

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported)

July 18, 2007

PACIFIC ETHANOL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

000-21467

(Commission File Number)

41-2170618

(IRS Employer Identification No.)

400 Capitol Mall, Suite 2060, Sacramento, CA

(Address of principal executive offices)

95814

(Zip Code)

Registrant's telephone number, including area code:

(916) 403-2123

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

(a) Not applicable.

(b) On July 18, 2007, Douglas Jeffries resigned as Chief Financial Officer (principal financial and accounting officer) of Pacific Ethanol, Inc. (the "Company") effective immediately.

(c) (1) On July 18, 2007, John T. Miller, Chief Operating Officer of the Company, was appointed as Acting Chief Financial Officer (principal financial and accounting officer) of the Company effective immediately.

(2) **John T. Miller**, 61, has served as Chief Operating Officer since June 2006 and previously served as the Company's Acting Chief Financial Officer from December 2006 to June 2007. Mr. Miller was employed at Calpine Corporation beginning in 2001 and served as a Senior Vice President from 2002 to 2006. At Calpine, Mr. Miller held several roles including managing the build-out of power projects, overseeing human resources and safety programs and leading Calpine's strategy to centralize its power plant and corporate activities. Prior to his tenure at Calpine, Mr. Miller served from 1998 to 2001 as Vice President of Thermo Ecotek, a subsidiary of Thermo Electron, and as President of Thermo Ecotek's Power Resources Division. Mr. Miller directed Thermo Electron's expansion of its independent power business in the United States, Germany and the Czech Republic. He also represented Thermo Electron in managing the sale of the Power Resources Division to AES Corporation. Mr. Miller also served from 1994 to 1998 as President and Chief Executive Officer of Pacific Generation Company, a subsidiary of PacifiCorp. Prior to that time, Mr. Miller served from 1990 to 1994 as Pacific Generation Company's Vice President of Business Development and from 1987 to 1990 as its Vice President of Operations. In 1995, Mr. Miller completed Harvard University's Managing Global Opportunities, an executive education program. Mr. Miller has a B.S. degree in Mechanical Engineering from Oregon State University and an M.B.A. degree from the University of Portland. Mr. Miller served in the United States Navy from 1967 to 1971 as a Communications Technician.

Executive Employment Agreement

The Executive Employment Agreement with John T. Miller dated June 26, 2006 provides that Mr. Miller is employed as the Company's Chief Operating Officer for a one-year term and automatic one-year renewals thereafter, unless either Mr. Miller or the Company provides written notice to the other at least 90 days prior to the expiration of the then-current term. Mr. Miller is to receive a base salary of \$185,000 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 established by the Board on an annual basis. Mr. Miller is also entitled to reimbursement of his costs associated with his relocation to the city where the Company's corporate headquarters are located.

The Company is also required to provide an office and administrative support to Mr. Miller and certain benefits, including medical insurance, three weeks of paid vacation per year and participation in benefit plans on the same basis and to the same extent as other executives or employees. Mr. Miller is 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.

In the event that Mr. Miller is terminated by the Company without cause, except upon the Company's timely written notice prior to automatic renewal at the end of the initial term of his agreement or upon his death or disability, or in the event that Mr. Miller voluntarily resigns for good reason, he is entitled to receive severance equal to six months of base salary. Also, in such event, Mr. Miller is entitled to a prorated incentive bonus, if any, for the fiscal year during which termination occurs, and the Company is required to maintain, at its expense, in full force and effect, for Mr. Miller's continued benefit, all medical and life insurance to which Mr. Miller was entitled immediately prior to the date of termination (or at the election of Mr. Miller in the event of a change in control, immediately prior to the date of the change in control) until the earliest of (i) 12 months, and (ii) the date or dates that Mr. Miller's continued participation in the Company's medical and/or life insurance plans, as applicable, is not possible under the terms of the plans (the earliest of (i) and (ii) is referred to herein as the "Benefits Date"). If the Company's medical and/or life insurance plans do not allow Mr. Miller's continued participation in the plan or plans, then the Company will pay to Mr. Miller, in monthly installments, from the date on which Mr. Miller's participation in the medical and/or life insurance, as applicable, is prohibited until the Benefits Date, the monthly premium or premiums which had been payable by the Company with respect to Mr. Miller for the discontinued medical and/or life insurance, as applicable. In addition, if Mr. Miller 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 Mr. Miller, the Company 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 the Executive Employment Agreement as (i) a general assignment by the Company for the benefit of creditors or filing by the Company of a voluntary bankruptcy petition or the filing against the Company of any involuntary bankruptcy which remains un-dismissed for 30 days or more or if a trustee, receiver or liquidator is appointed, (ii) any material changes in Mr. Miller's titles, duties or responsibilities without his express written consent, or (iii) Mr. Miller is not paid the compensation and benefits required under the Executive Employment Agreement.

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

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

Restricted Stock Grant

On October 4, 2006, the Company granted to Mr. Miller 70,200 shares of restricted stock, 17,550 shares of which vested immediately and 10,530 shares of which will vest, subject to continued employment, on each of the next five anniversaries of the grant date, under the Company’s 2006 Stock Incentive Plan (the “Plan”) pursuant to a Restricted Stock Agreement dated and effective as of October 4, 2006 by and between the Company and Mr. Miller. The grant date fair value of the 70,200 shares of restricted stock granted to Mr. Miller was \$916,812 based on the fair market value of shares of the Company’s common stock on the grant date. As a condition to subsequent vesting of the shares of restricted stock, Mr. Miller must remain continuously employed by the Company on a full time basis from the grant date through each subsequent vesting date. The interest of Mr. Miller in the restricted stock may vest as to 100% of the unvested shares of restricted stock upon a change in control but only in accordance with the Plan.

(3) Not applicable.

(d) Not applicable.

(e) In connection with Mr. Jeffries resignation, the Company and Mr. Jeffries entered into a Separation Agreement (“Separation Agreement”) dated July 19, 2007. The Separation Agreement provides that the Company will pay Mr. Jeffries’ COBRA premiums necessary to continue his current group health insurance coverage through September 30, 2007. The Separation Agreement also provides that Mr. Jeffries is to relinquish all 57,500 shares of restricted stock granted to him in connection with his employment, including 7,500 shares that vested immediately upon his first date of employment and 50,000 shares that may have vested in the future. Under the Separation Agreement, in connection with Mr. Jeffries’ relinquishment of his vested shares, the Company agreed to reimburse Mr. Jeffries for any federal or state tax liability he incurs as a direct result of his return of the vested shares. The Separation Agreement includes other customary terms and conditions. This description of the Separation Agreement does not purport to be complete and is qualified in its entirety by reference to the Separation Agreement, which is filed as Exhibit 10.1 to this report and incorporated by reference herein.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

None.

(b) Pro Forma Financial Information.

None.

(c) Exhibits.

| <u>Number</u> | <u>Description</u> |
|---------------|---|
| 10.1 | Separation Agreement dated July 19, 2007 between Pacific Ethanol, Inc. and Douglas Jeffries |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PACIFIC ETHANOL, INC.

Date: July 22, 2007

By: /s/ CHRISTOPHER W. WRIGHT

Christopher W. Wright
Vice President, General Counsel & Secretary

EXHIBITS FILED WITH THIS REPORT

| <u>Number</u> | <u>Description</u> |
|---------------|---|
| 10.1 | Separation Agreement dated July 19, 2007 between Pacific Ethanol, Inc. and Douglas Jeffries |



Pacific Ethanol, Inc.

July 19, 2007

Douglas Jeffries
Pacific Ethanol, Inc.
400 Capitol Mall, Suite 2060
Sacramento, CA 95814

Dear Doug:

This letter sets forth the terms and conditions of the separation agreement (the “*Agreement*”) that Pacific Ethanol, Inc. (the “*Company*”) is offering to you to aid in your employment transition.

- 1. Separation Date.** Your last day of employment shall be July 19, 2007 (the “*Separation Date*”).
 - 2. Accrued Salary and Vacation Pay.** On the Separation Date, the Company will pay you all accrued salary and all accrued and unused vacation (if any) earned by you through the Separation Date, less standard payroll deductions and withholdings. You are entitled to these payments by law.
 - 3. Severance Health Insurance Benefits.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company’s current group health insurance policies, you will be eligible to continue your group health insurance benefits at your own expense. Later, you may be able to convert to an individual policy through the provider of the Company’s health insurance, if you wish. Although you are not entitled to any severance compensation or benefits under your Executive Employment Agreement with the Company (the “*Employment Agreement*”), if you sign this Agreement and allow the Release contained herein to become effective, and if you timely elect continued coverage under COBRA, then the Company will pay your COBRA premiums necessary to continue your current group health insurance coverage through September 30, 2007.
 - 4. Return of Restricted Stock.** Pursuant to Section 2.4 of your Employment Agreement, you were granted 57,500 shares of restricted Company stock (the “*Restricted Stock*”), of which 7,500 shares were deemed vested as of your first date of employment. As part of this Agreement, you agree to return the 7,500 vested shares of Restricted Stock to the Company and hereby relinquish and waive any and all rights you may have to the Restricted Stock or any portion thereof. The Company shall reimburse you for any federal or state tax liability you incur as a direct result of your return of these vested shares of Restricted Stock, with the calculation of such reimbursement to be performed by the public accounting firm engaged by the Company for tax advisory purposes, whose calculations shall be final and binding in the absence of manifest error. You acknowledge and agree that the vesting of any Restricted Stock shall cease as of your Separation Date.
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5. No Other Compensation or Benefits. You acknowledge that, except as expressly provided in this Agreement, you have not earned and will not receive from the Company any additional compensation, severance, or benefits relating to or arising from your employment with the Company (or the termination thereof), after the Separation Date. You acknowledge and agree that you are not and shall not be entitled to any severance compensation or benefits set forth in your Employment Agreement, including but not limited to any compensation or benefits set forth in Section 5 of the Employment Agreement.

6. Expense Reimbursement. You agree that, within ten (10) days after the Separation Date, you will submit your final documented expense reimbursement statement reflecting all business expenses you incurred through the last day of your employment, if any, for which you seek reimbursement. The Company will reimburse you for such expenses pursuant to its regular business practice.

7. Return of Company Property. Within ten (10) days after the Separation Date, you agree to return to the Company all Company documents (and all copies thereof) and other Company property in your possession or control. You agree that you will make a diligent search to locate any such documents, property and information. In addition, if you have used any personal computer, server, or e-mail system to receive, store, prepare or transmit any Company confidential or proprietary data, materials or information, you agree to immediately provide the Company with a computer-useable copy of all such information, and once you have done so you agree to permanently delete and expunge all Company confidential or proprietary information and data from those systems; and you agree to provide the Company access to your system as reasonably requested to verify that the necessary copying and/or deletion is completed. Your timely return of all such Company documents and other property is a precondition to your receipt of the benefits provided under this Agreement.

8. Proprietary Information Obligations. You acknowledge that during your employment with the Company you had access to and obtained proprietary information and trade secrets of the Company. You acknowledge and agree that you shall continue to be bound by the Proprietary Information and Inventions Agreement attached hereto as Exhibit A.

9. Nondisparagement. You agree not to disparage the Company or its officers, directors, employees, shareholders and agents, in any manner likely to be harmful to them or their business, business reputations or personal reputations; and the Company (through its officers and directors) agrees not to disparage you in any manner likely to be harmful to you or your business, business reputation or personal reputation; provided that you and the Company may respond accurately and fully to any inquiry or request for information if required by legal process.

10. No Voluntary Adverse Action. You agree that you will not voluntarily (except in response to legal compulsion) assist any third party in bringing or pursuing any proposed or pending litigation, arbitration, administrative claim or other formal proceeding against the Company, its parent or subsidiary entities, affiliates, officers, directors, employees or agents.

11. Cooperation. You agree to cooperate fully with the Company in connection with its actual or contemplated defense, prosecution, or investigation of any claims or demands by or against third parties, or other matters arising from events, acts, or failures to act that occurred during the period of your employment by the Company. Such cooperation includes, without limitation, making yourself available to the Company upon reasonable notice, without subpoena, to provide complete, truthful and accurate information in witness interviews, depositions and trial testimony. The Company will reimburse you for reasonable out-of-pocket expenses you incur in connection with any such cooperation (excluding forgone wages, salary, or other compensation) and will make reasonable efforts to accommodate your scheduling needs. In addition, you agree to execute all documents (if any) necessary to carry out the terms of this Agreement.

12. Release of Claims.

(a) General Release. In exchange for the consideration under this Agreement to which you would not otherwise be entitled, you hereby generally and completely release the Company and its parent, subsidiary, and affiliated entities (along with their predecessors and successors) and their directors, officers, employees, shareholders, partners, agents, attorneys, insurers, affiliates and assigns, from any and all claims, liabilities and obligations, both known and unknown, that arise from or are in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date that you sign this Agreement.

(b) Claims Released. This general release includes, but is not limited to: (i) all claims arising out of or in any way related to your employment with the Company or the termination of that employment; (ii) all claims related to your compensation or benefits from the Company, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance payments, fringe benefits, stock, stock options, or any other ownership or equity interests in the Company; (iii) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (iv) all tort claims, including but not limited to claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (v) all federal, state, and local statutory claims, including but not limited to claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990 (as amended), the federal Age Discrimination in Employment Act of 1967 (as amended) (the "ADEA"), the California Family Rights Act, the California Labor Code (as amended), and the California Fair Employment and Housing Act.

(c) Excluded Claims. Notwithstanding anything in this Section 12, you are not hereby releasing the Company from: (i) any obligation it may otherwise have to indemnify you for your acts within the course and scope of your employment with the Company (including any obligations set forth in your May 29, 2007 Indemnity Agreement with the Company (the "**Indemnity Agreement**")); (ii) any obligations undertaken by the Company in this Agreement (including the obligation to reimburse you for tax liabilities associated with your return of Restricted Stock as set forth in Section 4 herein); or (iii) any rights which are not waivable as a matter of law. In addition, you understand that nothing in this release prevents you from filing, cooperating with, or participating in any proceeding before the Equal Employment Opportunity Commission, the Department of Labor, or the California Department of Fair Employment and Housing, except that you acknowledge and agree that you shall not recover any monetary benefits in connection with any such claim, charge or proceeding with regard to any claim released herein. You represent that you have no lawsuits, claims or actions pending in your name, or on behalf of any other person or entity, against the Company or any other person or entity subject to the release granted in this paragraph.

13. ADEA Waiver. You hereby acknowledge that you are knowingly and voluntarily waiving and releasing any rights you may have under the ADEA and that the consideration given for the waiver and release in the preceding paragraph is in addition to anything of value to which you were already entitled. You further acknowledge that you have been advised, as required by the ADEA, that: (i) your waiver and release do not apply to any rights or claims that may arise after the date that you sign this Agreement; (ii) you should consult with an attorney prior to signing this Agreement (although you may voluntarily decide not to do so); (iii) you have twenty-one (21) days within which to consider this Agreement (although you may choose voluntarily to sign this Agreement earlier); (iv) you have seven (7) days following the date that you sign this Agreement to revoke this Agreement (in a written revocation received by the Company's Chief Executive Officer); and (v) this Agreement will not be effective until the eighth day after this Agreement has been signed both by you and by the Company (the "*Effective Date*").

14. Section 1542 Waiver. In giving the releases set forth in this Agreement, which include claims which may be unknown to you at present, you acknowledge that you have read and understand Section 1542 of the California Civil Code which reads as follows: "**A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.**" You hereby expressly waive and relinquish all rights and benefits under that section and any law or legal principle of similar effect in any jurisdiction with respect to the releases granted herein, including but not limited to the release of unknown and unsuspected claims granted in this Agreement.

15. Representations. You hereby represent that, except for the payments required by this Agreement, you have been paid all compensation owed and for all hours worked, have received all the leave and leave benefits and protections for which you are eligible, pursuant to the Family and Medical Leave Act or otherwise, and have not suffered any on-the-job injury for which you have not already filed a claim.

16. Dispute Resolution. To aid in the rapid and economical resolution of any disputes which may arise under this Agreement, you and the Company agree that any and all claims, disputes or controversies of any nature whatsoever arising from or regarding the interpretation, performance, negotiation, execution, enforcement or breach of this Agreement shall be resolved by confidential, final and binding arbitration conducted before a single arbitrator with Judicial Arbitration and Mediation Services, Inc. ("JAMS") in Sacramento, California, under JAMS' then-applicable arbitration rules. **The parties acknowledge that by agreeing to this arbitration procedure, they waive the right to resolve any such dispute through a trial by jury, judge or administrative proceeding.** You will have the right to be represented by legal counsel at any arbitration proceeding. The arbitrator shall: (i) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be available under applicable law in a court proceeding; and (ii) issue a written statement signed by the arbitrator regarding the disposition of each claim and the relief, if any, awarded as to each claim, the reasons for the award, and the arbitrator's essential findings and conclusions on which the award is based. The Company shall bear the JAMS arbitration fees and administrative costs. Nothing in this Agreement shall prevent either you or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration.

17. Miscellaneous. This Agreement, including Exhibit A, and your Indemnity Agreement constitutes the complete, final and exclusive embodiment of the entire agreement between you and the Company with regard to this subject matter. It is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations (including but not limited to any promises set forth in the Employment Agreement). This Agreement may not be modified or amended except in a writing signed by both you and a duly authorized officer of the Company. This Agreement will bind the heirs, personal representatives, successors and assigns of both you and the Company, and inure to the benefit of both you and the Company, their heirs, successors and assigns. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this Agreement and the provision in question will be modified by the court so as to be rendered enforceable. This Agreement will be deemed to have been entered into and will be construed and enforced in accordance with the laws of the State of California without regard to conflicts of law principles. This Agreement may be executed in counterparts, each of which shall be deemed to part of one original, and facsimile signatures shall be equivalent to original signatures.

If this Agreement is acceptable to you, please sign below on or within twenty-one (21) days after the Separation Date and return the signed original to me. If I do not receive the fully executed Agreement from you by such date, the Company's offer contained herein will expire.

Sincerely,

Pacific Ethanol, Inc.

By: /s/ NEIL M. KOEHLER

Neil M. Koehler
Chief Executive Officer

Understood and Agreed:

/s/ DOUGLAS JEFFRIES

Douglas Jeffries

Date: July 19, 2007

Exhibit A -Proprietary Information and Inventions Agreement