly, 10,000 shares are shown as being beneficially owned after the offering.
(70) Includes 3,400 shares held directly by Lakshama R. Madala and 10,000 shares held by the Lakshmana R. Madala, M.D. Defined Benefits Plan, all of which 13,400 shares are being offered under this prospectus. Power to vote or dispose of the shares is held by Lakshmana R. Madala as Trustee of the Lakshmana R. Madala, M.D. Defined Benefits Plan; accordingly, shares are shown as being beneficially owned after the offering.
(71) Includes 3,400 shares held directly by Lakshama R. Madala and 10,000 shares held by the Lakshmana R. Madala, M.D. Defined Benefits Plan, all of which 13,400 shares are being offered under this prospectus. Power to vote or dispose of the shares is held by Lakshmana R. Madala as

Trustee of the Lakshmana R. Madala, M.D. Defined Benefits Plan; accordingly, shares are shown as being beneficially owned after the offering.

(72) Power to vote or dispose of the shares is held by Paul Coviello as President of Linden Capital Management, LLC, as General Partner of the Linden Growth Partners, L.P.

(73) Includes 66,667 shares held by the Bradley N. Rotter Self-Employed Pension & Trust and 150,000 shares held directly by Bradley N. Rotter as an individual, for total of 216,667 shares, all of which are being offered under this prospectus; accordingly, shares are shown as being beneficially owned after the offering.

(74) Amount beneficially owned includes 250,000 shares held by the Peterson Family Trust, DTD 8/16/2000. Power to vote or dispose of these 250,000 shares is shared by Michael L. Peterson and Shelley P. Peterson as Trustees of the Peterson Family Trust, DTD 8/16/2000.

(75) Includes 10,000 shares underlying warrants. Power to vote or dispose of the shares is shared by R. Oliver Bock and Deirdre A. Stegman as Trustees of the Bock Stegman Trust dated January 11, 2000.

(76) Includes 10,000 shares underlying warrants.

(77) Includes 8,100 shares underlying warrants.

(78) Includes 3,000 shares underlying warrants.

(79) Represents shares underlying warrants.

(80) Includes 236,449 shares underlying warrants. Also includes 512,500 held directly by Laird Q. Cagan and 100,000 shares held by Cagan-McAfee Partners, LLC. Power to vote or dispose of the shares held by Cagan-McAfee Partners, LLC is shared by Laird Q. Cagan and Eric McAfee as members of Cagan-McAfee Partners, LLC.

(81) Represents shares underlying warrants.

(82) Represents shares underlying warrants. Power to vote or dispose of the shares is held by Elias D. Argyropoulos as President and Chief Executive Officer of Prima Capital Group, Inc.

(83) Represents shares underlying warrants. Power to vote or dispose of the shares is held by as of Chadbourn Securities, Inc.

(84) Represents shares underlying warrants. Power to vote or dispose of the shares is held by as of Fairmont Analytics, Inc.

(85) Represents shares underlying warrants. Power to vote or dispose of the shares is held by as of Blair Capital, Inc.

(86) Represents shares underlying warrants. Power to vote or dispose of the shares is held by as of Sycamore Capital Partners, Inc.

PRIVATE PLACEMENTS TRANSACTIONS THROUGH WHICH THE SELLING SECURITY HOLDERS OBTAINED BENEFICIAL OWNERSHIP OF THE OFFERED SHARES

All of the shares of common stock being offered under this prospectus were issued, or are issuable upon exercise of warrants that were issued, in the below-described private placement transactions.

SHARE EXCHANGE TRANSACTION

On March 23, 2005, we completed a Share Exchange Transaction with the shareholders of PEI California and the holders of the membership interests of each of Kinergy and ReEnergy under which we acquired all of the issued and outstanding capital stock of PEI California and all of the outstanding membership interests of Kinergy and ReEnergy.

In 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, following the consummation of the Share Exchange Transaction, were deemed to hold warrants to acquire an equal number of shares of our common stock. Also, a holder of a promissory note convertible into an aggregate of 664,879 shares of common stock of PEI California, following the consummation of the Share Exchange Transaction, was entitled to convert the note into an equal number of shares of our common stock. Immediately following the consummation of the Share Exchange Transaction, we had an aggregate of 27,700,401 shares of common stock actually issued and outstanding and an aggregate of 31,925,534 shares of common stock issued and outstanding, calculated on a fully-diluted basis, including the 27,700,401 shares of common stock actually issued and outstanding and 4,225,133 shares of common stock issuable upon exercise of all outstanding options, warrants and convertible debt.

ISSUANCES SUBSEQUENT TO THE SHARE EXCHANGE TRANSACTION

On June 23, 2005, we granted 25,000 shares of common stock to Paul Koehler and 45,000 shares of common stock to Doug Dickson as signing bonuses in connection with their acceptance of employment.

PLAN OF DISTRIBUTION

The selling security holders and any of their donees, pledgees, assignees and other successors-in-interest may, from time to time, sell any or all of their shares of common stock being offered under this prospectus on any stock exchange, market or trading facility on which the shares are traded, or in private transactions. These sales, which may include block transactions, may be

at fixed or negotiated prices. The selling security holders may use any one or more of the following methods when disposing of shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resales by the broker-dealer for its own account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- through the distribution of the shares by any selling security holder to its partners, members or stockholders;
- broker-dealers may agree with the selling security holders to sell a specified number of shares at a stipulated price per share;
- one or more underwritten offerings on a firm commitment or best efforts basis;
- a combination of any of these methods of sale; or
- any other method permitted by applicable law; provided, however, that the selling security holders have agreed not to engage in short sales involving the shares offered under this prospectus.

The shares may also be sold under Rule 144 under the Securities Act, if available, rather than under this prospectus. The selling security holders have the sole and absolute discretion not to accept any purchase offer or make any sale of shares if they deem the purchase price to be unsatisfactory at any particular time.

The selling security holders may pledge their shares to their brokers under the margin provisions of customer agreements. If a selling security holder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares.

Broker-dealers engaged by the selling security holders may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling security holders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, which commissions as to a particular broker or dealer may be in excess of customary commissions to the extent permitted by applicable law.

If sales of shares offered under this prospectus are made to broker-dealers as principals, we would be required to file a post-effective amendment to the registration statement of which this prospectus is a part. In the post-effective amendment, we would be required to disclose the names of any participating broker-dealers and the compensation arrangements relating to such sales.

The selling security holders and any broker-dealers or agents that are involved in selling the shares offered under this prospectus may be deemed to be "underwriters" within the meaning of the Securities Act in connection with these sales. Commissions received by these broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Any broker-dealers or agents that are deemed to be underwriters may not sell shares offered under this prospectus unless and until we set forth the names of the underwriters and the material details of their underwriting arrangements in a supplement to this prospectus or, if required, in a replacement prospectus included in a post-effective amendment to the registration statement of which this prospectus is a part.

The selling security holders may sell all or any part of the shares offered under this prospectus through an underwriter. To our knowledge, no selling security holder has entered into any agreement with a prospective underwriter, and we cannot assure you as to whether any such agreement will be

entered into. If a selling security holder informs us that it has entered into such an agreement or agreements, any material details will be set forth in a supplement to this prospectus or, if required, in a replacement prospectus included in a post-effective amendment to the registration statement of which this prospectus is a part.

The selling security holders and any other persons participating in the sale or distribution of the shares offered under this prospectus will be subject to applicable provisions of the Exchange Act, and the rules and regulations under that act, including Regulation M. These provisions may restrict activities of, and limit the timing of purchases and sales of any of the shares by, the selling security holders or any other person. Furthermore, under Regulation M, persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and other activities with respect to those securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. All of these limitations may affect the marketability of the shares.

This prospectus does not cover the sale or other transfer of any of the derivative securities whose underlying shares of common stock are being offered for sale pursuant to this prospectus. If a selling security holder transfers those derivative securities prior to conversion or exercise, then the transferee of those derivative securities may not sell the underlying shares of common stock under this prospectus unless we amend or supplement this prospectus to cover such sales.

In addition, if any of the shares of common stock offered for sale pursuant to this prospectus are transferred other than pursuant to a sale under this prospectus, then subsequent holders could not use this prospectus until a post-effective amendment or prospectus supplement is filed, naming such holders. We offer no assurance as to whether any of the selling security holders will sell all or any portion of the shares offered under this prospectus.

For the period a selling security holder holds a derivative security whose underlying shares of common stock are being offered for sale pursuant to this prospectus, the selling security holder has the opportunity to profit from a rise in the market price of our common stock without assuming the risk of ownership of the underlying shares of common stock. The terms on which we could obtain additional capital during the period in which those derivative securities remain outstanding may be adversely affected. The holders of derivative securities are most likely to voluntarily convert or exercise their derivative securities when the conversion or exercise price is less than the market price for our common stock. However, we offer no assurance as to whether any of those derivative securities will be converted or exercised.

We have agreed to pay all fees and expenses incident to the registration of the shares being offered under this prospectus. However, each selling security holder and purchaser is responsible for paying any discounts, concessions and similar selling expenses they incur.

We and certain of the selling security holders have agreed to indemnify one another against certain losses, claims, damages and liabilities arising in connection with this prospectus, including liabilities under the Securities Act.

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 100,000,000 shares of common stock, $0.001 par value per share, and 10,000,000 shares of preferred stock, $0.001 par value per share. As of August 18, 2005, there were 28,608,491 shares of common stock issued and outstanding and no shares of preferred stock issued and outstanding. The following description of our capital stock does not purport to be complete and should be reviewed in conjunction with our certificate of incorporation and our bylaws.

COMMON STOCK

All outstanding shares of common stock are, and the common stock to be issued upon exercise of warrants and resold by the selling security holders in this offering will be, fully paid and nonassessable. The following summarizes the rights of holders of our common stock:

- each holder of common stock is entitled to one vote per share on all matters to be voted upon generally by the stockholders;
- subject to preferences that may apply to shares of preferred stock outstanding, the holders of common stock are entitled to receive lawful dividends as may be declared by our board of directors, see "Dividend Policy";
- upon our liquidation, dissolution or winding up, the holders of shares of common stock are entitled to receive a pro rata portion of all our assets remaining for distribution after satisfaction of all our liabilities and the payment of any liquidation preference of any outstanding preferred stock;
- there are no redemption or sinking fund provisions applicable to our common stock; and
- there are no preemptive or conversion rights applicable to our common stock.

PREFERRED STOCK

Our board of directors is authorized to issue from time to time, without stockholder authorization, in one or more designated series, any or all of our authorized but unissued shares of preferred stock with any dividend, redemption, conversion and exchange provision as may be provided in that particular series.

The rights of the holders of our common stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. Issuance of a new series of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of entrenching our board of directors and making it more difficult for a third-party to acquire, or discourage a third-party from acquiring, a majority of our outstanding voting stock. We have no present plans to issue any shares of or to designate any series of preferred stock.

WARRANTS

As of August 18, 2005, we had outstanding warrants to purchase approximately 3.1 million shares of our common stock at exercise prices ranging from $0.001 to $5.00 per share.

OPTIONS

As of August 18, 2005, we had outstanding options to purchase 795,500 shares of our common stock at exercise prices ranging from $3.75 to $8.30 per

share.

REGISTRATION RIGHTS

The holders of various shares of our common stock and warrants are entitled to rights with respect to the registration of their shares under the Securities Act. These registration rights are described in "Selling Security Holders."

ANTI-TAKEOVER EFFECTS OF DELAWARE LAW AND OUR CERTIFICATE OF INCORPORATION AND BYLAWS

Certain provisions of Delaware law, our certificate of incorporation and our bylaws contain provisions that could have the effect of delaying, deferring and discouraging another party from acquiring control of us. These provisions, which are summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquiror outweigh the disadvantages of discouraging a proposal to acquire us because negotiation of these proposals could result in an improvement of their terms.

UNDESIGNATED PREFERRED STOCK

The ability to authorize undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us. These and other provisions may have the effect of deferring hostile takeovers or delaying changes in control or management of Pacific Ethanol.

DELAWARE ANTI-TAKEOVER STATUTE

We are subject to the provisions of Section 203 of the Delaware General Corporation Law regulating corporate takeovers. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging, under certain circumstances, in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder unless:

- Prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- Upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares of voting stock outstanding (but not the outstanding voting stock owned by the stockholder) (1) shares owned by persons who are directors and also officers and (2) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- On or subsequent to the date of the transaction, the business combination is approved by the board and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66?% of the outstanding voting stock that is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of a corporation's outstanding voting securities. We expect the existence of its provision to have an anti-takeover effect with respect to transactions our board of directors does not approve in advance. We also anticipate that Section 203 may also discourage attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

The provisions of Delaware law, our certificate of incorporation and our bylaws could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is North American Stock Transfer Co. Its telephone number is (516) 379-8501.

LEGAL MATTERS

The validity of the shares of common stock offered in this offering will be passed upon for us by Rutan & Tucker, LLP, Costa Mesa, California.

EXPERTS

Hein & Associates LLP, an independent registered public accounting firm, has audited (i) Pacific Ethanol, Inc.'s consolidated balance sheets as of December 31, 2004 and 2003, and related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2004 and the period from January 30, 2003 (inception) to December 31, 2003, as set forth in their report, (ii) Kinergy Marketing's balance sheets as of December 31, 2004, 2003 and 2002, and related statements of income and member's equity (deficit), and cash flows for each of the years then ended, as set forth in their report, and (iii) ReEnergy's balance sheets as of December 31, 2004, 2003 and 2002, and related statements of operations, members' equity (deficit) and cash flows for each of the years then ended, as set forth in their report.

We have included the consolidated financial statements of Pacific Ethanol, Inc., Kinergy Marketing, LLC and ReEnergy, LLC in the prospectus and elsewhere in the registration statement in reliance on the report of Hein & Associates LLP, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed a registration statement on Form S-1 with respect to the common stock offered in this prospectus with the Commission in accordance with the Securities Act, and the rules and regulations enacted under its authority. This prospectus, which constitutes a part of the registration statement, does not contain all of the information included in the registration statement and its exhibits and schedules. Statements contained in this prospectus regarding the contents of any document referred to in this prospectus are not necessarily complete, and in each instance, we refer you to the full text of the document which is filed as an exhibit to the registration statement. Each statement

concerning a document which is filed as an exhibit should be read along with the entire document. For further information regarding us and the common stock offered in this prospectus, we refer you to this registration statement and its exhibits and schedules, which may be inspected without charge at the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room.

The Commission also maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, such as us, that file electronically with the Commission. The Commission's website address is http://www.sec.gov.

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PACIFIC ETHANOL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2005 AND DECEMBER 31, 2004

	June 30, 2005 (unaudited)	December 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$16,427,839	$ 42
Accounts receivable, net	2,112,200	8,464
Inventories	1,111,960	--
Prepaid expenses	785,151	293,115
Deposits	5,400	--
Related party notes receivable	5,410	5,286
Business acquisition costs	--	430,393
Other receivables	52,313	48,806
Restricted cash	280,000	--
Total current assets	20,780,273	786,106
PROPERTY AND EQUIPMENT, NET	9,136,333	6,324,824
OTHER ASSETS:		
Debt issuance costs, net	58,333	68,333
Intangible assets, net	11,562,666	--
Total other assets	11,620,999	68,333
TOTAL ASSETS	$41,537,605	$7,179,263

See accompanying notes to condensed consolidated financial statements.

PACIFIC ETHANOL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2005 AND DECEMBER 31, 2004 (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2005 (unaudited)	December 31, 2004
CURRENT LIABILITIES:		
Accounts payable - trade	$ 2,511,831	$ 383,012
Accounts payable - related party	1,700,240	846,211
Accrued payroll	--	18,963
Accrued interest payable	--	30,864
Other accrued liabilities	833,454	531,803
Total current liabilities	5,045,525	1,810,853
RELATED-PARTY NOTE PAYABLE	2,887,947	4,012,678
COMMITMENTS AND CONTINGENCIES (NOTE 5)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized, no shares issued and outstanding as of June 30, 2005 and December 31, 2004	--	--
Common stock, $0.001 par value; 100,000,000 shares authorized, 28,608,491 and 13,445,866 shares issued and outstanding as of June 30, 2005 and December 31, 2004, respectively	28,608	13,446
Additional paid-in capital	42,119,996	5,071,632
Unvested consulting expense	(1,851,114)	--
Due from stockholders	(600)	(68,100)
Accumulated deficit	(6,692,757)	(3,661,246)
Total stockholders' equity	33,604,133	1,355,732
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 41,537,605	$ 7,179,263

See accompanying notes to condensed consolidated financial statements.

PACIFIC ETHANOL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net sales (including $1,496,178 and $1,849,236 for the three and six months ended June 30, 2005, respectively, to a related party)	$ 22,814,433	$ 9,442	$ 25,116,430	$ 16,003
Cost of goods sold	22,662,908	6,229	24,917,278	10,789
Gross profit	151,525	3,213	199,152	5,214
Operating expenses:				
Selling, general and administrative expenses	1,474,696	235,038	1,792,668	427,058
Non-cash compensation and consulting fees	918,375	345,000	1,343,636	517,500
Loss from operations	(2,241,546)	(576,825)	(2,937,152)	(939,344)
Other income (expense):				
Other income	104	310	26,395	51
Interest income (expense)	18,190	(136,739)	(115,954)	(266,995)
Loss before provision for income taxes	(2,223,252)	(713,254)	(3,026,711)	(1,206,288)
Provision for income taxes	3,200	800	4,800	2,400
Net loss	$ (2,226,452)	$ (714,054)	$ (3,031,511)	$ (1,208,688)
Weighted Average Shares Outstanding	27,977,127	12,106,596	21,415,102	11,927,493
Net Loss Per Share	$ (0.08)	$ (0.06)	$ (0.14)	$ (0.10)

See accompanying notes to condensed consolidated financial statements.

PACIFIC ETHANOL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(UNAUDITED)

	Six Months Ended June 30,	
	2005	2004
Net loss	$ (3,031,511)	$(1,208,688)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	40,457	39,537
Amortization of debt issuance costs	235,334	10,000
Interest expense relating to amortization of debt discount	120,268	120,268
Non-cash compensation expense	883,250	--
Non-cash consulting expense	460,386	517,500
(Increase) decrease in:		
Accounts receivable	407,923	15,525
Inventories	(530,395)	--
Prepaid expenses and other assets	(663,450)	(68,766)
Prepayments on product in transit	307,562	--
Other receivable	(3,631)	217,096
Increase (decrease) in:		
Accounts payable	288,656	(144,169)
Accounts payable, related party	854,029	247,556
Accrued payroll	(18,963)	141,259
Accrued interest payable	(31,315)	4,420
Accrued liabilities	(13,859)	(162,067)
Net cash used in operating activities	(695,259)	(270,529)

Cash flows from Investing Activities:

Additions to property, plant and equipment	(2,845,742)	(521,038)
Payment on related party notes receivable	--	199,875
Issuance of related party notes receivable	--	(33,491)
Net cash acquired in acquisition of Kinergy, ReEnergy and Accessity	1,146,854	--
Costs associated with acquisition of Kinergy, ReEnergy and Accessity	(457,808)	(202,192)
Net cash provided by (used in) investing activities	(2,156,696)	(556,846)
Cash flows from Financing Activities:		
Proceeds from sale of stock, net	18,879,749	716,339
Proceeds from exercise of stock options	332,503	--
Receipt of stockholder receivable	67,500	--
Net cash provided by financing activities	19,279,752	716,339
Net increase (decrease) in cash and cash equivalents	16,427,797	(111,036)
Cash and cash equivalents at beginning of period	42	249,084
Cash and cash equivalents at end of period	$ 16,427,839	$ 138,048

See accompanying notes to condensed consolidated financial statements.

PACIFIC ETHANOL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004 (CONT'D)
(UNAUDITED)

Non-Cash Financing and Investing activities:		
Conversion of debt to equity	$ 1,245,000	$ --
Issuance of stock for receivable	$ 0	$ 199,750
Issuance of warrants for consulting services	$ 2,139,000	$ 1,380,000
Issuance of warrants for employee compensation	$ 883,250	$ --
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	$ --
Stock returned to the Company as payment for stock option exercise	$ 1,195,314	$ --

See accompanying notes to condensed consolidated financial statements.

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PACIFIC ETHANOL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2005
(UNAUDITED)

1. REPORT BY MANAGEMENT:

The condensed consolidated financial statements include the accounts of Pacific Ethanol, Inc., a Delaware corporation, and its wholly-owned subsidiaries (collectively, the "Company"). All significant transactions among the consolidated entities have been eliminated upon consolidation.

The condensed consolidated financial statements have been prepared by the Company and include all adjustments consisting of only normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position of the Company as of June 30, 2005 and the results of operations and the cash flows of the Company for the six months ended June 30, 2005 and 2004, pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual consolidated financial statements. The Company's results of operations for the six months ended June 30, 2005 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2005.

The preparation of financial statements in conformity with accounting

principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

2. ORGANIZATION AND NATURE OF OPERATIONS:

SHARE EXCHANGE TRANSACTION - On March 23, 2005, the Company completed a share exchange transaction with the shareholders of Pacific Ethanol, Inc., a California corporation that was incorporated on January 30, 2003 ("PEI California"), and the holders of the membership interests of each of 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"), 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"). In connection with the Share Exchange Transaction, the Company 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 sole limited liability company member of Kinergy and an aggregate of 125,000 shares of common stock to the limited liability company members of ReEnergy.

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.

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, the Company's results of operations for the three and six months ended June 30, 2004 consist only of the operations of PEI California. The Company has consolidated the results of Kinergy and ReEnergy beginning March 23, 2005, the date of the Share Exchange Transaction. Accordingly, the Company's results of operations for the three and six months ended June 30, 2005 consist of the operations of PEI California for the entire six month period and the operations of Kinergy and ReEnergy from March 23, 2005 through June 30, 2005.

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

Current assets	$ 7,014,196
Property, plant and equipment	6,224
Intangibles, including goodwill	11,788,000
Total assets acquired	18,808,420
Current liabilities	4,253,177
Other liabilities	83,017
Total liabilities assumed	4,336,194
Net assets acquired	$ 14,472,226
Shares of common stock issued	6,489,414

The purchase price represented a significant premium over the recorded net worth of the acquired entities' assets. 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 and ReEnergy's businesses and assets and the Company's planned entry into the ethanol production business.

In connection with the Share Exchange Transaction and the Company's acquisition of Kinergy and ReEnergy, the Company engaged a valuation firm to determine what portion of the purchase price should be allocated to identifiable intangible assets. Through that process, the Company has estimated that for Kinergy, the distribution backlog is valued at $136,000, the customer relationships are valued at $5,600,000 and the trade name is valued at $3,100,000. The Company 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 (see further discussion below). The purchase price for ReEnergy totaled $972,250. The Company issued stock valued at $9,803,750 for the acquisition of Kinergy. In addition, certain stockholders sold stock to the sole member 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 and ReEnergy acquisitions therefore totaled $2,952,000.

The Kinergy trade name is determined to have an indefinite life and

therefore, rather than being amortized, will be periodically tested for impairment. The distribution backlog has an estimated life of six months and customer relationships were estimated to have a ten-year life and, as a result, will be amortized accordingly, unless otherwise impaired at an earlier time.

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.

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	Six Months Ended June 30,	
	2005	2004
Net sales	$ 48,721,682	$ 37,842,788
Net loss	$ (3,273,776)	$ (1,374,834)
Loss per share of common stock		
Basic	$ (0.12)	$ (0.05)
Diluted	$ (0.12)	$ (0.05)

</TABLE>

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 Cagan McAfee Capital Partners, LLC ("CMCP") at $0.01 per share for securing financing to close the Share Exchange Transaction on or prior to March 31, 2005. 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 (see note 4), the related expense is offset against the proceeds received, resulting in no effect on equity.

Immediately prior to the closing of the Share Exchange Transaction, certain stockholders of the Company sold an aggregate of 250,000 shares of the Company'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. The contribution of these shares is accounted for as a capital contribution. However, because the shares are deemed issued to Accessity in connection with the Share Exchange Transaction, the related expense is offset against the cash received from Accessity, resulting in no effect on equity.

Immediately prior to the closing of the Share Exchange Transaction, William Jones, the Company's Chairman of the Board of Directors, sold 200,000 shares of the Company'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 resulted in additional goodwill of $506,000.

Immediately prior to the closing of the Share Exchange Transaction, William Jones sold 300,000 shares of the Company's common stock to Neil Koehler, the sole member of Kinergy and an officer and director of the Company, at $0.01 per share to compensate him for facilitating the closing of the Share Exchange Transaction. The contribution of these shares resulted in additional goodwill of $759,000.

Immediately prior to the closing of the Share Exchange Transaction, William Jones sold 100,000 shares of the Company's common stock to Tom Koehler, 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 contribution of these shares resulted in additional goodwill of $253,000.

3. RELATED PARTY NOTES PAYABLE:

On January 10, 2005 and February 22, 2005, William Jones advanced the Company $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 accrued interest was paid on April 15, 2005.

On January 10, 2005, Neil Koehler 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 accrued interest was paid on April 15, 2005.

On January 31, 2005, Eric McAfee, a principal of CMCP, 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 accrued interest was paid on April 15, 2005.

On January 14, 2005, February 4, 2005, March 10, 2005 and May 27, 2005, Lyles Diversified, Inc. ("LDI") converted $36,000, $114,000, $97,682 and $997,318 of debt into 24,000, 76,000, 65,121 and 664,879 shares of the Company's common stock, respectively, at a conversion price equal to $1.50 per share. The total debt converted by LDI as of June 30, 2005 was $1,500,000 for 1,000,000 shares of the Company's common stock, at a conversion price equal to $1.50 per share.

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 GAAP, as of March 23, 2005. A holdback amount of $100,000 for 30 days was provided to allow Kinergy to settle its accounts. In April 2005, Kinergy paid the balance of its net worth, up to the holdback amount of $100,000. The remaining holdback amount was paid in May 2005.

Pursuant to the terms of the Share Exchange Transaction, ReEnergy distributed to its members in the form of a promissory note in the amount of $1,439 ReEnergy's net worth as set forth on ReEnergy's balance sheet prepared in accordance with GAAP, as of March 23, 2005. The note balance was paid in April 2005.

4. COMMON STOCK:

SHARE EXCHANGE TRANSACTION - In connection with the Share Exchange Transaction, the Company 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 sole limited liability company member of Kinergy and an aggregate of 125,000 shares of common stock to the limited liability company members of ReEnergy.

PRIVATE OFFERING - On March 23, 2005, the Company 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. The Company 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. (See Note 5) Additional costs related to the financing include legal, accounting, consulting, and stock certificate issuance fees that totaled approximately $270,658 through June 30, 2005.

The Company is obligated under a Registration Rights Agreement to file, on the 151st day following March 23, 2005, a Registration Statement with the Securities and Exchange 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 the Company (i) does not file

the Registration Statement within the time period prescribed, or (ii) fails to file with the Securities and Exchange 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 the Company is notified (orally or in writing, whichever is earlier) by the Securities and Exchange 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 is not declared effective by the Securities and Exchange Commission on or before 225 days following March 23, 2005, or (iv) after the Registration Statement is first declared effective by the Securities and Exchange 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, 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 Securities and Exchange Commission to register shares in another offering. The Registration Rights Agreement also contains customary representations and warranties, covenants and limitations.

STOCK OPTIONS - 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. Non-cash compensation expense of $232,250 was recognized to record the fair value of the warrant. (See Note 5)

STOCK ISSUANCE - 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. Non-cash compensation expense of $651,000 was recognized to record the fair value of shares of common stock. (See Note 5)

NON-CASH COMPENSATION - On February 12, 2004, the Company entered into a consulting agreement with an unrelated party 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. 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 Company recorded non-cash expense of $172,500 and $517,500 for consulting services during the six months ended June 30, 2005 and 2004, respectively.

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 that will vest ratably over a period of two years. 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 Company recorded non-cash expense of $287,886 for consulting services vested during the period from March 24, 2005 to June 30, 2005. The unvested warrants in the amount of $1,851,114 will vest ratably at $89,125 per month over the remainder of the two year period.

5. 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 $19,680 and $11,780 for the six months ended June 30, 2005 and 2004, respectively.

ADVISORY FEE - On April 14, 2004, the Company entered into an agreement with 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. 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 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 described above. In addition, $83,017 was paid related to cash received from Accessity in connection with the Share Exchange Transaction. Pursuant to the terms of the consulting agreement, CMCP will continue to receive payments of $25,000 per month until at least March 2006.

On January 5, 2005, the Company entered into an agreement with Northeast Securities, Inc. ("NESC") and Chadbourn Securities, Inc. ("Chadbourn"), a related party, in connection with the private placement 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 placement 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.

In April 2005, the Company entered into a consulting agreement in the amount of $180,000 with NESC. Under the terms of the agreement, the Company paid an initial payment of $30,000 and will continue to make monthly payments of $12,500 through April 1, 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. The insurance company has paid $1,000,000 to date and has estimated that an additional $4,000,000 of payments will be made to the Company. The Company has received a detailed engineering estimate for full restoration and is proceeding with the restoration.

NON-CASH COMPENSATION - In December 2003, PEI California issued to an employee stock options to acquire up to 25,000 shares of common stock at an exercise price of $0.01 per share. In February 2004, the board of directors of PEI California ratified the options, contingent upon the Company's success in closing the Share Exchange Transaction. The stock options vested in full on March 23, 2005 and were converted into a warrant to acquire up to 25,000 shares of common stock of the Company. Non-cash compensation expense was recognized in March 2005 in the amount of $232,250 to record the fair value of the warrant. (See Note 4)

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. Non-cash compensation expense of $651,000 was recognized to record the fair value of shares of common stock. (See Note 4)

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 three percent (3%) of the capital raised, which amount is payable upon the closing of the financing transaction. If, however, the capital raised finances only one Company project and the consulting firm arranges additional financing to finance another Company project, the arrangement fee under the second financing is to be three and one-half percent (3.5%) but there shall be no additional engagement fee for the second financing. The Company is also to pay to the consulting firm an annual administration fee of $75,000 if one Company project is financed and $100,000 if two Company projects are financed, which amounts are payable for each year during which debt financing raised by the consulting firm is outstanding.

6. SUBSEQUENT EVENTS:

STOCK OPTIONS - On July 19, 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 $6.61 per share, which exercise price equals 85% of the closing price per share of the Company's common stock on that date. A non-cash charge of $20,475 will be recorded in the quarter ended September 30, 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.

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.

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.

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 an executive placement and consultancy firm.

EMPLOYMENT AGREEMENT - On August 10, 2005, the Company entered into an

Executive Employment Agreement with William 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 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.

PURCHASE AGREEMENT - On August 10, 2005, the Company entered into a Membership Interest Purchase Agreement with certain holders of a limited liability company under which the Company intends to purchase all of the outstanding membership interests of the limited liability company. The limited liability company is the owner of a newly-constructed ethanol production facility in Goshen, California that is undergoing initial start-up testing. The purchase price, subject to certain adjustments, is $48 million, payable in approximately $31 million in cash, the assumption of approximately $9 million in debt and the issuance by the Company to the members of the limited liability company of an aggregate of $8 million in convertible subordinated promissory notes. To the extent that debt actually assumed by the Company is greater or less than $9 million, the cash payment of approximately $31 million is to be reduced or increased, respectively, by an equal amount. The closing of the transaction is subject to the satisfaction of certain conditions, including the securing by the Company of all funding necessary to finance the transaction, satisfactory results of the Company's due diligence and the Company's ability to obtain the agreement of all members of the limited liability company. The agreement terminates automatically in the event that the closing of the purchase transaction does not occur by the earlier of October 15, 2005 and the sixtieth day following the satisfaction of a certain ethanol production milestone.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

May 23, 2005

To the Stockholders and 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, 2004 and 2003 and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2004 and for the period from January 30, 2003 (inception) through December 31, 2003. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 provided 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, 2004 and 2003 and the consolidated results of its operations and its cash flows for the year ended December 31, 2004 and the period from January 30, 2003 (inception) through December 31, 2003, in conformity with U.S. generally accepted accounting principles.

/s/ HEIN & ASSOCIATES LLP

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PACIFIC ETHANOL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2004	2003
ASSETS		

CURRENT ASSETS:		
Cash and cash equivalents	$ 42	$ 249,084
Accounts receivable	8,464	24,188
Inventories	--	1,734
Prepaid expenses	293,115	21,677
Related party notes receivable	5,286	205,035
Business acquisition costs	430,393	--
Other receivables	48,806	305,370
Total current assets	786,106	807,088
PROPERTY, PLANT AND EQUIPMENT, net	6,324,824	5,664,213
DEBT ISSUANCE COSTS, net	68,333	88,333
TOTAL ASSETS	$ 7,179,263	$ 6,559,634

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 383,012	$ 295,957
Accounts payable (related party)	846,211	450,021
Accrued payroll	18,963	13,359
Accrued interest payable	30,864	152,180
Other accrued liabilities	531,803	253,147
Total liabilities	1,810,853	1,164,664
RELATED-PARTY NOTE PAYABLE	4,012,678	4,027,142
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value; 30,000,000 shares authorized, no shares issued and outstanding as of December 31, 2004 and December 31, 2003	--	--
Common stock, no par value; 30,000,000 shares authorized, 13,445,866 and 11,733,200 shares issued and outstanding as of December 31, 2004 and December 31, 2003, respectively	3,705,078	2,227,507
Additional paid-in capital	1,380,000	--
Due from stockholders	(68,100)	(1,000)
Accumulated deficit	(3,661,246)	(858,679)
Total stockholders' equity	1,355,732	1,367,828
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 7,179,263	$ 6,559,634

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

PACIFIC ETHANOL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

	For Year Ended December 31, 2004	From January 30, 2003 (inception) to December 31, 2003
NET SALES	$ 19,764	$ 1,016,594
COST OF GOODS SOLD	12,523	946,012
GROSS PROFIT	7,241	70,582
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,070,010	647,731
NONCASH COMPENSATION FOR CONSULTING FEES	1,207,500	--
OPERATING LOSS	(2,270,269)	(577,149)
OTHER INCOME (EXPENSE)		
Other income	(2,166)	1,292
Interest expense	(528,532)	(281,222)
Total other income (expense)	(530,698)	(279,930)
LOSS BEFORE PROVISION FOR INCOME TAXES	(2,800,967)	(857,079)
PROVISION FOR INCOME TAXES	1,600	1,600

NET LOSS	$(2,802,567)	$ (858,679)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

PACIFIC ETHANOL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE PERIOD FROM JANUARY 30, 2003 (INCEPTION) TO DECEMBER 31, 2003
AND THE YEAR ENDED DECEMBER 31, 2004

	Series A Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In	Due from Stock-	Accumulated	
	Shares	Amount	Shares	Amount	Capital	holders	Deficit	Total
BALANCE, January 30, 2003 (inception)	--	$ --	--	$ --	$ --	$ --	$ --	$ --
Issuance of common stock to the founders	--	--	10,000,000	1,000	--	(1,000)	--	--
Issuance of common stock for note payable	--	--	1,000,000	1,202,682	--	--	--	1,202,682
Issuance of common stock to friends and family, net of offering costs of $75,975	--	--	733,200	1,023,825	--	--	--	1,023,825
Net loss	--	--	--	--	--	--	(858,679)	(858,679)
BALANCE, December 31, 2003	--	--	11,733,200	2,227,507	--	(1,000)	(858,679)	1,367,828
Issuance of common stock to friends and family, net of offering costs of $7,127	--	--	19,000	21,373	--	--	--	21,373
Issuance of warrants to purchase 920,000 shares of common stock for noncash compensation to non-employee for services	--	--	--	--	1,380,000	--	--	1,380,000
Exercise of warrants	--	--	920,000	92	--	--	--	92
Collection of shareholder receivable	--	--	--	--	--	400	--	400
Issuance of common stock in working capital round, net of offering costs of $107,418	--	--	500,000	892,582	--	(67,500)	--	825,082
Issuance of common stock in working capital round, net of offering costs of $2,475	--	--	103,666	308,524	--	--	--	308,524
Conversion of LDI debt	--	--	170,000	255,000	--	--	--	255,000
Net loss	--	--	--	--	--	--	(2,802,567)	(2,802,567)
Balance, December 31, 2004	--	$ --	13,445,866	$3,705,078	$1,380,000	$(68,100)	$(3,661,246)	$ 1,355,732

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

PACIFIC ETHANOL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For Year Ended December 31, 2004	From January 30, 2003 (inception) to December 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(2,802,567)	$ (858,679)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	78,743	46,684
Amortization of debt issuance costs	20,000	11,667
Interest expense relating to amortization of debt discount on related party note payable	240,536	129,824
Non cash compensation for consulting services	1,207,500	--
Changes in operating assets and liabilities:		
Accounts receivable	15,724	(24,188)
Other receivable	256,564	(305,370)
Inventories	1,734	(1,734)
Prepaid expenses	(98,938)	(21,677)
Accounts payable	87,055	295,957
Accounts payable (related party)	396,190	450,021

Interest payable	(121,316)	152,180
Payroll taxes payable	5,604	13,359
Accrued liabilities	278,656	253,147
Net cash provided by (used in) operating activities	(434,515)	141,191
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(739,354)	(610,897)
Issuance of related party notes receivable	--	(205,035)
Payments received on related party notes receivable	199,749	--
Costs associated with business acquisition	(430,393)	--
Net cash used in investing activities	(969,998)	(815,932)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of stock, net	1,155,379	1,023,825
Proceeds from exercise of warrants	92	--
Payments of debt issuance costs	--	(100,000)
Net cash provided by financing activities	1,155,471	923,825
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(249,042)	249,084
CASH AND CASH EQUIVALENTS, beginning of period	249,084	--
CASH AND CASH EQUIVALENTS, end of period	$ 42	$ 249,084
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 422,233	$ 487
Income taxes paid	$ 2,400	$ 1,600
NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Purchase of grain facility with note payable	$ --	$ 5,100,000
Issuance of stock for receivable	$ 67,100	$ 1,000
Conversion of debt to equity	$ 255,000	$ --

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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PACIFIC ETHANOL, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS:

Pacific Ethanol, Inc. (the "Company") was incorporated in California on January 30, 2003 to construct an ethanol production facility and manufacture and distribute ethanol fuel in California.

On June 11, 2003, the Company and an individual formed Pacific Ag Products, LLC ("Pacific Ag Products"), which was organized in the State of California as a limited liability company to market and sell wet distillers grain, a by-product of ethanol production, to dairies. The Company has a 90% interest in Pacific Ag Products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

LIQUIDITY AND FINANCIAL CONDITION - The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which contemplate continuation of the Company as a going concern.

On March 23, 2005, the Company completed a private offering of equity securities which raised $21,000,000 through the sale of 7,000,000 shares of the Company's common stock at $3.00 per share. In addition, in connection with the sale of these shares, warrants to purchase 1,400,000 shares of common stock at an exercise price of $3.00 per share, and warrants to purchase 700,000 shares of common stock at an exercise price of $5.00 per share, were issued. This transaction was completed just prior to the completion of a Share Exchange Transaction, described below. (See Note 11)

On March 23, 2005, the shareholders of the Company completed a Share Exchange Transaction with Accessity Corp., a New York corporation ("Accessity"), and the holders of the membership interests of each of Kinergy Marketing, LLC, an Oregon limited liability company ("Kinergy"), and ReEnergy, LLC, a California limited liability company ("ReEnergy"), pursuant to which Accessity acquired all of the issued and outstanding shares of common stock of the Company and all of the outstanding membership interests of each of Kinergy and ReEnergy (the "Share Exchange Transaction"). This transaction has been accounted for

as a reverse acquisition whereby the Company is the accounting acquiror. Immediately prior to the closing of the Share Exchange Transaction, 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. ("Pacific Ethanol Delaware"), which was formed for the purpose of effecting the reincorporation. Pacific Ethanol Delaware is the surviving entity resulting from the reincorporation merger and the Share Exchange Transaction and has three principal wholly-owned subsidiaries: Kinergy, the Company and ReEnergy. (See Note 11).

The Company is in the business of marketing ethanol and intends, during the next 12 months, to commence construction of an ethanol production facility. Based on its current cash position and anticipated use of cash in operations and planned ethanol plant construction, management believes that the Company has sufficient funds to operate over the next 12 months.

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of the company and its subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

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.

ALLOWANCE FOR DOUBTFUL ACCOUNTS - The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. 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 accounts receivable based on contractual terms of sale. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. At December 31, 2003 and 2004, management of the Company believes that all receivables are collectible, and therefore has not established an allowance for bad debt. The Company has had no bad debt expense for the period from January 30, 2003 (inception) to December 31, 2004.

INVENTORIES - In connection with the acquisition of the grain facility in June 2003 (See Note 4), the Company acquired inventory, primarily representing whole corn for a total of $770,298. During 2003, the majority of the inventory acquired was sold and at December 31, 2004 the balance was $0. Inventories are stated at the lower of cost (first-in, first-out) or market. The Company provides inventory reserves for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated realizable value based upon assumptions about future demand and market conditions.

PROPERTY, PLANT AND EQUIPMENT - Property, plant 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.

IMPAIRMENT OF LONG-LIVED ASSETS - In the event that facts and circumstances indicate that the cost of long-lived assets used in operations might be impaired, an evaluation of recoverability would be performed. If an evaluation were required, the estimated undiscounted cash flows estimated to be generated by those assets would be compared to their carrying amounts to determine if a write-down to market value or discounted cash flows is required.

REVENUE RECOGNITION - During 2003, the Company sold corn from inventory acquired in the purchase of a grain facility (see "inventories" above), and during 2003 and for the year ended December 31, 2004, received a

handling fee from its trans-loading capabilities. Revenue from the sale of grains was recognized upon shipment to customers. Revenue from trans-loading services was recognized when unloading the rail cars, thus at the time that the service was completed.

STOCK-BASED COMPENSATION - SFAS 123, ACCOUNTING FOR STOCK-BASED COMPENSATION ("SFAS 123") encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company may elect to continue to account for stock-based compensation using the intrinsic value method prescribed in APB 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES ("APB 25") and related Interpretations. Under APB 25 and the intrinsic value method, the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant or, in the case of the Company's employee stock purchase plans since the plans are non-compensatory, no compensation expense is recognized. In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS 148, ACCOUNTING FOR STOCK-BASED COMPENSATION--TRANSITION AND DISCLOSURE ("SFAS148"). FAS 148 amends the disclosure requirements of FAS 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.

INCOME TAXES - Income taxes are accounted for under Statement of Financial Accounting Standards ("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.

USE OF ESTIMATES - The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS - The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision.

The following methods and assumptions were used in estimating the indicated fair values of the Company's financial instruments:

- Cash and cash equivalents, accounts receivable, notes receivable, accounts payable and other short term liabilities: The carrying amounts approximate fair value because of the short maturity of those instruments.
- Debt: The fair value of the Company's debt is estimated based on current rates offered to the Company for similar debt and approximates carrying value.

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, 2003, the uninsured balance was $65,446 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 2003, the Company sold corn from inventory acquired in the purchase of a grain facility, and in 2004 and 2003, received a handling fee from its trans-loading capabilities. During the year ended December 31, 2004 and period from January 30, 2003 (inception) to December 31, 2003,, the Company had sales from customers representing 10% or more of sales as follows:

	2004	2003
Customer A	36%	49%
Customer B	25%	0%
Customer C	22%	0%
Customer D	15%	0%
Customer E	0%	36%
Customer F	0%	11%

As of December 31, 2004 and 2003, the Company had receivables of approximately $8,464 and $22,479 from these customers, representing 93% and 100%, respectively, of total accounts receivable. The Company does not require collateral of its customers and as of December 31, 2004 and 2003, has not incurred significant credit losses.

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 123R, SHARE-BASED PAYMENT ("SFAS 123R") which is a revision of SFAS 123 and supersedes APB 25. Among other items, SFAS 123R eliminates the use of APB 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The effective date of SFAS 123R is the first reporting period beginning after December 15, 2005. SFAS 123R permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective"

method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after that date, and based on the requirements of SFAS 123 for all unvested awards granted prior to the effective date of SFAS 123R. Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but it also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS 123.

While SFAS 123R permits entities to continue to use a standard option pricing model (e.g., Black-Scholes) to measure the fair value of stock options granted to employees, the standard also permits the use of a "lattice" model. The Company has not yet determined which model it will use to measure the fair value of employee stock options upon the adoption of SFAS 123R.

The Company currently has only one stock option outstanding which vested in the first quarter of 2005, and expects to adopt SFAS 123R effective January 1, 2006. However, because the Company has not yet determined which of the adoption methods it will use, the Company has not yet determined the impact of adopting SFAS 123R. (See Note 8)

3. RELATED PARTY NOTES RECEIVABLE:

On November 5, 2003, the Company issued a short-term note in the amount of $200,000 to Kinergy, which at the time was owned by an officer and director of the Company. The short-term note was due and payable January 4, 2004, with interest at a rate of 5% per annum. As of December 31, 2003, interest income relating to this note was not significant. Payment of the principal and all accrued interest was received in January 2004.

On November 10, 2003, the Company issued a short-term note in the amount of $5,000 to Doug and Jane Dickson, husband and wife, who hold a minority interest in the Pacific Ag Products. The short-term note is due and payable November 9, 2005, with interest at a rate of 5% per annum. As of December 31, 2004 and 2003, interest income relating to this note was not significant.

4. PROPERTY AND EQUIPMENT:

In June 2003, the Company acquired a grain facility in Madera, California for approximately $5,100,000 from bankruptcy proceedings of Coast Grain Company. The Company intends to construct an ethanol plant at the grain facility. In July 2003, the Company entered into a design-build contract with W.M. Lyles Co., a subsidiary of Lyles Diversified, Inc. ("LDI") (See Note 5), for the design and construction of the ethanol plant, which will be billed at its standard time and material rates. W.M. Lyles Co. will discount its normal construction management fee by 5% from its standard rates. The Company's cost for the construction of the facility has been estimated to be approximately $52,000,000. In addition, should the Company build a second ethanol plant W.M. Lyles Co. will be engaged for the design and construction of the facility.

The Company is currently in process of renegotiating a revised bid with W.M. Lyles Co. that expired on April 1, 2005.

As of December 31, 2004 and 2003, the Company had incurred costs of $1,306,926 and $578,159 under the design-build contract planning phase, which has been included in construction in progress at December 31, 2004 and 2003, respectively. Included in this amount is a total of $453,325 and $229,078 related to the construction management fee of W.M. Lyles Co., of which $236,259 and $217,066 had not been paid at December 31, 2004 and 2003, respectively. Included in construction in progress at December 31, 2004 is capitalized interest of $45,995.

Property and equipment consist of the following:

<TABLE>
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	December 31, 2004	December 31, 2003
Land	$ 515,298	$ 515,298
Facilities	4,234,703	4,234,703
Equipment and vehicles	350,000	350,000
Office furniture, fixtures and equipment	43,324	32,737
	5,143,325	5,132,738
Accumulated depreciation	(125,427)	(46,684)
	5,017,898	5,086,054
Construction in progress	1,306,926	578,159
	$ 6,324,824	$ 5,664,213

</TABLE>

As of December 31, 2004 and 2003, property and equipment totaling $3,897,328 had not been placed in service. Depreciation expense was $78,743 for the year ended December 31, 2004 and $46,684 from January 30, 2003 (inception) to December 31, 2003.

5. RELATED PARTY NOTE PAYABLE:

In connection with the acquisition of the grain facility in March 2003, the Company issued a convertible promissory note in the amount of $5,100,000 to LDI. The loan bears interest at a fixed rate of 5% through June 19, 2004, at which time it converted to a variable rate based on the Wall Street Journal Prime Rate (5.25% as of December 31, 2004) 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.

In addition, should the Company obtain construction funding for a second ethanol plant, all principal and accrued interest outstanding at the time becomes due. The note is collateralized by a first deed of trust on the grain facility and a personal guaranty for up to a maximum amount of $1,000,000 by an individual shareholder. LDI has the option to convert up to $1,500,000 of the debt into the Company's common stock at a purchase price of $1.50 per share until June 1, 2005. On July 31, 2004, September 24, 2004 and November 15, 2004, LDI converted $150,000, $90,000 and $15,000 of debt into 100,000, 60,000 and 10,000 shares of common stock, respectively, at a conversion price equal to $1.50 per share. (See Note 7) As part of the terms of the note, W.M. Lyles Co., a subsidiary of LDI, shall supply construction services to the Company for the construction of the ethanol plant. (See Note 4)

In partial consideration for the above loan, the Company issued 1,000,000 shares of the Company's conversion 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, 2004 and 2003, the unamortized debt discount was $832,322 and $1,072,858, respectively. The Company 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 Cagan McAfee Capital Partners, LLC ("CMCP"), a founding shareholder of the Company.

The aggregate maturities of the note at December 31, 2004 are as follows:

Year ending December 31,	
2005	$ --

2006	1,615,000
2007	1,615,000
2008	1,615,000
	4,845,000
Less: Unamortized original issuance discount	(832,322)
	$ 4,012,678

6. REDEEMABLE CONVERTIBLE PREFERRED STOCK:

The Company has a total of 30,000,000 shares of no par value preferred stock authorized, 7,000,000 shares of which have been designated Series A 8% Cumulative Convertible Redeemable Preferred Stock (the "Series A Preferred Stock"). Holders of Series A Preferred Stock will (i) have priority rights to dividends from funds legally available therefore at the rate of 8% per annum payable in cash or stock, accrued from the closing of the offer and sale of the Series A Preferred Stock, per share, cumulative, payable pro rata; and (ii) be entitled to preference in all of the assets of the Company available for distribution to holders of preferred stock upon liquidation, dissolution, or winding up of the affairs of the Company. In certain circumstances the Company has the right, at any time after December 31, 2005, to force conversion of the Series A Preferred Stock into fully-paid and non-assessable shares of common stock at the ratio of one share of common stock for every one share of Series A Preferred Stock (shares of common stock are reserved for any such conversion).

No dividends accrue on the shares of Series A Preferred Stock until after the closing of the offering and sale of the Series A Preferred Stock. Thereafter, dividends accrue, whether or not earned or declared, and become payable commencing January 15, 2005 and on each January 15th thereafter; provided that such dividends shall only be paid upon a determination by the Board of Directors of the Company that funds are legally available therefore and that payment is in the best interests of the Company. The shares of Series A Preferred Stock are non-participating with regard to dividends, if any, which may be declared and paid to the holders of any other classes of the Company's stock.

No shares of Series A Preferred Stock have been issued, but any shares of Series A Preferred Stock issued may at the sole election of the Company be redeemed at any time, and from time to time, during the four (4) years following the issuance thereof, for a price per share of $6.50 plus (i) all accrued but unpaid dividends on such shares and (ii) 10% per share per annum. Any redemption shall be applied ratably among all shares of Series A Preferred Stock outstanding at the time of redemption.

In the event of any liquidation, dissolution, or winding up of the Company, whether voluntary or involuntary, holders of the Series A Preferred Stock shall be entitled to receive a distribution of $6.50 per share plus all declared but unpaid dividends on each share out of assets of the Company, prior to any distribution of assets with respect to any shares of common stock of the Company as a result of such liquidation, distribution, or winding up of the Company. If, in the case of any such liquidation, dissolution, or winding up of the Company, the assets of the Company or proceeds thereof shall be insufficient to make the full liquidation payment of $6.50 per share, then such assets and proceeds shall be distributed ratably among the holders of the Series A Preferred Stock. A consolidation or merger of the Company with or into one or more corporations, or a sale of all or substantially all of the assets of the Company in consideration for the issuance of equity securities of another corporation shall be deemed to be a liquidation, dissolution, or winding up of the Company.

7. COMMON STOCK:

In February 2003, the Company sold 10,000,000 shares of common stock to the founders of the Company at $0.0001.

In March 2003, the Company issued 1,000,000 common shares of the Company's stock to LDI. (See Note 5)

From August through December 2003, the Company sold 733,200 shares of common stock in a private offering at $1.50 per share for net proceeds of $1,023,825. In connection with the sale of these shares, the Company paid offering costs of $75,975, including a finder's fee of $21,250 to CMCP. In addition, the Company issued warrants to purchase 41,587 shares of common stock at an exercise price of $1.50 per share and an expiration date five years from the date of issuance. Of the total warrants issued, warrants to purchase 14,167 shares of common stock were issued to CMCP.

From January 2004 through February 2004, the Company sold 19,000 shares

of common stock in a private offering 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 to Prima Capital Group, Inc. As payment of commissions earned in connection with the sale of these shares, the Company issued warrants to purchase 1,900 shares of common stock at an exercise price of $1.50 per share and an expiration date five years from the date of issuance.

From April 2004 through June 2004, the Company sold 500,000 shares of common stock in a private offering at $2.00 per share for net proceeds of $892,582 as of September 30, 2004. (Of this amount $67,500 is included in due from stockholders in the equity section). 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. In addition, the Company issued warrants to CMCP to purchase 50,000 shares of common stock at an exercise price of $2.00 per share and an expiration date five years from the date of issuance.

On July 31, 2004, September 24, 2004 and November 15, 2004, LDI converted $150,000, $90,000 and $15,000 of debt into 100,000, 60,000 and 10,000 shares of common stock, respectively, at a conversion price of $1.50 per share. (See Note 5)

On September 29, 2004, a consulting company exercised warrants to purchase 920,000 shares of the Company's stock at an aggregate exercise price of $92. (See Note 8)

From October 2004 through December 2004, the Company sold 103,666 shares of common stock in a private offering at $3.00 per share for net proceeds of $308,524 as of December 31, 2004. In connection with the sale of these shares, the Company paid offering costs of $2,475.

STOCK OPTIONS - In February 2004, the Board of Directors of the Company ratified the grant of options on December 10, 2003 to a member of management to acquire 25,000 shares of the Company's common stock at an exercise price of $0.01 per share. The options vested upon the closing of the Share Exchange Transaction. (See Note 11)

8. COMMITMENTS AND CONTINGENCIES:

OPERATING LEASES - The Company leases shared office space in Fresno, California on a month-to-month basis at $2,934 per month. Rent expense was $24,983 and $5,600 for the year ended December 31, 2004 and for the period from January 30, 2003 (inception) to December 31, 2003,, respectively.

SETTLEMENT OF CORN CONTRACTS - In July and August 2003, the Company, through its subsidiary entered into contracts to sell corn to two customers at fixed rates. At the same time, the Company entered into contracts to purchase corn from a vendor at fixed rates. These purchase and sale contracts contained shipping periods ranging from October 2003 to September 2004. In the fourth quarter of 2003, the Company cancelled the contracts and settled them based on the net settlement provisions standard in the grain industry. At December 31, 2003, the Company recorded a receivable related to the settlement of the corn contracts in the amount of $274,259, which is reflected in other receivables in the consolidated balance sheet. There were no receivables at December 31, 2004. In addition, the Company has recorded a payable related to the settlement of the corn contract in the amount of $16,509 and $204,81 as of December 31, 2004 and 2003, respectively, which is reflected in accrued liabilities in the consolidated balance sheets.

A party to one of the sales agreements did not perform according to the net settlement provisions standard in the grain industry and thus continued to engage in contracts without the consent or approval of the Company. The Company has attempted to settle with the entity with no success.

On September 22, 2004, R.A. Davis Commodities, LLC filed a complaint for breach of contract, promissory estoppel and negligence in the Superior Court of the State of California for the County of Fresno against the Company. The complaint seeks actual and consequential damages in the amount of approximately $700,000 based on the Company's alleged breach of certain rolled corn purchase contracts. The Company responded to the complaint on January 27, 2005. The Company also filed a cross-complaint against R.A. Davis on that date, alleging breach of oral and written contract in connection with sales of feed product as well as "transloading" services performed for R.A. Davis. The cross-complaint seeks damages in the amount of $121,435. The trial in this matter is set for March 13, 2006. The Company believes that the claims made in the complaint are without merit and the Company expects to vigorously defend this lawsuit.

On November 8, 2004, Insurance Corporation of Hanover and Kruse

Investments dba Western Milling, LLC (collectively, the "Plaintiffs") filed a Complaint for Damages in the Superior Court of the State of California for the County of Madera against the Company. The Complaint seeks actual and consequential damages in the amount of at least $960,800 based on the Company's alleged breach of contract and negligence in connection with losses suffered by Plaintiffs arising out of damage caused to Western Milling's canola meal that was stored at the Company's grain silos located at the Company's Madera County facility, which facility was the subject of a grain silo fire on January 12, 2004. The Company's insurance company has settled this matter. Plaintiff's have dismissed the action against the Company with prejudice and have provided the Company a written release.

ADVISORY FEE - The Company entered into an agreement with CMCP dated April 14, 2004, in connection with raising funding for an ethanol production facility. The agreement provides 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. 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, running 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. (See Note 11)

In a separate agreement, certain founders of the Company agreed to sell an aggregate of 500,000 shares of the Company's common stock owned by such founders to CMCP, at $0.01 per share, if certain funding were secured by March 31, 2005. (See Note 11)

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. The Company's insurance provider advanced the Company $1,000,000 towards fire damage repair costs. As of December 31, 2004, the Company has incurred costs of $580,374. The difference of $419,626 is included in other accrued liabilities. The Company is anticipating $1,000,000 in additional estimated insurance proceeds to complete the reconstruction of the facility based on a detailed engineering estimate for full restoration received by the Company. The Company is proceeding with the restoration.

NON-CASH COMPENSATION - On February 12, 2004, the Company entered into a consulting agreement with an unrelated party 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. These warrants vested upon the effective date of the agreement. Based on the fair value of these warrants on the date of issuance, prepaid consulting fees were recorded in the amount of $1,380,000, which are being amortized over one year. As of December 31, 2004, the Company recorded non-cash expense of $1,207,500 relating to these warrants. On September 29, 2004, the consulting company exercised warrants to purchase 920,000 shares of the Company's common stock at an aggregate exercise price equal to $92.

Contingent upon completing a merger, acquisition or share exchange with a public company by March 31, 2005, the Company will issue warrants to purchase up to 230,000 additional shares of common stock that will vest over a period of two years. (See Note 11)

9. INCOME TAXES:

For the years ended December 31, 2004 and 2003, the provision for income taxes differs from that computed by applying federal statutory rates to loss before income taxes, as follows:

	2004	2003
Benefit computed at the statutory rate	$(1,265,535)	$(299,978)
Reduction resulting from:		
Valuation allowance	1,266,095	300,538
State taxes, net of federal benefit	1,040	1,040
Income tax expense	$ 1,600	$ 1,600

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Components of the Company's deferred tax assets (liabilities) at December 31, 2004 and 2003 are as follows:

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	2004	2003
Long-term deferred tax assets (liabilities)		
Net operating loss carryforward	$ 1,488,430	$ 356,569
Depreciation	(29,010)	(10,519)
Net deferred non-current deferred liabilities	1,459,420	346,050
Valuation allowance	(1,459,420)	(346,050)
Net deferred current tax assets (liabilities)	$ --	$ --

</TABLE>

As of December 31, 2004, the Company had federal and California net operating loss carry forwards of approximately $3,807,483 and $2,193,278, respectively, available to reduce future taxable income, which expire beginning in the years 2024 for federal and in 2014 for state purposes. Under Section 382 of the Internal Revenue Code, the utilization of the net operating loss carry forwards can be limited based on changes in the percentage of ownership of the Company.

10. 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 plant at $6,000 per month. The Company paid a total of $72,000 and $54,000 for the year ended December 31, 2004 and for the period from January 30, 2003 (inception) to December 31, 2003, respectively.

In 2003, the Company sold various cattle feed products totaling $109,698 to a business owned by a shareholder. Of this amount, $76,903 was sold to the shareholder's business during the period January 30, 2003 (inception) to December 31, 2003. There were no such sales made during the year ended December 31, 2004.

The Company reimbursed a stockholder for expenses paid on behalf of the Company. The total amount reimbursed from January 30, 2003 (inception) to December 31, 2003 was $200,000. There were no such expenses reimbursed during the year ended December 31, 2004.

On August 28, 2003, the Company entered into an agreement with ReEnergy, LLC for an option to buy 89.3 acres in Visalia, California at a price of $12,000 per acre for the purpose of building an ethanol production facility.

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

On October 27, 2003, certain founders of the Company entered into an agreement with an unrelated third party to sell 1,500,000 shares of the Company's common stock owned by such founders at $1.50 per share for total proceeds of $2,250,000. In addition, under the terms of the agreement, the founders involved in the transaction agreed to vote a certain number of their existing shares in favor of the third party principal's election to the Board of Directors of the Company.

On December 28, 2004, William Jones, a related party, advanced the Company $20,000 at 5% interest, due and payable upon close of the Share Exchange Transaction. (See Note 11)

11. SUBSEQUENT EVENTS (UNAUDITED):

LOANS TO THE COMPANY - On January 10, 2005 and February 22, 2005, William Jones, a related party, advanced the Company $60,000 and $20,000, respectively, at 5% interest, due and payable upon close of the Share Exchange Transaction. The accumulated principal due was repaid on March 24, 2005 and the related accrued interest was paid on April 15, 2005. (See Note 9)

On January 10, 2005, Neil Koehler, a related party, 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 accrued interest was paid on April 15, 2005.

On January 31, 2005, Eric McAfee, a principal of CMCP, 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 accrued interest was paid on April 15, 2005.

On January 14, 2005, February 4, 2005 and March 10, 2005, LDI converted $36,000, $114,000, and $97,682 of debt into 24,000, 76,000 and 65,121 shares of the Company's common stock, respectively, at a conversion price equal to $1.50 per share. (See Notes 5 and 6)

PRIVATE OFFERING - On March 23, 2005, the Company 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. The Company 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 $255,048 through March 31, 2005 and continue to be incurred in connection with various securities filings and the resale registration statement described below.

The Company is obligated under a Registration Rights Agreement to file, on the 151st day following March 23, 2005, a Registration Statement with the Securities and Exchange 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 the Company (i) does not file the Registration Statement within the time period prescribed, or (ii) fails to file with the Securities and Exchange 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 the Company is notified (orally or in writing, whichever is earlier) by the Securities and Exchange 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 is not declared effective by the Securities and Exchange Commission on or before 225 days following March 23, 2005, or (iv) after the Registration Statement is first declared effective by the Securities and Exchange 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, 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 Securities and Exchange Commission to register shares in another offering. The Registration Rights Agreement also contains customary representations and warranties, covenants and limitations. (See Note 1)

ADVISORY FEE. - 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 (See Note 8) and the Company and in connection with the private offering described above. In addition, $83,000 was payable in connection with cash received from Accessity in connection with the Share Exchange Transaction. Pursuant to the terms of the consulting

agreement, CMCP will continue to receive payments of $25,000 per month until at least March 2006.

On January 5, 2005, the Company entered into an agreement with Northeast Securities, Inc. ("NESC") and Chadbourn Securities, Inc. ("Chadbourn"), a related party, in connection with the private placement 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 placement 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.

SHARE EXCHANGE TRANSACTION - On March 23, 2005, the Company completed a Share Exchange Transaction with Accessity and the holders of the membership interests of each of Kinergy and ReEnergy, pursuant to which Accessity acquired all of the issued and outstanding capital stock of the Company and all of the outstanding membership interests of Kinergy and ReEnergy. This transaction has been accounted for as a reverse acquisition whereby the Company is the accounting acquiror.

The Share Exchange Transaction was consummated pursuant to the terms of a Share Exchange Agreement dated as of May 14, 2004, as amended on July 30, 2004, October 1, 2004, January 7, 2005, February 16, 2005 and March 3, 2005 executed by Accessity, the Company, Kinergy, ReEnergy and the holders of the common stock and membership interests of the Company and Kinergy and ReEnergy, respectively.

Immediately prior to the consummation of the Share Exchange Transaction, Accessity reincorporated in the State of Delaware under the name "Pacific Ethanol, Inc" through a merger of Accessity with and into Pacific Ethanol Delaware (the "Reincorporation Merger"). In connection with the Reincorporation Merger, the shareholders of Accessity became stockholders of Pacific Ethanol Delaware and Pacific Ethanol Delaware succeeded to the rights, properties and assets and assumed the liabilities of Accessity. Also in connection with the Reincorporation Merger, the former shareholders of Accessity, who collectively held 2,339,414 shares of common stock of Accessity, became the stockholders of an equal number of shares of common stock of Pacific Ethanol Delaware 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 Pacific Ethanol Delaware.

In the Share Exchange Transaction, each shareholder of the Company received one share of common stock of Pacific Ethanol Delaware for each share of common stock of the Company they owned, the sole limited liability company member of Kinergy received 38,750 shares of common stock of Pacific Ethanol Delaware for each one percent of outstanding limited liability company interest he owned, and each limited liability company member of ReEnergy received 1,250 shares of common stock of Pacific Ethanol Delaware for each one percent of outstanding limited liability company interest they owned. In addition, holders of options and warrants to acquire shares of common stock of the Company became holders of warrants to acquire an equal number of shares of common stock of Pacific Ethanol Delaware.

Pacific Ethanol Delaware issued an aggregate of 20,610,987 shares of common stock to the shareholders of the Company, 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 the Company are, following the consummation of the Share Exchange Transaction, deemed to hold warrants to acquire an equal number of shares of common stock of Pacific Ethanol Delaware. Also, following the consummation of the Share Exchange Transaction, LDI is entitled to convert a certain portion of its promissory note into shares of common stock of Pacific Ethanol Delaware at the same conversion rate that was in existence immediately prior to the Share Exchange Transaction.

The shares of common stock of Pacific Ethanol Delaware issued, or issuable upon exercise of outstanding options and warrants, to the shareholders and holders of options and warrants of the Company and limited liability company members of Kinergy and ReEnergy represented approximately 90% of the outstanding common stock of Pacific Ethanol Delaware on a fully-diluted basis after the closing of the Share Exchange Transaction. Immediately following the closing of the Share Exchange Transaction, Pacific Ethanol Delaware had an aggregate of 27,700,401 shares of common stock issued and outstanding and an aggregate of 31,925,534 shares of common stock issued and outstanding, calculated on a fully-diluted basis, including 4,225,133 shares of common stock issuable upon exercise of all outstanding options, warrants and convertible debt.

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

Current assets	$ 7,014,196
Property, plant and equipment	6,224
Intangibles, including goodwill	11,788,000
Total assets acquired	18,808,420
Current liabilities	4,253,177
Other liabilities	83,017
Total liabilities assumed	4,336,194
Net assets acquired	$14,472,226
Shares of common stock issued	6,489,414

The purchase price represented a significant premium over the recorded net worth of the acquired entities' assets. 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 and ReEnergy's businesses and assets and the Company's planned entry into the ethanol production business.

In connection with the Share Exchange Transaction and the Company's acquisition of Kinergy and ReEnergy, the Company engaged a valuation firm to determine what portion of the purchase price should be allocated to identifiable intangible assets. Through that process, the Company has estimated that for Kinergy, the distribution backlog is valued at $136,000, the customer relationships are valued at $5,600,000 and the trade name is valued at $3,100,000. The Company 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 (see further discussion below). The purchase price for ReEnergy totaled $972,250. The Company issued stock valued at $9,803,750 for the acquisition of Kinergy. In addition, certain stockholders sold stock to the sole member 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 and ReEnergy acquisitions therefore totaled $2,952,000.

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

In connection with the Share Exchange Transaction, Pacific Ethanol Delaware (i) transferred DriverShield CRM Corp., a wholly-owned subsidiary of Pacific Ethanol Delaware, to Barry Siegel, the former Chairman of the Board, President and Chief Executive Officer of Pacific Ethanol Delaware, (ii) issued 400,000 shares of Pacific Ethanol Delaware's common stock to Mr. Siegel and 200,000 shares of Pacific Ethanol Delaware's common stock to Philip B. Kart, Pacific Ethanol Delaware's former Senior Vice President, Chief Financial Officer and Secretary, and (iii) executed Confidentiality, Non-Competition, Non-Solicitation and Consulting Agreements with Messrs. Siegel and Kart, in full consideration for the agreement of each of Messrs. Siegel and Kart to relinquish cash payments that otherwise would be due to each of them under their respective employment agreements with Pacific Ethanol Delaware as a result of the closing of the Share Exchange Transaction. In addition, Pacific Ethanol Delaware sold Sentaur Corp., a wholly-owned subsidiary of Pacific Ethanol Delaware, to Mr. Siegel for the cash sum of $5,000.

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 (See Note 8), the related expense is offset against the proceeds received, resulting in no effect on equity.

Immediately prior to the closing of the Share Exchange Transaction, certain stockholders of the Company sold an aggregate of 250,000 shares of the Company'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. The contribution of these shares is accounted for as a capital contribution. However, because the shares are deemed issued to Accessity in connection with the Share Exchange Transaction, the related expense is offset against the cash received from Accessity, resulting in no effect on equity.

Immediately prior to the closing of the Share Exchange Transaction, a stockholder of the Company sold 200,000 shares of the Company's common stock to the individual members of ReEnergy at $.01 per share, to compensate them for facilitating the closing of the Share Exchange Transaction. The contribution of these shares resulted in additional goodwill of $506,000.

Immediately prior to the closing of the Share Exchange Transaction, a founder of the Company sold 300,000 shares of the Company's common stock to Neil Koehler, the sole member of Kinergy and an officer and director of the Company, at $.01 per share to compensate him for facilitating the closing of the Share Exchange Transaction. The contribution of these shares resulted in additional goodwill of $759,000.

Immediately prior to the closing of the Share Exchange Transaction, a founder of the Company sold 100,000 shares of the Company's common stock to Tom Koehler, a member of ReEnergy and a related party of the sole member of Kinergy, at $.01 per share to compensate him for facilitating the closing of the Share Exchange Transaction. The contribution of these shares resulted in additional goodwill of $253,000.

RELATED PARTY NOTES PAYABLE - 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 GAAP, as of March 23, 2005. A holdback amount of $100,000 for 30 days was provided to allow Kinergy to settle its accounts. In April 2005, Kinergy paid the balance of its net worth, up to the holdback amount of $100,000.

Pursuant to the terms of the Share Exchange Transaction, ReEnergy distributed to its members in the form of a promissory note in the amount of $1,439 ReEnergy's net worth as set forth on ReEnergy's balance sheet prepared in accordance with GAAP, as of March 23, 2005.

Effective March 30, 2005, the personal guaranty for up to a maximum amount of $1,000,000 granted by an individual shareholder of the Company with respect to the convertible promissory note issued to LDI was terminated.

STOCK OPTIONS - 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. Non-cash compensation expense of $232,250 was recognized to record the fair value of the warrant.

NON-CASH COMPENSATION - Pursuant to a consulting agreement (See Note 8), upon completion of the Share Exchange Transaction, the Company issued warrants to the consultant to purchase 230,000 additional shares of common stock that will vest ratably over a period of two years. 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. The Company recorded non-cash expense of $20,511 for consulting services vested during the period from March 24, 2005 to March 31, 2005. The unvested warrants in the amount of $2,118,489 will vest ratably at $89,125 per month over the remainder of the two year period.

SERIES A PREFERRED STOCK - Effective May 17, 2005, the Company's articles of incorporation were amended and restated, which amendment and restatement had the effect of eliminating the Company's previously authorized shares of Series A Preferred Stock and changing its name to Pacific Ethanol California, Inc.

May 23, 2005

To the Member
Kinergy Marketing, LLC
Davis, California

We have audited the balance sheets of Kinergy Marketing, LLC (the "Company") as of December 31, 2004, 2003 and 2002, and the related statements of income and member's equity (deficit) and cash flows for each of the years then ended. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 financial statements referred to above present fairly, in all material respects, the financial position of Kinergy Marketing, LLC as of December 31, 2004, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/S/ HEIN & ASSOCIATES LLP

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KINERGY MARKETING LLC

BALANCE SHEETS

	As of December 31,		
	2004	2003	2002
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 674,195	$ --	$ 231,682
Accounts receivable	2,010,531	2,583,287	411,854
Inventories	404,833	474,388	119,126
Deposit on product in transit	428,358	--	--
Total current assets	3,517,917	3,057,675	762,662
PROPERTY, PLANT AND EQUIPMENT, net	6,564	2,124	3,017
TOTAL ASSETS	$3,524,481	$3,059,799	$ 765,679
LIABILITIES AND MEMBER'S EQUITY (DEFICIT)			
CURRENT LIABILITIES:			
Accounts payable	$1,106,712	$1,710,879	$ --
Bank overdraft	--	59,668	781,421
Other Liabilities	3,261	--	--
Payable to related party	--	200,000	--
Total Current liabilities	1,109,973	1,970,547	781,421
COMMITMENTS AND CONTINGENCIES (Notes 4 and 6)			
MEMBER'S EQUITY (DEFICIT)	2,414,508	1,089,252	(15,742)
TOTAL LIABILITIES AND MEMBER'S EQUITY (DEFICIT)	$3,524,481	$3,059,799	$ 765,679

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KINERGY MARKETING LLC

STATEMENTS OF INCOME AND MEMBER'S EQUITY (DEFICIT)

	For the years ended December 31,		
	2004	2003	2002
NET SALES	$ 82,790,404	$ 35,539,636	$ 15,280,424
COST OF GOODS SOLD	79,580,897	33,982,527	14,945,170
GROSS PROFIT	3,209,507	1,557,109	335,254
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	275,588	169,582	93,725
OPERATING INCOME	2,933,919	1,387,527	241,529
OTHER INCOME (EXPENSE):			
Interest income (expense)	(3,537)	267	4,815
Other income (expense)	(1,300)	(10,800)	(1,550)
Total other income (expense)	(4,837)	(10,533)	3,265
NET INCOME	2,929,082	1,376,994	244,794
MEMBER'S EQUITY (DEFICIT) beginning of period	1,089,252	(15,742)	199,464
MEMBER'S DISTRIBUTIONS	(1,603,826)	(272,000)	(460,000)
MEMBER'S EQUITY (DEFICIT) end of period	$ 2,414,508	$ 1,089,252	$ (15,742)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

KINERGY MARKETING LLC

STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
	2004	2003	2002
Cash Flows From Operating Activities:			
Net income	$ 2,929,082	$ 1,376,994	$ 244,794
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	253	893	627
Changes in operating assets and liabilities:			
Accounts receivable	572,756	(2,171,433)	17,531
Inventories	69,555	(355,262)	(60,411)
Deposit on product in transit	(428,358)	--	--
Bank overdraft	(59,668)	59,668	--
Accounts payable	(604,167)	929,458	(190,605)
Other liabilities	3,261	--	--
Net cash provided by (used in) operating activities	2,482,714	(159,682)	11,936
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(4,693)	--	(2,204)
Net cash used in investing activities	(4,693)	--	(2,204)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from related party note payable	--	200,000	--
Payments on related party note payable	(200,000)	--	--
Distributions to member	(1,603,826)	(272,000)	(460,000)
Net cash used in financing activities	(1,803,826)	(72,000)	(460,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	674,195	(231,682)	(450,268)
CASH AND CASH EQUIVALENTS, beginning of period	--	231,682	681,950
CASH AND CASH EQUIVALENTS, end of period	$ 674,195	$ --	$ 231,682

SUPPLEMENTAL INFORMATION:			
Interest paid	$ 5,519	$ --	$ --
Income taxes paid	$ 800	$ 800	$ 2,400

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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KINERGY MARKETING LLC

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS:

Kinergy Marketing, LLC, (the "Company") was incorporated as a limited liability company on September 13, 2000, under the laws of the state of Oregon, to acquire and distribute ethanol fuel in California, Nevada, Arizona and Oregon. The Company is located in Davis, California.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS - The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. 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 accounts receivable based on contractual terms of sale. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. At December 31, 2004, 2003 and 2002, management of the Company believed that all receivables were collectible, and thus an allowance for bad debt was not established. The Company had no bad debt expense for the years ended December 31, 2004, 2003 and 2002.

INVENTORY - Inventory consists 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 income and member's equity.

PROPERTY, PLANT AND EQUIPMENT - Property and equipment is recorded at cost. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives from 3 to 5 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.

IMPAIRMENT OF LONG-LIVED ASSETS - In the event that facts and circumstances indicate that the cost of long-lived assets used in operations might be impaired, an evaluation of recoverability would be performed. If an evaluation were required, the estimated undiscounted cash flows estimated to be generated by those assets would be compared to their carrying amounts to determine if a write-down to market value or discounted cash flows is required.

REVENUE RECOGNITION - The Company recognizes revenue upon delivery of ethanol to customers' designated ethanol tank. Shipments are made to customers both directly from suppliers and from the Company's inventory. Shipment modes are by truck or rail. Ethanol that is shipped by rail originates primarily in the Midwest and takes from 10 to 14 days from departure of shipment, for delivery to the customer or to one of four terminals in California and Oregon. Trucks are used for local deliveries and such deliveries are completed the same day as shipment.

KINERGY MARKETING LLC

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

INCOME TAXES - As a limited liability company, the Company is generally not subject to federal and state income taxes directly. Rather, each member is subject to federal and state income taxes based on its share of the Company's income or loss.

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS - The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision.

The following methods and assumptions were used in estimating the indicated fair values of the Company's financial instruments:

- Cash and cash equivalents, accounts receivable and accounts payable: The carrying amounts approximate fair value because of the short maturity of those instruments.
- Debt: The fair value of the Company's debt is estimated based on current rates offered to the Company for similar debt and approximates carrying value.

CONCENTRATION OF CREDIT RISK - 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 financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At December 31, 2004 the uninsured balance was $1,091,967 and at December 31, 2003 and 2002, there were no uninsured balances. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk of loss on cash.

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 potentially subject the Company to concentrations of credit risk consist of accounts receivable, which have no collateral or security. The Company sells ethanol fuel on account to select companies located in California, Nevada, Arizona and Oregon. During the year ended December 31, 2004, the Company had sales to four customers that represented 13%, 12%, 12% and 12% of net sales. During the year ended December 31, 2003, the Company had sales to four customers that represented 20%, 14%, 13% and 10% of net sales. During the year ended December 31, 2002, the Company had sales to three customers that represented 34%, 24%, and 11% of net sales. As of December 31, 2004, 2003 and 2002, the Company had receivables of approximately $865,175, $1,337,240, and $338,256 from these customers,

representing, in the aggregate, 43%, 52% and 82%, respectively, of total accounts receivable. The Company performs periodic credit evaluations of its ongoing customers and generally does not require collateral. Credit losses have traditionally been minimal and such losses have been within management's expectations.

RISKS AND UNCERTAINTIES - The Company purchases ethanol fuel from companies located primarily in the Midwest. During the year ended December 31, 2004, the Company purchased ethanol from three vendors that represented 27%, 23% and 14% of all purchases. During the year ended December 31, 2003, the Company purchased ethanol from three vendors that represented 44%, 27% and 15% of all purchases. During the year ended December 31, 2002, the Company purchased ethanol from two vendors that represented 60% and 34% of all purchases.

LIMITATION ON LIABILITY - Members are generally not liable for the debts, obligations or liabilities of the Company.

3. RELATED PARTY NOTE PAYABLE:

On November 5, 2003, the Company executed an unsecured note payable in the amount of $200,000 payable to Pacific Ethanol, Inc., a California corporation ("PEI California"), which bears an annual interest of 5%. The note and related accrued interest was due in one payment on January 4, 2004. On January 23, 2004, the Company paid the principal balance plus accrued interest of $2,164 on the note payable to PEI California. The sole member of the Company is an officer and director of PEI California.

4. COMMITMENTS AND CONTINGENCIES:

OPEN LETTERS-OF-CREDIT - On June 3, 2002, as amended on September 30, 2003, the Company was issued an Irrevocable Standby Letter of Credit by Bank of Portland, for any sum not to exceed a total of $200,000. The designated beneficiary is Archer Daniels Midland Co., a vendor of the Company, and the letter is valid through March 31, 2004. On March 31, 2004, the Company was issued an Irrevocable Standby Letter of Credit by Washington Mutual Bank, FA, for any sum not to exceed a total of $200,000. The designated beneficiary is Archer Daniels Midland Co., a vendor of the Company, and the letter was valid through September 30, 2004.

On December 4, 2002, as amended on September 30, 2003, the Company was issued an Irrevocable Standby Letters of Credit by Bank of Portland, for any sum not to exceed a total of $200,000. The designated beneficiary is Chief Ethanol Fuels, Inc., a vendor of the Company, and the letter is valid through March 31, 2004. On March 31, 2004, the Company was issued an Irrevocable Standby Letter of Credit by Washington Mutual Bank, FA, for any sum not to exceed a total of $300,000. The designated beneficiary is Chief Ethanol Fuels, Inc., a vendor of the Company, and the letter was valid through September 30, 2004.

On October 1, 2004, the Company was issued an Irrevocable Standby Letter of Credit by Comerica Bank, for any sum not to exceed a total of $300,000. The designated beneficiary is a vendor of the Company, and the letter was valid through March 31, 2005. (See Note 6)

On October 1, 2004, the Company was issued an Irrevocable Standby Letter of Credit by Comerica Bank, for any sum not to exceed a total of $300,000. The designated beneficiary is a vendor of the Company, and the letter was valid through March 31, 2005. (See Note 6)

At December 31, 2004, 2003 and 2002 there was no debt outstanding related to these open letters of credit.

LINE OF CREDIT - On March 22, 2004, the Company entered into a $2,000,000 revolving line of credit with Washington Mutual Bank, FA which was terminated on September 24, 2004. The line is collateralized by inventory, receivables and general intangibles of the Company.

On September 24, 2004, the Company entered into a $2,000,000 revolving line of credit with Comerica Bank which expires on October 5, 2005. This line replaced the Washington Mutual Bank line and is collateralized by inventory, receivables and general intangibles of the Company. The line of credit is personally guaranteed by Neil Koehler, sole member of the Company. There were no outstanding borrowings as of December 31, 2004.

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, 2005 through October 31, 2005, and are renewable on a year-to-year basis at 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 $1,004 in addition to the variable rate. Storage fees paid to these terminals were $117,526, $24,742, and $12,590 for December 31, 2004, 2003 and 2002, respectively, and are recorded as cost of goods sold in the accompanying statements of income and member's equity.

PURCHASE COMMITMENTS - During 2004, 2003 and 2002, the Company entered into six-month purchase contracts with its major vendors to acquire certain quantities of ethanol, at specified prices. The contracts run from April through September, and from October through March. On October 1, 2004, the contracts were renewed and renegotiated to extend through March 31, 2005. The outstanding balance on the new contracts was $16,663,287 at December 31, 2004.

SALES COMMITMENTS - During 2004, 2003 and 2002, the Company entered into six-month sales contracts with its major customers to sell certain quantities of ethanol, at specified prices. The contracts run from April through September, and from October through March. On October 1, 2004, the contracts were renewed and renegotiated to extend through March 31, 2005. The outstanding balance on the new contracts was $22,757,891 at December 31, 2004.

OPERATING LEASES - The Company leases office space in Davis, California. The Company entered into a 12 month lease on December 1, 2004 at a rate of $1,120 per month. The Company also continues to rent the prior existing office space month-to-month with plans to vacate in 2005. Total rent paid for the years ended December 31, 2004, 2003 and 2002 was $4,320, $3,070 and $2,890 respectively.

5. RELATED PARTY TRANSACTIONS:

For the year ended December 31, 2003, the Company paid consulting fees of approximately $10,000 to Kinergy Resources, LLC, an entity owned in part by the Company's sole member. There were no payments made to Kinergy Resources, LLC during the year ended December 31, 2004 or 2002.

During the years ended December 31, 2004, 2003 and 2002, the Company paid accounting fees totaling $20,798, $24,000 and $32,000 respectively to Kinergy, LLC, a company owned by a relative of the Company's sole member.

The Company paid consulting fees related to market development, sales support, regulatory and governmental affairs of $110,000 and $15,000 and to a relative of the Company's sole member for the years ended December 31, 2004 and 2003, respectively. There were no such fees paid during the year ended December 31, 2002.

On August 31, 2004, the Company reimbursed PEI California, a related party, for audit fees paid on behalf of the Company.

6. SUBSEQUENT EVENTS:

LETTERS OF CREDIT - On April 1, 2005, the Company renewed 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 September 30, 2005.

On April 1, 2005, the Company renewed an Irrevocable Standby Letter of Credit by Comerica Bank, for any sum not to exceed a total of $300,000. The designated beneficiary is a vendor of the Company, and the letter is valid through September 30, 2005.

SALE OF THE COMPANY - The Company and its sole member are parties to a Share Exchange Agreement with Pacific Ethanol, Inc, a Delaware corporation ("Pacific Ethanol Delaware"), PEI California, the shareholders of PEI California, ReEnergy, LLC, a California limited liability company ("ReEnergy"), and the holders of the membership interests of ReEnergy, pursuant to which the Company was acquired on March 23, 2005. All of the issued and outstanding shares of common stock of PEI California and all of the outstanding membership interests of each of the Company and ReEnergy were acquired by Pacific Ethanol Delaware. Immediately prior to the consummation of the share exchange transaction, Pacific Ethanol Delaware'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 Company is now a wholly-owned subsidiary of Pacific Ethanol Delaware.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

May 23, 2005

To the Members
ReEnergy LLC
Davis, California

We have audited the balance sheets of ReEnergy LLC (the "Company") as of December 31, 2004, 2003 and 2002, and the related statements of operations, members' equity (deficit) and cash flows for each of the years then ended. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 financial statements referred to above present fairly, in all material respects, the financial position of ReEnergy LLC as of December 31, 2004, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/S/ HEIN & ASSOCIATES LLP

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REENERGY LLC

BALANCE SHEETS

	As of December 31,		
	2004	2003	2002
ASSETS			
CURRENT ASSETS			
Cash	$2,739	$12,739	$42,770
TOTAL ASSETS	$2,739	$12,739	$42,770
LIABILITIES AND MEMBERS' EQUITY			
CURRENT LIABILITIES			
Accounts payable	$ 154	$ --	$10,428
COMMITMENT (Note 4)			--
MEMBERS' EQUITY			
Members' Equity	2,585	12,739	32,342
TOTAL LIABILITIES AND MEMBERS' EQUITY	$2,739	$12,739	$42,770

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

REENERGY LLC

STATEMENTS OF OPERATIONS

	For the years ended December 31,		
	2004	2003	2002
NET SALES	$ --	$ --	$ --
COST OF SALES	--	--	--
GROSS PROFIT	--	--	--
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	9,854	48,803	30,720
OPERATING LOSS	(9,854)	(48,803)	(30,720)
PROVISION FOR INCOME TAXES	(800)	(800)	(800)
NET LOSS	$(10,654)	$(49,603)	$(31,520)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

REENERGY LLC
STATEMENTS OF MEMBERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004

	Members				
	Flin-Mac, Inc.	Kinergy Resources LLC	Kent Kaulfus	Tom Koehler	Total
Balances, December 31, 2001 as previously reported	$ 2,077	$ 2,078	$ --	$ --	$ 4,155
Prior Period Adjustment	(1,346)	(1,347)	--	--	(2,693)
Balances, January 1, 2002 as restated	731	731	--	--	1,462

Contributions	31,200	31,200	--	--	62,400
Net loss	(15,760)	(15,760)	--	--	(31,520)
Balances, December 31, 2002	16,171	16,171	--	--	32,342
Contributions	15,000	15,000	--	--	30,000
Net loss	(16,534)	(16,534)	(16,535)	--	(49,603)
Balances, December 31, 2003	14,637	14,637	(16,535)	--	12,739
Contributions	--	--	--	500	500
Net loss	(2,503)	(2,503)	(2,503)	(3,145)	(10,654)
Balances, December 31, 2004	$ 12,134	$ 12,134	$ (19,038)	$ (2,645)	$ 2,585

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

REENERGY LLC

STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(10,654)	$(49,603)	$(31,520)
Adjustments to reconcile net loss to net cash used in operating activities:			
Changes in operating assets and liabilities:			
Accounts Payable	154	(10,428)	10,428
Net cash used in operating activities	(10,500)	(60,031)	(21,092)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Contributed capital	500	30,000	62,400
Net cash provided by financing activities	500	30,000	62,400
NET INCREASE (DECREASE) IN CASH	(10,000)	(30,031)	41,308
CASH, beginning of period	12,739	42,770	1,462
CASH, end of period	$ 2,739	$ 12,739	$ 42,770
SUPPLEMENTAL INFORMATION:			
Income taxes paid	$ 800	$ 800	$ 800

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

</TABLE>

REENERGY LLC

NOTES TO FINANCIAL STATEMENTS

1. RESTATEMENT OF YEAR ENDED 2003

Upon consideration by current management of the previous accounting treatment of certain expenditures in the years 2001, 2002 and 2003, in the amounts of $2,693, $30,333 and $48,803 respectively, it has been determined that such amounts, pursuant to SOP 98-5 ("Statement of Position 98-5 Reporting on the Costs of Start-Up Activities"), should be expensed rather than capitalized. These financial statements have been restated to account for that change.

2. ORGANIZATION AND NATURE OF OPERATIONS:

ReEnergy LLC ("the Company"), a California limited liability corporation, was formed on October 4, 2001. ReEnergy LLC is a project development company formed to evaluate the feasibility of building an ethanol production facility in California.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

CASH EQUIVALENTS - For financial statement purposes, the Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents as of December 31, 2004, 2003 and 2002.

LIMITATION ON LIABILITY - Members are generally not liable for the debts, obligations or liabilities of the Company.

INCOME TAXES - As a limited liability company, the Company is generally not subject to federal and state income taxes directly. Rather, each member is subject to federal and state income taxes based on its share of the Company's income or loss.

4. RELATED PARTY TRANSACTIONS:

The Company has entered into a lease agreement with a member along with an option on 89 acres of land that is owned personally by this member. The member has received a 33.33% interest in ReEnergy for this option and his expertise in the bio-product area. The property has been appraised and if the option is exercised the member will receive fair market value for his property based on the appraised value. As of May 2004, the member's interest was changed to 23.5%.

On August 28, 2003, the Company entered into an agreement with Pacific Ethanol, Inc., a California corporation ("PEI California"), for an option to sell 89.3 acres in Visalia, California at a price of $12,000 per acre for the purpose of building an ethanol production facility.

For the year ended December 31, 2003, the Company paid consulting fees of $27,000 to Celilo Group an entity owned in part by one of the Company's members. There were no payments made to Celilo Group during the year ended December 31, 2004 or 2002.

In May 2004, Tom Koehler, as an individual, acquired a 29.5% Membership interest in the Company. Mr. Koehler also holds a membership interest through his ownership in Kinergy Resources, LLC.

5. SUBSEQUENT EVENTS:

SALE OF THE COMPANY - The Company and its members are parties to a Share Exchange Agreement with Pacific Ethanol, Inc, a Delaware corporation ("Pacific Ethanol Delaware"), PEI California, the shareholders of PEI California, Kinergy Marketing, LLC, an Oregon limited liability company ("Kinergy"), and the holders of the membership interests of Kinergy, pursuant to which the Company was acquired on March 23, 3005. All of the issued and outstanding shares of common stock of PEI California and all of the outstanding membership interests of each of the Company and Kinergy were acquired by Pacific Ethanol Delaware. Immediately prior to the consummation of the share exchange transaction, Pacific Ethanol Delaware'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 Company is now a wholly-owned subsidiary of Pacific Ethanol Delaware.

INDEX TO PRO FORMA FINANCIAL STATEMENTS

PRO FORMA FINANCIAL INFORMATION

On March 23, 2005, the Company completed a Share Exchange Transaction with Accessity and the holders of the membership interests of each of Kinergy and ReEnergy, pursuant to which Accessity acquired all of the issued and outstanding capital stock of the Company and all of the outstanding membership interests of Kinergy and ReEnergy. This transaction has been accounted for as a reverse acquisition whereby the Company is the accounting acquiror.

The unaudited pro forma combined consolidated statements of operations do not reflect any potential cost savings that may be realized following the acquisition. The pro forma adjustments and assumptions are based on estimates, evaluations and other data currently available and, in the Company's opinion, provide a reasonable basis for the fair presentation of the estimated effects directly attributable to the acquisition and related transactions. The unaudited pro forma combined statements of operations are provided for illustrative

purposes only and are not necessarily indicative of what the consolidated results of operations or financial position would actually have been had the acquisition occurred on January 1, 2004, nor do they represent a forecast of the consolidated results of operations or financial position for any future period or date. Pro forma condensed consolidated balance sheet data is not presented because the balance sheets of Kinergy Marketing, LLC and ReEnergy, LLC and related purchase accounting adjustments are consolidated and included in the financial statements included in our quarterly report on Form 10-QSB for the quarterly period ended June 30, 2005 filed with the Securities and Exchange Commission on August 15, 2005. Pro forma adjustments for Accessity Corp. are not included because they would have no material impact on the pro forma financial information presented.

All information contained herein should be read in conjunction with Accessity's annual report on Form 10-KSB for the year ended December 31, 2004 and the financial statements and notes thereto, and the financial statements and notes thereto of PEI California, Kinergy and ReEnergy included herein and the notes to unaudited pro forma financial information included herein. The following pro forma financial information is included in this report:

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UNAUDITED PRO FORMA COMBINED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2005

	REENERGY	KINERGY	PACIFIC ETHANOL	PRO FORMA ADJUSTMENTS		PRO FORMA COMBINED
				(NOTE 1)		
NET SALES	$ --	$ 23,605,252	$ 25,116,430	$ --		$ 48,721,682
COST OF GOODS SOLD	--	(23,207,602)	(24,917,278)	--		(48,124,880)
GROSS PROFIT	--	397,650	199,152	--		596,802
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	346	72,240	1,792,668	129,615	(c)	--
	--	--	--	190,666	(d)	2,185,535
NON-CASH COMPENSATION AND CONSULTING FEES	--	--	1,343,636	246,864	(e)	1,590,500
OPERATING INCOME (LOSS)	(346)	325,410	(2,937,152)	(567,145)		(3,179,233)
OTHER INCOME (EXPENSE):						
Other income		--	26,854	--		26,854
Other (expense)	--	--	(459)	--		(459)
Interest income (expense)	--	616	(115,954)	--		(115,338)
Total other income (expense)	--	616	(89,559)	--		(88,943)
NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(346)	326,026	(3,026,711)	(567,145)		(3,268,176)
PROVISION FOR INCOME TAXES	(800)	--	(4,800)	--		(5,600)
NET INCOME (LOSS)	$(1,146)	$ 326,026	$ (3,031,511)	$ (567,145)		$ (3,273,776)
LOSS PER SHARE						
Basic			$ (0.22)			$ (0.12)
Diluted			$ (0.22)			$ (0.12)
Weighted average number of common shares			13,710,197	14,089,414	(a)	27,799,611
Weighted average number of diluted common shares			13,710,197	14,089,414	(b)	27,799,611

SEE ACCOMPANYING NOTES TO UNAUDITED PRO FORMA COMBINED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2005

NOTES TO UNAUDITED PRO FORMA
COMBINED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2005

1. (a) Reflects the weighted average of 14,089,414 shares issued in connection with the Private Placement and Share Exchange Transaction.

(b) Reflects the weighted average of the 14,089,414 shares in (a) above, plus all options, warrants and convertible securities of all the entities that would be considered common share equivalents and be dilutive, aggregating 31,870,329 shares. However, because the use of these would be anti-dilutive and result in a lower loss per share, the presentation uses the same shares as for basic weighted average and loss per share.

(c) To reflect compensation arrangements for the new management upon the consummation of the Share Exchange Transaction.

(d) To record the amortization of certain acquired intangible assets relating to distribution backlog and customer relationships over their estimated useful lives of six months and 10 years, respectively.

(e) To record warrants of 930,000 and 230,000 shares granted to a consultant for public and investor relations during 2004, which vest ratably over one year and two years, respectively, and are directly associated with the Share Exchange Transaction, and the related amortization of non-cash charges for the year ended December 31, 2004.

UNAUDITED PRO FORMA COMBINED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004

	REENERGY	KINERGY	PACIFIC ETHANOL	PRO FORMA ADJUSTMENTS (NOTE 1)		PRO FORMA COMBINED
NET SALES	$ --	$ 82,790,404	$ 19,764	$ --		$ 82,810,168
COST OF GOODS SOLD	--	(79,580,897)	(12,523)	--		(79,593,420)
GROSS PROFIT	--	3,209,507	7,241	--		3,216,748
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	9,854	275,588	1,070,010	--		
				635,000	(c)	--
				696,000	(d)	2,686,452
NON-CASH COMPENSATION AND CONSULTING FEES	--	--	1,207,500	1,242,000	(e)	--
				232,250	(f)	2,681,750
OPERATING INCOME (LOSS)	(9,854)	2,933,919	(2,270,269)	(2,805,250)		(2,151,454)
OTHER EXPENSE:						
Other expense		(1,300)	(2,166)	--		(3,466)
Interest expense	--	(3,537)	(528,532)	--		(532,069)
Total other expense	--	(4,837)	(530,698)	--		(535,535)
NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(9,854)	2,929,082	(2,800,967)	(2,805,250)		(2,686,989)
PROVISION FOR INCOME TAXES	(800)		(1,600)	--		(2,400)
NET INCOME (LOSS)	$ (10,654)	$ 2,929,082	$(2,802,567)	$(2,805,250)		$ (2,689,389)
LOSS PER SHARE						
Basic			$ (0.23)			$ (0.10)
Diluted			$ (0.23)			$ (0.10)
Weighted average number of common shares			12,396,895	14,089,414	(a)	26,486,309
Weighted average number of diluted common shares			12,396,895	14,089,414	(b)	26,486,309

SEE ACCOMPANYING NOTES TO UNAUDITED PRO FORMA COMBINED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004

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NOTES TO UNAUDITED PRO FORMA
COMBINED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004

1. (a) Reflects the weighted average of 14,089,414 shares to be issued in connection with the Private Placement and Share Exchange Transaction.

(b) Reflects the weighted average of the 14,089,414 shares in (a) above, plus all options, warrants and convertible securities of all the entities that would be considered common share equivalents and be dilutive, aggregating 31,925,534 shares. However, because the use of these would be anti-dilutive and result in a lower loss per share, the presentation uses the same shares as for basic weighted average and loss per share.

(c) To reflect compensation arrangements for the new management upon the

consummation of the Share Exchange Transaction.

(d) To record the amortization of certain acquired intangible assets relating to distribution backlog and customer relationships over their estimated useful lives of six months and 10 years, respectively.

(e) To record warrants of 930,000 and 230,000 shares granted to a consultant for public and investor relations during 2004, which vest ratably over one year and two years, respectively, and are directly associated with the Share Exchange Transaction, and the related amortization of non-cash charges for the year ended December 31, 2004.

(f) To record employee non-cash compensation for options vested into a warrant upon consummation of the Share Exchange.

PACIFIC ETHANOL, INC.

PROSPECTUS

, 2005

WE HAVE NOT AUTHORIZED ANY DEALER, SALESMAN OR OTHER PERSON TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND ANY ACCOMPANYING SUPPLEMENT TO THIS PROSPECTUS. YOU MUST NOT RELY UPON ANY INFORMATION OR REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS OR ANY ACCOMPANYING PROSPECTUS SUPPLEMENT. THIS PROSPECTUS AND ANY ACCOMPANYING SUPPLEMENT TO THIS PROSPECTUS DO NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE REGISTERED SECURITIES TO WHICH THEY RELATE, NOR DO THIS PROSPECTUS AND ANY ACCOMPANYING SUPPLEMENT TO THIS PROSPECTUS CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH JURISDICTION. THE INFORMATION CONTAINED IN THIS PROSPECTUS AND ANY ACCOMPANYING SUPPLEMENT TO THIS PROSPECTUS IS ACCURATE AS OF THE DATES ON THEIR COVERS. WHEN WE DELIVER THIS PROSPECTUS OR A SUPPLEMENT OR MAKE A SALE PURSUANT TO THIS PROSPECTUS OR A SUPPLEMENT, WE ARE NOT IMPLYING THAT THE INFORMATION IS CURRENT AS OF THE DATE OF THE DELIVERY OR SALE.

PART II

PART II: INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth all expenses to be paid by the registrant in connection with this offering. All amounts shown are estimates except for the SEC registration fee.

SEC registration fee	$ 11,861.00
Legal fees and expenses	*
Accounting fees and expenses	*
Printing expenses	*
Blue sky fees and expenses	*
Transfer agent and registrar fees and expenses	--
Miscellaneous	$ *
Total	$ *

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* To be provided by amendment.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant, indemnity to officers, directors and other corporate agents in terms sufficiently broad to permit indemnification under certain circumstances and subject to certain limitations, such as if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the registrant, and with respect to any criminal proceeding, had no reasonable cause to believe such person's conduct was unlawful.

As permitted to Section 145 of the Delaware General Corporation Law,

the registrant's certificate of incorporation includes a provision that eliminates the personal liability of its directors of monetary damages for breach of their fiduciary duty as directors.

In addition, as permitted by Section 145 of the Delaware General Corporation Law, the bylaws of the registrant provide that:

- The registrant shall indemnify its directors and officers for serving the registrant in those capacities or for serving other business enterprises at the registrant's request, to the fullest extent permitted by Delaware law.
- The registrant may, in its discretion, indemnify employees and agents in those circumstances where indemnification is not required by law.
- The registrant is required to advance expenses, as incurred, to its directors and officers in connection with defending a proceeding, except that such director or officer shall undertake to repay such advance if it is ultimately determined that such person is not entitled to indemnification.
- The rights conferred in the bylaws are not exclusive, and the registrant is authorized to enter into indemnification agreements with its directors, officers, employees and agents and to obtain insurance to indemnify such persons.
- The Registrant may not retroactively amend the bylaw provisions to reduce its indemnification obligations to directors, officers, employees and agents.

The registrant's policy is to enter into separate indemnification agreements with each of its directors and officers that provide the maximum indemnity allowed to directors and officers by Section 145 of the Delaware General Corporation Law and which allow for additional procedural protections. The registrant also maintains directors' and officers' insurance to insure those persons against various liabilities.

Registration rights agreements between the registrant and various investors provide for cross-indemnification in connection with registration of the registration's common stock on behalf of those investors.

These indemnification provisions and the indemnification agreements entered into between the registrant and its officers and directors may be sufficiently broad to permit indemnification of the registrant's officers and directors for liabilities (including reimbursement of expenses incurred) arising under the Securities Act.

Reference is made to the following documents filed as exhibits to this registration statement regarding relevant indemnification provisions described above and elsewhere herein.

DOCUMENT	EXHIBIT NUMBER
Certificate of Incorporation	3.1
Bylaws	3.2
Form of Indemnification Agreement	10.8
Form of Registration Rights Agreement	4.1

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

On March 23, 2005, we completed 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 capital stock of PEI California and all of the outstanding membership interests of Kinergy and ReEnergy. 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.

On March 23, 2005, we 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. We 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. We also entered into a registration rights agreement in which we agreed to register for resale the shares of common stock issued to investors and the shares of common stock issuable upon exercise of the investor warrants and placement warrants.

We issued 150,000 shares of common stock to an independent contractor for services rendered as a finder in connection with the Share Exchange Transaction.

We issued to Liviakis Financial Communications, Inc. a warrant to purchase 230,000 shares of common stock at an exercise price of $.0001 per share for certain investor relations and other services to be rendered under a consulting agreement with PEI California. The warrant became issuable upon consummation of the Share Exchange Transaction.

We issued a replacement warrant to purchase 25,000 shares of common stock at an exercise price of $0.01 per share. This warrant replaced an option issued by PEI California to an employee of PEI California in accordance with terms of the Share Exchange Transaction.

We issued to Philip B. Kart, a former 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.

We issued to Barry Siegel, a former officer and director, 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.

On May 27, 2005 we issued 664,879 shares of common stock upon conversion by a creditor of $997,318 in principal value of a convertible note.

On June 23, 2005, we issued an aggregate of 70,000 shares of common stock to two officers as signing bonuses in connection with their acceptance of employment.

On June 30, 2005, we issued 28,749 shares of common stock to a consultant upon exercise of an outstanding warrant with an exercise price of $.0001 per share for total gross proceeds of approximately $2.87.

On July 26, 2005 we issued options to purchase an aggregate of 115,000 shares of our common stock to five of our non-employee directors at a per share exercise price of $8.25.

On July 28, 2005 we issued options to purchase an aggregate of 30,000 shares of our common stock to two of our non-employee directors at a per share exercise price of $8.30.

On August 10, 2005 we issued options to purchase an aggregate of 425,000 shares of our common stock to an executive officer at a per share exercise price of $8.03.

On August 10, 2005 we issued options to purchase an aggregate of 75,000 shares of our common stock to an executive placement and consultancy firm at a per share exercise price of $8.03.

The issuances of our securities described above were made in reliance upon the exemption from registration available under Section 4(2) of the Securities Act, among others, as transactions not involving a public offering. This exemption was claimed on the basis that these transactions did not involve any public offering and the purchasers in each offering were accredited or sophisticated and had sufficient access to the kind of information registration would provide. In each case, appropriate investment representations were obtained and stock certificates were issued with restrictive legends.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) EXHIBITS.

The following exhibits are included or incorporated herein by reference.

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)
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	Bylaws of the Registrant (1)
4.1	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)
4.2	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)
4.3	Form of Placement Warrant dated March 23, 2005 issued by the Registrant to certain placement agents (1)
4.4	Form of Registration Rights Agreement of various dates between Pacific Ethanol, Inc., a California corporation and the investors who are parties thereto
4.5	Form of Placement Warrant dated effective of various dates issued by Pacific Ethanol, Inc., a California corporation, to certain placement agents
4.6	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)

NUMBER	DESCRIPTION
4.7	Form of Placement Warrant dated effective May 14, 2004 issued by Pacific Ethanol, Inc., a California corporation, to certain placement agents
4.8	Form of Registration Rights Agreement of various dates between Pacific Ethanol, Inc., a California corporation and the investors who are parties thereto (6)
4.9	Form of Warrant of various dates issued to subscribers to a private placement of securities of Pacific Ethanol, Inc., a California corporation
4.10	Warrant dated March 23, 2005 issued by the Registrant to Jeffrey H. Manternach
5.1	Opinion of Rutan & Tucker, LLP (*)
10.1	Standard Form of Design-Build Agreement and General Conditions Between Owner and Design-Builder dated July 7, 2003 between Pacific Ethanol, Inc., a California corporation and W.M. Lyles Co.
10.2	Contractual Amendment 1.0 dated as of May 10, 2004 between Pacific Ethanol, Inc., a California corporation and W.M. Lyles Co.
10.3	Contractual Amendment 2.0 dated as of March 18, 2005 between Pacific Ethanol, Inc., a California corporation and W.M. Lyles Co.
10.4	Confidentiality, Non-Competition, Non-Solicitation and Consulting Agreement dated March 23, 2005 between the Registrant and Barry Siegel (1)
10.5	Confidentiality, Non-Competition, Non-Solicitation and Consulting Agreement dated March 23, 2005 between the Registrant and Philip B. Kart (1)
10.6	Form of Confidentiality, Non-Competition and Non-Solicitation Agreement dated March 23, 2005 between the Registrant and each of Neil Koehler, Tom Koehler, William Jones, Andrea Jones and Ryan Turner (1)
10.7	Confidentiality, Non-Competition and Non-Solicitation Agreement dated March 23, 2005 between the Registrant and Neil Koehler (1)
10.8	Form of Indemnification Agreement between the Registrant and each of its Executive Officers and Directors (#)(1)
10.9	Executive Employment Agreement dated March 23, 2005 between the Registrant and Neil Koehler (#)(1)
10.10	Executive Employment Agreement dated March 23, 2005 between the Registrant and Ryan Turner (#)(1)
10.11	Stock Purchase Agreement and Assignment and Assumption Agreement dated March 23, 2005 between the Registrant and Barry Siegel (1)
10.12	Letter Agreement dated March 23, 2005 between the Registrant and Neil Koehler (1)
10.13	Assignment of Term Loan Agreement and Deed of Trust dated March 23, 2005 between the Registrant, Lyles Diversified, Inc. and the

other parties named therein (1)

10.14	Term Loan Agreement dated June 16, 2003 and Deed of Trust dated June 20, 2003 between Pacific Ethanol, Inc., a California corporation and Lyles Diversified, Inc. (1)
10.15	Ethanol Purchase and Marketing Agreement dated March 4, 2005 between Kinergy Marketing, LLC and Phoenix Bio-Industries, LLC (2)

NUMBER	DESCRIPTION
10.16	2004 Stock Option Plan (3)
10.17	Amended 1995 Stock Option Plan (4)
10.18	Warrant dated March 23, 2005 issued by the Registrant to Liviakis Financial Communications, Inc. (1)
10.19	Executive Employment Agreement dated August 10, 2005 between the Registrant and William G. Langley (#)(5)
10.20	Form of Membership Interest Purchase Agreement between the Company and the Holders of the Membership Interests of Phoenix Bio-Industries, LLC (5)
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
23.2	Consent of Rutan & Tucker, LLP (contained in Exhibit 5.1) (*)
24.1	Power of Attorney (contained on the signature page hereto)

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* To be filed by amendment.

(#) 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 is filed as Exhibit 4.4 hereto and incorporated herein by reference.

ITEM 17. UNDERTAKINGS

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration fee" table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the

offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14 hereof, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by

the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Fresno, State of California on August 19, 2005.

PACIFIC ETHANOL, INC.

By: /S/ NEIL M. KOEHLER

Neil M. Koehler
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned officers and directors of Pacific Ethanol, Inc., a Delaware corporation, which is filing a registration statement on Form S-1 with the Securities and Exchange Commission under the provisions of the Securities Act of 1933, as amended, hereby constitute and appoints Neil Koehler, their true and lawful attorney-in-fact and agent; with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign such registration statement and any or all amendments to the registration statement, including a prospectus or an amended prospectus therein, and all other documents in connection therewith to be filed with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all interests and purposes as they might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

<TABLE>
<S> <C>

NAME	TITLE	DATE
/S/ WILLIAM L. JONES William L. Jones	Chairman of the Board and Director	August 19, 2005
/S/ NEIL M. KOEHLER Neil M. Koehler	President, Chief Executive Officer and Director (principal executive officer)	August 19, 2005
/S/ WILLIAM G. LANGLEY	Chief Financial Officer (principal accounting officer)	August 19, 2005

William G. Langley /S/ FRANK P. GREINKE	Director	August 19, 2005
Frank P. Greinke /S/ CHARLES W. BADER	Director	August 19, 2005
Charles W. Bader /S/ JOHN L. PRINCE	Director	August 19, 2005
John L. Prince /S/ TERRY L. STONE	Director	August 19, 2005
Terry L. Stone /S/ KENNETH J. FRIEDMAN	Director	August 19, 2005
Kenneth J. Friedman		

</TABLE>

INDEX TO EXHIBITS

Exhibit Number	Description
4.4	Form of Registration Rights Agreement of various dates between Pacific Ethanol, Inc., a California corporation and the investors who are parties thereto
4.5	Form of Placement Warrant dated effective of various dates issued by Pacific Ethanol, Inc., a California corporation, to certain placement agents
4.7	Form of Placement Warrant dated effective May 14, 2004 issued by Pacific Ethanol, Inc., a California corporation, to certain placement agents
4.9	Form of Warrant of various dates issued to subscribers to a private placement of securities of Pacific Ethanol, Inc., a California corporation
4.10	Warrant dated March 23, 2005 issued by the Registrant to Jeffrey H. Manternach
10.1	Standard Form of Design-Build Agreement and General Conditions Between Owner and Design-Builder dated July 7, 2003 between Pacific Ethanol, Inc., a California corporation and W.M. Lyles Co.
10.2	Contractual Amendment 1.0 dated as of May 10, 2004 between Pacific Ethanol, Inc., a California corporation and W.M. Lyles Co.
10.3	Contractual Amendment 2.0 dated as of March 18, 2005 between Pacific Ethanol, Inc., a California corporation and W.M. Lyles Co.
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney (contained on the signature page to the registration statement)

EXHIBIT 4.4

PACIFIC ETHANOL, INC.

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (the "AGREEMENT") is made as of _____, 2004, by and among Pacific Ethanol, Inc., a California corporation (the "COMPANY"), and the undersigned holders of common stock of the Company together with their qualifying transferees (the "HOLDERS").

RECITALS:

A. The Company has sold shares of common stock ("COMMON SHARES") to the Holders pursuant to one or more Registrable Common Stock Subscription Agreements.

B. The sale of the Common Shares is conditional upon the extension of the rights set forth herein, and by this Agreement the Company and the Holders desire to provide for certain rights as set forth herein.

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants contained herein, the parties, severally and not jointly, hereby agree as follows:

AGREEMENT:

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises and covenants contained herein, the parties agree as follows:

1. REGISTRATION RIGHTS.

1.1 DEFINITIONS. As used in this Agreement, the following terms shall have the following respective meanings:

(a) The terms "REGISTER", "REGISTERED" and "REGISTRATION" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act of 1933, as amended (the "SECURITIES ACT"), and the declaration or ordering of the effectiveness of such registration statement.

(b) The term "REGISTRABLE SECURITIES" means (i) any and all shares of Common Stock of the Company issued and sold by the Company pursuant to the Registrable Common Stock Subscription Agreement (which shares of Registrable Common Stock are referred to herein as the "COMMON SHARES"); (ii) stock issued in lieu of the stock referred to in (i) in any reorganization which has not been sold to the publiC; or (iii) stock issued in respect of the stock referred to in (i) and (ii) as a result of a stock split, stock dividend, recapitalization or the like, which has not been sold to the public.

(c) The terms "HOLDER" or "HOLDERS" means any person or persons to whom Registrable Securities were originally issued or qualifying transferees under subsection 1.9 hereof who hold Registrable Securities.

(d) The term "INITIATING HOLDERS" means any Holder or Holders, of 40% or greater of the aggregate of the Registrable Securities then outstanding.

(e) The term "SEC" means the Securities and Exchange Commission.

(f) The term "REGISTRATION EXPENSES" shall mean all expenses incurred by the Company in complying with subsections 1.2, 1.3 and 1.4 hereof, including, without limitation, all registration, qualification and

filing fees, printing expenses, escrow fees, fees and disbursements of counsel for the Company, blue sky fees and expenses, and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company.)

1.2 COMPANY REGISTRATION.

(a) REGISTRATION. If at any time or from time to time, the Company shall determine to register any of its securities, for its own account or the account of any of its shareholders, other than a registration on Form S-8 relating solely to employee stock option or purchase plans, or a registration on Form S-4 relating solely to a SEC Rule 145 transaction, the Company will:

(i) promptly give to each Holder written notice thereof at least 30 days prior to the initial filing of the registration statement relating to such offering; and

(ii) include in such registration (and compliance), and in any underwriting involved therein, all the Registrable Securities specified in a written request or requests, made within 20 days after receipt of such written notice from the Company, by any Holder or Holders, except as set forth in subsection 1.2(b) below.

(b) UNDERWRITING.

(i) If the registration of which the Company gives notice is for a registered public offering involving an underwriting, the Company shall so advise the Holders as a part of the written notice given pursuant to subsection 1.2(a)(i). In such event the right of any Holder to registration pursuant to subsection 1.2 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 securities through such underwriting shall (together with the Company and the other shareholders distributing their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company.

(ii) Notwithstanding any other provision of this subsection 1.2, if the underwriter managing such public offering determines that marketing factors require a limitation of the number of shares to be underwritten, and (A) if such registration is the first registered offering of the sale of the Company's securities to the general public, the underwriter may limit the number of Registrable Securities to be included in the registration and underwriting, or may exclude Registrable Securities entirely from such registration and underwriting, or (B) if such registration is other than the first registered offering of the sale of the Company's securities to the general public, the underwriter may limit the amount of securities to be included in the registration and underwriting by the Company's shareholders; provided however, the number of Registrable Securities to be included in such registration and underwriting under this subsection 1.2(b)(ii) shall not be reduced to less than thirty percent (30%) of the aggregate securities included in such registration without the prior consent of at least a majority of the Holders who have requested their shares to be included in such registration and underwriting. The Company shall so advise all Holders of Registrable Securities which would otherwise be registered and underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among Holders requesting registration in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by each of such Holders as of the date of the notice pursuant to

subsection 1.2(a)(i) above; provided that the number of shares of Registrable Securities requested to be included in such underwriting shall not be reduced unless all other securities being sold by shareholders other than the Holders are first entirely excluded from the Underwriting. If any Holder disapproves of the terms of any such underwriting, he may elect to withdraw therefrom by written notice to the Company and the underwriter. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from such

registration.

1.3 FORM S-3. In addition to the rights and obligations set forth in subsection 1.2 above, if Holders request that the Company file a registration statement on Form S-3 (or any successor to Form S-3) for a public offering of shares of Registrable Securities, the reasonably anticipated aggregate price to the public of which (net of underwriting discounts and commissions) would exceed $5,000,000 and the Company is then a registrant entitled to use Form S-3 to register the shares for such an offering, the Company shall use its best efforts to cause such shares to be registered for the offering as soon as practicable on Form S-3 (or any successor form to Form S-3); provided, however the Company shall not be required to effect a registration pursuant to this subsection 1.3:

(a) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, qualification or compliance unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(b) during the period starting with the date of filing of, and ending on a date 90 days following the effective date of, a registration statement pursuant to subsection 1.2, provided that the Company is actively employing in good faith all reasonable efforts to cause such registration statement to become effective and further provided that no other person or entity could require the Company to file a registration statement in such period;

(c) if the Company has effected a registration pursuant to this subsection 1.3 within a 12-month period from the date of such request; or

(d) if the Company shall furnish to such Initiating Holders a certificate signed by the President of the Company stating that in the good faith judgment of the Board of Directors of the Company, it would be detrimental to the Company and its shareholders for such registration statement to be filed on or before the date filing would be required and it is therefore essential to defer the filing of such registration statement, in which case the Company shall have the right to defer such filing for a period of not more than 90 days after the furnishing of such a certificate of deferral, provided that the Company may not defer such filing pursuant to this subsection 1.3 more than once in any six month period.

In the event such Initiating Holders propose to offer the shares of Registrable Securities pursuant to this subsection 1.3 by means of an underwriting, the proposed underwriter(s) shall be selected by a majority in interest of the Initiating Holders and shall be reasonably acceptable to the Company. The Company shall give written notice to all Holders of the receipt of a request for registration pursuant to this subsection 1.3 and shall provide a reasonable opportunity for other Holders to participate in the registration. The right of any Holder to registration pursuant to this subsection 1.3 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. The Company shall (together with all Holders proposing to distribute their securities through such underwriting) enter into an underwriting agreement in customary form with the underwriter or

underwriters. Notwithstanding any other provision of this subsection 1.3, if the underwriter advises the Company in writing that marketing factors require a limitation of the number of shares to be underwritten, the Company shall so advise all Holders, and the number of shares of Registrable Securities that may be included in the registration and underwriting shall be allocated among all Holders thereof in proportion, as nearly as practicable, to the respective amounts of Registrable Securities held by such Holders; provided, however, that the number of shares of Registrable Securities to be included in such underwriting shall not be reduced unless all other securities are first entirely excluded from the underwriting. If any Holder of Registrable Securities disapproves of the terms of the underwriting, such Holder may elect to withdraw therefrom by written notice to the Company, the underwriter and the Initiating

Holders. Any Registrable Securities which are excluded from the underwriting by reason of the underwriter's marketing limitation or withdrawn from such underwriting shall be withdrawn from such registration.

1.4 EXPENSES OF REGISTRATION. All Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to this Section 1 shall be borne by the Company except as follows:

(a) The Company shall not be required to pay for expenses of any registration proceeding begun pursuant to subsection 1.3, the request for which has been subsequently withdrawn by the Initiating Holders, in which latter such case, such expenses shall be borne by the Holders requesting such withdrawal. In the event that a withdrawal by the Holders is based on material adverse information relating to the Company that is different from the information known or available to the Holders requesting registration at the time of their request for registration under subsection 1.3, such registration shall not be treated as a counted requested registration for the purposes of subsection 1.3 hereof, and in which case, such expenses shall be borne by the Company.

(b) The Company shall not be required to pay fees or disbursements of more than one firm of legal counsel to the Holders, such fees to not exceed $10,000 in the aggregate.

(c) The Company shall not be required to pay underwriters' fees, discounts or commissions relating to Registrable Securities.

1.5 REGISTRATION PROCEDURES. In the case of each registration, qualification or compliance effected by the Company pursuant to this Rights Agreement, the Company will keep each Holder participating therein advised in writing as to the initiation of each registration, qualification and compliance and as to the completion thereof. Except as otherwise provided in subsection 1.4, at its expense the Company will:

(a) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for up to 120 days or if such registration statement is on Form S-3 (or any successor to Form S-3) and provides for sales of securities from time to time pursuant to Rule 415 under the Securities Act for up to one year.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(c) Furnish, without charge, to the Holders such numbers of copies of a prospectus, including each preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(d) Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders or any managing underwriter, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(e) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notify each Holder of Registrable Securities

covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act or the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(i) make available for inspection by a representative of the Holders, the managing underwriter participating in any disposition pursuant to such registration statement and one firm of attorneys designated by the Holders (upon execution of customary confidentiality agreements reasonably satisfactory to the Company and its counsel), at reasonable times and in reasonable manner, financial and other records, documents and properties of the Company that are pertinent to the conduct of due diligence customary for an underwritten offering, and cause the officers, directors and employees of the Company to supply all information reasonably requested by any such representative, underwriter or attorney in connection with a registration statement as shall be necessary to enable such persons to conduct a reasonable investigation within the meaning of Section 11 of the Securities Act.

(ii) use its best efforts to cause all Registrable Securities covered by a registration statement to be listed on any securities exchange or any automated quotation system on which similar securities issued by the Company are then listed;

(iii) cause to be provided to the Holders that are selling Registrable Securities pursuant to such registration statement and to the managing underwriter if any disposition pursuant to such registration statement is an underwritten offering, upon the effectiveness of such registration statement, a customary "10B-5" opinion of independent counsel (an "OPINION") and a customary "cold comfort" letter of independent auditors (a "COMFORT LETTER") in each case addressed to such Holders and managing underwriter, if any;

(iv) notify in writing the Holders that are selling Registrable Securities pursuant to such registration statement and any managing underwriter if any disposition pursuant to such registration statement is an underwritten offering, (A) when the registration statement has become effective and when any post-effective amendment thereto has been filed and becomes effective, (B) of any request by the SEC or any state securities authority for amendments and supplements to the registration statement or of any material request by the SEC or any state securities authority for additional information after the registration statement has become effective, (C) of the issuance by the SEC or any state securities authority of any stop order suspending the effectiveness of the registration statement or the initiation of any proceedings for that purpose, (D) if, between the effective date of the

registration statement and the closing of any sale of Registrable Securities covered thereby, the representations and warranties of the Company contained in any underwriting agreement, securities sales agreement or other similar agreement, including this Agreement, relating to disclosure cease to be true and correct in all material respects or if the Company receives any notification with respect to the suspension of the qualification of the Registrable Securities for sale in any jurisdiction or the initiation of any proceeding for such purpose, (E) of the happening of any event during the period the registration statement is effective such that such registration statement or the related prospectus contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make statements therein not misleading (in the case of a prospectus, in light of circumstances under which they were made) and (F) of any determination by the Company that a post-effective amendment to the registration statement would be appropriate. The Holders hereby agree to suspend, and to cause any managing underwriter to suspend, use of the prospectus contained in a registration statement upon receipt of such notice under clause (C), (E) or (F) above until, in the case of clause (C), such stop order is removed or rescinded or, in the case of clauses (E) and (F), the Company has amended or supplemented such prospectus to correct such misstatement or omission or otherwise.

If the notification relates to an event described in clauses (E) or (F), the Company shall promptly prepare and furnish to such seller and each underwriter, if any, a reasonable number of copies of a prospectus supplemented or amended so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein no misleading.

(v) provide and cause to be maintained a transfer agent and registrar for all such Registrable Securities covered by such registration statement not later than the effective date of such registration statement;

(vi) deliver promptly to each Holder participating in the offering and each underwriter, if any, copies of all correspondence between the SEC and the Company, its counsel or auditors and all memoranda relating to discussions with the SEC and its staff with respect to the registration statement, other than those portions of any such correspondence and memoranda which contain information subject to attorney-client privilege with respect to the Company, and, upon receipt of such confidentiality agreements as the Company may reasonably request, make reasonably available for inspection by any Holder of such Registrable Securities covered by such registration statement, by any underwriter, if any, participating in any disposition to be effected pursuant to such registration statement and by any attorney, accountant or other agent retained by any such Holder or any such underwriter, all pertinent financial and other records, pertinent corporate documents and properties of the Company, and cause all of the Company's officers, directors and employees to supply all information reasonably requested by any such Holder, underwriter, attorney, accountant or agent in connection with such registration statement;

(vii) use its best efforts to obtain the withdrawal of any order suspending the effectiveness of the registration statement;

(viii) provide a CUSIP number for all Registrable Securities not later than the effective date of the registration statement;

(ix) make reasonably available its employees and personnel and otherwise provide reasonable assistance to the underwriters in the marketing of Registrable Securities in any underwritten offering;

(x) promptly prior to the filing of any document which is to be incorporated by reference into the registration statement or the prospectus (after the initial filing of such registration statement) provide copies of such document to counsel to the seller of Registrable Securities and to the managing underwriter, if any, and make the Company's representatives reasonably available for discussion of such document and make such changes in such document concerning such sellers prior to the filing thereof as counsel for such sellers or underwriters may reasonably request; and

(xi) cooperate with the sellers of Registrable Securities and the managing underwriter, if any, to facilitate the timely preparation and delivery of certificates not bearing any restrictive legends representing the Registrable Securities to be sold, and cause such Registrable Securities to be issued in such denominations and registered in such names in accordance with the underwriting agreement prior to any sale of Registrable Securities to the underwriters or, if not an underwritten offering, in accordance with the instructions of the sellers of Registrable Securities at least three business days prior to any sale of Registrable Securities.

1.6 INDEMNIFICATION.

(a) The Company will indemnify and hold harmless to the fullest extent permitted by law each Holder of Registrable Securities and each of its officers, directors and partners, and each person controlling such Holder, with respect to which such registration, qualification or compliance has been effected pursuant to this Rights Agreement, and each underwriter, if any,

and each person who controls any underwriter of the Registrable Securities held by or issuable to such Holder, against all claims, losses, expenses, damages and liabilities (or actions in respect thereto) arising out of or based on (i) any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement under which such securities were registered under the Securities Act or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; (ii) any untrue statement (or alleged untrue statement) of a material fact contained in any preliminary, final or summary prospectus, offering circular or other document (including any related registration statement, notification or the like) incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statement therein, in light of the circumstances under which they were made, or not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Securities Exchange Act of 1934, as amended, (the "EXCHANGE ACT") or any state securities law applicable to the Company or any rule or regulation promulgated under the Securities Act, the Exchange Act or any such state law and relating to action or inaction required of the Company in connection with any such registration, qualification of compliance, and will reimburse each such Holder, each of its officers, directors and partners, and each person controlling such Holder, each such underwriter and each person who controls any such underwriter, within a reasonable amount of time after incurred for any reasonable legal and any other expenses incurred in connection with investigating, defending or settling any such claim, loss, damage, liability or action; provided, however, that the indemnity agreement contained in this subsection 1.6(a) shall not apply to amounts paid in settlement of any such claim, loss, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld); and provided further, that the Company will not be liable in any such case to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by an instrument duly executed by such Holder or underwriter specifically for use therein.

(b) Each Holder will, if Registrable Securities held by or issuable to such Holder are included in the securities as to which such registration, qualification or compliance is being effected, severally and not jointly, indemnify and hold harmless to the fullest extent permitted by law the Company, each of its directors and officers, each underwriter, if any, of the Company's securities covered by such a registration statement, each person who

controls the Company within the meaning of the Securities Act, and each other such Holder, each of its officers, directors and partners and each person controlling such Holder, against all claims, losses, expenses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company, such Holders, such directors, officers, partners, persons or underwriters for any reasonable legal or any other expenses incurred in connection with investigating, defending or settling any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by the Holder in an instrument duly executed by such Holder specifically for use therein; provided, however, that the indemnity agreement contained in this subsection 1.6(b) shall not apply to amounts paid in settlement of any such claim, loss, damage, liability or action if such settlement is effected without the consent of the Holder, (which consent shall not be unreasonably withheld); provided further, that the total amount for which any Holder shall be liable under this subsection 1.6(b) shall not in any event exceed the net proceeds received by such Holder from the sale of Registrable Securities held by such Holder in such registration; and provided further, that a Holder will not be liable in any such case to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement or omission based upon written information furnished to the Holder by an instrument duly executed by the Company or

underwriter specifically for use therein.

(c) Each party entitled to indemnification under this subsection 1.6 (the "INDEMNIFIED PARTY") shall give notice to the party required to provide indemnification (the "INDEMNIFYING PARTY") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom; provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at such party's expense; and provided further, that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations hereunder, except to the extent such failure resulted in material prejudice to the Indemnifying Party; and provided further, that an Indemnified Party (together with all other Indemnified Parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the Indemnifying Party, if representation of such Indemnified Party by the counsel retained by the Indemnifying Party would be inappropriate due to actual or potential differing interests between such Indemnified Party and any other party represented by such counsel in such proceeding. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

(d) If for any reason the foregoing indemnity is unavailable or is insufficient to hold harmless an indemnified party under Section 1.6, then each Indemnifying Party shall contribute to the amount paid or payable by such Indemnified Party as a result of any Claim in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party, on the one hand, and the Indemnified Party, on the other hand, with respect to such

offering of securities. The relative fault 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 Indemnifying Party or the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. If, however, the allocation provided in the second preceding sentence is not permitted by applicable law, then each Indemnifying Party shall contribute to the amount paid or payable by such Indemnified Party in such proportion as is appropriate to reflect not only such relative faults, but also any other relevant equitable considerations. The parties hereto agree that it would not be just and equitable if contributions pursuant to this Section 1.6(d) were to be determined by pro rata allocation or by any other method of allocation which does not take into account the equitable considerations referred to in the preceding sentences of this Section 1.6(d). The amount paid or payable in respect of any Claim shall be deemed to include any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such Claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the U.S. Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. Notwithstanding anything in this Section 1.6 to the contrary, no Indemnifying Party (other than the Company) shall be required pursuant to this Section 1.6(d) to contribute any amount in excess of the net proceeds received by such Indemnifying Party from the sale of Registrable Securities in the offering to which the losses, claims, damages or liabilities of the Indemnified Parties relate, less the amount of any indemnification payment made pursuant to Section 1.6.

(e) The indemnity agreements contained herein shall be in addition to any other rights to indemnification or contribution which any Indemnified Party may have pursuant to law or contract and shall remain operative and in full force and effect regardless of any investigation made or omitted by, or on behalf of, any Indemnified Party and shall survive the transfer of the Registrable Securities by any such party.

1.7 INFORMATION BY HOLDER. Any Holder or Holders of

Registrable Securities included in any registration shall promptly furnish to the Company such information regarding such Holder or Holders and the distribution proposed by such Holder or Holders as the Company may request in writing and as shall be required in connection with any registration, qualification or compliance referred to herein.

1.8 RULE 144 REPORTING. With a view to making available to 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 at all times to:

(a) make and keep public information available, as those terms are understood and defined in SEC Rule 144, after 90 days 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 Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

(c) so long as a Holder owns any Registrable Securities, to 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 (at any time after 90 days after the effective date of the first registration statement filed by the Company for an offering of its securities to the general public), and of the Securities Act and 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 so filed by the Company as the Holder may reasonably request in complying with any rule or regulation of the SEC allowing the Holder to sell any such securities without registration.

1.9 TRANSFER OF REGISTRATION RIGHTS. Holders' rights to cause the Company to register their securities and keep information available, granted to them by the Company under subsections 1.2, 1.3 and 1.8, may be assigned to a transferee or assignee of (i) at least 100,000 shares (as adjusted for stock splits, stock dividends, recapitalizations and like events), (ii) the transfer is in connection with the transfer of all shares of a Holder, or (iii) to any constituent partners or members of a Holder which is a partnership or limited liability company, or to affiliates (as such term is defined in Rule 405 of the Securities Act) of a Holder, provided, that (a) the Company is given written notice by such Holder at the time of or within a reasonable time after said transfer, stating the name and address of said transferee or assignee; and identifying the securities with respect to which such registration rights are being assigned; and (b) solely as to transfers pursuant to clause (iii) above, any transferees or assignees agree to act through a single representative. The Company may prohibit the transfer of any Holders' rights under this subsection 1.9 to any proposed transferee or assignee who the Company reasonably believes is a competitor of the Company. Notwithstanding anything else in this subsection 1.9, any Holder may transfer rights to a transferee of a Holder's Registrable Securities if such transferee is a partner, member or shareholder or a retired partner, member or shareholder of such Holder.

1.10 LIMITATIONS ON SUBSEQUENT REGISTRATION RIGHTS. From and after the date hereof, the Company shall not, without the prior written consent of the Holders (which consent will not be unreasonably withheld) of not less than a majority of the Registrable Securities then outstanding enter into any agreement with any holder or prospective holder of any securities of the Company which would allow such holder or prospective holder to demand any registration including any registration rights similar to those rights described in subsection 1.3 or include such securities in any registration filed under subsections 1.2 or 1.3 hereof if such inclusion would adversely affect the rights of any Holder (or any qualifying transferee under subsection 1.9) under such subsections.

1.11 "MARKET STAND-OFF" AGREEMENT. Each Holder hereby agrees that, during the period of duration (not to exceed 90 days) specified by the Company and an underwriter of common stock or other securities of the Company following the effective date of an IPO or reverse merger with a public company,

it shall not, to the extent requested by the Company and such underwriter, directly or indirectly sell, offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase, pledge or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except common stock included in such registration; provided, however, that:

(a) such agreement shall be applicable only to the first such registration statement of the Company which covers common stock (or other securities) to be sold on its behalf to the public in an offering.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Registrable Securities of each Holder (and the shares of securities of every other person subject to the foregoing restriction) until the end of such period.

1.12 DELAY OF REGISTRATION. No Holder shall have any rights to take any actions to restrain, enjoin, or otherwise delay any registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 1.

1.13 TERMINATION OF REGISTRATION RIGHTS. No holder shall be entitled to exercise any right provided for in this Section 1 at any time when such Holder may sell all its shares in a three (3) month period under Rule 144 of the Act.

2. AFFIRMATIVE COVENANTS OF THE COMPANY. The Company hereby covenants and agrees as follows:

2.1 ANNUAL FINANCIAL INFORMATION. The Company shall deliver to each Holder of at least ten thousand (10,000) Registrable Securities (a "QUALIFIED HOLDER") as soon as practicable after the end of each fiscal year of the Company, but in any event within 90 days thereafter, statements of operations, shareholders' equity and cash flows of the Company for such year, and a balance sheet of the Company as of the end of such year, such year-end financial reports to be in reasonable detail, prepared in accordance with generally accepted accounting principles ("GAAP"), and audited by independent public accountants selected by the Company's Board of Directors.

2.2 INSPECTION. The Company shall permit each Qualified Holder, at such Qualified Holder's expense, to visit and inspect the Company's properties, to examine its books of account and records and to discuss the Company's affairs, finances and accounts with its officers, all at such reasonable times as may be requested by the Qualified Holder; provided, however, that the Company shall not be obligated pursuant to this subsection to provide access to any information which it reasonably considers to be a trade secret or similar confidential information.

2.3 TERMINATION OF INFORMATION COVENANTS AND CONFIDENTIALITY OF INFORMATION. The covenants of the Company set forth in subsections 2.1 and 2.2 shall terminate as to the Qualified Holder and be of no further force or effect when the Company first becomes subject to the periodic reporting requirements of Section 12(g) or 15(d) of the Securities Exchange Act of 1934, as amended. Each Qualified Holder agrees that it will keep confidential and will not disclose or divulge any confidential, proprietary or secret information which such Purchaser may obtain from the Company, and which the Company has prominently marked "CONFIDENTIAL", "PROPRIETARY" or "SECRET" or has otherwise identified as being such, pursuant to financial statements, reports and other materials submitted by the Company as required hereunder, unless such information is or becomes known to the Qualified Holder from a source other than the Company without violation of any rights of the Company, or is or becomes publicly known, or unless the Company gives its written consent to the Qualified Holder's release of such information, except that no such written consent shall be required (and the Qualified Holder shall be free to release such information to such recipient) if such information is to be provided to a Qualified Holder's counsel or accountant (and the provision of such information is directly necessary in order for such recipient provide services to Qualified Holder), or to an officer, director or partner of a Qualified Holder, provided that the Qualified Holder shall inform the recipient of the confidential nature of such information, and such recipient agrees in writing in advance of disclosure to

treat the information as confidential.

3. GENERAL.

3.1 WAIVERS AND AMENDMENTS. With the written consent of the record holders of at least a majority of the Registrable Securities, the obligations of the Company and the rights of the parties under this Agreement may be waived (either generally or in a particular instance, either retroactively or prospectively, and either for a specified period of time or indefinitely), and with the same consent the Company, when authorized by resolution of its Board of Directors, may enter into a supplementary agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Agreement; provided, however, that no such modification, amendment or waiver shall reduce the aforesaid percentage of Registrable Securities without the consent of all of the Holders of the Registrable Securities. Notwithstanding the foregoing, subsections 2.1, 2.2, 2.3, 2.4 and 2.7 may be amended only with the written consent of the Company and

a majority of the shares then held by Qualified Holders. Upon the effectuation of each such waiver, consent, agreement of amendment or modification, the Company shall promptly give written notice thereof to the record holders of the Registrable Securities or Qualified Holders, as the case may be, who have not previously consented thereto in writing. This Agreement or any provision hereof may be changed, waived, discharged or terminated only by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought, except to the extent provided in this subsection 3.1. In addition, the Company will grant the Holders any rights of first refusal or registration rights granted to subsequent purchasers of the Company's equity securities to the extent that such subsequent rights are superior, in good faith judgment of the Company's Board of Directors, to those granted in connection with the transaction.

3.2 GOVERNING LAW. This Agreement shall be governed in all respects by the laws of the State of California as such laws are applied to agreements between California residents entered into and to be performed entirely within California without regard to its conflict of law principles.

3.3 SUCCESSORS AND ASSIGNS. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

3.4 ENTIRE AGREEMENT. Except as set forth below, this Agreement and the other documents delivered pursuant hereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and thereof, and this Agreement shall supersede and cancel all prior agreements between the parties hereto with regard to the subject matter hereof.

3.5 NOTICES, ETC. All notices and other communications required or permitted hereunder shall be in writing and shall be delivered by overnight courier service or mailed by first class mail, postage prepaid, certified or registered mail, return receipt requested, addressed (a) if to any Purchaser, at such party's address as set forth in the Company's records, or at such other address as such party shall have furnished to the Company in writing, or (b) if to the Company, at such address as the Company shall have furnished to the Purchaser in writing.

3.6 SEVERABILITY. In case any provision of this Agreement shall be invalid, illegal, or unenforceable, the validity, legality and enforceability of the remaining provisions of this Agreement or any provision of the other Agreement s shall not in any way be affected or impaired thereby.

3.7 TITLES AND SUBTITLES. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

3.8 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

----- SIGNATURES ON NEXT PAGE -----

IN WITNESS WHEREOF, the parties hereby have executed this Agreement on the date set forth underneath their respective signatures below.

"COMPANY"

PACIFIC ETHANOL, INC.,
A CALIFORNIA CORPORATION

By: _____

Neil Koehler, Chairman of the Board

Date: _____, 2004

"HOLDER"

By: _____

Print: _____

Date: _____, 2004

EXHIBIT 4.5

PACIFIC ETHANOL, INC.
5711 N. West Avenue Fresno, California 93711

WARRANT AGREEMENT

THIS WARRANT AGREEMENT (this "Agreement") is made and entered into on November _____, 2004, to be effective September 12, 2003 by and between PACIFIC ETHANOL, INC., a California corporation ("Company") and _____ ("Holder"). Company and Holder are sometimes collectively referred to herein as the "Parties" or singularly as a "Party."

R E C I T A L S

A. Company proposes to issue to Holder _____ Thousand (_____) warrants to purchase shares of Company's Common Stock (the "Shares" or the "Common Stock") (the "Warrants").

B. Each Warrant entitles the holder thereof to purchase one share of Common Stock.

C. The Warrants will be issued by Company to Holder as part of the consideration payable to Holder for services provided to Company pursuant to the terms of that certain Finder's Fee Agreement executed by and between the Parties.

NOW, THEREFORE, in consideration of the promises and the mutual agreements herein set forth, the Parties hereto agree as follows:

1. ISSUANCE OF WARRANTS. Pursuant to the terms and subject to the conditions of this Agreement, Company hereby issues and grants the Warrants to Holder.

2. WARRANT CERTIFICATES. The warrant certificates evidencing the Warrants (the "Warrant Certificates") shall be in the form set forth in Exhibit "A", attached hereto and made a part hereof, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Agreement.

3. RIGHT TO EXERCISE WARRANTS. Each Warrant may be exercised from the effective date of this Agreement until 4:59 P.M. (Pacific Time) on the date that is nine (9) years after the effective date of this Agreement (the "Expiration Date"). Each Warrant not exercised on or before the Expiration Date shall automatically expire. Each Warrant shall entitle its holder to purchase from Company one share of Common Stock (the "Exercise Shares") at an exercise price of One and 50/100 Dollars ($1.50) per Share, subject to adjustment as set forth below (the "Exercise Price").

4. FRACTIONAL SHARES. Company shall not be required to issue fractional shares of the Common Stock upon the exercise of the Warrants or to deliver Warrant Certificates that evidence fractional shares of the Common Stock. In the event that a fraction of an Exercise Share would, except for the provisions of this Section 4, be issuable upon the exercise of the Warrants, Company shall pay to Holder exercising the Warrants an amount in cash equal to such fraction multiplied by the current market value of an Exercise Share. For purposes of this Section 4, the current market value of an Exercise Share shall be determined as follows:

(a) if the Exercise Shares are traded in the over-the-counter market and not on any national securities exchange and not in the NASDAQ Reporting System, the average of the mean between the last bid and asked prices per share, as reported by the National Quotation Bureau, Inc., or an equivalent generally accepted reporting service, for the

last business day prior to the date on which the Warrant is exercised, or, if not so reported, the average of the closing bid and asked prices

for an Exercise Share as furnished to Company by any member of the National Association of Securities Dealers, Inc., selected by Company for that purpose.

(b) if the Exercise Shares are listed or traded on a national securities exchange or in the NASDAQ Reporting System, the closing price on the principal national securities exchange on which they are so listed or traded or in the NASDAQ Reporting System, as the case may be, on the last business day prior to the date of the exercise of the Warrants. The closing price referred to in this subsection (b) shall be the last reported sales price or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices, in either case on the national securities exchange on which the Exercise Shares are then listed on in the NASDAQ Reporting System; or

(c) if no such closing price or closing bid and asked prices are available, as determined in any reasonable manner as may be prescribed by the Board of Directors of Company.

5. MUTILATED OR MISSING WARRANT CERTIFICATES. In case any of the Warrant Certificates shall be mutilated, lost, stolen or destroyed prior to the Expiration Date, Company shall issue and deliver, in exchange and substitution for and upon cancellation of the mutilated Warrant Certificate, or in lieu of and in substitution for the Warrant Certificate lost, stolen or destroyed, a new Warrant Certificate representing equivalent rights and interests.

6. RESERVATION OF SHARES. Company will at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued Shares for the purpose of enabling it to satisfy its obligation to issue Shares upon exercise of the Warrants, the full number of Shares deliverable upon the exercise of all outstanding Warrants. Company covenants that all Shares which may be issued upon exercise of the Warrants will be validly issued, fully paid and non-assessable outstanding Shares of Company.

7. RIGHTS OF HOLDER. Holder shall not, by virtue of anything contained in this Agreement or otherwise, prior to exercise of the Warrants, be entitled to any right whatsoever, either in law or equity, of a stockholder of Company, including without limitation, the right to receive dividends or to vote or to consent or to receive notice as a shareholder in respect of the meetings of shareholders or the election of directors of Company of any other matter.

8. INVESTMENT INTENT. Holder represents and warrants to Company that Holder is acquiring the Warrants for investment and with no present intention of distributing or reselling any of the Warrants.

9. CERTIFICATES TO BEAR LANGUAGE. The Warrants and the certificate or certificates therefor shall bear the following legend by which each holder shall be bound:

"THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR ANY OTHER APPLICABLE STATE SECURITIES LAWS, AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER THE ACT OR ANY OTHER APPLICABLE STATE SECURITIES LAWS, OR PURSUANT TO RULE 144 OF THE ACT OR AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED."

The Shares and the certificate or certificates evidencing any such Shares shall bear the following legend:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") OR ANY OTHER STATE SECURITIES LAWS. THE SHARES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT AN EXEMPTION FROM REGISTRATION UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS IS AVAILABLE."

Certificates for Warrants without such legend shall be issued if such Warrants

or Shares are sold pursuant to an effective registration statement under the Securities Act of 1933 (the "Act") or if Company has received an opinion from counsel reasonably satisfactory to counsel for Company, that such legend is no longer required under the Act.

10. ADJUSTMENT OF NUMBER OF SHARES AND CLASS OF CAPITAL STOCK PURCHASABLE. The number of Shares and class of capital stock purchasable under this Agreement are subject to adjustment from time to time as set forth in this Section 10.

(a) ADJUSTMENT FOR CHANGE IN CAPITAL STOCK. If Company: (i) pays a dividend or makes a distribution on its Common Stock, in each case, in shares of its Common Stock; (ii) splits its outstanding shares of Common Stock into a greater number of shares; (iii) combines its outstanding shares of Common Stock into a smaller number of shares; (iv) makes a distribution on its Common Stock in shares of its capital stock other than Common Stock; or (v) issues by reclassification of its shares of Common Stock any shares of its capital stock; then the number and classes of shares purchasable upon exercise of each Warrant in effect immediately prior to such action shall be adjusted so that the holder of any Warrant thereafter exercised may receive the number and classes of shares of capital stock of Company which such holder would have owned immediately following such action if such holder had exercised the Warrant immediately prior to such action. For a dividend or distribution the adjustment shall become effective immediately after the record date for the dividend or distribution. For a split, combination or reclassification, the adjustment shall become effective immediately after the effective date of the subdivision, combination or reclassification. If after an adjustment the holder of a Warrant upon exercise of it may receive shares of two or more classes of capital stock of Company, the Board of Directors of Company shall in good faith determine the allocation of the adjusted Exercise Price between or among the classes of capital stock. After such allocation, that portion of the Exercise Price applicable to each share of each such class of capital stock shall thereafter be subject to adjustment on terms comparable to those applicable to Common Stock in this Agreement. Notwithstanding the allocation of the Exercise Price between or among shares of capital stock as provided by this Section 10(a), a Warrant may only be exercised in full by payment of the entire Exercise Price currently in effect.

(b) CONSOLIDATION, MERGER OR SALE OF COMPANY. If Company is a party to a consolidation, merger or transfer of assets which reclassifies or changes its outstanding Common Stock, the successor corporation (or corporation controlling the successor corporation or Company, as the case may be) shall by operation of law assume Company's obligations under this Agreement. Upon consummation of such transaction the Warrants shall automatically become exercisable for the kind and amount of securities, cash or other assets which the holder of a Warrant would have owned immediately after the consolidation, merger or transfer if the holder had exercised the Warrant immediately before the effective date of such transaction. As a condition to the consummation of such transaction, Company shall arrange for the person or entity obligated to issue securities or deliver cash or other assets upon exercise of the Warrant to, concurrently with the consummation of such transaction, assume Company's obligations hereunder by executing an instrument so providing and further providing for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided for in this Section 10(b).

11. SUCCESSORS. All the covenants and provisions of this Agreement by or for the benefit of Company or Holder shall bind and inure to the benefit of their respective successors and assigns hereunder.

12. COUNTERPARTS. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all proposes be deemed to be an original, and such counterparts shall together constitute by one and the same instrument.

13. NOTICES. All notices or other communications under this Agreement shall be in writing and shall be deemed to have been given if delivered by hand or mailed

by certified mail, postage prepaid, return receipt requested, addressed as follows: if to Company: Attention: Chief Operating Officer, and to Holder: at the address of Holder appearing on the books of Company or Company's transfer agent, if any. Either Company or Holder may from time to time change the address to which notices to it are to be mailed hereunder by notice in accordance with the provisions of this Section 13.

14. SUPPLEMENTS AND AMENDMENTS. Company may from time to time supplement or amend this Agreement without the approval of any holders of the Warrants in order to cure any ambiguity or to be correct or supplement any provision contained herein which may be defective or inconsistent with any other provision, or to make any other provisions in regard to matters or questions herein arising hereunder which Company may deem necessary or desirable and which shall not materially adversely affect the interest of the holder.

15. SEVERABILITY. If for any reason any provision, paragraph or term of this Agreement is held to be invalid or unenforceable, all other valid provisions herein shall remain in full force and effect and all terms, provisions and paragraphs of this Agreement shall be deemed to be severable.

16. GOVERNING LAW AND VENUE. This Agreement shall be deemed to be a contract made under the laws of the State of California and for all purposes shall be governed and construed in accordance with the laws of said State. Any proceeding arising under this Agreement shall be instituted in Fresno County, State of California.

17. HEADINGS. Paragraphs and subparagraph headings, used herein are included herein for convenience of reference only and shall not affect the construction of this Agreement nor constitute a part of this Agreement for any other purpose.

18. ATTORNEYS' FEES. Should any action or proceeding be commenced between the Parties concerning any provision of this Agreement, or the rights and duties of any party in relation thereto, the prevailing Party shall be entitled, in addition to such other relief as may be granted, to recover from the losing Party all costs and expenses, including reasonable attorneys', paralegals', and other professionals' fees and costs, incurred by such prevailing Party in such action or proceeding and in any appeal thereof.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed, as of the date and year first above written.

COMPANY	HOLDER
PACIFIC ETHANOL, INC.,	
a California Corporation	
By: _____	By: _____
Ryan Turner, Chief Operating Officer	Its:

EXHIBIT "A"

WARRANT TO PURCHASE SHARES OF COMMON STOCK OF PACIFIC ETHANOL, INC.

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR ANY OTHER APPLICABLE STATE SECURITIES LAWS, AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER THE ACT OR ANY OTHER APPLICABLE STATE SECURITIES LAWS, OR PURSUANT TO RULE 144 OF THE ACT OR AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

Void after 4:59 P.M. September 12, 2012

Initial Number of Shares:	_____
Initial Exercise Price:	$1.50 per share
Date of Grant:	September 12, 2003
Expiration Date:	September 12, 2012

THIS CERTIFIES THAT, for value received, _____, or any person to whom the interest in this Warrant is lawfully transferred ("Holder") is entitled to

purchase the above number (as adjusted pursuant to Section 4 hereof) of the non-assessable shares of the Common Stock (the "Shares") of Pacific Ethanol, Inc., a California corporation (the "Company") having an Initial Exercise Price as set forth above, subject to the provisions and upon the terms and conditions set forth herein. The exercise price, as adjusted from time-to-time as provided herein, is referred to as the "Exercise Price."

1. TERM. The purchase right represented by this Warrant is exercisable, in whole or in part, at any time commencing on the Date of Grant and ending on the Expiration Date, after which time the Warrant shall be void.

2. METHOD OF EXERCISE; PAYMENT; ISSUANCE OF NEW WARRANT. Subject to Section 1 hereof, the right to purchase Shares represented by this Warrant may be exercised by Holder, in whole or in part, for the total number of Shares remaining available for exercise by the surrender of this Warrant (with the Notice of Exercise and Investment Representation Statement forms attached hereto as Exhibit "B" and Exhibit "C", respectively, duly executed by Holder) at the principal office of the Company and by the payment to the Company, by check made payable to the Company drawn on a United States bank and for United States funds, or by delivery to the Company of evidence of cancellation of indebtedness of the Company to such Holder, of an amount equal to the then applicable Exercise Price per share multiplied by the number of Shares then being purchased. In the event of any exercise of the purchase right represented by this Warrant, certificates for the Shares so purchased shall be promptly delivered to Holder and, unless this Warrant has been fully exercised or has expired, a new Warrant representing the portion of the Shares, if any, with respect to which this Warrant shall not then have been exercised shall also be promptly delivered to Holder.

3. EXERCISE PRICE. The Exercise Price at which this Warrant may be exercised shall be the Initial Exercise Price, as adjusted from time to time pursuant to Section 4 hereof.

4. RECLASSIFICATION, REORGANIZATION, CONSOLIDATION OR MERGER. In the case of any reclassification of the Common Stock of the Company, or any reorganization, consolidation or merger of the Company with or into another corporation (other than a merger or reorganization with respect to which the Company is the continuing corporation and which does not result in any reclassification of the Common Stock), the Company, or such successor corporation, as the case may be, shall execute a new warrant, providing that the Holder shall have the right to exercise such new warrant and upon such exercise to receive, in lieu of each

share of Common Stock issuable upon exercise of this Warrant, the number and kind of securities, money and property receivable upon such reclassification, reorganization, consolidation or merger by a holder of shares of Common Stock of the Company for each share of Common Stock. Such new warrant shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 4, including, without limitation, adjustments to the Exercise Price and to the number of shares issuable upon exercise of this Warrant. The provisions of this Section 4 shall similarly apply to successive reclassifications, reorganizations, consolidations or mergers.

5. TRANSFERABILITY AND NON-NEGOTIABILITY OF WARRANT. This Warrant may not be transferred or assigned in whole or in part without compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, if reasonably requested by the Company). Subject to the provisions of this Section 5, title to this Warrant may be transferred in the same manner as a negotiable instrument transferable by endorsement and delivery.

6. MISCELLANEOUS. The Company covenants that it will at all times reserve and keep available, solely for the purpose of issue upon the exercise hereof, a sufficient number of shares of Common Stock to permit the exercise hereof in full. Such shares, when issued in compliance with the provisions of this Warrant and the Articles of Incorporation of the Company, as amended, will be duly authorized, validly issued, fully paid and non-assessable. No Holder of this Warrant, as such, shall, prior to the exercise of this Warrant, be entitled to vote or receive dividends or be deemed to be a shareholder of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer

upon Holder, as such, any rights of a shareholder of the Company or any right to vote, give or withhold consent to any corporate action, receive notice of meetings, receive dividends or subscription rights, or otherwise. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant representing equivalent rights and interests. No fractional shares shall be issued in connection with any exercise hereunder, but in lieu of such fractional shares the Company shall make a cash payment equal to such fraction multiplied by the current market value of a Share, as defined in Section 6 of the Warrant Agreement by and between the original Holder and the Company. The terms and provisions of this Warrant shall inure to the benefit of, and be binding upon, the Company and the Holder hereof and their respective successors and assigns. This Warrant shall be governed by and construed under the laws of the State of California. Should any litigation be commenced between the parties hereto concerning this Warrant, the party prevailing in such litigation shall be entitled, in addition to such other relief as may be granted, to recover from the losing party a reasonable sum for its attorneys' fees and costs in such litigation, or any other separate action brought for that purpose.

Holder: _____	PACIFIC ETHANOL, Inc., a California corporation
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

EXHIBIT B
NOTICE OF EXERCISE

TO: PACIFIC ETHANOL, INC.

FROM: _____

1. The undersigned hereby elects to purchase _____ shares of the Common Stock of Pacific Ethanol, Inc. (the "Shares") pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price of the Shares in full.

2. Please issue a certificate or certificates representing the Shares of the Common Stock in the name of the undersigned or in such other name as is specified below:

Name: _____

Tax ID: _____

Address: _____

_____

3. The undersigned represents that the Shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling the Shares. In support thereof, the undersigned has executed the Investment Representation Statement attached hereto.

Signed: _____

Date: _____

EXHIBIT C
INVESTMENT REPRESENTATION STATEMENT

PURCHASER: _____
COMPANY: PACIFIC ETHANOL, INC.
SECURITY: COMMON STOCK
AMOUNT: _____
DATE: _____

In connection with the purchase of the above-listed Securities, I, the Purchaser, represent to the Company the following:

(a) I am aware of the Company's business affairs and financial condition, and have acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. I am purchasing these Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933 ("Securities Act").

(b) I understand that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein.

(c) I further understand that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required as reflected in a written opinion of counsel for the Purchaser in a form reasonably satisfactory to the Company or receipt of a no-action letter from the Securities and Exchange Commission.

(d) I am aware of the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, if applicable, including, among other things: the availability of certain public information about the Company; the resale occurring not less than one year after the party has purchased and paid for the securities to be sold; the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein.

(e) I further understand that at the time I wish to sell the Securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144, and that, in such event, I may be precluded from selling the Securities under Rule 144 even if the one-year minimum holding period had been satisfied.

(f) I further understand that in the event all of the requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Date: _____ _____
Purchaser

EXHIBIT 4.7

PACIFIC ETHANOL, INC.
5711 N. West Avenue Fresno, California 93711

WARRANT AGREEMENT

THIS WARRANT AGREEMENT (this "Agreement") is made and entered into on November _____, 2004, to be effective May 14, 2004 by and between PACIFIC ETHANOL, INC., a California corporation ("Company") and _____ ("Holder"). Company and Holder are sometimes collectively referred to herein as the "Parties" or singularly as a "Party."

R E C I T A L S

A. Company proposes to issue to _____ Thousand (__,000) warrants to purchase shares of Company's Common Stock (the "Shares" or the "Common Stock") (the "Warrants").

B. Each Warrant entitles the holder thereof to purchase one share of Common Stock.

C. The Warrants will be issued by Company to Holder as part of the consideration payable to Holder for services provided to Company pursuant to the terms of that certain Finder's Fee Agreement executed by and between the Parties.

NOW, THEREFORE, in consideration of the promises and the mutual agreements herein set forth, the Parties hereto agree as follows:

1. ISSUANCE OF WARRANTS. Pursuant to the terms and subject to the conditions of this Agreement, Company hereby issues and grants the Warrants to Holder.

2. WARRANT CERTIFICATES. The warrant certificates evidencing the Warrants (the "Warrant Certificates") shall be in the form set forth in Exhibit "A", attached hereto and made a part hereof, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Agreement.

3. RIGHT TO EXERCISE WARRANTS. Each Warrant may be exercised from the effective date of this Agreement until 4:59 P.M. (Pacific Time) on the date that is nine (9) years after the effective date of this Agreement (the "Expiration Date"). Each Warrant not exercised on or before the Expiration Date shall automatically expire. Each Warrant shall entitle its holder to purchase from Company one share of Common Stock (the "Exercise Shares") at an exercise price of Two Dollars ($2.00) per Share, subject to adjustment as set forth below (the "Exercise Price").

4. FRACTIONAL SHARES. Company shall not be required to issue fractional shares of the Common Stock upon the exercise of the Warrants or to deliver Warrant Certificates that evidence fractional shares of the Common Stock. In the event that a fraction of an Exercise Share would, except for the provisions of this Section 4, be issuable upon the exercise of the Warrants, Company shall pay to Holder exercising the Warrants an amount in cash equal to such fraction multiplied by the current market value of an Exercise Share. For purposes of this Section 4, the current market value of an Exercise Share shall be determined as follows:

(a) if the Exercise Shares are traded in the over-the-counter market and not on any national securities exchange and not in the NASDAQ Reporting System, the average of the mean between the last bid and asked prices per share, as reported by the National Quotation Bureau, Inc., or an equivalent generally accepted reporting service, for the last business day prior to the date on which the Warrant is exercised,

or, if not so reported, the average of the closing bid and asked prices for an Exercise Share as furnished to Company by any member of the

National Association of Securities Dealers, Inc., selected by Company for that purpose.

(b) if the Exercise Shares are listed or traded on a national securities exchange or in the NASDAQ Reporting System, the closing price on the principal national securities exchange on which they are so listed or traded or in the NASDAQ Reporting System, as the case may be, on the last business day prior to the date of the exercise of the Warrants. The closing price referred to in this subsection (b) shall be the last reported sales price or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices, in either case on the national securities exchange on which the Exercise Shares are then listed on in the NASDAQ Reporting System; or

(c) if no such closing price or closing bid and asked prices are available, as determined in any reasonable manner as may be prescribed by the Board of Directors of Company.

5. MUTILATED OR MISSING WARRANT CERTIFICATES. In case any of the Warrant Certificates shall be mutilated, lost, stolen or destroyed prior to the Expiration Date, Company shall issue and deliver, in exchange and substitution for and upon cancellation of the mutilated Warrant Certificate, or in lieu of and in substitution for the Warrant Certificate lost, stolen or destroyed, a new Warrant Certificate representing equivalent rights and interests.

6. RESERVATION OF SHARES. Company will at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued Shares for the purpose of enabling it to satisfy its obligation to issue Shares upon exercise of the Warrants, the full number of Shares deliverable upon the exercise of all outstanding Warrants. Company covenants that all Shares which may be issued upon exercise of the Warrants will be validly issued, fully paid and non-assessable outstanding Shares of Company.

7. RIGHTS OF HOLDER. Holder shall not, by virtue of anything contained in this Agreement or otherwise, prior to exercise of the Warrants, be entitled to any right whatsoever, either in law or equity, of a stockholder of Company, including without limitation, the right to receive dividends or to vote or to consent or to receive notice as a shareholder in respect of the meetings of shareholders or the election of directors of Company of any other matter.

8. INVESTMENT INTENT. Holder represents and warrants to Company that Holder is acquiring the Warrants for investment and with no present intention of distributing or reselling any of the Warrants.

9. CERTIFICATES TO BEAR LANGUAGE. The Warrants and the certificate or certificates therefor shall bear the following legend by which each holder shall be bound:

"THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR ANY OTHER APPLICABLE STATE SECURITIES LAWS, AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER THE ACT OR ANY OTHER APPLICABLE STATE SECURITIES LAWS, OR PURSUANT TO RULE 144 OF THE ACT OR AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED."

The Shares and the certificate or certificates evidencing any such Shares shall bear the following legend:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") OR ANY OTHER STATE SECURITIES LAWS. THE SHARES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT AN EXEMPTION FROM REGISTRATION UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS IS AVAILABLE."

Certificates for Warrants without such legend shall be issued if such Warrants or Shares are sold pursuant to an effective registration statement under the

Securities Act of 1933 (the "Act") or if Company has received an opinion from counsel reasonably satisfactory to counsel for Company, that such legend is no longer required under the Act.

10. ADJUSTMENT OF NUMBER OF SHARES AND CLASS OF CAPITAL STOCK PURCHASABLE. The number of Shares and class of capital stock purchasable under this Agreement are subject to adjustment from time to time as set forth in this Section 10.

(a) ADJUSTMENT FOR CHANGE IN CAPITAL STOCK. If Company: (i) pays a dividend or makes a distribution on its Common Stock, in each case, in shares of its Common Stock; (ii) splits its outstanding shares of Common Stock into a greater number of shares; (iii) combines its outstanding shares of Common Stock into a smaller number of shares; (iv) makes a distribution on its Common Stock in shares of its capital stock other than Common Stock; or (v) issues by reclassification of its shares of Common Stock any shares of its capital stock; then the number and classes of shares purchasable upon exercise of each Warrant in effect immediately prior to such action shall be adjusted so that the holder of any Warrant thereafter exercised may receive the number and classes of shares of capital stock of Company which such holder would have owned immediately following such action if such holder had exercised the Warrant immediately prior to such action. For a dividend or distribution the adjustment shall become effective immediately after the record date for the dividend or distribution. For a split, combination or reclassification, the adjustment shall become effective immediately after the effective date of the subdivision, combination or reclassification. If after an adjustment the holder of a Warrant upon exercise of it may receive shares of two or more classes of capital stock of Company, the Board of Directors of Company shall in good faith determine the allocation of the adjusted Exercise Price between or among the classes of capital stock. After such allocation, that portion of the Exercise Price applicable to each share of each such class of capital stock shall thereafter be subject to adjustment on terms comparable to those applicable to Common Stock in this Agreement. Notwithstanding the allocation of the Exercise Price between or among shares of capital stock as provided by this Section 10(a), a Warrant may only be exercised in full by payment of the entire Exercise Price currently in effect.

(b) CONSOLIDATION, MERGER OR SALE OF COMPANY. If Company is a party to a consolidation, merger or transfer of assets which reclassifies or changes its outstanding Common Stock, the successor corporation (or corporation controlling the successor corporation or Company, as the case may be) shall by operation of law assume Company's obligations under this Agreement. Upon consummation of such transaction the Warrants shall automatically become exercisable for the kind and amount of securities, cash or other assets which the holder of a Warrant would have owned immediately after the consolidation, merger or transfer if the holder had exercised the Warrant immediately before the effective date of such transaction. As a condition to the consummation of such transaction, Company shall arrange for the person or entity obligated to issue securities or deliver cash or other assets upon exercise of the Warrant to, concurrently with the consummation of such transaction, assume Company's obligations hereunder by executing an instrument so providing and further providing for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided for in this Section 10(b).

11. SUCCESSORS. All the covenants and provisions of this Agreement by or for the benefit of Company or Holder shall bind and inure to the benefit of their respective successors and assigns hereunder.

12. COUNTERPARTS. This Agreement may be executed in any number of counterparts and each of such counterparts shall for all proposes be deemed to be an original, and such counterparts shall together constitute by one and the same instrument.

13. NOTICES. All notices or other communications under this Agreement shall be in writing and shall be deemed to have been given if delivered by hand or mailed by certified mail, postage prepaid, return receipt requested, addressed as

follows: if to Company: Attention: Chief Operating Officer, and to Holder: at the address of Holder appearing on the books of Company or Company's transfer agent, if any. Either Company or Holder may from time to time change the address to which notices to it are to be mailed hereunder by notice in accordance with the provisions of this Section 13.

14. SUPPLEMENTS AND AMENDMENTS. Company may from time to time supplement or amend this Agreement without the approval of any holders of the Warrants in order to cure any ambiguity or to be correct or supplement any provision contained herein which may be defective or inconsistent with any other provision, or to make any other provisions in regard to matters or questions herein arising hereunder which Company may deem necessary or desirable and which shall not materially adversely affect the interest of the holder.

15. SEVERABILITY. If for any reason any provision, paragraph or term of this Agreement is held to be invalid or unenforceable, all other valid provisions herein shall remain in full force and effect and all terms, provisions and paragraphs of this Agreement shall be deemed to be severable.

16. GOVERNING LAW AND VENUE. This Agreement shall be deemed to be a contract made under the laws of the State of California and for all purposes shall be governed and construed in accordance with the laws of said State. Any proceeding arising under this Agreement shall be instituted in Fresno County, State of California.

17. HEADINGS. Paragraphs and subparagraph headings, used herein are included herein for convenience of reference only and shall not affect the construction of this Agreement nor constitute a part of this Agreement for any other purpose.

18. ATTORNEYS' FEES. Should any action or proceeding be commenced between the Parties concerning any provision of this Agreement, or the rights and duties of any party in relation thereto, the prevailing Party shall be entitled, in addition to such other relief as may be granted, to recover from the losing Party all costs and expenses, including reasonable attorneys', paralegals', and other professionals' fees and costs, incurred by such prevailing Party in such action or proceeding and in any appeal thereof.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed, as of the date and year first above written.

COMPANY	HOLDER
PACIFIC ETHANOL, INC., a California Corporation	
By: _____ Ryan Turner, Chief Operating Officer	By: _____ Its:

EXHIBIT "A"

WARRANT TO PURCHASE SHARES OF COMMON STOCK OF PACIFIC ETHANOL, INC.

THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") OR ANY OTHER APPLICABLE STATE SECURITIES LAWS, AND MAY NOT BE SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER THE ACT OR ANY OTHER APPLICABLE STATE SECURITIES LAWS, OR PURSUANT TO RULE 144 OF THE ACT OR AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED.

Void after 4:59 P.M. May 14, 2013

Initial Number of Shares:	_____,000
Initial Exercise Price:	$2.00 per share
Date of Grant:	May 14, 2004
Expiration Date:	May 14, 2013

THIS CERTIFIES THAT, for value received, _____, or any person to whom the interest in this Warrant is lawfully transferred ("Holder") is entitled to purchase the above number (as adjusted pursuant to Section 4 hereof) of the

non-assessable shares of the Common Stock (the "Shares") of Pacific Ethanol, Inc., a California corporation (the "Company") having an Initial Exercise Price as set forth above, subject to the provisions and upon the terms and conditions set forth herein. The exercise price, as adjusted from time-to-time as provided herein, is referred to as the "Exercise Price."

1. TERM. The purchase right represented by this Warrant is exercisable, in whole or in part, at any time commencing on the Date of Grant and ending on the Expiration Date, after which time the Warrant shall be void.

2. METHOD OF EXERCISE; PAYMENT; ISSUANCE OF NEW WARRANT. Subject to Section 1 hereof, the right to purchase Shares represented by this Warrant may be exercised by Holder, in whole or in part, for the total number of Shares remaining available for exercise by the surrender of this Warrant (with the Notice of Exercise and Investment Representation Statement forms attached hereto as Exhibit "B" and Exhibit "C", respectively, duly executed by Holder) at the principal office of the Company and by the payment to the Company, by check made payable to the Company drawn on a United States bank and for United States funds, or by delivery to the Company of evidence of cancellation of indebtedness of the Company to such Holder, of an amount equal to the then applicable Exercise Price per share multiplied by the number of Shares then being purchased. In the event of any exercise of the purchase right represented by this Warrant, certificates for the Shares so purchased shall be promptly delivered to Holder and, unless this Warrant has been fully exercised or has expired, a new Warrant representing the portion of the Shares, if any, with respect to which this Warrant shall not then have been exercised shall also be promptly delivered to Holder.

3. EXERCISE PRICE. The Exercise Price at which this Warrant may be exercised shall be the Initial Exercise Price, as adjusted from time to time pursuant to Section 4 hereof.

4. RECLASSIFICATION, REORGANIZATION, CONSOLIDATION OR MERGER. In the case of any reclassification of the Common Stock of the Company, or any reorganization, consolidation or merger of the Company with or into another corporation (other than a merger or reorganization with respect to which the Company is the continuing corporation and which does not result in any reclassification of the Common Stock), the Company, or such successor corporation, as the case may be, shall execute a new warrant, providing that the Holder shall have the right to exercise such new warrant and upon such exercise to receive, in lieu of each share of Common Stock issuable upon exercise of this Warrant, the number and kind of securities, money and property receivable upon such reclassification,

reorganization, consolidation or merger by a holder of shares of Common Stock of the Company for each share of Common Stock. Such new warrant shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 4, including, without limitation, adjustments to the Exercise Price and to the number of shares issuable upon exercise of this Warrant. The provisions of this Section 4 shall similarly apply to successive reclassifications, reorganizations, consolidations or mergers.

5. TRANSFERABILITY AND NON-NEGOTIABILITY OF WARRANT. This Warrant may not be transferred or assigned in whole or in part without compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, if reasonably requested by the Company). Subject to the provisions of this Section 5, title to this Warrant may be transferred in the same manner as a negotiable instrument transferable by endorsement and delivery.

6. MISCELLANEOUS. The Company covenants that it will at all times reserve and keep available, solely for the purpose of issue upon the exercise hereof, a sufficient number of shares of Common Stock to permit the exercise hereof in full. Such shares, when issued in compliance with the provisions of this Warrant and the Articles of Incorporation of the Company, as amended, will be duly authorized, validly issued, fully paid and non-assessable. No Holder of this Warrant, as such, shall, prior to the exercise of this Warrant, be entitled to vote or receive dividends or be deemed to be a shareholder of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon Holder, as such, any rights of a shareholder of the Company or any right to

vote, give or withhold consent to any corporate action, receive notice of meetings, receive dividends or subscription rights, or otherwise. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, upon surrender and cancellation of such Warrant, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant representing equivalent rights and interests. No fractional shares shall be issued in connection with any exercise hereunder, but in lieu of such fractional shares the Company shall make a cash payment equal to such fraction multiplied by the current market value of a Share, as defined in Section 6 of the Warrant Agreement by and between the original Holder and the Company. The terms and provisions of this Warrant shall inure to the benefit of, and be binding upon, the Company and the Holder hereof and their respective successors and assigns. This Warrant shall be governed by and construed under the laws of the State of California. Should any litigation be commenced between the parties hereto concerning this Warrant, the party prevailing in such litigation shall be entitled, in addition to such other relief as may be granted, to recover from the losing party a reasonable sum for its attorneys' fees and costs in such litigation, or any other separate action brought for that purpose.

Holder: _____	PACIFIC ETHANOL, Inc., a California corporation
By: _____	By: _____
Name: _____	Name: _____
Title: _____	Title: _____

EXHIBIT B
NOTICE OF EXERCISE

TO: PACIFIC ETHANOL, INC.
FROM: _____

1. The undersigned hereby elects to purchase _____ shares of the Common Stock of Pacific Ethanol, Inc. (the "Shares") pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price of the Shares in full.

2. Please issue a certificate or certificates representing the Shares of the Common Stock in the name of the undersigned or in such other name as is specified below:

Name: _____

Tax ID: _____

Address: _____

_____

3. The undersigned represents that the Shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling the Shares. In support thereof, the undersigned has executed the Investment Representation Statement attached hereto.

Signed: _____

Date: _____

EXHIBIT C
INVESTMENT REPRESENTATION STATEMENT

PURCHASER: _____
COMPANY: PACIFIC ETHANOL, INC.
SECURITY: COMMON STOCK
AMOUNT: _____
DATE: _____

In connection with the purchase of the above-listed Securities, I, the Purchaser, represent to the Company the following:

(a) I am aware of the Company's business affairs and financial condition, and have acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. I am purchasing these Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933 ("Securities Act").

(b) I understand that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein.

(c) I further understand that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required as reflected in a written opinion of counsel for the Purchaser in a form reasonably satisfactory to the Company or receipt of a no-action letter from the Securities and Exchange Commission.

(d) I am aware of the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, if applicable, including, among other things: the availability of certain public information about the Company; the resale occurring not less than one year after the party has purchased and paid for the securities to be sold; the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein.

(e) I further understand that at the time I wish to sell the Securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144, and that, in such event, I may be precluded from selling the Securities under Rule 144 even if the one-year minimum holding period had been satisfied.

(f) I further understand that in the event all of the requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Date: _____ _____
Purchaser

EXHIBIT 4.9

NEITHER THESE SECURITIES NOR THE SECURITIES ISSUABLE UPON EXERCISE OF THESE SECURITIES HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THESE SECURITIES AND THE SECURITIES ISSUABLE UPON EXERCISE OF THESE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT SECURED BY SUCH SECURITIES.

PACIFIC ETHANOL, INC.

WARRANT

Warrant No. _____ Original Issue Date: _____

Pacific Ethanol, Inc., a California corporation (the "COMPANY"), hereby certifies that, for value received, Bock-Stegman Trust or its registered assigns (the "HOLDER"), is entitled to purchase from the Company up to a total of _____ Thousand (_____) shares of Common Stock (each such share, a "WARRANT SHARE" and all such shares, the "WARRANT SHARES"), at any time and from time to time from and after the Original Issue Date and through and including November 16, 2006 (the "EXPIRATION DATE"), and subject to the following terms and conditions:

1. DEFINITIONS. As used in this Warrant, the following terms shall have the respective definitions set forth in this Section 1. Capitalized terms that are used and not defined in this Warrant that are defined in the Purchase Agreement (as defined below) shall have the respective definitions set forth in the Purchase Agreement.

"ACCESSITY SHARE EXCHANGE" means the proposed share exchange transaction among Accessity Corp., the Company, Kinergy Marketing, LLC and ReEnergy, LLC as described in that certain Share Exchange Agreement dated as of May 14, 2004, as amended on July 30, 2004 and on October 1, 2004.

"BUSINESS DAY" means any day except Saturday, Sunday and any day that is a federal legal holiday in the United States or a day on which banking institutions in the State of California are authorized or required by law or other government action to close.

"CALIFORNIA COURTS" means the state and federal courts sitting in the County of Orange, State of California.

"COMMON STOCK" means the common stock of the Company, no par value per share, and any securities into which such common stock may hereafter be reclassified.

"EXERCISE PRICE" means $3.00, subject to adjustment in accordance with Section 9.

"FUNDAMENTAL TRANSACTION" means any of the following: (1) the Company effects any merger or consolidation of the Company with or into another Person pursuant to which the Company is not the surviving entity (other than a migratory merger conducted for the purpose of changing the Company's state of incorporation), (2) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (3) any tender offer or exchange offer (whether by the Company or another Person, including the Accessity Share Exchange) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (4) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property.

"ORIGINAL ISSUE DATE" means the Original Issue Date first set forth on the first page of this Warrant.

"PURCHASE AGREEMENT" means the Common Stock Purchase Agreement, dated _____, to which the Company and the original Holder are parties.

"TRADING DAY" means (i) a day on which the Common Stock is traded on a Trading Market (other than the OTC Bulletin Board), or (ii) if the Common Stock is not listed on a Trading Market (other than the OTC Bulletin Board), a day on which the Common Stock is traded in the over-the-counter market, as reported by the OTC Bulletin Board, or (iii) if the Common Stock is not quoted on any Trading Market, a day on which the Common Stock is quoted in the over-the-counter market as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding to its functions of reporting prices); provided, that in the event that the Common Stock is not listed or quoted as set forth in (i), (ii) and (iii) hereof, then Trading Day shall mean a Business Day.

2. REGISTRATION OF WARRANT. The Company shall register this Warrant upon records to be maintained by the Company for that purpose (the "WARRANT REGISTER"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

3. REGISTRATION OF TRANSFERS. The Company shall register the transfer of any portion of this Warrant in the Warrant Register, upon surrender of this Warrant, with the Form of Assignment attached hereto duly completed and signed, to the Company at its address specified herein. Upon any such registration or transfer, a new Warrant to purchase Common Stock, in substantially the form of

this Warrant (any such new Warrant, a "NEW WARRANT"), evidencing the portion of this Warrant so transferred shall be issued to the transferee and a New Warrant evidencing the remaining portion of this Warrant not so transferred, if any, shall be issued to the transferring Holder. The acceptance of the New Warrant by the transferee thereof shall be deemed the acceptance by such transferee of all of the rights and obligations of a holder of a Warrant.

4. EXERCISE AND DURATION OF WARRANTS. This Warrant shall be exercisable by the registered Holder at any time and from time to time on or after the Original Issue Date through and including the Expiration Date. At 5:00 p.m., Pacific Standard Time on the Expiration Date, the portion of this Warrant not exercised prior thereto shall be and become void and of no value. The Company may not call or redeem any portion of this Warrant without the prior written consent of the affected Holder.

5. DELIVERY OF WARRANT SHARES.

(a) To effect exercises hereunder, the Holder shall not be required to physically surrender this Warrant unless the aggregate Warrant Shares represented by this Warrant is being exercised. Upon delivery of the Exercise Notice (in the form attached hereto) to the Company (with the attached Warrant Shares Exercise Log) at its address for notice set forth herein and upon payment of the Exercise Price multiplied by the number of Warrant Shares that the Holder intends to purchase hereunder, the Company shall promptly (but in no event later than three Trading Days after the Date of Exercise (as defined herein)) issue and deliver to the Holder, a certificate for the Warrant Shares issuable upon such exercise, which, unless otherwise required by the Purchase Agreement, shall be free of restrictive legends. The Company shall, upon request of the Holder and subsequent to the date on which a registration statement covering the resale of the Warrant Shares has been declared effective by the Securities and Exchange Commission, use its reasonable best efforts to deliver Warrant Shares hereunder electronically through the Depository Trust Corporation or another established clearing corporation performing similar functions, if available, PROVIDED, that, the Company may, but will not be required to change its transfer agent if its current transfer agent cannot deliver Warrant Shares electronically through the Depository Trust Corporation. A "DATE OF EXERCISE" means the date on which the Holder shall have delivered to the Company: (i) the Exercise Notice (with the Warrant Exercise Log attached to it), appropriately completed and duly signed and (ii) payment of the Exercise Price for the number of Warrant Shares so indicated by the Holder to be purchased.

(b) If by the third Trading Day after a Date of Exercise the Company fails to deliver the required number of Warrant Shares in the manner required pursuant to Section 5(a), then the Holder will have the right to rescind such exercise.

(c) If by the third Trading Day after a Date of Exercise the Company fails to deliver the required number of Warrant Shares in the manner required pursuant to Section 5(a), and if after such third Trading Day and prior to the receipt of such Warrant Shares, the Holder purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a "BUY-IN"), then the Company shall (1) pay in cash to the

Holder the amount by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue by (B) the closing sale price of the Common Stock at the time of the obligation giving rise to such purchase obligation and (2) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. The Holder shall provide the Company written notice and supporting documentation indicating the amounts payable to the Holder in respect of the Buy-In.

(d) The Company's obligations to issue and deliver Warrant Shares in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to the Company or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the Holder in connection with the issuance of Warrant Shares. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing Warrant Shares upon exercise of the Warrant as required pursuant to the terms hereof.

6. CHARGES, TAXES AND EXPENSES. Issuance and delivery of Warrant Shares upon exercise of this Warrant shall be made without charge to the Holder for any issue or transfer tax, withholding tax, transfer agent fee or other incidental tax or expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company; PROVIDED, HOWEVER, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the registration of any certificates for Warrant Shares or Warrants in a name other than that of the Holder. The Holder shall be responsible for all other tax liability that may arise as a result of holding or transferring this Warrant or receiving Warrant Shares upon exercise hereof.

7. REPLACEMENT OF WARRANT. If this Warrant is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation hereof, or in lieu of and substitution for this Warrant, a New Warrant, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable indemnity (which shall not include a surety bond), if requested. Applicants for a New Warrant under such circumstances shall also comply with such other reasonable regulations and procedures and pay such other reasonable third-party costs as the Company may prescribe. If a New Warrant is requested as a result of a mutilation of this Warrant, then the Holder shall deliver such mutilated Warrant to the Company as a condition precedent to the Company's obligation to issue the New Warrant.

8. RESERVATION OF WARRANT SHARES. The Company covenants that it will at all times reserve and keep available out of the aggregate of its authorized but unissued and otherwise unreserved Common Stock, solely for the purpose of enabling it to issue Warrant Shares upon exercise of this Warrant as herein provided, the number of Warrant Shares which are then issuable and deliverable upon the exercise of this entire Warrant, free from preemptive rights or any other contingent purchase rights of Persons other than the Holder (taking into account the adjustments and restrictions of SECTION 9). The Company covenants that all Warrant Shares so issuable and deliverable shall, upon issuance and the payment of the applicable Exercise Price in accordance with the terms hereof, be duly and validly authorized, issued and fully paid and nonassessable.

9. CERTAIN ADJUSTMENTS. The Exercise Price and number of Warrant Shares issuable upon exercise of this Warrant are subject to adjustment from time to time as set forth in this SECTION 9.

(a) STOCK DIVIDENDS AND SPLITS. If the Company, at any time while this Warrant is outstanding, (i) pays a stock dividend on its Common Stock or otherwise makes a distribution on any class of capital stock that is payable in shares of Common Stock, (ii) subdivides outstanding shares of Common Stock into a larger number of shares, or (iii) combines outstanding shares of Common Stock into a smaller number of shares, then in each such case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding

immediately after such event. Any adjustment made pursuant to clause (i) of this paragraph shall become effective immediately after the payment of the dividend or the making of the distribution, and any adjustment pursuant to clause (ii) or (iii) of this paragraph shall become effective immediately after the effective date of such subdivision or combination.

(b) FUNDAMENTAL TRANSACTIONS. If, at any time while this Warrant is outstanding there is a Fundamental Transaction, then the Holder shall have the right thereafter to receive, upon exercise of this Warrant, the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of the number of Warrant Shares then issuable upon exercise in full of this Warrant (the "ALTERNATE CONSIDERATION"). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. At the Holder's option and request, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant substantially in the form of this Warrant and consistent with the

foregoing provisions and evidencing the Holder's right to purchase the Alternate Consideration for the aggregate Exercise Price upon exercise thereof. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this paragraph (b) and insuring that the Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(c) NUMBER OF WARRANT SHARES. Simultaneously with any adjustment to the Exercise Price pursuant to this Section 9, the number of Warrant Shares that may be purchased upon exercise of this Warrant shall be increased or decreased proportionately, so that after such adjustment the aggregate Exercise Price payable hereunder for the adjusted number of Warrant Shares shall be the same as the aggregate Exercise Price in effect immediately prior to such adjustment.

(d) CALCULATIONS. All calculations under this SECTION 9 shall be made to the nearest cent or the nearest 1/100th of a share, as applicable. 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 Company, and the disposition of any such shares shall be considered an issue or sale of Common Stock.

(e) NOTICE OF ADJUSTMENTS. Upon the occurrence of each adjustment pursuant to this SECTION 9, the Company at its expense will promptly compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment, including a statement of the adjusted Exercise Price and adjusted number or type of Warrant Shares or other securities issuable upon exercise of this Warrant (as applicable), describing the transactions giving rise to such adjustments and showing in detail the facts upon which such adjustment is based. Upon written request, the Company will promptly deliver a copy of each such certificate to the Holder and to the Company's Transfer Agent.

(f) NOTICE OF CORPORATE EVENTS. If the Company (i) declares a dividend or any other distribution of cash, securities or other property in respect of its Common Stock, including without limitation any granting of rights or warrants to subscribe for or purchase any capital stock of the Company or any Subsidiary, (ii) authorizes or approves, enters into any agreement contemplating or solicits stockholder approval for any Fundamental Transaction or (iii) authorizes the voluntary dissolution, liquidation or winding up of the affairs of the Company, then the Company shall deliver to the Holder a notice describing the material terms and conditions of such transaction (but only to the extent such disclosure would not result in the dissemination of material, non-public information to the Holder) at least ten (10) calendar days prior to the applicable record or effective date on which a Person would need to hold Common Stock in order to participate in or vote with respect to such transaction, and the Company will take all steps reasonably necessary in order to insure that the Holder is given the practical opportunity to exercise this Warrant prior to such time so as to participate in or vote with respect to such transaction; provided, however, that the failure to deliver such notice or any defect therein shall not affect the validity of the corporate action required to be described in such notice.

10. PAYMENT OF EXERCISE PRICE. The Holder shall pay the Exercise Price

by delivering to the Company immediately available funds.

11. NO FRACTIONAL SHARES. No fractional shares of Warrant Shares will be issued in connection with any exercise of this Warrant. In lieu of any fractional shares which would, otherwise be issuable, the Company shall pay cash equal to the product of such fraction multiplied by the closing sale price of one Warrant Share as reported by the applicable Trading Market on the date of exercise.

12. NOTICES. Any and all notices or other communications or deliveries hereunder (including, without limitation, any Exercise Notice) shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section prior to 5:00 p.m. (California time) on a Trading Day, (ii) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section on a day that is not a Trading Day or later than 5:00 p.m. (California time) on any Trading Day, (iii) the Trading Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given. The addresses for such communications shall be: (i) if to the Company, to Pacific Ethanol, Inc., Attn: President, or to Facsimile No.: (559) 435-1478 (or such other address as the Company shall indicate in writing in accordance with this Section), or (ii) if to the Holder, to the address or facsimile number appearing on the Warrant Register or such other address or facsimile number as the Holder may provide to the Company in accordance with this Section.

13. WARRANT AGENT. The Company shall serve as warrant agent under this Warrant. Upon ten (10) days' notice to the Holder, the Company may appoint a new warrant agent. Any corporation into which the Company or any new warrant agent may be merged or any corporation resulting from any consolidation to which the Company or any new warrant agent shall be a party or any corporation to which the Company or any new warrant agent transfers substantially all of its corporate trust or shareholders services business shall be a successor warrant agent under this Warrant without any further act. Any such successor warrant agent shall promptly cause notice of its succession as warrant agent to be mailed (by first class mail, postage prepaid) to the Holder at the Holder's last address as shown on the Warrant Register.

14. MISCELLANEOUS.

(a) This Warrant shall be binding on and inure to the benefit of the parties hereto and their respective successors and assigns. Subject to the preceding sentence, nothing in this Warrant shall be construed to give to any Person other than the Company and the Holder any legal or equitable right, remedy or cause of action under this Warrant. This Warrant may be amended only in writing signed by the Company and the Holder and their successors and assigns.

(b) All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be governed by and construed and enforced in accordance with the internal laws of the State of California, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of this Warrant and the transactions herein contemplated ("PROCEEDINGS") (whether brought against a party hereto or its respective Affiliates, employees or agents) shall be commenced exclusively in the

California Courts. Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the California Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any Proceeding, any claim that it is not personally subject to the jurisdiction of any California Court, or that such Proceeding has been commenced in an improper or inconvenient forum. Each party hereto hereby irrevocably waives personal service of process and consents to process being served in any such Proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Warrant and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Warrant or the transactions contemplated hereby. If either party shall commence a Proceeding to

enforce any provisions of this Warrant, then the prevailing party in such Proceeding shall be reimbursed by the other party for its attorney's fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

(c) The headings herein are for convenience only, do not constitute a part of this Warrant and shall not be deemed to limit or affect any of the provisions hereof.

(d) In case any one or more of the provisions of this Warrant shall be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Warrant shall not in any way be affected or impaired thereby and the parties will attempt in good faith to agree upon a valid and enforceable provision which shall be a commercially reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Warrant.

(e) Prior to exercise of this Warrant, the Holder hereof shall not, by reason of by being a Holder, be entitled to any rights of a shareholder with respect to the Warrant Shares.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK,
SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its authorized officer as of the date first indicated above.

PACIFIC ETHANOL, INC.

By:_____

Name:_____

Title:_____

EXERCISE NOTICE
PACIFIC ETHANOL, INC.
WARRANT DATED _____

The undersigned Holder hereby irrevocably elects to purchase _____ shares of Common Stock pursuant to the above referenced Warrant. Capitalized terms used herein and not otherwise defined have the respective meanings set forth in the Warrant.

(1) The undersigned Holder hereby exercises its right to purchase _____ Warrant Shares pursuant to the Warrant.

(2) The Holder shall pay the sum of $_____ to the Company in accordance with the terms of the Warrant.

(3) Pursuant to this Exercise Notice, the Company shall deliver to the holder _____ Warrant Shares in accordance with the terms of the Warrant.

(4) The undersigned represents that it has and will comply with the prospectus delivery requirements of the Securities Act.

Dated:_____,_____ Name of Holder:

(Print)_____

By:_____

Name:_____

Title:_____

(Signature must conform in all respects to name of holder as specified on the face of the Warrant)

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WARRANT SHARES EXERCISE LOG

Date	Number of Warrant Shares Available to be Exercised	Number of Warrant Shares Exercised	Number of Warrant Shares Remaining to be Exercised

</TABLE>

PACIFIC ETHANOL, INC.
WARRANT ORIGINALLY ISSUED _____
WARRANT NO. 1-2004

FORM OF ASSIGNMENT

[To be completed and signed only upon transfer of Warrant]

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____ the right represented by the above-captioned Warrant to purchase _____ shares of Common Stock to which such Warrant relates and appoints _____ attorney to transfer said right on the books of the Company with full power of substitution in the premises.

Dated: _____, ____

(Signature must conform in all respects to name of holder as specified on the face of the Warrant)

_____
Address of Transferee

_____

_____

In the presence of:

_____

EXHIBIT 4.10

NEITHER THESE SECURITIES NOR THE SECURITIES ISSUABLE UPON EXERCISE OF THESE SECURITIES HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THESE SECURITIES AND THE SECURITIES ISSUABLE UPON EXERCISE OF THESE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT SECURED BY SUCH SECURITIES.

THIS WARRANT IS ISSUED IN CONNECTION WITH THE ACCESSITY SHARE EXCHANGE (AS DEFINED BELOW) AS A REPLACEMENT WARRANT OF A NONSTATUTORY STOCK OPTION AGREEMENT ISSUED ON MAY 20, 2004.

PACIFIC ETHANOL, INC.

WARRANT

Warrant No. Manternach-1 Original Issue Date: March 23, 2005

Pacific Ethanol, Inc., a Delaware corporation (the "Company"), hereby certifies that, for value received, JEFFREY H. MANTERNACH, or its registered assigns (the "Holder"), is entitled to purchase from the Company up to a total of 25,000 shares of Common Stock (each such share, a "Warrant Share" and all such shares, the "Warrant Shares"), at any time and from time to time from and after the Original Issue Date and through and including March 23, 2006 (the "Expiration Date"), and subject to the following terms and conditions:

1. DEFINITIONS. As used in this Warrant, the following terms shall have the respective definitions set forth in this Section 1. Capitalized terms that are used and not defined in this Warrant that are defined in the Purchase Agreement (as defined below) shall have the respective definitions set forth in the Purchase Agreement.

"ACCESSITY SHARE EXCHANGE" means the share exchange transaction among Accessity Corp., Pacific Ethanol, Inc., a California corporation ("PEI California"), Kinergy Marketing, LLC and ReEnergy, LLC as described in that certain Share Exchange Agreement dated as of May 14, 2004, as amended on July 30, 2004, October 1, 2004, January 7, 2005, February 16, 2005 and March 3, 2005, and pursuant to which Accessity Corp. was merged with and into the Company.

"BUSINESS DAY" means any day except Saturday, Sunday and any day that is a federal legal holiday in the United States or a day on which banking institutions in the State of California are authorized or required by law or other government action to close.

"CALIFORNIA COURTS" means the state and federal courts sitting in the County of Orange, State of California.

"CAUSE" means any of the following: (1) the Holder's theft, dishonesty, or falsification of any documents or records of the Company; (2) the Holder's improper use or disclosure of the Company's confidential or proprietary information; (3) any action by the Holder which has a material detrimental effect on the Company's reputation or business; (4) the Holder's failure or inability to perform any reasonable assigned duties after written notice from the Company of, and a reasonable opportunity to cure, such failure or inability; (5) any material breach by the Holder of any employment agreement between the Holder and the Company, which breach is not cured pursuant to the terms of such agreement; or (6) the Holder's conviction (including any plea of guilty or nolo contendere) of any criminal act which materially impairs the Holder's ability to perform his or her duties with the Company.

"COMMON STOCK" means the common stock of the Company, $.001 par value per share, and any securities into which such common stock may hereafter be reclassified.

"DISABILITY" means the permanent and total disability of the Holder within the meaning of Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

"EXERCISE PRICE" means One Cent ($0.01) per share, subject to adjustment in accordance with Section 10.

"FUNDAMENTAL TRANSACTION" means any of the following: (1) the Company effects any merger or consolidation of the Company with or into another Person pursuant to which the Company is not the surviving entity (other than a migratory merger conducted for the purpose of changing the Company's state of incorporation), (2) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (3) any tender offer or exchange offer (whether by the Company or another Person, but not including the Accessity Share Exchange) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (4) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property.

"GOOD REASON" means any one or more of the following:

(a) the Holder's death or Disability;

(b) without the Holder's express written consent, the relocation of the principal place of the Holder's employment to a location that is more than fifty (50) miles from the Holder's principal place of employment immediately prior to the Original Issue Date, or the imposition of travel requirements substantially more demanding of the Holder than such travel requirements existing immediately prior to the Original Issue Date;

(c) any failure by the Company to pay, or any material reduction by the Company of Holder's base salary in effect immediately prior to the Original Issue Date (unless reductions comparable in amount and duration are concurrently made for all other employees of the Company with responsibilities, organizational level and title comparable to the Holder's).

"ORIGINAL ISSUE DATE" means the Original Issue Date first set forth on the first page of this Warrant.

"SERVICE" means the Holder's employment or service with the Company in the capacity of an employee. The Holder's Service shall not be deemed to have terminated merely because of a change in the capacity in which the Holder renders Service to the Company, provided that there is no interruption or termination of the Holder's Service. Furthermore, the Holder's Service with the Company shall not be deemed to have terminated if the Holder takes any sick leave or other bona fide leave of absence approved by the Company; provided, however, that if any such leave exceeds ninety (90) days, on the ninety-first (91st) day of such leave the Holder's Service shall be deemed to have terminated unless the Holder's right to return to Service with the Company is guaranteed by statue or contract. The Holder's Service shall be deemed to have terminated upon an actual termination of Service.

"TRADING DAY" means (i) a day on which the Common Stock is traded on a Trading Market (other than the OTC Bulletin Board), or (ii) if the Common Stock is not listed on a Trading Market (other than the OTC Bulletin Board), a day on which the Common Stock is traded in the over-the-counter market, as reported by the OTC Bulletin Board, or (iii) if the Common Stock is not quoted on any Trading Market, a day on which the Common Stock is quoted in the over-the-counter market as reported by the Pink Sheets, LLC (or any similar organization or agency succeeding to its functions of reporting prices); provided, that in the event that the Common Stock is not listed or quoted as set forth in (i), (ii) and (iii) hereof, then Trading Day shall mean a Business Day.

2. REGISTRATION OF WARRANT. The Company shall register this Warrant upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

3. REGISTRATION OF TRANSFERS. The Company shall register the transfer of any portion of this Warrant in the Warrant Register, upon surrender of this Warrant, with the Form of Assignment attached hereto duly completed and signed, to the Company at its address specified herein. Upon any such registration or transfer, a new Warrant to purchase Common Stock, in substantially the form of this Warrant (any such new Warrant, a "New Warrant"), evidencing the portion of this Warrant so transferred shall be issued to the transferee and a New Warrant evidencing the remaining portion of this Warrant not so transferred, if any, shall be issued to the transferring Holder. The acceptance of the New Warrant by the transferee thereof shall be deemed the acceptance by such transferee of all of the rights and obligations of a holder of a Warrant.

4. EXERCISE AND DURATION OF WARRANTS.

(a) This Warrant shall be exercisable by the registered Holder, to the extent Warrant Shares are vested as provided below, from time to time on or after the Original Issue Date through and including the Expiration Date, subject to Section 5 below. At 5:00 p.m., Pacific Standard Time on the

Expiration Date, the portion of this Warrant not exercised prior thereto shall be and become void and of no value. The Company may not call or redeem any portion of this Warrant without the prior written consent of the affected Holder.

(b) This Warrant shall be vested in full on the Original Issue Date.

5. EFFECT OF TERMINATION OF SERVICE.

(a) TERMINATION BY COMPANY FOR CAUSE. If the Holder's Service with the Company is terminated by the Company for Cause, this Warrant, to the extent vested but unexercised on the date on which the Holder's Service terminated, may be exercised by the Holder at any time prior to the expiration of three (3) months after the date on which the Holder's Service terminated, but in any event no later than the Expiration Date.

(b) TERMINATION BY HOLDER WITHOUT GOOD REASON. If the Holder's Service with the Company is terminated by the Holder without Good Reason, this Warrant, to the extent vested but unexercised on the date on which the Holder's Service terminated, may be exercised by the Holder at any time prior to the expiration of three (3) months after the date on which the Holder's Service terminated, but in any event no later than the Expiration Date.

6. DELIVERY OF WARRANT SHARES.

(a) To effect exercises hereunder, the Holder shall not be required to physically surrender this Warrant unless the aggregate Warrant Shares represented by this Warrant is being exercised. Upon delivery of the Exercise Notice (in the form attached hereto) to the Company (with the attached Warrant Shares Exercise Log) at its address for notice set forth herein and upon payment of the Exercise Price multiplied by the number of Warrant Shares that the Holder intends to purchase hereunder, the Company shall promptly (but in no event later than three Trading Days after the Date of Exercise (as defined herein)) issue and deliver to the Holder, a certificate for the Warrant Shares issuable upon such exercise. The Company shall, upon request of the Holder and subsequent to the date on which a registration statement covering the resale of the Warrant Shares has been declared effective by the Securities and Exchange Commission ("Commission"), use its reasonable best efforts to deliver Warrant Shares hereunder electronically through the Depository Trust Corporation or another established clearing corporation performing similar functions, if available, provided, that, the Company may, but will not be required to change its transfer agent if its current transfer agent cannot deliver Warrant Shares electronically through the Depository Trust Corporation. A "Date of Exercise" means the date on which the Holder shall have delivered to the Company: (i) the Exercise Notice (with the Warrant Exercise Log attached to it), appropriately completed and duly signed and (ii) payment of the Exercise Price for the number of Warrant Shares so indicated by the Holder to be purchased.

(b) If by the third Trading Day after a Date of Exercise the Company fails to deliver the required number of Warrant Shares in the manner required pursuant to Section 6(a), then the Holder will have the right to rescind such exercise.

(c) If by the third Trading Day after a Date of Exercise the Company fails to deliver the required number of Warrant Shares in the manner required pursuant to Section 6(a), and if after such third Trading Day and prior to the receipt of such Warrant Shares, the Holder purchases (in an open market transaction or otherwise) shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (1) pay in cash to the Holder the amount by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (A) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue by (B) the closing sale price of the Common Stock at the time of the obligation giving rise to such purchase obligation and (2) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. The Holder shall provide the Company written notice and supporting documentation indicating the amounts payable to the Holder in respect of the Buy-In.

(d) The Company's obligations to issue and deliver Warrant Shares in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any

judgment against any person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other person of any obligation to the Company or any violation or alleged violation of law by the Holder or any other person, and irrespective of any other circumstance which might otherwise limit such obligation of the Company to the Holder in connection with the issuance of Warrant Shares. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing Warrant Shares upon exercise of the Warrant as required pursuant to the terms hereof.

7. CHARGES, TAXES AND EXPENSES. Issuance and delivery of Warrant Shares upon exercise of this Warrant shall be made without charge to the Holder for any issue or transfer tax, withholding tax, transfer agent fee or other incidental tax or expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the registration of any certificates for Warrant Shares or Warrants in a name other than that of the Holder. The Holder shall be responsible for all other tax liability that may arise as a result of holding or transferring this Warrant or receiving Warrant Shares upon exercise hereof.

8. REPLACEMENT OF WARRANT. If this Warrant is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation hereof, or in lieu of and substitution for this Warrant, a New Warrant, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable indemnity (which shall not include a surety bond), if requested. Applicants for a New Warrant under such circumstances shall also comply with such other reasonable regulations and procedures and pay such other reasonable third-party costs as the Company may prescribe. If a New Warrant is requested as a result of a mutilation of this Warrant, then the Holder shall deliver such mutilated Warrant to the Company as a condition precedent to the Company's obligation to issue the New Warrant.

9. RESERVATION OF WARRANT SHARES. The Company covenants that it will at all times reserve and keep available out of the aggregate of its authorized but unissued and otherwise unreserved Common Stock, solely for the purpose of enabling it to issue Warrant Shares upon exercise of this Warrant as herein provided, the number of Warrant Shares which are then issuable and deliverable upon the exercise of this entire Warrant, free from preemptive rights or any other contingent purchase rights of Persons other than the Holder (taking into account the adjustments and restrictions of Section 10). The Company covenants that all Warrant Shares so issuable and deliverable shall, upon issuance and the payment of the applicable Exercise Price in accordance with the terms hereof, be duly and validly authorized, issued and fully paid and nonassessable.

10. CERTAIN ADJUSTMENTS. The Exercise Price and number of Warrant Shares issuable upon exercise of this Warrant are subject to adjustment from time to time as set forth in this Section 10.

(a) STOCK DIVIDENDS AND SPLITS. If the Company, at any time while this Warrant is outstanding, (i) pays a stock dividend on its Common Stock or otherwise makes a distribution on any class of capital stock that is payable in shares of Common Stock, (ii) subdivides outstanding shares of Common Stock into a larger number of shares, or (iii) combines outstanding shares of Common Stock into a smaller number of shares, then in each such case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding

immediately after such event. Any adjustment made pursuant to clause (i) of this paragraph shall become effective immediately after the payment of the dividend or the making of the distribution, and any adjustment pursuant to clause (ii) or (iii) of this paragraph shall become effective immediately after the effective date of such subdivision or combination.

(b) FUNDAMENTAL TRANSACTIONS. If, at any time while this Warrant is outstanding there is a Fundamental Transaction, then the Holder shall have the right thereafter to receive, upon exercise of this Warrant, the same amount and kind of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of the number of Warrant Shares then issuable upon exercise in full of this Warrant (the "Alternate Consideration"). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect

of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. At the Holder's option and request, any successor to the Company or surviving entity in such Fundamental Transaction shall issue to the Holder a new warrant substantially in the form of this Warrant and consistent with the foregoing provisions and evidencing the Holder's right to purchase the Alternate Consideration for the aggregate Exercise Price upon exercise thereof. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this paragraph (b) and insuring that the Warrant (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(c) NUMBER OF WARRANT SHARES. Simultaneously with any adjustment to the Exercise Price pursuant to this Section 10, the number of Warrant Shares that may be purchased upon exercise of this Warrant shall be increased or decreased proportionately, so that after such adjustment the aggregate Exercise Price payable hereunder for the adjusted number of Warrant Shares shall be the same as the aggregate Exercise Price in effect immediately prior to such adjustment.

(d) CALCULATIONS. All calculations under this Section 10 shall be made to the nearest cent or the nearest 1/100th of a share, as applicable. 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 Company, and the disposition of any such shares shall be considered an issue or sale of Common Stock.

(e) NOTICE OF ADJUSTMENTS. Upon the occurrence of each adjustment pursuant to this Section 10, the Company at its expense will promptly compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment, including a statement of the adjusted Exercise Price and adjusted number or type of Warrant Shares or other securities issuable upon exercise of this Warrant (as applicable), describing the transactions giving rise to such adjustments and showing in detail the facts upon which such adjustment is based. Upon written request, the Company will promptly deliver a copy of each such certificate to the Holder and to the Company's Transfer Agent.

(f) NOTICE OF CORPORATE EVENTS. If the Company (i) declares a dividend or any other distribution of cash, securities or other property in respect of its Common Stock, including without limitation any granting of rights or warrants to subscribe for or purchase any capital stock of the Company or any Subsidiary, (ii) authorizes or approves, enters into any agreement contemplating or solicits stockholder approval for any Fundamental Transaction or (iii) authorizes the voluntary dissolution, liquidation or winding up of the affairs

of the Company, then the Company shall deliver to the Holder a notice describing the material terms and conditions of such transaction (but only to the extent such disclosure would not result in the dissemination of material, non-public information to the Holder) at least ten (10) calendar days prior to the applicable record or effective date on which a Person would need to hold Common Stock in order to participate in or vote with respect to such transaction, and the Company will take all steps reasonably necessary in order to insure that the Holder is given the practical opportunity to exercise this Warrant prior to such time so as to participate in or vote with respect to such transaction; provided, however, that the failure to deliver such notice or any defect therein shall not affect the validity of the corporate action required to be described in such notice.

11. PAYMENT OF EXERCISE PRICE. The Holder shall pay the Exercise Price by delivering to the Company immediately available funds.

12. NO FRACTIONAL SHARES. No fractional shares of Warrant Shares will be issued in connection with any exercise of this Warrant. In lieu of any fractional shares which would, otherwise be issuable, the Company shall pay cash equal to the product of such fraction multiplied by the closing sale price of one Warrant Share as reported by the applicable Trading Market on the date of exercise.

13. REGISTRATION RIGHTS.

(a) PIGGY-BACK REGISTRATION RIGHTS. If at any time when there is not an effective registration statement covering the Warrant Shares, the Company shall determine to prepare and file with the Commission a registration statement relating to an offering for its own account or the account of others

under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, the Company shall send to the Holder of this Warrant written notice of such determination and, if within fifteen (15) days after receipt of such notice, any such holder shall so request in writing, (which request shall specify the Warrant Shares intended to be registered on behalf of the Holder), the Company will cause the registration under the Securities Act of all Warrant Shares which the Company has been so requested to register by the Holder, to the extent requisite to permit the disposition of the Warrant Shares so to be registered, provided that if at any time after giving written notice of its intention to register any securities and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register or to delay registration of such securities, the Company may, at its election, give written notice of such determination to the Holder and, thereupon, (i) in the case of a determination not to register, shall be relieved of its obligation to register any Warrant Shares in connection with such registration, and (ii) in the case of a determination to delay registering, shall be permitted to delay registering any Warrant Shares being registered pursuant to this Section for the same period as the delay in registering such other securities. The Company shall include in such registration statement all or any part of such Warrant Shares the Holder requests to be registered; provided, however, that the Company shall not be required to register any Warrant Shares pursuant to this Section that are eligible for sale pursuant to Rule 144(k) of the Securities Act. In the case of an underwritten public offering, if the managing underwriter(s) or underwriter(s) should reasonably object to the inclusion of the Warrant Shares in such registration statement, then if the Company after consultation with the managing underwriter should reasonably determine that the inclusion of such Warrant Shares, would materially adversely affect the offering contemplated in such registration statement, and based on such determination recommends inclusion in such registration statement of fewer or none of the Warrant Shares of the Holders, then the number of Warrant Shares of the Holder included in such registration statement may be reduced if the Company after consultation with the underwriter(s) recommends the inclusion of fewer Warrant Shares, or none of the Warrant Shares shall be included in such registration statement, if the Company after consultation with the underwriter(s) recommends the inclusion of none of such Warrant Shares.

(b) NOTIFICATION. The Company shall notify the Holder as promptly as possible (and, in the case of (i)(A) below, not less than three (3) days prior to such filing) and (if requested by any such person) confirm such notice in writing no later than one (1) business day following the day (i)(A) when a prospectus or any prospectus supplement or post-effective amendment to the registration statement is proposed to be filed; (B) when the Commission notifies the Company whether there will be a "review" of such registration statement and whenever the Commission comments in writing on such registration statement and (C) with respect to the registration statement or any post-effective amendment, when the same has become effective; (ii) of any request by the Commission or any other federal or state governmental authority for amendments or supplements to the registration statement or prospectus or for additional information; (iii) of the issuance by the Commission of any stop order suspending the effectiveness of the registration statement covering any or all of the Warrant Shares or the initiation of any proceedings for that purpose; (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Warrant Shares for sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose; and (v) of the occurrence of any event that makes any statement made in the registration statement or prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the registration statement, prospectus or other documents so that, in the case of the registration statement or the prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(c) CERTAIN COVENANTS OF HOLDER.

(i) Holder covenants and agrees that (i) it will not sell any Warrant Shares under the registration statement until it has received copies of the prospectus as then amended or supplemented and notice from the Company that such registration statement and any post-effective amendments thereto have become effective, (ii) it and its officers, directors or affiliates, if any, will comply with the prospectus delivery requirements of the Securities Act as applicable to them in connection with sales of Warrant Shares pursuant to the registration statement and (iii) it will furnish to the Company information regarding such Holder and the distribution of such Warrant Shares as is required by law

to be disclosed in the registration statement, and the Company may exclude from such registration the Warrant Shares of any such Holder who unreasonably fails to furnish such information within a reasonable time.

(ii) Holder agrees by its acquisition of Warrant Shares that, upon receipt of a notice from the Company of the occurrence of any event of the kind described in Section 13(b) above, such Holder will forthwith discontinue disposition of Warrant Shares under the registration statement until such Holder's receipt of the copies of the supplemented prospectus and/or amended registration statement, or until it is advised in writing by the Company that the use of the applicable prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such prospectus or registration statement.

(d) INDEMNIFICATION. The Holder shall indemnify and hold harmless the Company, the directors, officers, agents and employees, each person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, agents or employees of such controlling persons, to the fullest extent permitted by applicable law, from and against all losses, claims, damages, liabilities, costs (including, without limitation, costs of preparation and attorneys' fees) and

expenses (as determined by a court of competent jurisdiction in a final judgment not subject to appeal or review), as incurred, arising solely out of or based solely upon any untrue statement or alleged untrue statement of a material fact contained in the registration statement, any prospectus, or any form of prospectus or form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising solely out of or based solely upon any omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any prospectus or supplement thereto, in the light of the circumstances under which they were made) not misleading, to the extent, but only to the extent, that such untrue statement or omission or alleged untrue statement or omission is contained in any information so furnished in writing by the Holder to the Company specifically for inclusion in the registration statement or such prospectus and that such information was reasonably relied upon by the Company for use in the registration statement, such prospectus or such form of prospectus or to the extent that such information relates to the Holder or the Holder's proposed method of distribution of Warrant Shares and was reviewed and expressly approved in writing by the Holder expressly for use in the registration statement, such prospectus or such form of prospectus. In no event shall the liability of any selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Holder upon the sale of the Warrant Shares giving rise to such indemnification obligation.

(e) ASSIGNMENT. The rights of the Holder hereunder, including the right to have the Company register for resale the Warrant Shares in accordance with the terms of this Agreement, shall be automatically assignable by the Holder to any affiliate of the Holder or any other Holder or affiliate of any other Holder of all or a portion of the Warrant Shares if: (i) the Holder agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such assignment, (ii) the Company is, within a reasonable time after such transfer or assignment, furnished with written notice of (a) the name and address of such transferee or assignee, and (b) the securities with respect to which such registration rights are being transferred or assigned, (iii) following such transfer or assignment the further disposition of such securities by the transferee or assignees is restricted under the Securities Act and applicable state securities laws, and (iv) at or before the time the Company receives the written notice contemplated by clause (ii) of this Section, the transferee or assignee agrees in writing with the Company to be bound by all of the provisions of this Warrant. In addition, each Holder shall have the right to assign its rights hereunder to any other person with the prior written consent of the Company, which consent shall not be unreasonably withheld. The rights to assignment shall apply to the Holders (and to subsequent) successors and assigns.

14. NOTICES. Any and all notices or other communications or deliveries hereunder (including, without limitation, any Exercise Notice) shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section prior to 5:00 p.m. (California time) on a Trading Day, (ii) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified in this Section on a day that is not a Trading Day or later than 5:00 p.m. (California time) on any Trading Day, (iii) the Trading Day following the date of mailing, if sent by nationally recognized overnight

courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given. The addresses for such communications shall be: (i) if to the Company, to Pacific Ethanol, Inc., Attn: President, or to Facsimile No.: (559) 435-1478 (or such other address as the Company shall indicate in writing in accordance with this Section), or (ii) if to the Holder, to the address or facsimile number appearing on the Warrant Register or such other address or facsimile number as the Holder may provide to the Company in accordance with this Section.

15. WARRANT AGENT. The Company shall serve as warrant agent under this Warrant. Upon ten (10) days' notice to the Holder, the Company may appoint a new warrant agent. Any corporation into which the Company or any new warrant agent may be merged or any corporation resulting from any consolidation to which the Company or any new warrant agent shall be a party or any corporation to which

the Company or any new warrant agent transfers substantially all of its corporate trust or shareholders services business shall be a successor warrant agent under this Warrant without any further act. Any such successor warrant agent shall promptly cause notice of its succession as warrant agent to be mailed (by first class mail, postage prepaid) to the Holder at the Holder's last address as shown on the Warrant Register.

16. MISCELLANEOUS.

(a) This Warrant shall be binding on and inure to the benefit of the parties hereto and their respective successors and assigns. Subject to the preceding sentence, nothing in this Warrant shall be construed to give to any Person other than the Company and the Holder any legal or equitable right, remedy or cause of action under this Warrant. This Warrant may be amended only in writing signed by the Company and the Holder and their successors and assigns.

(b) All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be governed by and construed and enforced in accordance with the internal laws of the State of California, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of this Warrant and the transactions herein contemplated ("Proceedings") (whether brought against a party hereto or its respective Affiliates, employees or agents) shall be commenced exclusively in the California Courts. Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the California Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any Proceeding, any claim that it is not personally subject to the jurisdiction of any California Court, or that such Proceeding has been commenced in an improper or inconvenient forum. Each party hereto hereby irrevocably waives personal service of process and consents to process being served in any such Proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Warrant and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Warrant or the transactions contemplated hereby. If either party shall commence a Proceeding to enforce any provisions of this Warrant, then the prevailing party in such Proceeding shall be reimbursed by the other party for its attorney's fees and other costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

(c) The headings herein are for convenience only, do not constitute a part of this Warrant and shall not be deemed to limit or affect any of the provisions hereof.

(d) In case any one or more of the provisions of this Warrant shall be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Warrant shall not in any way be affected or impaired thereby and the parties will attempt in good faith to agree upon a valid and enforceable provision which shall be a commercially reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Warrant.

(e) Prior to exercise of this Warrant, the Holder hereof shall not, by reason of by being a Holder, be entitled to any rights of a shareholder with respect to the Warrant Shares.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its authorized officer as of the date first indicated above.

PACIFIC ETHANOL, INC.

By: /S/ RYAN TURNER

Ryan Turner, Chief Operating Officer

The undersigned Holder hereby acknowledges and agrees that this Warrant is being issued as a replacement warrant of that certain Nonstatutory Stock Option Agreement issued on May 20, 2004 ("Stock Option"), which Stock Option is hereby cancelled and of no effect.

/S/ JEFFREY H. MANTERNACH
- ---
JEFFREY H. MANTERNACH

EXERCISE NOTICE
PACIFIC ETHANOL, INC.
WARRANT DATED MARCH 23, 2005

The undersigned Holder hereby irrevocably elects to purchase _____ shares of Common Stock pursuant to the above referenced Warrant. Capitalized terms used herein and not otherwise defined have the respective meanings set forth in the Warrant.

(1) The undersigned Holder hereby exercises its right to purchase _____ Warrant Shares pursuant to the Warrant.

(2) The Holder shall pay the sum of $_____ to the Company in accordance with the terms of the Warrant. Payment shall take the form of (check applicable box):

[ ] in lawful money of the United States; or

[ ] the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 4(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 4(c).

(3) Pursuant to this Exercise Notice, the Company shall deliver to the holder _____ Warrant Shares in accordance with the terms of the Warrant.

(4) The undersigned represents that it has and will comply with the prospectus delivery requirements of the Securities Act.

Dated:_____, _____ Name of Holder:

(Print)_____

By: _____

Name: _____

Title: _____

(Signature must conform in all respects to name of holder as specified on the face of the Warrant)

<TABLE>
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WARRANT SHARES EXERCISE LOG

Date	Number of Warrant Shares Available to be Exercised	Number of Warrant Shares Exercised	Number of Warrant Shares Remaining to be Exercised

</TABLE>

PACIFIC ETHANOL, INC.
WARRANT ORIGINALLY ISSUED MARCH 23, 2005
WARRANT NO. _____

FORM OF ASSIGNMENT

[To be completed and signed only upon transfer of Warrant]

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____ the right represented by the above-captioned Warrant to purchase _____ shares of Common Stock to which such Warrant relates and appoints _____ attorney to transfer said right on the books of the Company with full power of substitution in the premises.

Dated: _____, ____

_____
(Signature must conform in all respects to name of holder as specified on the face of the Warrant)

_____
Address of Transferee

_____

_____

In the presence of:

_____

_____

EXHIBIT 10.1

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

AGC DOCUMENT NO. 410
STANDARD FORM OF DESIGN-BUILD AGREEMENT AND GENERAL CONDITIONS BETWEEN OWNER AND DESIGN-BUILDER
(WHERE THE BASIS OF PAYMENT IS THE COST OF THE WORK PLUS A FEE WITH A GUARANTEED MAXIMUM PRICE)

THIS STANDARD FORM AGREEMENT WAS DEVELOPED WITH THE ADVISE AND COOPERATION OF THE AGC PRIVATE INDUSTRY ADVISORY COUNCIL, A NUMBER OF FORTUNE 500 OWNERS' DESIGN AND CONSTRUCTION MANAGERS WHO HAVE BEEN MEETING WITH AGC CONTRACTORS TO DISCUSS ISSUES OF MUTUAL CONCERN. AGC GRATEFULLY ACKNOWLEDGES THE CONTRIBUTIONS OF THESE OWNERS' STAFF WHO PARTICIPATED IN THIS EFFORT TO PRODUCE A BASIC AGREEMENT FOR CONSTRUCTION.

TABLE OF ARTICLES

This Agreement has important legal and insurance consequences. Consultation with an attorney and insurance consultant is encouraged with respect to its completion or modification.

AGC DOCUMENT NO. 410
STANDARD FORM OF DESIGN-BUILD AGREEMENT AND GENERAL CONDITIONS BETWEEN OWNER.AND DESIGN-BUILDER

(Where the Basis of Payment is the Cost of the Work
Plus A FEE with a Guaranteed Maximum Price)

ARTICLE 1

AGREEMENT

This Agreement is made the.....7TH.....day
of.....JULY.....in the YEAR.....2003, by and between the

OWNER

PACIFIC ETHANOL, INC.
440 W. FALLBROOK
SUITE 210
FRESNO, CA 93711

and the
DESIGN-BUILDER

W.M. LYLES CO.
(A CALIFORNIA CORPORATION)
P.O. BOX 4377
FRESNO, CA 93744-4377

for services in connection with the following
PROJECT

ETHANOL PLANT - CONSTRUCTION
ETHANOL PRODUCTION AT THE MADERA SITE

Notice to the parties shall be given at the above addresses.

ARTICLE 2 - GENERAL PROVISIONS

2.1 TEAM RELATIONSHIP THE OWNER AND THE Design-Builder AGREE TO PROCEED WITH THE Project ON the basis of trust, good faith and fair dealing and shall take all actions reasonably necessary to perform THIS AGREEMENT IN AN ECONOMICAL and timely MANNER, including consideration OF DESIGN MODIFICATIONS AND alternative materials or equipment that will permit the Work to be constructed within the Guaranteed Maximum Price (GMP) AND by THE DATES OF Substantial COMPLETION AND Final Completion AS established by Amendment No. 1. The Design-Builder agrees to procure, as permitted by the law of the state where the project is located, the design phase services and furnish construction phase services as set forth below.

2.1.1 The Design-Builder represents that it is an independent contractor and that it is familiar with the type of work it is undertaking.

2.1.2 Neither the Design-Builder nor any of its agents or employees shall act on behalf of or in the name of the Owner unless authorized in writing by the Owner's Representative.

2.2 ENGINEER Engineering services shall be procured from licensed, independent design professionals retained by the Design-Builder with consultation from Owner as permitted by the law of the state where the Project is located. The standard of care for engineering services performed under this Agreement shall be the care and skill ordinarily used by members of the engineering professions practicing under similar conditions at the same time and locality. The entity providing engineering services shall be referred to as the Engineer and provide separate and exclusive Professional Liability Insurance as required. The

engineering services shall be procured pursuant to a separate agreement between the Design-Builder and the Engineer.

2.2.1 THE Engineer FOR THE Project shall BE DELTA-T CORPORATION,

2.3 EXTENT OF AGREEMENT This Agreement is solely for the benefit of the parties, represents the entire and integrated agreement between the parties, and supersedes all prior negotiations, representations or agreements, either written or oral, except for the signed and dated Lyles Diversified, Inc. Agreement titled "Summary of Terms for Secured Debt With Equity." The Owner and the Design-Builder AGREE TO LOOK SOLELY TO EACH other with RESPECT TO THE PERFORMANCE OF THE AGREEMENT. THE Agreement and each and every provision is for the exclusive benefit of the Owner and the Design-Builder and not for the benefit of any third party or any third party beneficiary, except to the extent expressly provided in the Agreement.

2.4 DEFINITIONS

.1 The Contract DOCUMENTS consist of:

a. Change Orders and written amendments to this Agreement including exhibits and appendices, signed by both the Owner and the Design-Builder, including Amendment No. 1 if executed;

b. this Agreement except for the existing Contract Documents set forth in item e. below;

c. the most current documents approved by the Owner pursuant to Paragraph 3.1;

d. the information provided by the Owner pursuant to Clause 4.1.2.1;

e. the Contract Documents in existence at the time of execution of this Agreement which are set forth in Article 15. Additional Exhibits may be added to this document with proper signature of the Owner and design-Builder;

f. the Owner's Program provided pursuant to Subparagraph 4.1.;

In case of any inconsistency, conflict or ambiguity among the Contract Documents, the documents shall govern in the order in which they are listed above.

.2 The term day shall mean calendar day unless otherwise specifically defined.

.3 DESIGN-BUILDER'S FEE means the compensation paid to the Design-Builder for salaries and other mandatory or customary compensation of the Design-Builder's employees at its principle and branch offices except employees listed in Subparagraph 8.2.2, general and administrative expenses of the Design-Builder's principal and branch offices other than the field office, and the Design-Builder's capital expenses, including interest on the Design-Builder's capital employed FOR the WORK, AND PROFIT.

.4 DEFECTIVE WORK IS ANY portion of the Work not in conformance with the Contract Documents as more fully described in Paragraph 3.8.

.5 The term Fast-track means accelerated scheduling which involves commencing construction prior to the completion of drawings and specifications and then using means such as bid PACKAGES AND EFFICIENT COORDINATION TO COMPRESS THE overall schedule.

.6 FINAL COMPLETION occurs on the date when the Design-Builder's obligations under this Agreement are complete and accepted by the Owner and final payment becomes due and payable.

.7 A MATERIAL SUPPLIER is a party or entity retained by the Design-Builder to provide material and equipment for the Work.

.8 Others means other contractors and all persons at the Worksite who are not employed by Design-Builder, its Subcontractors or Material Suppliers.

.9 The OWNER is the person or entity identified as such in this Agreement and includes the Owner's Representative.

.10 The OWNER'S PROGRAM IS an initial description of the Owner's objectives, that may include budget and time criteria, space requirements and relationships, flexibility and expandability requirements, special equipment and systems, and site requirements completed by the Design-Builder and Engineer as described in Exhibit No. C; Project Development Agreement.

.11 The PROJECT, as identified in Article 1, is the building, facility and/or other improvements for which the Design-Builder is to perform the Work under this Agreement It may also include improvements to be undertaken by the Owner or Others.

.12 A SUBCONTRACTOR IS A party or entity retained by the Design-Builder as. an independent contractor to provide the on-site labor, materials, equipment and/or services necessary to complete a specific portion of the Work. The term Subcontractor does not include the Engineer or any separate contractor employed by the Owner or any separate contractor's subcontractors.

.13 SUBSTANTIAL COMPLETION OF THE WORK, OF a designated portion, occurs on the date when the Design-Builder's obligations are sufficiently complete in accordance with the Contract Documents so that the Owner can or does occupy or utilize the Project, or a designated portion, for the use for which it is intended, in accordance with Paragraph 10.4. The issuance of a Certificate of Occupancy is not a prerequisite for Substantial Completion if the Certificate of Occupancy cannot be obtained due to factors. beyond the Design-Builder's control. This date shall be confirmed by a Certificate of Substantial Completion signed by the Owner and the Design-Builder. The Certificate shall state the respective responsibilities of the Owner and the Design-Builder for security, maintenance, heat, utilities, damage to the Work, and insurance. The Certificate shall also list the items to be completed or corrected, and establish the time for their completion and correction, within the time frame, if any, established in Amendment No. I for the Date of Final Completion.

.14 A SUB-SUBCONTRACTOR IS a party or entity who has an agreement with a Subcontractor to perform any portion of the Subcontractor's work.

.15 The WORK is the Design Development and Design Phase Services procured or furnished in accordance with Paragraph 3.1, the GMP Proposal provided in accordance with Paragraph 3.2, the Construction Phase Services provided in accordance with Paragraph 3.3, Additional Services that may be provided in accordance with paragraph 3.10, and other services which are necessary to complete the Project in accordance with and reasonably inferable from the Contract Documents.

.16 WORKSITE means the geographical area at the location mentioned in Article where the Work is to be performed.

ARTICLE 3 -DESIGN-BUILDER'S RESPONSIBILITIES

THE Design-Builder shall be responsible for procuring the design and for furnishing the construction of the Work consistent with the Owner's Program; as such the Owner may modify the Program during the course of the work up to twenty-five (25)-percent design complete. The Design-Builder shall exercise reasonable skill and judgment in the performance of its services consistent with the team relationship described in Paragraph 2.1, but does not warrant nor

guarantee schedules and estimates other than those that are part of the GMP proposal.

3.1 DESIGN PHASE SERVICES

3.1.1 PRELIMINARY EVALUATION - OWNER'S PROGRAM The Design-Builder shall review the Owner's Program to ascertain the requirements of the Project and shall verify' such requirements with the Owner. The Design-Builder's review shall also provide to the Owner a preliminary evaluation of the site with regard to access, traffic, drainage, parking, building placement and other considerations affecting the plant, the environment and energy use, as well as information regarding applicable governmental laws, regulations and requirements based on the requirements of Exhibit No. C. The Design-Builder shall also propose, as necessary, alternative architectural, civil, structural, mechanical, electrical and other systems for review by the Owner, to determine the most desirable approach on the basis of cost, technology, quality and speed of delivery. The Design-Builder will also review existing test reports but will not undertake any independent testing nor be required to furnish types of information derived from. such testing in its Preliminary Evaluation. Based upon its review and verification of the Owner's Program and other relevant information the Design-Builder shall provide a Preliminary Evaluation of the Project's feasibility for the Owner's acceptance. The Design-Builder's Preliminary Evaluation shall specifically identify any deviations from the Owner's Program.

3.1.2 PRELIMINARY SCHEDULE - OWNER"S PROGRAM The Design-Builder shall prepare a preliminary schedule of the Work as established by the information provide by the Engineer in Exhibit No. C. The Owner shall provide written approval of milestone dates established in the preliminary schedule of the Work. The schedule shall show the activities of the Owner, the Engineer and the Design-Builder necessary to meet the Owner's completion requirements. The schedule shall be updated periodically with the level of detail for each schedule update reflecting the information then available. If an update indicates that a previously approved schedule will not be met, the Design-Builder shall recommend corrective action to the Owner in writing.

3.1.3 PRELIMINARY ESTIMATE -- OWNER'S PROGRAM ' When sufficient Project information has been identified, the Design-Builder shall prepare for the Owner's acceptance a preliminary estimate established by the information provided by the Engineer in Exhibit No. C utilizing typical W.M. LYLES CO. estimating techniques. The estimate shall be updated periodically with the level of detail for each estimate update reflecting the information then available. If the preliminary estimate or any update exceeds the Owner's budget, the Design-Builder shall make recommendations to the Owner.

3.1.4 DESIGN DEVELOPMENT DOCUMENTS - OWNER'S PROGRAM The Design-Builder shall submit for the Owner's written approval the Design Development Documents as submitted by the Engineer and required in Exhibit No. C signed by the Design-Builder and Engineer based on the approved Schematic Design Documents. The Design Development Documents shall further define the Project including drawings and outline specifications fixing and describing the Project size and character as to site utilization, and other appropriate elements incorporating the structural, architectural, mechanical and electrical systems. One set of these documents shall be furnished to the Owner. When the Design-Builder submits the Design Development Documents, the Design-Builder shall identify in writing all material changes and deviations that have taken place from the Schematic Design Documents. The Design-Builder shall update the schedule and estimate based on the Design Development Documents.

3.1.5 TECHNOLOGY TRANSFER AGREEMENT AND FUTURE DESIGN SERVICES AGREEMENT Upon execution of Exhibit No. C, the Owner, Engineer and Design-Builder shall enter into good-faith negotiations for the Technology Transfer Agreement and the Design-Builder and Engineer shall enter into good-faith negotiations for the Design Services Agreement. Upon confirmation that the Owner has obtained the necessary Project Financing, the Technology Transfer Agreement and Design Services agreement shall be fully executed so as to not delay the project.

3.1.6 CONSTRUCTION DOCUMENTS Upon confirmation that the Owner has obtained the necessary Project Financing, the Design-Builder shall submit for the Owner's

written approval Construction Documents based on the approved Design Development Documents. The Construction Documents shall set forth in detail the requirements for construction of the Work, and shall consist of drawings and specifications based upon codes, laws and regulations enacted at the time of their preparation. When the Design-Builder submits the Construction Documents, the Design-Builder shall identify in writing all material changes and deviations that have taken place from the Design Development Documents. Construction shall be in accordance with these approved Construction Documents. One set of these documents shall be furnished to the Owner prior to commencement of construction.

3.1.7 OWNERSHIP OF DOCUMENTS Upon the making of payment pursuant to Paragraph 10.5, the Owner shall receive ownership of the property rights, except for copyrights and other limited license information provided and required by the Engineer, of all documents, drawings, specifications, electronic data and information prepared, provided OR PROCURED by the Design-Builder, its Engineer, Subcontractors and Consultants and distributed to the Owner for this Project. ("Design-Build Documents")

.1 If this Agreement is terminated pursuant to Paragraph 12.1, the Owner shall receive ownership of the property rights, except for copyrights and other limited license information provide by the Engineer, of the Design-Build Documents upon payment for all work performed in accordance with this Agreement, at which time the Owner shall have the right to use, reproduce and make derivative works from the Design-Build Documents to complete the Work.

.2 If this Agreement is terminated pursuant to Paragraph 12.2, the Owner shall receive ownership of the property rights, except for copyrights and other limited license information provide by the Engineer, of the Design-Build Documents upon payment of all sums provided in Paragraph 12.2, at which time the Owner shall have the right to use, reproduce and make derivative works from the Design-Build Documents to complete the Work.

.3 The Owner may use, reproduce and make derivative works from the Design-Build documents for subsequent renovation and remodeling of the work, but shall not use, reproduce or make derivative works from the Design-Build Documents for other projects without the written authorization of the Design-Builder and Engineer, who shall not unreasonably withhold consent.

.4 The Owner's use of the Design-Build Documents without the Design-Builder's involvement or on other projects is at the Owner's sole risk, except for the Design-Builder's indemnification obligation pursuant to Paragraph 3.7, and the Owner shall defend, indemnify and hold harmless the Design-Builder, its Engineer, Subcontractors, and consultants, and the agents; officers, directors and employees of each of them from and against any and all claims, damages, losses, costs 'and expenses, including but not limited to attorney's fees, costs and expenses incurred in connection with any dispute resolution process, arising out of or resulting from the Owner's use of the Design-Build Documents.

.5 The Design-Builder shall obtain from its Engineer, Subcontractors and consultants property rights and rights of use that correspond to the rights given by the Design-Builder to the Owner in this Agreement.

3.2 GUARANTEED MAXIUM PRICE (GMP)

3.2.1 GMP PROPOSAL The GMP shall be the sum of the estimated Design-Builder's Time and Material Cost of the work as defined in Article 8 and listed in Exhibit No. B, Design-Builder's Fee as defined in Article land the Design-Builder's Contingency as defined in Article 3.2.7. The GMP is subject to modification as provided in Article 9.

3.2.1.1 The Design-Development Documents shall be sufficiently complete at the time the GMP Proposal is submitted to the Owner. The Design-Builder shall

provide in the GMP for further development of the Design-Build Documents consistent with the Owner's Program. Such further development does not include changes in scope, systems, kinds and quality of materials, finishes or equipment, all of which if required, shall be incorporated by Change Order.

3.2.2 BASIS OF GUARANTEED MAXIMUM PRICE The Design-Builder shall include with the GMP Proposal a written statement of its scope of work and basis, which shall include:

.1 A list of the drawings and specifications, including all addenda, which were used in preparation of the GMP Proposal;

.2 current Time and Material worksheet (Exhibit No. B);

.3 a list of the assumptions and clarifications made by the Design-Builder in the preparation of the GMP Proposal to supplement the information contained in the drawings and specifications;

.4 The Date of Substantial Completion and/or the Date of Final Completion upon which the proposed GMP is based, and the Schedule of Work upon which the Date of Substantial Completion and/or the Date of Final Completion is based;

.5 a schedule of applicable alternate prices and unit prices if necessary;

.6 Additional Services if any;

.7 the time limit for acceptance of the GMP proposal;

.8 the Design-Builder's Contingency as provided in Subparagraph 3.2.6;

.9 a statement of any work to be self performed by the Design-Builder; and

.10 A statement identifying all patented or copyrighted materials, methods or systems selected by the Design-Builder and incorporated in the Work that are likely to require the payment of royalties or license fees.

3.2.3 REVIEW AND ADJUSTMENT TO GMP PROPOSAL The Design-Builder shall meet with the Owner to review the GMP Proposal. In the event that the Owner has any comments relative to the GMP Proposal, or finds any inconsistencies or inaccuracies in the information presented, it shall give prompt written notice of such comments or findings to the Design-Builder, who shall make appropriate adjustments to the GMP, its basis or both.

3.2.4 ACCEPTANCE OF GMP PROPOSAL Upon acceptance by the Owner of the GMP Proposal, as MAY be amended by the Design-Builder in accordance with Subparagraph 3.2.3, THE GMP AND ITS BASIS shall be set forth in Amendment No. 1. The GMP and the date of Substantial Completion and/or the date of Final Completion shall be subject to modification in Article 9.

3.2.5 FAILURE TO ACCEPT THE GMP PROPOSAL Unless the Owner accepts the GMP Proposal in writing on or before the date specified in the GMP Proposal for such acceptance and so notifies the Design-Builder, the GMP Proposal shall not be effective. If the Owner fails to accept the GMP Proposal, or rejects the GMP Proposal, the Owner shall have the right to:

.1 Suggest modifications to the GMP Proposal. If such modifications are accepted in writing by Design-Builder, the GMP Proposal shall be deemed accepted in accordance with Subparagraph 3.2.4;

.2 Direct the Design-Builder to proceed on the basis of reimbursement as provided in Articles 7 and 8 without A GMP, in which case all references in this agreement to the GMP shall not be applicable; or

In the absence of a GMP the parties may establish a Date of Substantial Completion and/or a Date of Final Completion.

3.2.6 DESIGN-BUILDER'S CONTINGENCY The GMP Proposal will contain, as part of the estimated Cost of the Work, the Design-Builder's Contingency, a sum mutually agreed upon and monitored by the Design-Builder and the Owner for use at the Design-Builder's discretion to cover costs which are properly reimbursable as a Cost of the Work but are not the basis for a Change Order. Any contingency amount remaining after Owner's start=up and use of the project shall be equitably split between the Design-Builder and Owner on a 50/50 basis.

3.2.7 CONSTRUCTION PHASE SERVICES The Construction. Phase will commence upon the confirmation that the Owner has obtained the necessary Project Financing and issuance by the Owner of a written notice to proceed with construction.

32.8 In order to complete the Work, the Design-Builder shall provide all necessary construction supervision, construction equipment, labor, materials, tools, and subcontracted items.

3.2.9 The Design-Builder shall give all notices and comply with all laws and ordinances legally enacted at the date of execution of the Agreement which govern the proper performance of the Work.

3.2.10 The Design-Builder shall keep such full and detailed accounts as are necessary for proper financial management under this Agreement. The Owner shall be afforded access to all the Design-Builder's records, books, correspondence, instructions, drawings, receipts, vouchers., memoranda and similar data relating to this Agreement. The Design-Builder shall preserve all such records for a period of three years after the final payment or longer where required by law.

3,2.11 The. Design-Builder shall provide periodic written reports to the Owner on the progress of the Work in such detail as agreed to by the Owner and the Design-Builder.

3.2.12 The Design-Builder shall develop a system of cost reporting for the Work, including regular monitoring of actual costs for activities in progress and estimates for uncompleted tasks and proposed changes in the Work. The reports shall be presented to the Owner at mutually agreeable intervals.

3.2.13 The Design-Builder shall regularly remove debris and waste materials at. the Worksite resulting from the Work. Prior to discontinuing Work in an area, the Design-Builder shall clean the area and remove all rubbish and its construction equipment, tools, machinery, waste and surplus materials. The Design-Builder shall minimize and confine dust and debris resulting from construction activities. At the completion of the Work, the Design-Builder shall remove from the Worksite all construction equipment, tools, surplus materials, waste materials and debris.

3.2.14 The Design-Builder shall prepare and submit to the Owner final marked up as-built drawings in general documenting how the various elements of the Work including changes were actually constructed or installed, or as defined by the parties by attachment to this Agreement.

3.3 SCHEDULE OF THE WORK THE Design-Builder shall prepare and submit a final Schedule of work for the Owner's Acceptance and Written Approval as to Milestone Dates. This schedule shall indicate the dates for the start and Completion of the various stages of the Work, including The dates when information and 'approvals are required from the Owner. The Schedule shall be revised as required by the conditions of the Work.

3.4 SAFETY OF PERSONS AND PROPERTY

3.4.1 SAFETY PRECAUTIONS AND PROGRAMS The Design-Builder shall have overall responsibility for safety precautions and programs in the performance of the Work. While the provisions of this Paragraph establish the responsibility for safety between the Owner and the Design-Builder, they do not relieve Subcontractors of their responsibility for the safety of persons or property in the performance of their work, nor for compliance with the provisions of applicable laws and regulations.

3.4.2 The Design-Builder shall seek to avoid injury, loss or damage to persons or property by taking reasonable steps to protect:

.1 its employees and other persons at the Worksite;

.2 materials, supplies and equipment stored at the Worksite for use in performance of the Work; and

.3 the Project and all property located at the Worksite and adjacent to work areas, whether or not said property or structures are part of the Project or involved in the Work.

3.4.3 DESIGN-BUILDER'S SAFETY PROGRAM The Design-Builder's On-Site Safety Program shall include all OSHA required elements and the following components:

.1 Established and administrated on-site Drug Prevention and Alcohol Testing Program.

.2 Established and administrated on-site Safety Orientation Training and Education Program.

3.4.4 DESIGN-BUILDER'S SAFETY REPRESENTATIVE The Design-Builder shall designate an individual at the Worksite in the employ of the Design-Builder who shall act as the Design-Builder's designated safety representative with a duty to prevent accidents. The Design-Builder will. report immediately in writing all accidents and injuries occurring at the Worksite to the Owner. If the Design-Builder is required to file an accident report with a public authority, the Design-Builder shall furnish a copy of the report to the Owner.

3.4.5 The Design-Builder shall provide the Owner with copies of all notices required of the Design-Builder by law or regulation. The Design-Builder's safety program shall comply with the requirements of governmental and quasi-governmental authorities having jurisdiction over the Work.

3.4.6 Damage or loss not insured under property insurance which may arise from the performance of the Work, to the extent of the negligence attributed to such acts or omissions of the Design-Builder, or anyone for whose acts the Design-Builder may be liable, shall be promptly remedied by the Design-Builder. Damage or loss attributable to the acts or omissions of the Owner or Others and not to the Design-Builder shall be promptly remedied by the Owner.

3.4.7 If the Owner or Owner's representative deems any part of the Work or Worksite unsafe, the Owner, without assuming responsibility for the Design-Builder's safety program, may require the Design-Builder to stop performance of the Work or take corrective measures satisfactory to the Owner, or both. The Design-Builder agrees to make no claim for damages, for an increase in the GMP, compensation for Design Phase Services, the Design-Builder's Fee and/or the Date of Substantial Completion and/or the Date of Final Completion based on the Design-Builder's compliance with the Owner's reasonable request.

3.5 HAZARDOUS MATERIALS

3.5.1 A Hazardous Material is any substance or material identified now or in the future as hazardous under any federal, state or local law or regulation, or any other substance or material which may be considered hazardous or otherwise subject to statutory or regulatory requirements governing handling, disposal and/or clean-up. The Design-Builder shall not be obligated to commence or continue work until all Hazardous Material discovered at the Worksite has been removed, rendered or determined to be harmless by the Owner as certified by an independent testing laboratory approved by the appropriate government agency.

3.5.2 If after the commencement of the Work, Hazardous Material is discovered at the Project, the Design-Builder shall be entitled to immediately stop Work in the affected area. The Design-Builder shall report the condition to the Owner and, if required, the government agency with jurisdiction. The Design-Builder reserves the right to remove any identified Hazardous Material under a separate Time and Material Contract.

3.5.3 The Design-Builder shall not be required to perform any Work relating to or in the area of Hazardous Material without written mutual agreement.

3.5.4 The Owner shall be responsible for retaining an independent testing laboratory to determine the nature of the material encountered and weather it is a Hazardous Material requiring corrective measures and/or remedial action. Such measures shall be the sole responsibility of the Owner, and shall be performed in a manner minimizing any adverse effects upon the Work of the Design-Builder. The Design-Builder shall resume Work in the area affected by any Hazardous

Material only upon written agreement between the parties after the Hazardous Material has been removed or rendered harmless and only after approval, if necessary, of the governmental agency or agencies with jurisdiction.

3.5.5 If the Design-Builder incurs additional costs and/or is delayed due to the presence or remediation OF Hazardous Material, the Design-Builder shall be entitled to an equitable adjustment in the GMP, compensation for Design Phase Services, the Design-Builder's Fee and/or the Date of Substantial Completion and/or the Date of Final Completion.

3.5.6 Provided the Design-Builder, its Subcontractors, Material Suppliers and Sub-subcontractors, and the agents, officers, directors and employees of each of them, have not, acting under their own authority, knowingly entered upon any portion of the Work containing Hazardous Materials, and to the extent not caused by the negligent acts or omissions of the Design-Builder, its Subcontractors, Material Suppliers and Sub-subcontractors, and the agents, officers, directors and employees of each of them, the Owner shall defend, indemnify and hold harmless the Design-Builder, its Subcontractors and Sub-subcontractors, and the agents, officers, directors and employees of each of them, from and against any and all direct claims, damages, fosses, costs and expenses, including but not limited to attorney's fees, costs and expenses incurred in connection with any dispute resolution process, arising out of or relating to the performance of the Work in any area affected by Hazardous Material. To the fullest extent permitted by law, such indemnification shall apply regardless of the fault, negligence, breach of warranty or contract, or strict liability of the Owner.

3.5.7 Material Safety Data (MSD) sheets as required by law and pertaining to materials or substances used or consumed in the performance of the Work, whether obtained by the Design-Builder, Subcontractors, the Owner or Others, shall be maintained at the Project by the Design-Builder and made available to the Owner and Subcontractors.

3.5.8 During the Design-Builder's performance of the Work, the Design-Builder shall be responsible for the proper handling of all materials brought to the Worksite by the Design-Builder. Upon the issuance of the Certificate of Substantial Completion, the Owner shall be responsible under this Paragraph for materials and substances brought to the site by the Design-Builder if such materials or substances are required by the Contract Documents.

3.5.9 The terms of this Paragraph 3.5 shall survive the completion of the Work under this Agreement and/or any termination of this Agreement.

3.6 ROYALTIES, PATENTS AND COPYRIGHTS The Design-Builder shall pay all royalties and license fees which may be due on the inclusion of any patented or copyrighted materials, methods or systems selected by the Design-Builder and incorporated in the Work. The Design-Builder shall defend, indemnify and hold the Owner harmless from all suits or claims for infringement of any patent rights or copyrights arising out of such selection. The Owner agrees to defend, indemnify and hold the Design-Builder and Engineer harmless from all suits or claims OF infringement of any patent rights or copyrights arising out of any patented or copyrighted materials, methods or systems specified by the Owner.

3.7 WARRANTIES AND COMPLETION

3.7.1 The Design-Builder warrants that all materials and equipment furnished under the Construction Phase of this Agreement will be new unless otherwise specified, of good quality, in conformance with the Contract Documents, and free from defective workmanship and materials. Warranties shall commence on the Date of Substantial Completion of the Work or of a designated portion. The

Design-Builder agrees to correct all construction performed under this Agreement which is defective in construction workmanship or materials within a period of one year from the Date of Substantial Completion.

3.7.2 To the extent products, equipment, systems or materials incorporated in the Work are specified and purchased by the Owner, they shall be covered exclusively by the warranty of the manufacturer. There are no warranties that extend beyond the description on the face of any such warranty. To the extent products, equipment, systems or materials incorporated in the Work are specified by the Owner but purchased by the Design-Builder and are inconsistent with selection criteria that otherwise would have been followed by the Design-Builder, the Design-Builder shall assist the Owner in pursuing warranty claims. ALL OTHER WARRANTIES EXPRESSED OR IMPLIED INCLUDING THE WARRANTY OF MERCHANTABILITY AND THE WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE ARE EXPRESLY DISCLAIMED.

3.7.3 The Design-Builder shall secure required certificates of inspection, testing or approval and deliver them to the Owner.

3.7.4 The Design-Builder shall collect all written warranties and equipment manuals and deliver them to the Owner in a format directed by the Owner.

3.7.5 With the assistance of the Owner's maintenance personnel, the Design-Builder shall direct the checkout of utilities and start-up operations, and adjusting and balancing of systems and equipment for readiness.

3.8 CONFIDENTIALITY The Design-Builder shall treat as confidential and not disclose to third persons, except Subcontractors, Sub-subcontractors and the Engineer as is necessary for the performance of the Work, or use for its own benefit any of the Owner's developments, confidential information, know-how, discoveries, production methods and the like that may be disclosed to the Design-Builder or which the Design-Builder may acquire in connection with the Work. The Owner shall treat as confidential information all of the Design-Builder's estimating systems historical and parameter cost data and the Engineer's Design/Process information that may be disclosed to the Owner in connection with the performance of this Agreement.

3.9 ADDITIONAL SERVICES The. Design-Builder shall provide or procure the following Additional Services upon the request of the Owner. A written agreement between the Owner and the DESIGN-Builder shall define the extent of such Additional Services before they are performed by the Design-Builder. If a GMP has been established for the Work or any portion of the Work, such Additional Services shall be considered a Change in the Work, unless they are specifically included in the statement of the basis of the GMP as set forth in Amendment No. 1.

.1 Consultations, negotiations, and documentation supporting the procurement of Project financing.

.2 Surveys, site evaluations, legal descriptions and aerial photographs.

.3 Appraisals of existing equipment, existing properties, new equipment and developed properties.

.4 Consultations and representations before governmental authorities or others having jurisdiction over the Project other than normal assistance in securing building permits.

.5 Investigation or making measured drawings of existing conditions or the reasonably required verification of Owner-provided drawings and information.

.6 Artistic renderings, models and mockups of the Project or any part of the Project or the Work.

.7 Estimates, proposals, appraisals, consultations, negotiations and services in connection with the repair or replacement of an insured

loss, provided such repair or replacement did not result from the negligence of the Design-Builder.

.8 Obtaining service contractors and training maintenance personnel, assisting and consulting in the use of systems and equipment after the initial start up.

.9 Services for tenant or rental spaces not a part of this Agreement.

.10 Services requested by the Owner or required by the Work which are not specified in the Contract Documents and which are not normally part of generally accepted design and construction practice.

.11 Serving or preparing to serve as an expert witness in connection with any proceeding, legal or otherwise, regarding the Project.

.12 Document reproduction exceeding the limits provided for in this Agreement.

3.10 DESIGN-BUILDER'S REPRESENTATIVE The Design-Builder shall designate a person who shall be the Design-Builder's authorized representative. The Design-Builder's Representative is: Mr. Rick Amigh.

ARTICLE 4 - OWNER'S RESPONSIBILITIES

4.1 INFORMATION AND SERVICES PROVIDED BY OWNER

4.1.1 The Owner shall provide full information in a timely manner regarding requirements for the Project, including the Owner's Program and other relevant information.

4.1.2 The Owner shall provide:

.1 all available information describing the physical characteristics of the site, including surveys, site evaluations, legal descriptions, existing conditions, subsurface and environmental studies, reports and investigations;

.2 inspection and testing services during construction as required by law or as mutually agreed; and

.3 unless otherwise provided in the Contract Documents, necessary approvals, site plan review, rezoning, easements and assessments, fees, permits and charges required for the construction, use, occupancy or renovation of permanent structures, including legal and other required services.

4.1.3 The Owner shall provide reasonable evidence satisfactory to the Design-Builder, prior to commencing the Work and during the progress of the Work, that sufficient funds are available and committed for the entire cost of the Project, including a reasonable allowance for changes in the Work as may be approved in the course of the Work. Unless such reasonable evidence is provided, the Design Builder shall not be required to commence or continue the Work. The Design-Builder may stop Work after seven (7) days written notice to the Owner if such evidence is not presented within a reasonable time. THE failure of the Design-Builder to insist upon the providing of this evidence at any one time shall not be a waiver of the Owner's obligation to make payments pursuant to this Agreement, nor shall it be a waiver of the Design-Builder's right to require that such evidence be provided at a later date.

4.1.4 The Design-Builder shall be entitled to rely on the completeness and accuracy of the information and services required by this Paragraph 4.1.

4.2 RESPONSIBILITIES DURING DESIGN PHASE

4.2.1 The Owner shall provide information for the Owner's Program at the inception of the Design Phase and shall review. and timely approve in writing all schedules, estimates, Preliminary Estimate, Schematic Design Documents,

Design Development Documents and Construction Documents furnished during the Design Phase as set forth in Paragraph 3.1, and the GMP Proposal as set forth in Paragraph 3.2.

4.2.2 The Owner shall provide good-faith negotiations in a timely manner so as not to delay any contractual agreements.

4.3 RESPONSIBILITIES DURING CONSTRUCTION PHASE

4.3.1 The Owner shall review the Schedule of the Work as set forth in Paragraph 3.3 and timely approve the milestone dates set forth.

4.3.2 If the Owner becomes aware of any error, omission or failure to meet the requirements of the Contract Documents or any fault or defect in the Work, the Owner shall give prompt written notice to the Design-Builder.

4.3.3 The Owner shall communicate with the Design-Builder's Subcontractors, Material Suppliers and the Engineer only through or in the presence of the Design-Builder. The Owner shall have no contractual obligations to Subcontractors, suppliers, or the Engineer.

4.3.4 The Owner shall provide insurance for the Project as provided in Article 11.

4.4 OWNER'S REPRESENTATIVE The Owner's Representative is Mr. Neil Koehler. The Representative:

.1 shall be fully acquainted with the Project;

.2 agrees to furnish the information and services required of the Owner pursuant to Paragraph 4.1 so as not to delay the Design-Builder's Work; and

.3 shall have authority to bind the Owner in all matters requiring the Owner's approval, authorization or written notice if the Owner changes its representative or the representative's authority as listed above, the Owner shall notify the Design-Builder in writing in advance.

4.5 TAX EXEMPTION If in accordance with the Owner's direction the Design-Builder may claim an exemption for taxes and the Owner shall defend, indemnify and hold the Design-Builder harmless for all liability, penalty, interest, fine, tax assessment, attorney's fees: or other expense or cost incurred by the Design-Builder as a result of any action taken by the Design-Builder in accordance with the Owner's direction.

ARTICLE 5 -- SUBCONTRACTS

Work not performed by the Design-Builder with its own forces shall be performed by Subcontractors or the Engineer.

5.1 RETAINING SUBCONTRACTORS The Design-Builder shall not retain any subcontractor to whom the Owner has a reasonable and timely objection, provided that the Owner agrees to compensate the Design-Builder for any additional costs incurred by the Design-Builder as a result of such objection. The Owner may propose subcontractors to be considered by the Design-Builder. The Design-Builder shall not be required to retain any subcontractor to whom the Design-Builder has a reasonable objection.

5.2 MANAGEMENT OF SUBCONTRACTORS The Design-Builder shall be responsible for the management of the Subcontractors in the performance of their work and require all Subcontractors and third party sub-subcontractors and suppliers, as necessary, to comply with all of the provisions of the Agreement.

5.4 BINDING OF SUBCONTRACTORS AND MATERIALS SUPPLIERS The Design-Builder agrees to bind every Subcontractor and Material Supplier (and require every Subcontractor to so bind its Sub-subcontractors and Material Suppliers) to all the provisions of this Agreement and the Contract Documents as they apply to the Subcontractor's and Material Supplier's portions of the Work.

5.5 LABOR RELATIONS As of the date of this Agreement, the Design-Builder is signatory to the following labor agreements:

1. Northern Operating Engineers
2. Northern Laborers
3. Northern Utility Fitters

ARTICLE 6 - TIME

6.1 DATE OF COMMENCEMENT Time is of the essence. The Date of Commencement is the effective date of this Agreement as first written in Article 1. The Work shall proceed in general accordance with the Schedule of Work as such schedule may be amended from time to time, subject, however, to other provisions of this Agreement.

6.2 SUBSTANTIAUFINAL COMPLETION Unless the parties agree otherwise, the Date of Substantial Completion and/or the Date of Final Completion shall be established in Amendment No. 1 to this Agreement subject to adjustments as provided for in the Contract Documents. If such dates are not established upon the execution of this Agreement of such time as a GMP is _____ a Date of Substantial Completion and/or Date of Final Completion of the Work shall be established in Amendment No. 1.

6.2.1 Time limits stated in the Contract Documents are of the essence.

6.2.2 Unless instructed by the Owner in writing, the Design-Builder shall not knowingly commence the Work before the effective date of insurance that is required to be provided by the Design-Builder or the Owner.

6.3 DELAYS IN THE WORK

6.3.1 If causes beyond the Design-Builder's control delay the progress of the Work, then the GMP, compensation for Design Phase Services, the Design-Builder's Fee and/or the Date of Substantial Completion and/or the Date of Final Completion shall be modified by Change Order as appropriate. Such causes shall include but not be limited to: changes ordered in the Work, acts or omissions of the Owner or Others, the Owner preventing the Design-Builder from performing the Work pending dispute resolution, Hazardous Materials or differing site conditions. Causes beyond the control of the Design-Builder do not include acts or omissions on the part of the Design-Builder, Subcontractors, Sub-subcontractors, Material Suppliers or the Engineer.

6.3.2 To the extent a delay in the progress of the Work is caused by adverse weather conditions not reasonably anticipated, fire, unusual transportation delays, general labor disputes impacting the Project but not specifically related to the Worksite, governmental agencies, or unavoidable accidents or circumstances, the Design-Builder shall only be entitled to its actual costs without fee and an extension of the Date of Substantial Completion and/or the Date of Final Completion.

6.3.3 In the event delays to the Project are encountered for any reason, the parties agree to undertake reasonable steps to mitigate the effect of such delays.

ARTICLE 7 - COMPENSATION

7.1 DESIGN PHASE COMPENSATION

7.1.1 To the extent required by applicable law, the cost of services performed directly by the Engineer is computed separately and detailed in Exhibit No. C attached hereto. The Engineer's Design-Phase Compensation is independent from the Design-Builder's compensation for work or services performed directly by the Design-Builder; these costs shall be shown as separate items on applications for payment.

7.12 The Owner shall compensate the Design-Builder for services performed during

the Design Phase As Described in Paragraph 3.1 And Included in Exhibit No. C executed by the Design-Builder and Engineer, including preparation of a GMP Proposal as described in Paragraph 3.2, as follows: Time and Material Costs as outlined in Exhibit No. B for the development of the Owner's Program, establishing the project requirements, general business planning and other Information and documentation as may be required to establish the feasibility of the project, making revisions to the Schematic Design, design Development, Design, coordination, management, expediting and other services supporting the procurement of materials to be obtained, or work to be performed, by the Owner, including but not limited to telephone systems, computer wiring networks, sound systems, alarms, security systems and other specialty systems which are not a part of the Work, Preliminary Construction Schedules and Estimates, Construction Documents forming the basis of the GMP.

7.1.3 Compensation for Design Phase Services, as part of the Work, shall include the Design-Builder's Fee as established in the Time and Material Costs, Exhibit No. B, paid in proportion to the services performed, subject to adjustment as provided in Paragraph 7.4.

7.1.4 For changes in Design Phase services, any additional compensation shall be adjusted as indicated in the Project Development Agreement signed by the Design-Builder and Engineer.

7.1.5 Within fifteen (15) days after receipt of each monthly application for payment, the Owner shall give written notice to the Design-Builder of the Owner's acceptance or rejection, in whole or in part, of such application for payment. Within fifteen (15) days after accepting such application, the Owner shall pay directly to the Design-Builder the appropriate amount for which application for payment is made, less amounts previously paid by the Owner. If such application is rejected in whole or in part, the Owner shall indicate the

reasons for its rejection. If the Owner and the Design-Builder cannot agree on a revised amount then, within fifteen (15) days after its initial rejection in part of such application, the Owner shall pay directly to the Design-Builder the appropriate amount for those items not rejected by the Owner for which application for payment is made, less amounts previously paid by the Owner. Those items rejected by the Owner shall be due and payable when the reasons for the rejection have been removed.

7.1.6 If the Owner fails to pay the Design-Builder at the time payment of any account becomes due, then the Design-Builder may, at any time thereafter, upon serving written notice that the Work will be stopped within seven (7) days after receipt of the notice by the Owner, and after such seven (7) day period, stop. the Work until payment of the amount owing has been received.

7.1.7 Payments due pursuant to Subparagraph 7.1.5, may bear interest from the date payment is due at the prime rate prevailing at the location of Project.

7.2 CONSTRUCTION PHASE COMPENSATION

7.2.1 The Owner shall compensate the Design-Builder for work performed following the commencement of the Construction Phase on the following basis:

.1 the Cost of the Work as allowed in Article 8; and

.2 the Design-Builder's Fee paid in proportion to the services performed subject to adjustment as provided in Paragraph 7.4.

7.2.2 The compensation to be paid under this Paragraph 7.2 shall be limited to the GMP established in Amendment No. 1, as the GMP may be adjusted under Article 9.

7.2.3 Payment from Construction Phase Services shall be as set forth in Article 10. If Design Phase Services continue to be provided after construction has commenced, the Design-Builder shall continue to be compensated as provided in Paragraph 7.1, or as mutually agreed.

7.3 DESIGN-BUILDER'S FEE The Design-Builder's Fee shall be as follows, subject to adjustment as provided in Paragraph 7.4, Time and Material Costs per Exhibit No. B payable each month as provided in Paragraph 7.1.5.

7.4 ADJUSTMENT IN THE DESIGN-BUILDER'S FEE Adjustment in the Design-Builder's Fee shall be made as follows:

.1 for changes in the Work as provided in Article 9, the Design-Builder's Fee shall be adjusted as follows: Time and Material Costs as outlined in Exhibit No. B.

.2 for delays in the Work not caused by the Design-Builder, except as provided in Subparagraph 6.3.2, there will be an equitable adjustment in the Design-Builder's Fee to compensate the Design-Builder for increased expenses; and

.3 if the Design-Builder is placed in charge of managing the replacement of an insured or uninsured loss, the Design-Builder shall be paid an additional fee in the same proportion that the Design-Builder's Fee bears to the estimated Cost of the Work for the replacement.

The Owner agrees to pay the Design-Builder for the Cost of the Work as defined in this Article. This payment shall be in addition to the Design-Builder's Fee stipulated in Paragraph 7.3.

ARTICLE 8 - COST OF THE WORK

8.1 COST ITEMS FOR DESIGN PHASE SERVICES

8.1.1 Compensation for Design Phase Services as provided in Paragraph 7.1.

8.2 COST ITEMS FOR CONSTRUCTION PHASE SERVICES

8.2.1 Time and Material Costs per Exhibit No. B include but are not limited to:

8.2.2 Wages paid for labor in the direct employ of the Design-Builder in the performance of the Work.

8.2.3 Salaries of the Design-Builder's employees when stationed at the field office, in whatever capacity employed and employees engaged on the road expediting the production or transportation of material and equipment.

8.2.4 Cost of all employee benefits and taxes including but not limited to workers' compensation, unemployment compensation, Social Security, health, welfare, retirement and other fringe benefits as required by law, labor agreements, or paid under the Design-Builder's standard personnel policy, insofar as such costs are paid to employees of the Design-Builder who are included in the Cost of the Work under Subparagraphs 8.2.1 and 8.2.2.

8.2.5 Reasonable transportation, travel, hotel and moving expenses of the Design-Builder's personnel incurred in connection with the Work.

8.2.6 Cost of all materials, supplies and equipment incorporated in the Work, including costs of inspection and testing if not provided by the Owner, transportation, storage and handling.

8.2.7 Payments made by the Design-Builder to Subcontractors for work performed under this. Agreement.

8.2.8 Fees and expenses for design services procured or furnished by the Design-Builder except as provided by the Engineer and compensated in Paragraph 7.1.

8.2.9 Cost, including transportation and maintenance of all materials, supplies, equipment, temporary facilities and hand tools not owned by the workers that are used or consumed in the performance of the Work, less salvage value and/or residual value; and cost less salvage value on such items used, but not consumed

that remain the property of the Design-Builder.

8.2.10 Rental charges of all necessary machinery and equipment, exclusive of hand tools owned by workers, used at the Worksite, whether rented from the Design-Builder or Others, including installation, repair and replacement, dismantling, removal, maintenance, transportation AND delivery costs. Rental from unrelated third parties shall be reimbursed at actual cost as indicated in the Time and Material worksheet.

8.2.11 Cost of the premiums for all insurance and surety bonds that the Design-Builder is required to procure or deems necessary, and approved by the Owner.

8.2.12 Sales, use, gross receipts or other taxes, tariffs or duties related to the Work for which the Design-Builder is liable.

8.2.13 Fees, licenses, tests, royalties, damages for infringement of patents and/or copyrights, including costs of defending related suits for which the Design-Builder is not responsible as set forth in Paragraph 3.7, and deposits lost for causes other than the Design-Builder's negligence.

8.2.14 Losses, expenses or damages to the extent not compensated by insurance OR otherwise, and the cost of corrective work and/or redesign during the Construction Phase and for a period of one year following the Date of Substantial Completion,, provided that such corrective work and/or redesign did not arise from the negligence of the Design-Builder.

8.2.15 All costs associated with establishing, equipping, operating, maintaining and demobilizing the field office.

8.2.16 Reproductions costs, photographs, cost of telegrams, facsimile transmissions, long distance telephone calls, data processing services, postage, express delivery charges, telephone service at the Worksite and reasonable petty cash expenses at the field office.

8.2.17 The premium portion of overtime work ordered by the Owner, including productivity impact costs, other than the that required by the Design-Builder to maintain the current Schedule of Work.

8.2.18 Out of town travel by the Engineer in connection with the Work, except between the Engineer's office, the Design-Builder's office, the Owner's office and the worksite as further described in the Design-Builder's separate contract with the selected Engineer.

8.2.19 All water, power and fuel costs necessary for the Work.

8.2.20 Cost of removal of all non-hazardous substances, debris and waste materials.

8.2.21 Costs incurred due to an emergency affecting the safety of persons and/or property.

8.2.22 Legal, mediation and arbitration fees and costs, other than those arising from disputes between the Owner and the Design-Builder, reasonably and properly resulting from the Design-Builder's performance of the Work.

8.2.23 All costs directly incurred in the performance of the Work or in connection with the Project, and not included in the Design-Builder's Fee as set forth in Article 7, which are reasonably inferable from the Contract Documents as necessary to produce the intended results.

8.3 DISCOUNTS All discounts for prompt payment shall accrue to the Owner to the extent such payments are made directly by the Owner. To the extent payments are made with funds of the Design-Builder, all cash discounts shall accrue to the Design-Builder. All trade discounts, rebates and refunds, and all returns from sale of surplus materials and equipment, shall be credited to the Cost of the Work.

ARTICLE 9 - CHANGES IN THE WORK

Changes in the Work which are within the general scope of this Agreement may be accomplished, without invalidating this Agreement, by Change Order, Work Change Directive, or a minor change in the work, subject to the limitations stated in the Contract Documents.

9.1 CHANGE ORDER

9.1.1 The Design-Builder may request and/or the Owner, without invalidating this Agreement, may order changes in the Work within the general scope of the contract Documents consisting of additions, deletions or other revisions to the GMP or the estimated cost of the work, compensation for Design Phase Services, the Design-Builder's Fee and/or the Date of Substantial Completion and/or the Date of Final Completion being adjusted accordingly. All such changes in the Work shall be authorized by applicable Change Order, and shall be performed under the applicable conditions of the Contract Documents.

9.1.2 Each adjustment in the GMP and/or estimated Cost of the Work resulting from a Change Order shall clearly separate the amount attributable to compensation for Design Phase Services, other Cost of Work and the Design-Builder's Fee

9.1.3 The Owner and the Design-Builder shall negotiate in good faith an appropriate adjustment to the GMP or the estimated Cost of the Work, compensation for Design Phase Services, the Design-Builder's Fee and/or the Date of Substantial Completion and/or the Date of Final Completion and shall conclude these negotiations as expeditiously as possible. Acceptance of the Change Order and any adjustment in the GMP, the estimated Cost of the Work, compensation for Design Phase Services, the Design-Builder's Fee and/or the Date of Substantial Completion and/or the Date of Final Completion shall not be unreasonably withheld.

9.2 PROPOSED CHANGE ORDERS (PCO'S)

9.2.1 The Owner may issue a written Proposed Change Orders directing a change in the Work prior to reaching agreement with the Design-Builder on the adjustment, if any, in the GMP, estimated Cost of the Work, the Design-Builder's Fee, the Date of Substantial Completion and/or the Date of Final Completion, and if appropriate, the compensation for Design Phase Services.

9.2.2 The Owner and the Design-Builder shall negotiate expeditiously and in good faith for appropriate adjustments, as applicable, to the GMP, estimated Cost of the Work, the Design-Builder's Fee, the Date of Substantial Completion and/or the Date of Final Completion, and if appropriate the compensation for Design Phase services, arising out of Proposed Change Orders. As the changed work is completed, the Design-Builder shall submit its costs for such work with its application for payment beginning with the next application for payment within thirty (30) days of the issuance of the proposed change Orders Pending final determination of cost to the Owner, amounts not in dispute may be included in applications for payment and shall be paid by Owner.

9.2.3 If the Owner and the Design-Builder agree upon the adjustments in the GMP, estimated Cost of the Work, the Design-Builder's Fee, the Date of Substantial Completion and/or the Date of Final Completion, and if appropriate the compensation for Design Phase Services, for a change in the Work directed by a Proposed Change Order, such agreement shall be the subject of an appropriate Change Order. The Change Order shall include all outstanding PCO's issued since the last Change Order.

9.3 MINOR CHANGES IN THE WORK

9.3.1 The Design-Builder may make minor changes in the design and construction of the Project consistent with the intent of the Contract Documents which do not involve an adjustment in the GMP, estimated Cost of the Work, the Design-Builder's Fee, the Date of Substantial Completion and/or the Date of Final Completion, and do not materially and adversely affect the design of the Project, the quality of _____ equipment or systems specified in the Contract Documents, or the quality of workmanship required by the Contract Documents.

9.3.2 The Design-Builder shall promptly inform the Owner in writing of any such changes and shall record such changes on the Design-Build Documents maintained by the Design-Builder.

9.4 UNKNOWN CONDITIONS If in the performance of the Work the Design-Builder finds latent, concealed or subsurface physical conditions which materially differ from the conditions the Design-Builder reasonably anticipated, or if physical conditions are materially different from those normally encountered and generally recognized as inherent in the kind of work provided for in this Agreement, then the GMP, estimated Cost of the Work, the Design-Builder's Fee, the Date of Substantial Completion and/or the Date of Final Completion, and if appropriate the compensation for Design Phase Services, shall be equitably adjusted by Change Order within a reasonable time after the conditions are first observed. The Design-Builder shall provide the Owner with written notice within the time period set forth in Paragraph 9.6,

9.5 DETERMINATION OF COST

9.5.1 An increase Or decrease in the GMP and/or estimated Cost of the Work resulting from a change in the Work shall be determined be Time and Material Costs per Exhibit No. B as defined in Paragraph 7.2, Article 8 and subparagraph 7.4.1.

9.5.2 If the Owner and the Design-Builder disagree as to whether work required by the Owner is within the scope of the Work, the Design-Builder shall furnish the Owner with an estimate of the costs to perform the disputed work in accordance with the Owner's interpretations. If the Owner issues a written order for the Design-Builder to proceed, the Design-Builder shall perform the disputed work and the Owner shall pay the Design-Builder fifty percent (50%) of its estimated cost to perform the work. in such event, both parties reserve their rights as to whether the work was within the scope of the Work. The Owner's payment does not prejudice its right to be reimbursed should it be determined that the disputed work was within the scope of work. The Design-Builder's receipt of payment for the disputed work does not prejudice its right to receive full payment for the disputed work should it be determined that the disputed work is not within the scope of the Work.

9.6 EMERGENCIES In any emergency affecting the safety of persons and/or property, the Design-Builder shall act, at its discretion, to prevent threatened damage, injury or loss. Any change in the GMP, estimated Cost of the Work, the Design-Builder's Fee, the Date of Substantial Completion and/or the Date of Final Completion, and if appropriate compensation for Design Phase Services, on account of emergency work shall be determined as provided in this Article.

9.7 CHANGES IN LAW In the event any changes in laws or regulations affecting the performance of the Work are enacted after either the date of this Agreement or the date a GMP Proposal is accepted by the Owner and set forth in Amendment No. 1 to this Agreement, whichever occurs later, the GMP, estimated Cost of the Work,, the Design-Builder's Fee, the Date of Substantial Completion and/or the Date of Final Completion, and if appropriate the compensation for Design Phase Services, shall be equitably adjusted by Change Order.

ARTICLE 10 - PAYMENT FOR CONSTRUCTION PHASE SERVICES

10.1 PROGRESS PAYMENTS

10.1.1 On the 5th day of each month after the Construction Phase has commenced, the Design-Builder shall submit to the Owner an application for payment consisting of the Cost of the Work performed up to the end of the month, including the cost of material suitably stored on the Worksite or at other locations approved by the Owner, along with a proportionate share of the Design-Builder's Fee. Approval of payment applications for such stored materials shall be conditioned upon submission by the Design-Builder of bills of sale and applicable insurance or such other procedures satisfactory to the Owner to establish the Owner's title to such materials, or otherwise to protect the Owner's interest, including transportation to the site. Prior to submission of the next application for payment, the Design-Builder shall furnish to the Owner a statement accounting for the disbursement of funds received under the previous application. The extent of such statement shall be as agreed upon between the

Owner and the Design-Builder.

10.1.2 Within ten (10) days after receipt of each monthly application for payment, the Owner shall give written notice to the Design-Builder of the Owner's acceptance or rejection, in whole or in part, of such application for payment. Within fifteen (15) days after accepting such application, the Owner shall pay directly to the Design-Builder the appropriate amount for which application for payment is made, less amounts previously paid by the Owner. If such application is rejected in whole or in part, the Owner shall indicate the reasons for its rejection. If the Owner and the Design-Builder cannot agree on a revised amount then, within fifteen (15) days after its initial rejection in part of such application, the Owner shall pay directly to the Design-Builder the appropriate amount for those items not rejected by the Owner for which application for payment is made, less amounts previously paid by the Owner. Those items rejected by the Owner shall be due and payable when the reasons for the rejection have been removed.

101.3 If the Owner fails to pay the Design-Builder at the time payment of any amount becomes due, then the Design-Builder may, at any time thereafter, upon serving written notice that the Work will be stopped within seven (7) days after receipt of the notice by the Owner, and after such seven day period, stop the Work until payment of the amount owing has been received.

10.1.4 Payments due but unpaid pursuant to Subparagraph 10.1.2, less any amount retained pursuant to Paragraphs 10.2 and 10.3 may bear interest from the date payment is due at the prime rate prevailing at the place of the Project.

10.1.5 The Design-Builder warrants and guarantees that a conditional release of all Work, materials and equipment covered by a dated application for payment will pass to the Owner upon submission. Upon receipt of such like payment to the Design-Builder, an unconditional release of all liens, claims, security interests or encumbrances will be provided.

10.1.6 The Owner's progress payment, occupancy or use of the Project, whether in whole or in part, shall not be deemed an acceptance or any Work not conforming to the requirements of the Contract Documents.

10.1.7 Upon Substantial Completion of the Work, the Owner shall pay the Design-Builder the unpaid balance of the Cost of the Work, compensation for Design Phase Services and the Design-Builder's Fee, less one-hundred-fifty percent (150%) of the cost of completing any unfinished items as agreed to between the Owner and the Design-Builder as to extent and time for completion. The Owner thereafter shall pay the Design-Builder monthly the amount retained for unfinished items as each item is completed.

10.2 RETAINAGE From each progress estimate made prior to the time Substantial Completion of the Work has been reached, the Owner shall retain five percent (5%), if required, of the amount otherwise due after deduction of any amounts as provided in Paragraph 10.3 of this Agreement. If the Owner chooses to use this retainage provision:

.1 at the time the Work is fifty percent (50%) complete and thereafter, the Owner may choose to withhold no more retainage and pay the Design-Builder the full amount of what is due on account of subsequent progress payments;

.2 once each early finishing trade Subcontractor has completed its work and that work has been accepted by the Owner, the Owner may release final retention on such work;

.3 The Design-Builder may establish an escrow account for all retention and any interest on such securities shall accrue to the Design-Builder;

.4 the Owner may, in its sole discretion, reduce the amount to be retained at any time.

10.3 ADJUSTMENT OF DESIGN-BUILDER'S APPLICATION FOR PAYMENT The Owner may adjust or reject an application for payment or nullify a previously approved

Design-Builder application for payment, in whole or in part, as my reasonably be necessary to protect the Owner from loss or damage based upon the following, to the extent that the Design-Builder is responsible under this Agreement:

.1 the Design-Builder's repeated failure to perform the Work as required by the Contract Documents;

.2 loss or damage arising out of or relating to this Agreement and caused by the Design-Builder to the Owner or _____.

.3 the Design-Builder's failure to properly pay the Engineer, Subcontractors or Material Suppliers for labor, materials, equipment or supplies furnished in connection with the Work, provided that the Owner is making payments to the Design-Builder in accordance with the terms of this Agreement;

.4 Defective Work not corrected in a timely fashion;

.5 reasonable evidence of delay in performance of the Work such that the Work will not be completed by the Date of Substantial Completion and/or the Date of Final Completion, and that the unpaid balance of the GMP is. not sufficient to offset any direct damages that may be sustained by the Owner as a result of the anticipated delay caused by the Design-Builder; and

.6 reasonable evidence demonstrating that the unpaid balance of the GMP is insufficient to fund the cost to complete the Work.

The Owner shall give written notice to the Design-Builder at the time of disapproving or nullifying all or part of an application for payment of the specific reasons. When the above reasons for disapproving or nullifying an application for payment are removed, payment will be made for the amount previously withheld.

10.4 OWNER OCCUPANCY OR USE OF COMPLETED OR PARTIALLY COMPLETED WORK

10.4.1 Portions of the Work that are completed or partially completed may be used or occupied by the Owner when (a) the portion of the Work is designated in a Certificate of Substantial Completion, (b) appropriate Insurer(s) and/or sureties consent to the occupancy or use, and (c) appropriate public authorities authorize the occupancy or use. Such partial occupancy or use shall constitute Substantial Completion of that portion of the Work. The Design-Builder shall not unreasonably withhold consent to partial occupancy or use, provided such partial occupancy or use is of value to the Owner.

10.5 FINAL PAYMENT

10.5.1 Final Payment, consisting of the unpaid ,balance of the Cost of the Work, compensation for Design Phase Services and the Design-Builder's Fee, shall be due and payable when the work is fully completed. before issuance of final payment, the Owner may request satisfactory evidence that all payrolls, material bills and other indebtedness connected with the Work have been paid or otherwise satisfied.

10.5.2 IN making final payment the Owner waives all claims except for:

.1 outstanding liens;

.2 improper workmanship or defective materials appearing within one year after the date of Substantial Completion;

.3 work not in conformance with the Contract Documents; and

.4 terms of any special warranties required by the Contract Documents.

10.5.3 in accepting final payment, the Design-Builder waives all claims except those previously made in writing and which remain unsettled.

ARTICLE 11 - INDEMNITY, INSURANCE, BONDS, AND WAIVER OF SUBROGRATION

11.1 INDEMNITY

11.1.1 To the fullest extent permitted by law, the Design-Builder shall defend, indemnify and hold harmless the Owner, Owner's officers, directors, members, consultants, agents and employees from all claims for bodily injury and property damage (other than to the Work itself and other property required to be insured under Paragraph 11.5 owned by or in the custody of the owner), that may arise from the performance of the Work, to the extent of the negligence attributed to such acts or omissions by the Design-Builder, Subcontractors or anyone employed directly or indirectly by any of them or by anyone for whose acts any of them

may be liable. The Design-Builder shall not be required to defend, indemnify or hold harmless the Owner, Owner's officers, directors, members, consultants, agents and employees for any acts, omissions or negligence of the Owner, the Owner's officers, directors, members, consultants, employees, agents or separate contractors.

11.1.2 To the fullest extent permitted by law, the Owner shall defend, indemnify and hold harmless the Design-Builder, its officers, directors or members, Subcontractors or anyone employed directly or indirectly by any of them or anyone for whose acts any of them may be liable from all claims for bodily injury and property damage, other than property insured under Paragraph 11.5, that may arise from the performance of work by Others, to the extent of the negligence attributed to such acts or omissions by Others.

11.2 DESIGN-BUIDER'S LIABILITY INSURANCE

11.2.1 The Design-Builder shall obtain and maintain insurance coverage for the following claims which may arise out of the performance of this Agreement, whether resulting from the Design-Builder's operations or form the operations of any Subcontractor, anyone in the employ of any of them, or by an individual or entity for whose acts they may be liable:

.1 workers' compensation, disability and other employee benefit claims under acts applicable to the Work;

.2 under applicable employer's liability law, bodily injury, occupational sickness, disease or death claims of the Design-Builder's employees;

.3 personal injury liability claims for damages directly or indirectly related to the person's employment by the Design-Builder or for damages to any other person;

.4 claims for physical injury to tangible property, including all resulting loss of use of that property, to property other than the Work itself and property insured under Paragraph 11.5;

.5 bodily injury, death or property damage claims resulting from motor vehicle liability in the use, maintenance or ownership of any motor vehicle; and

.6 contractual liability claims involving the Design-Builder's obligations under Subparagraph 11.1.1.

11.2.2 The Design-Builder's Commercial General and Automobile Liability Insurance as required by Subparagraph 11.2.1 shall be written for not less than the following limits of liability:

.1	Commercial General Liability Insurance		
	a.	Each Occurrence Limit	$ 1,000,000
	b.	General Aggregate	$ 2,000,000

c.	Products/Completed Operations Aggregate	$ 1,000,000
d.	Personal and Advertising injury Limit	$ 1,000,000

.2 Comprehensive Automobile Liability Insurance

a.	Combined Single Limit Bodily Injury and Property Damage	$ 1,000,000

Each Occurrence

11.2.3 Commercial General Liability Insurance may be arranged under a single policy for the full limits required or by a combination of underlying policies and an Excess or Umbrella Liability policy.

11.2.4 The policies shall contain a provision that coverage will not be canceled or not renewed until at least thirty (30) days' notice has been given to the Owner. Certificates of insurance showing required coverage to be in force shall be filed with the Owner prior to commencement of the Work.

11.2.5 Umbrella Liability insurance shall protect the parties against claims excess of the limits provided under the worker's compensations liability, commercial general liability and automotive liability.

.1 Commercial General Liability Insurance

a.	Umbrella Excess	$ 10,000,000

Each Occurrence

On Policies under Clauses 11.2, each party shall list the other parties and Owner as an additional insured, and such policies shall be primary over any other insurance carried by the additional insured's.

11.2.6 Products and Completed Operations insurance shall be maintained for a minimum period of at least 5 year(s) after final payment.

11.3 PROFESSIONAL LIABILITY INSURANCE The Engineer shall obtain professional liability insurance for claims arising from the negligent performance of professional services under this Agreement, which shall be Project Specific Professional Liability Insurance written for not less than the per claim/aggregate with a deductible not to exceed those amounts listed in the Agreement between the Design-Builder and the Engineer. The Professional Liability Insurance shall include prior acts coverage sufficient to cover all services rendered by the Engineer. This coverage shall be continued in effect for 5 year(s) after the Date of Substantial Completion.

11.4 OWNER'S LIABILITY INSURANCE The Owner shall be responsible for obtaining and maintaining its own liability insurance. Insurance for claims arising out of the performance of this Agreement may be purchased and maintained at the Owner's discretion. The Owner shall provide the Design-Builder with a certificate of insurance at the request of the Design-Builder.

11.5. INSURANCE TO PROTECT PROJECT

11.5.1 The Design-Builder shall obtain and maintain "All Risk" Builder's Risk Insurance in a form acceptable to the Owner upon the entire Project for the full cost of replacement at the time of any loss. This insurance shall include as named insured the Owner, the Engineer, Subcontractors, Material Suppliers and Sub-subcontractors. This insurance shall include "all risk" insurance for physical loss or damage including without duplication of coverage at least:(.) theft, vandalism, malicious mischief, transit, materials stored off site, collapse, false-work, temporary buildings, debris removal, flood, earthquake, workmanship or material. If requested by the Owner, the Design-Builder shall obtain a Builder's Risk start-up and testing policy that covers plant operations

for a stated period of time. The design-Builder shall increase limits of coverage, if necessary, to reflect estimated replacement cost. The insurance policy shall be written without a co-insurance clause. The Design-Builder and Owner shall share the responsibility for any deductible amounts at a 50/50 rate.

11.5.2 If the Owner occupies or uses a portion of the project prior to its substantial completion, such occupancy or use shall not commence prior to a time mutually agreed to by the Owner and the Design-Builder. Permission for partial occupancy from the insurance company shall be included as standard in the property insurance policy, to ensure that this insurance shall not be canceled or lapsed on account of partial occupancy. Consent of the Design-Builder to such early occupancy or use shall not be unreasonably withheld.

11.5.3 If necessary and at the Owner's expense, the Owner shall purchase and maintain insurance to protect the Owner, the Design-Builder, the Engineer, Subcontractors, and Sub-subcontractors against loss of use of the Owner's property due to those perils insured pursuant to Paragraph 11.5. Such policy will provide coverage for expediting expenses of materials, continuing overhead of the Owner and the Design-Builder, the Engineer, Subcontractors, Material Suppliers and Sub-subcontractors, necessary labor expense including overtime, loss of income by the Owner and other determined exposures. Exposures of the Owner, the Design-Builder, the Engineer, Subcontractors and Sub-subcontractors, shall be determined by mutual agreement with separate limits of coverage fixed for each item.

11.5.4 The Owner and Design-Builder shall provide each other with copies of all insurance policies before an exposure to loss may occur. Copies of any subsequent endorsements shall be furnished as necessary. The cost of any insurance shall be added to the Cost of the Work pursuant to Article 8, and the GMP shall be increased by Change Order.

11.6 PROPERTY INSURANCE LOSS ADJUSTMENT

11.6.1 Any insured loss shall be adjusted with the Owner and the Design-Builder and made payable to the Owner and Design-Builder as trustees for the insured, as their interests may appear, subject to any applicable mortgage clause.

11.7 WAIVER OF SUBROGRATION

11.7.1 The Owner and the Design-Builder waive all rights against each other, the Engineer, and any of their respective employees, agents, consultants, Subcontractors and Sub-subcontractors for damages covered by the insurance provided pursuant to Paragraph 11.5 to the extent they are covered by that insurance, except such rights as they may have to the proceeds of such insurance held by the Owner and the Design-Builder as trustees. The Design-Builder shall require similar waivers from the Engineer and all Subcontractors, and shall require each of them to include similar waivers in their sub-subcontracts and consulting agreements.

11.7.2 The Owner waives subrogation against the Design-Builder, the Engineer, Subcontractors and Sub-subcontractors on all property and consequential loss policies carried by the Owner on adjacent properties and under property and consequential loss policies purchased for the Project after its completion.

11.7.3 All policies except worker's compensation shall be endorsed to state that the carrier waives any right to subrogation against the Design-Builder, the Engineer, Subcontractors or Sub-subcontractors.

11.8 MUTUAL WAIVER OF CONSEQUENTIAL DAMAGES The Owner and the Design-builder agree to waive all claims against the other for all consequential damages that may arise out of or relate to this Agreement. The Owner agrees to waive damages including but not limited to the Owner's loss of use of the Property, all rental expenses incurred, loss of services of employees, or loss of reputation. The Design-Builder agrees to waive damages including but not limited to the loss of business, loss of financing, principle office. overhead and profits, loss of profits not related to this Project, or loss of reputation. This paragraph shall not be construed to preclude contractual provisions for liquidated damages when such provisions relate to direct damages only. , The provisions of this

paragraph shall govern the termination of this Agreement and shall survive such termination.

11.9 BONDING

11.9.1 Performance and Payment Bonds may be required of the Design-Builder by Owner. Such bonds shall be issued by a surety licensed in the state of the location of the Project and must. be acceptable to the Owner.

11.9.2 Such Performance Bond shall be issued in the penal sum up to one-hundred percent (100%) of the GMP per the signed Amendment No. 1 as determined by the Owner. Such Performance Bond shall cover the cost to complete the Work, but shall not cover any damages of the type specified to be covered by the insurance pursuant to Paragraph 11.2 and Paragraph 11.3, whether or not such insurance is provided or is in an amount sufficient to cover such damages.

11.9.3 The penal sum of the Payment Bond may or may not be equal the penal sum of the Performance Bond as determined by the Owner.

ARTICLE 12 -- SUSPENSION TERMINATION OF THE AGREEMENT AND OWNER'S RIGHT TO PERFORM DESIGN-BUILDER'S RESPONSIBILITIES

12.1 SUSPENSION BY THE OWNER FOR CONVENIENCE

12.1.1 The Owner may order the Design-Builder in writing to suspend, delay or interrupt all or any part of the Work without cause for such period of time as the Owner may determine to be appropriate for its convenience.

12.1.2 Adjustments caused by suspension, delay or interruption shall be made for increases in the GMP, compensation for Design Phase Services, the Design-Builder's Fee and/or the Date of Substantial Completion and/or the Date of Final Completion. No adjustment shall be made if the Design-Builder is or otherwise would have been responsible for the suspension, delay or interruption of the work, or if another provision of this Agreement is applied to render an equitable adjustment.

12.2 TERMINATION BY OWNER If the Owner terminates this Agreement, the Owner shall pay the Design-Builder for all costs associated with the Work per the signed and dated Lyles Diversified Agreement Titled "Summary of Terms for Secured Debt With Equity." In addition, the Design-Builder shall be paid an amount calculated as set forth below:

.1 If the Owner terminates this Agreement after commencement of the Construction Phase, as determined by the signed and dated Lyles Diversified Agreement Titled "Summary of Terms for Secured Debt With Equity," the Design-Builder shall be paid for the Construction Phase Services provided to date pursuant to Subparagraph 7.2.1 and a premium as set forth below:

All Overhead and Profit per the GMP plus fifty (50)-percent of the realized savings in the Design-Builder's projected contingency.

.2 The Owner shall also pay to the Design-Builder fair compensation, either by purchase or rental at the election of the Owner, for all equipment retained. The Owner shall assume and become liable for obligations, commitments and unsettled claims that the Design-Builder has previously undertaken or incurred in good faith in connection with the Work or as a result of the termination of this Agreement As a condition of receiving the payments provided under this Article 12, the Design-Builder shall cooperate with the owner by taking all steps necessary to accomplish the legal assignment of the Design-Builders rights and benefits to the Owner, including the execution and delivery of required papers.

12:3 TERMINATION BY THE DESIGN-BUILDER

12.3.1 Upon five (5) days' written notice to the Owner, the Design-Builder may terminate this Agreement for any of the following reasons:

.1 if the Work has been stopped for a sixty (60) day period

a. under court order or order of other governmental authorities having jurisdiction; or

b. as a result of the declaration of a national emergency or other governmental act during which, through no act or fault of the Design-Builder, materials are not available;

.2 if the Work is suspended by the Owner for sixty (60) consecutive days;

.3 if the Owner fails to furnish reasonable evidence that sufficient funds are available and committed for the entire cost of the Project in accordance with Subparagraph 4.1.3 of this Agreement.

12.3.2 If the Owner has for thirty (30) days failed to pay the Design-Builder pursuant to Subparagraph 10.1.2, the Design-Builder may give written notice of its intent to terminate this Agreement. If the Design-Builder does not receive payment within five (5) days of giving written notice to the Owner, then upon five (5) days' additional written notice to the Owner, the Design-Builder may terminate this Agreement

12.3.3 Upon termination by the Design-Builder in accordance with this Subparagraph, the Design-Builder shall be entitled to recover from the Owner payment for all Work executed and for all proven loss, cost or expense in

connection with the Work, plus all demobilization costs and reasonable damages. In addition, the Design-Builder shall be paid an amount calculated as set forth either in Subparagraph 12.2.1 or 12.2.2, depending on when the termination occurs.

ARTICLE 13 - DISPUTE RESOLUTION

13.1 WORK CONTINUANCE AND PAYMENT Unless otherwise agreed in writing, the Design-Builder shall continue the Work and maintain the approved schedules during all dispute resolution proceedings. If the Design-Builder continues to perform, the Owner shall continue to make payments in accordance with the Agreement.

13.2 INITIAL DISPUTE RESOLUTION If a dispute arises out of or relates to this Agreement or its breach, the parties shall endeavor to settle the dispute first through direct discussions. If the dispute. cannot be settled through direct discussions, the parties shall endeavor to settle the dispute by mediation under the Construction Industry Mediation Rules of the American Arbitration Association before recourse to the dispute resolution procedures contained in this Agreement. The location of the mediation shall be the location of the Project. Once one party files a request for mediation with the other contracting party and with the American Arbitration Association, the parties agree to conclude such mediation within sixty (60) days of filing of the request. Either party may terminate the mediation at any time after the first session, but the decision to terminate must be delivered in person by the party's representative to the other party's representative and the mediator.

13.3 EXHIBIT NO. A if the dispute cannot be settled by mediation within sixty (60) days, the parties shall submit the dispute to any dispute resolution process set forth in Exhibit No. A to this Agreement.

13.4 MULTIPARTY PROCEEDING The parties agree that all parties necessary to resolve a claim shall be parties to the same dispute resolution proceeding. Appropriate provisions shall be included in all other contracts relating to the Work to provide for the consolidation of such dispute resolution proceedings.

13.5 COST OF DISPUTE RESOLUTION The prevailing party in any dispute arising out of or relating to this Agreement or its breach that is resolved by the dispute

resolution process set forth in Exhibit No. A to this Agreement shall be entitled to recover from the other party those reasonable attorneys fees, costs and expenses incurred by the prevailing party in connection with such dispute resolution process after direct discussions and mediation.

13.6 LIEN RIGHTS Nothing in this Article shall limit any rights or remedies not expressly waived by the Design-Builder which the Design-Builder may have under lien laws.

ARTICLE 14 - MISCELLANEOUS PROVISIONS

14.1 ASSIGNMENT Neither the Owner nor the Design-Builder shall assign its interest in this Agreement without the written consent of the other except as to the assignment of proceeds. The terms and conditions of this Agreement shall be binding upon both parties, their partners, successors, assigns and legal representatives. Neither party to this Agreement shall assign the Agreement as a whole without written consent of the other except that the Owner may assign the Agreement to a wholly-owned subsidiary of the Owner when the Owner has fully indemnified the Design-Builder or to an institutional lender providing construction financing for the Project as long as the assignment is no less favorable to the Design-Builder than this Agreement. In the event of such assignment, the Design-Builder shall execute all consents reasonably required. in such event, the wholly-owned subsidiary or lender shall assume the Owner's rights and obligations under the Contract Documents. If either party attempts to make such an assignment, that party shall nevertheless remain legally responsible for all obligations under the Agreement, unless otherwise agreed by the other party.

14.2 GOVERNING LAW This Agreement shall be governed by the law in effect at the location of the Project.

14.3 SEVERABILITY The partial or complete invalidity of any one or more provisions of this Agreement shall not affect the validity or continuing force and effect of any other provision.

14.4 NO WAIVER OR PERFORMANCE The failure of either party to insist, in any one or more instances, on the performance of any of the terms, covenants or conditions of this Agreement, or to exercise any of its rights, shall not be construed as a waiver or relinquishment of such term, covenant, condition or right with respect to further performance.

14.5 TITLES AND GROUPINGS The titles given to the articles of this Agreement are for ease of reference only and shall not be relied upon or cited for any other purpose. The grouping of the articles in this Agreement and of the Owners specifications under the various headings is solely for the purpose of convenient organization and in no event shall the grouping of provisions, the use of paragraphs or the use of headings be construed to limit or alter the meaning of any provisions.

14.6 JOINT DRAFTING The parties to this Agreement expressly agree that this Agreement was jointly drafted, and that both had opportunity to negotiate its terms and to obtain the assistance of counsel in reviewing its terms prior to execution. Therefore, this Agreement shall be construed neither against nor in favor of either party, but shall be construed in a neutral manner.

14.7 RIGHTS AND REMEDIES The parties' rights, liabilities, responsibilities and remedies with respect to this Agreement, whether in contract, tort, negligence or otherwise, shall be exclusively those expressly set forth in this Agreement.

14.8 OTHER PROVISIONS

None

ARTICLE 15 -. OTHER DOCUMENTS

As defined in Subparagraph 2.4.1, the following Exhibits are a part of this Agreement:

EXHIBIT NO. A Dispute Resolution Procedure

EXHIBIT NO. B Time and Material Costs worksheet.

EXHIBIT NO. C Project Development Agreement between the Design-Builder and the Engineer

THIS AGREEMENT IS ENTERED INTO AS OF THE DATE ENTERED IN ARTICLE 1 AND BY THE AUTHORIZED INDIVIDUALS FOR THE COMPANIES LISTED BELOW.

OWNER:
PACIFIC ETHANOL, INC.

BY: /S/ Ryan W. Turner
PRINT NAME: Ryan W. Turner
PRINT TITLE: COO

BY: /S/ William Jones
PRINT NAME: William Jones
PRINT TITLE: Chairman of the Board

ATTEST: N/A

DESIGN-BUILDER:
W.M. LYLES CO.

BY: /S/ Todd R. Sheller
PRINT NAME: Todd R. Sheller
PRINT TITLE: Vice President

BY: /S/ Joyce Anderson
PRINT NAME: Joyce Anderson
PRINT TITLE: Assistant Secretary

ATTEST: Audrey M. Scott
Notary Public

[AUDREY M. SCOTT
COMM. #1380830
NOTARY PUBLIC - CALIFORNIA
FRESNO COUNTY]

EXHIBIT A,

DISPUTE RESOLUTION PROCEDURE

1. This Agreement shall be construed under the laws of the State of California. In the event of any dispute between the parties related to this Agreement, the parties agree to binding arbitration. Arbitration shall be conducted as follows:

2. In the event of a dispute involving the Owner, the Design-Builder, and one or more Contractors, Subcontractors, Suppliers, or Engineers, the claims and disputes of all parties shall be heard by the same arbitrator(s) in a single proceeding. If the Design-Builder's claim is derived from an act or omission of the Owner, the Supplier shall prepare and present Supplier's claim through the Buyer at Supplier's expense.

3. Owner and Design-Builder shall be bound by the result of any arbitration with others regarding matters relating to this Agreement. However, Owner shall only Inbound so long as (1) Design-Builder's claim relates to the work of Owner and (2) any recovery by Design-Builder would be payable in whole or part to Owner.

4. The Owner waives the right to sue the Design-Builder's payment, performance, contractor's license, or other bonding company or surety in a court of law. Instead, Design-Builder and Owner agree that any claim against sureties shall be resolved by arbitration as provided in this Agreement. The parties understand and expressly waive their right to a trial by jury, their right to a motion for new trial, and their right to appeal. The parties mutually intend by this provision to prevent a multiplicity of actions and the possibility of inconsistent results from different forums.

5. In the event a dispute arises that involves only Design-Builder and Owner, or their respective agents, employees, or sureties, the parties agree to binding arbitration. The arbitration shall be conducted as follows:

(a) In the event of any dispute related to this Agreement, the parties agree to binding arbitration. Arbitration shall be commenced by mailing or delivering a written demand for arbitration by either party upon the other.

(b) Within thirty (30) days of a written demand for arbitration, each party shall appoint an arbitrator and give written notice to the other party of such appointment.

(c) The two (2) arbitrators so appointed shall, within fourteen (14) days, appoint a third arbitrator who shall serve as the Chairman oft' arbitral tribunal.

(d) If either party fails to appoint an arbitrator within thirty (30) days of notice of a demand for arbitration, the arbitrator shall be appointed by the Superior Court of Fresno County, California.

(e) If the two (2) arbitrators appointed fail to agree on a third arbitrator within fourteen (14) days following appointment of the second arbitrator, the third arbitrator shall be appointed by the Superior Court of Fresno County, California.

(f) If an arbitrator fails or is unable to act, his successor will be appointed in the same manner as the arbitrator he succeeds.

(g) Unless otherwise agreed by the arbitral tribunal and the parties, the rules and procedures that will be followed in the arbitration will be the then current Construction Industry Arbitration Rules of the American Arbitration Association. The American Arbitration Association shall administer the dispute through its Submitted Claims process. Each party . agrees to pay its share of fees and expense timely, so as to not delay the arbitration.

6. The intent of the parties is to resolve all disputes in one forum, whether it be a multi-party arbitration governed by the Prime Contract arbitration provisions or a two-party arbitration governed by this Agreement.

7. The prevailing party in any arbitration or other legal proceeding regarding any dispute related to this Agreement shall be entitled to recover its

reasonable costs, expenses, expert consultant fees, arbitrators' fees, arbitration costs and expenses, and attorney fees. Unless otherwise agreed by the parties, the arbitration shall take place in Fresno, California. This agreement to arbitrate shall be specifically enforceable under the laws of California. The award rendered by the arbitrators shall be final. Judgment may be entered upon the award in any court of competent jurisdiction.

8. Work Continuation and Payment. Unless-otherwise agreed in writing, Design-Builder shall carry on the work and maintain the schedule and/or work pending arbitration, and, if so, Owner shall continue to make payments in accordance with this Agreement.

EXHIBIT B

W. M. LYLES CO.
P. O. Box 4377
Fresno, CA 93744-4377
JULY X, 2003

PACIFIC ETHANOL:

W.M. Lyles Co. is pleased to provide our Standard Cost-Plus Rates in response to your request for information on the Ethanol Project. We are proud to be an integral part of the construction profession since our founding in 1945. We consider the professional relationships that we have developed over the years stronger than that of our competitors. The rates listed below and our field labor rates are based on current labor agreements and are effective until June 30, 2004 as follows:

1. Field Labor: According to project payroll records
Craftsmen will be paid in accordance with the union contracts that are applicable at the time the work is performed or special rates that are paid to certain employees due to their experience and special qualifications. PLEASE SEE SAMPLE ATTACHED RATES.

2. Supervision Labor: According to project payroll records
Management, Senior Engineer, Project Engineer, Superintendent, Engineer and Project Clerks/Engineer Intern rates will be according to our established rates in effect at the time the work is performed. PLEASE SEE SAMPLE ATTACHED RATES.

3.	Insurance and Taxes:	35% of Field Labor, Item No. 1.
4.	Tool Expense:	6% of Field Labor, Item No. 1.
5.	Welfare and Pension Fund:	As required by Union Agreement.
6.	Subsistence:	As required by Union Agreement.
7.	Equipment:	As per our established Cost-Plus rates. (Please see sample attached rates.)
8.	Materials and Subcontract:	According to Suppliers' and Subcontractors' Bills.
9.	Home Office Overhead:	15% of Items I through 7 and 5% of Item No. 8
10.	Profit:	25% of Items I through 7.
11.	Ownership Credit:	5% of Items 9 and 10.

Supervision Labor includes vehicle allowance. All other Field pickups and gang trucks are charged to this project the same hours as the crew. All Equipment will be charged a minimum of four hours per day.

We appreciate you placing this schedule on file. Should any further changes be made, we will attempt to notify you as they occur. However; all percentages, labor rates, and equipment rates are subject to change without notice.

W.M. Lyles Co. welcomes the opportunity to provide quality construction services

at competitive rates. Please contact us whenever we can be of service to assist you in your construction plans.

<TABLE>

W.M. LYLES CO.
P.O. BOX 4377
FRESNO, CA 93744-4377

SAMPLE LABOR RATES	RATE PER HOUR (#1) THROUGH 6130/04	FRINGES PER HOUR (#5) THROUGH 6130/04
<S>	<C>	<C>
#1 FIELD LABOR		
Fitters AND Welders:		
Fitter Foreman	$ 33.69	$ 13.96
Fitter - Industrial	$ 28.79	$ 13.96
Welder - Industrial	$ 32.00	$ 13.96
5th Period Apprentice	$ 18.71	$ 10.56
Pipe Tradesmen (Helper)	$ 12.00	$ 6.22
OPERATING ENGINEERS:		
Loader Operator (2 Yds. to 4 Yds.)	$ 33.14	$ 11.95
Trencher Operator (Tr. Op.)	$ 31.87	$ 11.95
Backhoe Operator (314 Yd. max)	$ 33.I4	$ 11.95
Laborers:		
"A" Foreman Rate	$ 33.69	$ 7.92
Foreman	$ 27.43	$ 7.92
Leadman	$ 23.89	$ 7.92
Pipe Layers	$ 23.92	$ 7.92
Laborer	$ 23.67	$ 7.92

#2 SAMPLE SUPERVISION RATES (INCLUDES VEHICLE)	HOURLY RATE
Management	100.00
Senior Project Engineer	$ 85.00
Project Engineer	$ 70.00
Superintendent	$ 65.00
Engineer	60.00
ENGINEER INTERN/PROJECT CLERKS	$ 25.00

#7 SAMPLE EQUIPMENT RATES

EQUIPMENT DESCRIPTION	HOURLY RATE	EQUIP. Number
Boom Truck	$ $5.00	BB-40
Water Truck, 2000 gal	$ 26.50	BW-18
AIR COMPRESSOR 185 CFM	$ 14.50	CD-100
Excavator, Cat 330 BL	$ 108.00	FA-20
GANG TRUCK, 1 TON	. $ 12.00	GA-148
GANG Truck, 2 Ton	$ 13.50	GD-31
COMPACTOR, Wacker	$ 13.50	KS-53
3/4 Ton Field Pickup	$ 11.00	PB-198
Reachlift	$ 31.00	RF-12
Backhoe, Cat 446	$ 41.00	RB-27
Loader 4yd Cat.	$ 58.50	RL-55
Welder Truck & Rig	$ 15.00	PB-911
Office Trailer	$ 257.50 / month	AO-32

</TABLE>

EXHIBIT C

PROJECT DEVELOPMENT AGREEMENT

ARTICLE 1

AGREEMENT

This Agreement is made this 15TH day of JULY in the year 2003, by and between the

DESIGN-BUILDER
(Name and Address)

W.M. LYLES CO.
P.O. BOX 4377
FRESNO, CALIFORNIA 93744

AND THE

ENGINEER
(Name and Address)

DELTA-T CORPORATION
323 ALEXANDER LEE PARKWAY
WILLIAMSBURG, VIRGINIA 23185

FOR ETHANOL PLANT PROJECT DESIGN DEVELOPMENT SERVICES CONTRACTED BY

OWNER
(Name and Address)

PACIFIC ETHANOL, INC.
440 W. FALLBROOK
SUITE 210
FRESNO, CA 93711

IN CONNECTION WITH THE FOLLOWING

PROJECT
(Name, location and brief description)

PACIFIC ETHANOL PLANT
ETHANOL PRODUCTION AT THE MADERA SITE

2.0 GENERAL PROVISIONS

The Design-Builder has agreed in its Design-Build Agreement with the Owner to procure the services of licensed design professionals to provide the engineering services required to design the Project in accordance with the Owner's requirements. The standard of care for engineering services performed under this Agreement shall be the care and skill ordinarily used by members of the engineering professions practicing under similar conditions at the same time and locality.

The Engineer is hereby authorized to proceed with the necessary preliminary design development services as outlined below. This Agreement authorizes work in a lump sum amount of $_ 25,000.00 plus approved travel expenses not to exceed $10,000.00. Work under this Agreement should commence immediately and be completed under the consultation with the Design-Builder and as set in a manner intended to facilitate effective and efficient development of the project. No other work is authorized without written permission from the Design-Builder. If Owner obtains project financing, a formal contract for design services will be

forwarded for signature in accordance with Section 10 below.

2.1 TEAM RELATIONSHIP

The Design-Builder and Engineer agree to work together on the basis of trust, good faith and fair dealing, and shall take actions reasonably necessary to enable each other to perform their obligations under this Agreement in a timely, efficient and economical manner.

2.2 ROYALTIES, PATENTS AND COPYRIGHTS

The Owner, Design-Builder and Engineer agree to defend, indemnify and hold each other harmless from any suits or claims of infringement of any patent rights or copyrights arising out of any patented or copyrighted materials, methods or systems specified by any of them, to the extent that the same is used in a manner permitted under this Agreement.

2.3 CONFIDENTIALITY

The Engineer and Design-Builder shall treat as confidential and not disclose to any third parties, except as is necessary for the performance of the Services, or use for its own benefit, any of the Owner's, Design-Builder's or Engineer's developments, confidential information, know-how, estimating systems, historical and parameter cost data, discoveries, production methods and the like that may be disclosed to one another or that may be acquired in connection with the Services or the performance of this Agreement as set forth under the terms and conditions of the Non-Disclosure agreements executed by the Engineer and Design-Builder on April 2, 2003 and by the Engineer and Owner on March 11, 2003 which is incorporated herein and attached hereto as Exhibit A.

3.0 ENGINEER'S RESPONSIBILITIES

3.1 PROJECT DEVELOPMENT SERVICES

The Engineer's Development Services are enumerated below and shall generally consist of a review of the Project information furnished by the Owner and Design-Builder and the provision of Schematic Design Documents and Design Development Documents to be used by the Design-Builder to complete a preliminary project cost estimate (hereafter Engineer's Preliminary Evaluation"). Engineer shall coordinate its services with all services of design consultants and subcontractors that may be retained by the Design-Builder. The Engineer shall identify in writing all material changes and deviations, if any, that it makes

to any of the deliverables described in Sections 3.1.1 through 3.1.9 below after it first delivers the same to the Design-Builder. These services shall be performed in accordance with the schedule established by the Design-Builder.

3.1.1 Assist the Design-Builder to develop and analyze feasible Project alternatives, including potential facility sites, and assist in the selection of the most appropriate technical and site options in conjunction with the needs of the Project.

3.1.2 Provide preliminary projected plant operating costs and assist the Design-Builder with profitability and sensitivity analyses for selected Project alternative(s).

3.1.3 Work with the Design-Builder to define Plant specifications, and assist in developing Project roles and responsibilities for all participating parties. Deliver preliminary: System Design Specification documenting design criteria, philosophies and preferences, production and utilities usage rates, a process flow diagram and the material and energy balance.

3.1.4 Develop a preliminary site layout for the Plant based on the selected alternatives and site physical and geo-technical data provided by the Design-Builder.

3.1.5 Provide the following preliminary construction documents to enable the

cost of construction and the cost of the project whole to be estimated for the purpose of project financing.

- P&ID's
- General Arrangements
- Pipe Material Takeoffs
- Foundation sketches
- Steel sketches
- Electrical Single Line
- Electrical Material takeoffs
- Cost equipment list

3.1.6 Provide preliminary process emissions data for environmental permitting, site plans and other related support activities based on the above materials as they apply to a plant without a dryer, in support of the environmental permitting firm to be retained by the Design-Builder and/or Owner in order to facilitate prompt project permitting.

3.1.7 Utilize Engineer's experience in ethanol plant operation, products marketing, and industry economics to assist Design-Builder and Owner in developing a business plan;

3.1.8 Provide presentation-grade technical and economic data and strategic guidance to assist Design-Builder and Owner with presentations to potential equity investors and financial institutions.

3.1.9 Provide preliminary engineering and a construction schedule based on information that it has already developed for other recent projects or studies and based on its best assessment of external issues such as environmental permitting, funding availability, and expected start dates for detailed engineering and construction.

3.2 Engineer shall continue to develop and make modifications to the items described in Section 3.1.1 through 3.1.4 above and 3.1.7 and 3.1.8 above as necessary in accordance with changing or evolving Project plans. The Engineer

shall perform the above services at such times, and according to such schedule, as reasonably necessary to support effective development of the Project.

3.3 Preliminary approvals by the Design-Builder or Owner shall not be deemed to be an assumption of responsibility by the Design-Builder or Owner for any error, inconsistency or omission in the drawings and specifications or other documents prepared by the Engineer, its employees, subcontractors, agents or consultants, who shall be responsible for any such error, inconsistency or omission.

3.4 Engineer shall assist the Design-Builder and Owner in filing required documents with governmental authorities having jurisdiction over the Project if required and shall attend meetings with the Owner and Design-Builder upon request of the Design-Builder.

3.5 All of the Services to be provided by the Engineer shall be rendered promptly so as not to delay the Design-Builder.

3.6 LIMITED LICENSE

The Engineer is and shall remain the sole owner of the confidential information provided by Engineer hereunder, and of the copyrights in all the drawings and other documents provided by Engineer under this Agreement. The Engineer hereby grants Design-Builder a limited, non-exclusive non-transferable license, without right to sublicense to use the confidential information of Engineer solely for Design-Builder's use in connection with development and financing of the Project during the term of this Agreement. The Engineer reserves to itself all rights not expressly granted under this Section 3.6. In particular, but without limitation, this license does not include the right to use any of the confidential information provided by Engineer to procure bids for development or construction of a plant or to design or operate a plant or facility based on any such confidential information.

3.7 ENGINEER'S AUTHORIZED REPRESENTATIVE

The Engineer's representative is MR. ALAN BELCHER.

4.0 DESIGN-BUILDER'S RESPONSIBILITIES

4.1 PROJECT DEVELOPMENT SUPPORT SERVICES

The Design-Builder shall perform, or cause the Owner to perform, the following tasks to assure development of the Project, and such other tasks as may be required to achieve funding for the Project:

4.1.1 Provide to the Engineer upon its request such design decisions and information related to site selection, plant size, interface of the Plant to other sections of the Project, and other key project design parameters as Engineer may reasonably request from time to time.

4.1.2 Create a Project development strategy and timeline, in cooperation with Engineer; hereafter referred to as the "Plan"; for the purpose of defining the Project specifications and of obtaining one or more letter(s) of commitment for financing in an amount and on terms and conditions sufficient to enable the Design-Builder and Owner to execute the Project, and on terms otherwise acceptable.

4.1.3 Execute the Plan in a diligent manner.

4.1.4 Cooperate with Engineer to define Project specifications, and define Project development roles for all participating parties.

4.1.5 Develop a business plan, in cooperation with the Engineer, based on the information provided by Engineer under Section 3.0 above.

4.1.6 Otherwise cooperate with the Engineer in the development of the Project as mutually agreed between the Parties.

4.2 To the extent the Design-Builder has obtained the information and services identified from the Owner, the Design-Builder shall provide them to the Engineer. The Engineer shall be entitled to rely on such information and services to the same extent as the Design-Builder.

4.4 DESIGN-BUILDER'S AUTHORIZED REPRESENTATIVE

The Design-Builder's representative is MR. RICK AMIGH.

5.0 COMPENSATION

For Services as described, the Design-Builder shall compensate the Engineer a stipulated fee in the amount of Twenty-five Thousand Dollars and no/100 cents ($25,000.00) plus actual approved expenses for travel in support of the services not to exceed Ten Thousand Dollars and no/100 cents ($10,000.00). Upon confirmation that the Owner has obtained the necessary Project Financing, the Design-Builder shall receive a credit equal to the amount of the fee paid under this Section 5.0 toward the fee due under the Design/Technology Transfer Agreements entered into by the Engineer, the Design Builder and Owner under Section 10 below.

5.1 ADDITIONAL SERVICES

The Engineer shall perform and be compensated FOR approved services in addition to those described in Section 3.1 above as detailed in Exhibit B attached to this Agreement.

5.2 PAYMENTS

The Engineer shall submit to the Design-Builder for its approval applications for payment for Basic and Additional Services. The amount due under Section 5.0

above shall be paid as follows: $10,000 upon signature of this Agreement; $10,000 within thirty (30)-days thereafter, and the remaining $5,000 within sixty (60)-days after signature of this Agreement. Any approved amounts due under this Agreement for additional expenses and costs shall be paid by Design-Builder within fifteen (15)-days of the Design-Builder's receipt of Engineer's monthly application for payment.

5.2.1 Prior to final payment, the Engineer shall furnish evidence satisfactory to the Design-Builder that there are no claims, obligations or Liens outstanding in connection with the services provided. Acceptance of final payment shall constitute a waiver of all claims by Engineer for compensation for the services performed.

5.2.2 Expense records of THE Engineer's personnel, consultants, subcontractors and services shall be maintained in accordance with generally accepted accounting principles and shall be available to the Design-Builder at mutually convenient times.

6.0 INSURANCE
- -------------
Before commencing its Services and as a condition of payment, the Engineer shall purchase and maintain such insurance as will protect the parties from the claims arising out of its operations under this Agreement, whether such operations are by Engineer or any of its consultants or subcontractors or anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable.

6.1 PROFESSIONAL LIABILITY INSURANCE
- ------------------------------------
The Engineer and all retained consultants shall obtain professional liability insurance for claims arising from the negligent performance of professional services under this Agreement, which shall be either General Office Coverage or Project Specific Professional Liability Insurance written for not less than those limits and deductibles in the amounts not less than four (4) million dollar aggregate and two (2) million dollar per claim basis with umbrella coverage as necessary. The Professional Liability Insurance shall contain prior acts coverage sufficient to cover all Services performed by Engineer. These requirements shall be continued in effect as required by the Owner or a minimum of 2 years after the date of this Agreement. The Engineer shall pay any deductibles.

7.0 TERMINATION
- ---------------
This Agreement shall continue for a period of two years unless earlier terminated as provided by:

7.1 Project Financing from the Owner has not been obtained within two years from the date of this Agreement.

7.2 Either party may terminate this Agreement upon fifteen (15) days written notice if the other party materially breaches its terms and conditions through no fault of the initiating party.

7.3 Termination by the Design-Builder upon at least fifteen (15) days written notice in the event that the Design-Builder's agreement with the Owner is terminated.

Upon termination of this Agreement for any reason, the license granted under Section 3 above shall immediately cease, and each Party shall (i) immediately cease use of all Confidential Information of the other, (ii) immediately deliver to the disclosing Party all Confidential Information provided to it by the other, including all copies of the same, and destroy all materials developed by it or any third parties to whom it disclosed such information which was based upon such information, and (iii) certify to the disclosing Party that it has done so. In particular, but without limitation, the Design-Builder shall promptly advise all actual and potential investors and lenders for the Project and all regulatory authorities to which Confidential Information of Engineer has been provided of the termination hereof, and shall withdraw any applications for

financing or permits that were based on the use of Engineer's Confidential Information.

8.0 DISPUTE RESOLUTION

If a dispute arises out of or relates to this Agreement or its breach, the parties shall endeavor to settle the dispute first through direct discussions. If the dispute cannot be settled through direct discussions, the parties shall endeavor to settle the dispute by mediation under the Construction Industry Mediation Rules of the American Arbitration Association before recourse to the dispute resolution procedures contained in this Agreement. The location of the mediation shall be the location of the Project. Once a party files a request for mediation with the other party and with the American Arbitration Association,

the parties agree to conclude such mediation within sixty (60) days of filing of the request. If the dispute cannot be settled by mediation within sixty (60)-days, the parties shall submit the dispute to the dispute resolution process set forth in Exhibit C. Either party may terminate the mediation at any time after the first session, but the decision to terminate must be delivered in person by the party's representative to the other party's representative and the mediator.

9.0 GOVERNING LAW

The law in effect at the location of the Project shall govern this Agreement.

10.0 TECHNOLOGY TRANSFER AND FUTURE DESIGN SERVICES AGREEMENT

Time is of the essence for this Project. Upon execution of this Project Development Agreement, the Owner, Design-Builder and Engineer agree to enter into good-faith contract negotiations for future Technology Transfer and Design Services. The Technology Transfer Agreement shall be negotiated and executed by the Owner, Engineer and Design-Builder and the Design Services Agreement be shall be negotiated and executed by the Design-Builder and Engineer using the Associated General Contractors Design-Build Agreement No. 420 between Design-Builder and Engineer as a template.

The intent being that upon confirmation that the Owner has obtained the necessary PROJECT Financing, the Owner, Design-Builder and Engineer shall immediately enter into a Technology Transfer Agreement for the entire plant and the Design-Builder and Engineer shall immediately enter into a Design-Builder/Engineer Contractual Agreement to provide the Design Services for the entire plant.

11.0 LIMITATION OF LIABILITY

Design-Builder's and Owner's sole remedy with respect to any breach by Engineer OF ANY provision of this Agreement (other than breach of Section 2.3), or with respect to services performed by Engineer under this agreement, shall be (a) with respect to any service that does not conform to the requirements of this Agreement, re-performance by Engineer of such service, and if such service is not satisfactorily performed within a reasonable time after Engineer's receipt of written notice of breach from Design-Builder, and in case of any other breach of this Agreement, (b) termination of this Agreement and refund of the portion of the fee, if any, allocable to services not properly performed. In no case shall Engineer be liable for any other damages of any kind, direct, indirect, incidental, consequential, exemplary or otherwise, with respect to any services performed by it, or by its failure to perform services, under this Agreement.

12.0 EXCLUSIVE RELATIONSHIP

During the term of this Agreement, neither Design-Builder nor Owner shall enter into, negotiate toward, or take any other action in furtherance of entering into, or assisting another to enter into, any agreement for provision of the technology, services or equipment to be provided by Engineer as currently contemplated under Section 10.0 above.

13.0 GENERAL PROVISIONS
- ----------------------
This Agreement constitutes the entire agreement between the parties relating to its subject matter, and supersedes all prior representations, understandings and agreements, written or oral, express or implied. This Agreement can be modified only by written agreement executed by an authorized representative of each party.

THIS AGREEMENT IS ENTERED INTO AS OF THE DATE IN ARTICLE 1
AND BY AUTHORIZED INDIVIDUALS FOR THE COMPANIES LISTED BELOW.

DESIGN-BUILDER:
W.M. LYLES CO.

BY: _____ BY: _____

PRINT NAME: _____ PRINT NAME: _____

PRINT TITLE: _____ PRINT TITLE: _____

ENGINEER:
DELTA-T CORPORATION

BY: _____ BY: _____

PRINT NAME: _____ PRINT NAME: _____

PRINT TITLE: _____ PRINT TITLE: _____

EXHIBIT A

NON-DISCLOSURE AGREEMENT

[AGREEMENTS EXECUTED BY THE ENGINEER AND DESIGN-BUILDER ON APRIL 2, 2003 AND BY THE ENGINEER AND OWNER ON MARCH 11, 2003 WHICH IS INCORPORATED HEREIN BY REFERENCE.]

EXHIBIT B

DELTA-T REIMBUSIBLE RATES

During the term of this agreement, any requests by Owner or Design-Builder for work not in the scope of this agreement will be billed on an hourly rate and cost reimbursable basis.

Engineer will provide any further technical services requested by Owner after August 30, 2003 on an hourly rate and cost reimbursable basis.

Hourly rates for technical personnel include miscellaneous office supplies and support.

All other costs will be billed at cost plus a 10% administration fee.

DELTA-T TECHNICAL SERVICES HOURLY RATES

Category of Employee	Hourly Rate
Technical Executive	US$ 150
Senior Project Manager	US$ 135
Senior Process Engineer	US$ 125
Senior Mechanical Engineer	US$ 125
Senior I&C Engineer	US$ 125
Process Engineer	US$ 1 05
Mechanical Engineer	US$ 105
I & C Engineer	US$ 105
Designer / Draftsman	US$ 75
Project Documentation Control	US$ 75
Clerical	US$ 35

EXHIBIT C

DISPUTE RESOLUTION PROCEDURE

1. This Agreement shall be construed under the laws of the State of California. In the event of any dispute between the parties related to this Agreement, the parties agree to binding arbitration. Arbitration shall be conducted as follows:
2. Engineer agrees to be bound by the arbitration provisions, if any, in the prime contract between the Owner and the Design-Builder. The arbitration provisions of the prime contract, if any, are incorporated herein by reference. If conflicts arise between the prime contract and this Agreement, the prime contract shall control.
3. In the event of a dispute involving the Owner, the Engineer, and one or more Contractors, Subcontractors, the claims and disputes of all parties shall be heard by the same arbitrator(s) in a single proceeding. If the Engineer's claim is derived from an act or omission of the Owner, the Engineer shall prepare and present Engineer's claim through the Design-Builder's at Engineer's expense.
4. Engineer shall be bound by the result of any arbitration involving Design-Builder, the Owner, or others regarding matters relating to this Agreement. However, Engineer shall only be bound so long as (1) Design-Builder's claim relates to the work of Engineer and (2) any recovery by Design-Builder would be payable in whole or part to Engineer.
5. Design-Builder and Engineer waive the right to sue the other party's payment, performance, contractor's license, or other bonding company or surety in a court of law. Instead, Design-Builder and Engineer agree that any claim against sureties shall be resolved by arbitration as provided in this Agreement. The parties understand and expressly waive their right to a trial by jury, their right to a motion for new trial, and their right to appeal. The parties mutually intend by this provision to prevent a multiplicity of actions and the possibility of

inconsistent results from different forums.

6. In the event a dispute arises that involves only Design-Builder and Engineer, or their respective agents, employees, or sureties, the parties agree to binding arbitration. The arbitration shall be conducted as follows:
   (a) In the event of any dispute related to this Agreement, the parties agree to binding arbitration. Arbitration shall be commenced by mailing or delivering a written demand for arbitration by either party upon the other.
   (b) Within thirty (30) days of a written demand for arbitration, each party shall appoint an arbitrator and give written notice to the other party of such appointment.
   (c) The two (2) arbitrators so appointed shall, within fourteen (14) days, appoint a third arbitrator who shall serve as the Chairman of the arbitral tribunal.
   (d) If either party fails to appoint an arbitrator within thirty (30) days of notice of a demand for arbitration, the arbitrator shall be appointed by the Superior Court of Fresno County, California.
   (e) If the two (2) arbitrators appointed fail to agree on a third arbitrator within fourteen (14) days following appointment of the second arbitrator, the third arbitrator shall be appointed by the Superior Court of Fresno County, California.
   (f) If an arbitrator fails or is unable to act, his successor will be appointed in the same manner as the arbitrator he succeeds.
   (g) Unless otherwise agreed by the arbitral tribunal and the parties, the rules and procedures that will be followed in the arbitration will be the then current Construction Industry Arbitration Rules of the American Arbitration Association. The American Arbitration Association shall administer the dispute through its Submitted Claims process. Each party agrees to pay its share of fees and expense timely, so as to not delay the arbitration.
7. The intent of the parties is to resolve all disputes in one forum, whether it be a multi-party arbitration governed by the Prime Contract arbitration provisions or a two-party arbitration governed by this Agreement.
8. The prevailing party in any arbitration or other legal proceeding regarding any dispute related to this Agreement shall be entitled to recover its reasonable costs, expenses, expert consultant fees, arbitrators' fees, arbitration costs and expenses, and attorney fees. Unless otherwise agreed by the parties, the arbitration shall take place in Fresno, California. This agreement to arbitrate shall be specifically enforceable under the laws of California. The award rendered by the arbitrators shall be final. Judgment may be entered upon the award in any court of competent jurisdiction.
9. Work Continuation and Payment. Unless otherwise agreed in writing, Engineer shall carry on the design work and maintain the schedule and/or work pending arbitration, and, if so, Design-Builder shall continue to make payments in accordance with this Agreement.

EXHIBIT 10.2

CONTRACTUAL AMENDMENT 1.0

This Contractual Amendment is made the 10th DAY of MAY in the year 2004, and changes the Agreement between Pacific Ethanol, Inc. (Owner) and W.M. Lyles Co. (Design-Builder) for services in connection with the PROJECT (Pacific Ethanol Plant - Construction; Ethanol Production at the Madera Sites)

By the authorized signatures below, the Owner and Design-Builder agree to amend the agreement previously dated on the 7th day of July in the year 2003 without invalidating any Articles of the Agreement or the terms or conditions thereof.

By all rights and requirements, Article 2.0, Paragraph 23 shall read as follows:

ARTICLE 2 -- GENERAL PROVISIONS

2.3 EXTENT OF AGREEMENT This Agreement is solely for the benefit of the parties, represents the entire and integrated agreement between the parties, and supersedes all prior negotiations, representations or agreements, either written or oral. The Owner and the Design-Builder agree to look solely to each other with respect to the performance of the Agreement. The Agreement and each and every provision is for the exclusive benefit of the Owner and the Design-Builder and not for the benefit of any third party or any third party beneficiary, except to the extent expressly provided in the Agreement.

By all rights and requirements, Article 12.0, Paragraphs 12.1.2 and 12.3 shall read as follows:

ARTICLE 12 SUSPENSION AND TERMINATION OF THE AGREEMENT AND OWNER'S RIGHT TO PERFORM DESIGN-BUILDER'S RESPONSIBILITIES

12.1.2 Adjustments caused by suspension, delay or interruption shall be made for increases in compensation for Design Phase Services, the Design-Builder's Fee and/or the Date of substantial completion and/or the Date of Final Completion. No adjustment shall be made if the Design-Builder is or otherwise would have. been responsible for the suspension, delay or interruption of the Work, or if another provision of this agreement is applied to render an, equitable adjustment.

12.3 TERMINATION BY OWNER If the Owner terminates this Agreement, the Owner shall pay the Design-Builder for all costs associated with the Work. per Article 7.0. In addition, the Design-Builder shall be paid an amount as set forth below:

.1 if the Owner terminates this Agreement, the Owner shall pay the Design-Builder for all Services as set forth above and a premium of five million dollars, ($5,000,000.00).

.2 The Owner shall also pay to the Design-Builder fair compensation, either by purchase or rental at the election of the Owner, for all equipment retained. The Owner shall assume and become liable for obligations, commitments and unsettled claims that the Des a Builder has previously undertaken or incurred in good faith in connection with the Work or as a result of the termination of this Agreement. As a condition of receiving the payments provided under this Article 12, the Design-Builder shall cooperate with the Owner by taking all steps necessary to accomplish the Legal assignment of the Design-Builder's tights and benefits to the Owner, including the execution and delivery of required papers.

- END -

THIS CONTRACTUAL AMENDMENT IS ENTERED INTO AS OF THE DATE INDICATED ABOVE BY THE AUTHORIZED INDIVIDUALS FOR THE COMPANIES LISTED BELOW

OWNER:
PACIFIC ETHANOL, INC.

BY: /S/ Ryan W. Turner

PRINT NAME: Ryan W. Turner, COO

ATTEST: Jeffrey H. Manternach

DESIGN-BUILDER:
W.M. LYLES CO.

BY: /S/ Todd R. Sheller

PRINT NAME: Todd R. Sheller, Vice President

ATTEST: Deborah M. Bartz

Deborah M. Bartz

EXHIBIT 10.3

CONTRACTUAL AMENDMENT 2.0

This Contractual Amendment is made the 18TH day of MARCH in the year 2005, and changes the Agreement between Pacific Ethanol, Inc. (Owner) and W.M. Lyles Co. (Design-Builder) for services in connection with the PROJECT (Pacific Ethanol Plant - Construction; Ethanol Production at the Madera Sites)

By the authorized signatures below, the Owner and Design-Builder agree to amend the Agreement previously dated on the 7th day of July in the year 2003 and Amendment 1.0 dated 10th day of May 2004 without invalidating any Articles of the Agreement or the terms or conditions thereof.

By all rights and requirements, Article 3.0, Paragraph 3.2 shall read as follows:

ARTICLE 3 - DESIGN-BUILDER'S RESPONSIBILITIES

3.2 GUARANTEED MAXIUM PRICE (GMP) SHALL BE MODIFIED TO

3.2 LUMP SUM / GUARANTEED MAXIUM PRICE (GMP)

3.2.1 GMP PROPOSAL At such time as the Owner and the Design-Builder jointly agree, the Design-Builder shall submit a GMP Proposal to the Owner. The GMP shall be the sum of the estimated Design-Builder's Cost of the work including the Design-Builder's Fee as defined in Article 7 and outlined in any Contractual Amendment(s). The GMP is subject to modification as provided in Article 9.

3.2.1.1 The Design-Build Documents shall be a minimum of sixty (60)-percent complete at the time the GMP Proposal is submitted to the Owner. The Design-Builder shall provide in the GMP for further development of the Design-Build Documents consistent with the Owner's Program. Such further development does not include changes in scope, systems, kinds and quality of materials, finishes or equipment, all of which if required, shall be incorporated by Change Order.

3.2.2 BASIS OF LUMP SUM / GUARANTEED MAXIMUM PRICE The Design-Builder shall include in Amendment(s) the GMP Proposal with a written statement of the scope of work and basis, which shall include:

.1 a list of the drawings and specifications, including all addenda, which were used in preparation of the GMP Proposal;

.2 a list of the assumptions and clarifications made by the Design-Builder in the preparation of the GMP Proposal to supplement the information contained in the drawings and specifications;

.3 the Date of Substantial Completion and/or the Date of Final Completion upon which the proposed GMP is based, and the Schedule of Work upon which the Date of Substantial Completion and/or the Date of Final Completion is based;

.4 a schedule of applicable alternate prices, unit prices and time and material prices if necessary;

.5 Additional Services if any;

.6 the time limit for acceptance of the GMP proposal;

.7 a statement of any work to be self-performed by the Design-Builder; and

.8 a statement identifying all patented or copyrighted materials, methods or systems selected by the Design-Builder and incorporated in the Work that are likely to require the payment of royalties or license fees.

3.2.3 REVIEW AND ADJUSTMENT TO GMP PROPOSAL The Design-Builder shall meet with the Owner to review the GMP Proposal. In the event that the Owner has any comments relative to the GMP Proposal, or finds any inconsistencies or inaccuracies in the information presented, it shall give prompt written notice of such comments or findings to the Design-Builder, who shall make appropriate adjustments to the GMP, its basis or both.

3.2.4 ACCEPTANCE OF GMP PROPOSAL Upon acceptance by the Owner of the GMP Proposal, as may be amended by the Design-Builder in accordance with Subparagraph 3.2.3, the GMP and its basis shall be set forth in Amendment(s). The GMP and the Date of Substantial Completion and/or the Date of Final Completion shall be subject to modification in Article 9.

3.2.5 FAILURE TO ACCEPT THE GMP PROPOSAL Unless the Owner accepts the GMP Proposal in writing on or before the date specified in the GMP Proposal for such acceptance and so notifies the Design-Builder, the GMP Proposal shall not be effective. If the Owner fails to accept the GMP Proposal, or rejects the GMP Proposal, the Owner shall have the right to:

.1 Suggest modifications to the GMP Proposal. If such modifications are accepted in writing by Design-Builder, the GMP Proposal shall be deemed accepted in accordance with Subparagraph 3.2.4;

.2 Direct the Design-Builder to proceed on the basis of reimbursement as provided in Articles 7 and 9 without a GMP, in which case all references in this Agreement to the GMP shall not be applicable; or

.3 Terminate the Agreement for convenience in accordance with Article 11 .

In the absence of a GMP the parties may establish a Date of Substantial Completion and/or a Date of Final Completion.

3.2.6 PRE-GMP WORK Prior to the Owner's acceptance of the GMP Proposal, the Design Builder shall incur cost that will be reimbursed as part of the Cost of the Work, only as provided in this Agreement and as the Owner may specifically authorize in writing.

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By all rights and requirements, Article 7.0, shall read as follows:

ARTICLE 7 - COMPENSATION SHALL BE MODIFIED TO

ARTICLE 7 - CONTRACT PRICE

7.1 DESIGN PHASE

7.1.1 To the extent required by applicable law, the cost of services performed directly by the Engineer is computed separately and is independent from the Design-Builder's compensation for work or services performed directly by the Design-Builder; these costs shall be shown as separate items on applications for payment. If an Engineer is retained by the Design-Builder, the payments to the Engineer shall be as detailed in a separate agreement between the Design-Builder and the Engineer.

7.1.2 The Owner shall compensate the Design-Builder for services performed during the Design Phase as described in Paragraph 3.1, including preparation of a Lump Sum / GMP Proposal as Amended and described in Paragraph 3.2 for establishing the project requirements, general business planning and other information and documentation as may be required to establish the feasibility of the project, making revisions to the Schematic Design, design Development, Design, coordination, management, expediting and other services supporting the procurement of materials to be obtained, or work to be performed, by the Owner, including but not limited to telephone systems, computer wiring networks, sound systems, alarms, security systems and other specialty systems which are not a part of the Work, Preliminary Construction Schedules and Estimates, Construction Documents forming the basis of the Lump Sum/GMP.

7.1.3 Compensation for Design Phase Services, as part of the Work, as outlined in Amendment(s) shall include the Design-Builder's Fee as established and paid in proportion to the services performed, subject to adjustment as provided in the Contract Documents.

7.1.4, 7.1.5, 7.1.6 AND 7.1.7 shall not be modified and retain their original wording and intent

7.1.8 All compensation for the Design Phase shall be outlined in Amendment(s) attached to this Agreement.

7.2 CONSTRUCTION PHASE

7.2.1 The Owner shall compensate the Design-Builder for Work performed following the commencement of the Construction Phase on the Cost of the Work as allowed in the Lump Sum / GMP and outlined in Amendment(s) with necessary adjustments under Article 9.

7.2.2 The compensation to be paid under this Paragraph 7.2 shall be limited to the Lump Sum / GMP established in Amendment(s), as the GMP may be adjusted under Article 9.

7.2.3 Payment from Construction Phase shall be as set forth in Article 10. If Design Phase Services continue to be provided after construction has commenced, the Design-Builder shall continue to be compensated as provided in Paragraph 7.1, or as mutually agreed.

7.2.4 All compensation for the Construction Phase shall be outlined in Amendment(s) as attached to this Agreement.

7.3 ADJUSTMENT IN THE LUMP SUM/GMP Adjustment in the Lump Sum/GMP shall be made as follows:

.1 for changes in the Work as provided in Article 9, the GMP shall be adjusted as outlined in the Contract Documents.

.2 for delays in the Work not caused by the Design-Builder or those under control of the Design-Builder, except as provided in Subparagraph 6.3.2, there will be an equitable adjustment in the Design-Builder's Fee to compensate the Design-Builder for increased expenses; and

.3 if the Design-Builder is placed in charge of managing the replacement of an insured or uninsured loss, the Design-Builder shall be paid an additional fee in the same proportion that the Design-Builder's Fee bears to the estimated Cost of the Work for the replacement.

The Owner agrees to pay the Design-Builder for the Cost of the Work as defined in this Article.

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By all rights and requirements, Article 8.0 shall read as follows:

ARTICLE 8 -- COST OF THE WORK

DELETED IN ITS ENTIRETY

By all rights and requirements, Article 12.0, Paragraph 12.3 shall read as follows:

ARTICLE 12 - SUSPENSION AND TERMINATION OF THE AGREEMENT AND OWNER'S RIGHT TO PERFORM DESIGN-BUILDER'S RESPONSIBILITIES

12.3 TERMINATION BY OWNER If the Owner terminates this Agreement, the Owner shall pay the Design-Builder for all costs associated with the Work per Article 7.0. In addition, the Design-Builder shall be paid an amount as set forth below:

.1 If the Owner terminates this Agreement and selects another fled Design- 12 Builder and/or Contractor with a license to conduct

business within the STATE TO COMPLETE THE PROJECT THE Owner shall pay the Design Builder for all Services as set forth above and a premium of five million dollars, ($5,000,000.00).

.2 The Owner shall also pay to the Design-Builder fair compensation, either by purchase or rental at the election of the Owner, for all equipment retained, The Owner shall assume and become liable for obligations, commitments and unsettled claims that the Design-Builder has previously undertaken or incurred in good faith in connection with the Work or as a result of the termination of this Agreement. As a condition of receiving the payments provided under this Article 12, the Design-Builder shall cooperate with the Owner by taking all steps necessary to accomplish the legal assignment of the Design-Builder's rights and benefits to the Owner, including the execution and delivery of required papers.

AMENDMENT 2.0 SCOPE OF WORK

This Amendment, including its exhibits, appendices and other documents, constitutes compliance with aforementioned executed, Agreement, and pursuant to Section 32 of the Agreement, constitutes the scope of work and Lump Sum / Guaranteed Maximum Price (GMP) for the following scope of work,

By the date indicated within this Amendment, the Design-Builder is herby authorized by the Owner to commence with the early activities as indicated and related to the design and construction of the Project prior to the negotiation of the Final Lump Sum / GMP. Work that is 'authorized by this. Amendment includes, but is not limited to, those construction and design activities as listed below:

- Authorize the Design-Builder to continue design, engineering and procurement services as necessary to support construction activities.
- Mobilization and Project Set Up
- Three (3) Months of Project Management
- Site Preparation and Demolition
- Rough Grading, Over Excavation, Ponds and Berms
- Fine Grading (Partial)
- Site Concrete (Partial
- Site Utilities
- Site Fencing
- Concrete Earthwork (Partial) .

Pursuant to the payment terms and conditions indicated in the Agreement, the Owner shall pay for all costs associated with the above scope of work in a Lump Sum Price of $2,978,000

-END-

THIS CONTRACTUAL AMENDMENT IS ENTERED INTO AS OF THE DATE INDICATED ABOVE BY THE AUTHORIZED INDIVIDUALS FOR THE COMPANIES LISTED BELOW.

OWNER:
PACIFIC ETHANOL, INC.
BY: /S/ RYAN TURNER
- ----------
PRINT NAME: RYAN TURNER
- ----------

DESIGN-BUILDER:
BY: /S/ TODD R. SHELLER
- ----------
PRINT NAME: TODD R. SHELLER, VICE PRESIDENT
- ----------

EXHIBIT 21.1

<TABLE>
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SUBSIDIARIES OF THE REGISTRANT

Subsidiary Name	Names Under Which Subsidiary Does Business	State or Jurisdiction of Incorporation
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

</TABLE>

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Pacific Ethanol, Inc.

We consent to the use in this Registration Statement of Pacific Ethanol, Inc. on Form S-1 of our reports, dated May 23, 2005, relating to the consolidated financial statements of Pacific Ethanol, Inc., Kinergy Marketing, LLC and ReEnergy, LLC appearing in the Prospectus, which is part of this Registration Statement.

We also consent to the reference to our firm under the caption "Experts" in such Prospectus.

/s/ HEIN & ASSOCIATES LLP

Hein & Associates LLP
Irvine, California
August 19, 2005