

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)

December 11, 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) John T. Miller is to cease to be Acting Chief Financial Officer of Pacific Ethanol, Inc. (the "Company") effective as of January 2, 2008.

(c) (1) On December 11, 2007, Joseph W. Hansen was appointed as Chief Financial Officer of the Company effective as of January 2, 2008.

(2) **Joseph W. Hansen**, 59, was appointed as Chief Financial Officer of Pacific Ethanol effective as of January 2, 2008. Before joining Pacific Ethanol, Mr. Hansen was employed as Chief Financial Officer at Joseph Scott Properties, Inc. d/b/a Joseph Scott Financial from December 2005 through June 2007. Prior to that time, Mr. Hansen was Chief Financial Officer of National RV Holdings, Inc. from April 2004 through May 2005. Prior to joining National RV Holdings, Inc., Mr. Hansen served in various capacities, including Chief Financial Officer and Executive Vice President, at Zacky Farms Company from October 1996 to August 2003. Mr. Hansen received a Certified Public Accountant certificate from the State of Wisconsin and also holds a Wisconsin bar license. Mr. Hansen has a B.B.A. degree in Accounting from the University of Wisconsin, Madison, a J.D. degree from Tulane University School of Law and an L.L.M. degree in Taxation from the New York University Graduate School of Law.

(3) (A) *Employment Agreement dated December 11, 2007 between Pacific Ethanol, Inc. and Joseph W. Hansen*

On December 11, 2007, the Company entered into an Executive Employment Agreement with Joseph W. Hansen ("Executive") in connection with the appointment of Executive as Chief Financial Officer of the Company. Executive's appointment as Chief Financial Officer is effective as of January 2, 2008. The Executive Employment Agreement is included as Exhibit 10.1 to this Current Report on Form 8-K.

Executive is to receive a base salary of \$250,000 per year and is eligible to receive an annual discretionary cash bonus of up to 50% of his base salary, to be paid based upon performance criteria set by the board of directors.

Executive shall be issued an aggregate of 52,650 shares of the Company's common stock pursuant to a restricted stock purchase agreement that will vest as to 10,530 shares on the 90<sup>th</sup> day following Executive's first day of employment and as to an additional 10,530 shares on each October 4<sup>th</sup>, beginning October 4, 2008 and continuing thereafter for three additional years through October 4, 2011, provided that Executive remains employed by the Company.

The Executive Employment Agreement provides for at-will employment.

Executive is entitled to participate in the Company's executive relocation assistance program, which will cover real estate fees up to 6% of the sale price of Executive's residence, reasonable closing costs, moving expenses for usual and customary household goods from Executive's residence to Sacramento, California plus a \$10,000 lump sum payment for incidentals related to Executive's relocation.

Upon termination by the Company without cause, resignation by Executive for good reason or upon the disability of Executive, Executive is entitled to receive (i) severance equal to twelve months of base salary, (ii) continued health insurance coverage for twelve months and, (iii) if Executive has been employed for one full year or longer, accelerated vesting of 25% of all shares or options subject to any equity awards granted to Executive prior to Executive's termination which are unvested as of the date of termination. Notwithstanding the foregoing, if Executive is terminated without cause or resigns with good reason within three months before or twelve months after a change in control, Executive is entitled to (a) severance equal to eighteen months of base salary, (b) continued health insurance coverage for eighteen months, and (c) accelerated vesting of 100% of all shares or options subject to any equity awards granted to Executive prior to Executive's termination that are unvested as of the date of termination.

The term "for good reason" is defined in the Executive Employment Agreement as (i) the assignment to Executive of any duties or responsibilities that result in the material diminution of Executive's authority, duties or responsibility, (ii) a material reduction by the Company in Executive's annual base salary, except to the extent the base salaries of all other executive officers of the Company are accordingly reduced, (iii) a relocation of Executive's place of work, or the Company's principal executive offices if Executive's principal office is at such offices, to a location that increases Executive's daily one-way commute by more than thirty-five miles, or (iv) any material breach by the Company of any material provision of the Executive Employment Agreement.

The term "cause" is defined in the Executive Employment Agreement as (i) Executive's indictment or conviction of any felony or of any crime involving dishonesty; or (ii) Executive's participation in any fraud or other act of willful misconduct against the Company; or (iii) Executive's refusal to comply with any lawful directive of the Company; (iv) Executive's material breach of Executive's fiduciary, statutory, contractual, or common law duties to the Company; or (v) conduct by Executive which in the good faith and reasonable determination of the Board demonstrates gross unfitness to serve; provided, however, that in the event that any of the foregoing events is reasonably capable of being cured, the Company shall, within twenty days after the discovery of such event, provide written notice to Executive describing the nature of such event and Executive shall thereafter have ten business days to cure such event.

A "change in control" of the Company 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")), or persons acting as a group, 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 a majority of the combined voting power of the Company, (ii) there is a merger, consolidation or other business combination transaction of the Company with or into another corporation, entity or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of the Company (or the surviving entity) outstanding immediately after such transaction, or (iii) all or substantially all of the Company's assets are sold.

*Hansen*

The Company entered into an Indemnification Agreement dated as of January 2, 2008 with Joseph W. Hansen (“Indemnitee”) in connection with the appointment of Indemnitee as Chief Financial Officer of the Company. Indemnitee’s appointment as Chief Financial Officer is effective as of January 2, 2008. The Indemnification Agreement is included as Exhibit 10.2 to this Current Report on Form 8-K.

Under the Indemnification Agreement, the Company has agreed to indemnify Indemnitee to the fullest extent permitted by the Delaware General Corporation Law if (a) Indemnitee is a party to or threatened to be made a party to or otherwise involved in any proceeding, or (b) if Indemnitee is a party to or threatened to be made a party to or otherwise involved in any proceeding by or in the right of the Company to procure a judgment in its favor against any and all expenses actually and reasonably incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of any such proceeding.

The indemnification obligations of the Company set forth in the preceding paragraph are subject to the following exceptions: (a) the Company shall not be obligated to indemnify Indemnitee on account of any proceeding with respect to (i) remuneration paid to Indemnitee if it is determined by final judgment or other final adjudication that such remuneration was in violation of law; (ii) a final judgment rendered against Indemnitee for an accounting, disgorgement or repayment of profits made from the purchase or sale by Indemnitee of securities of the Company against Indemnitee or in connection with a settlement by or on behalf of Indemnitee to the extent it is acknowledged by Indemnitee and the Company that such amount paid in settlement resulted from Indemnitee’s conduct from which Indemnitee received monetary personal profit, pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, or other provisions of any federal, state or local statute or rules and regulations thereunder; (iii) a final judgment or other final adjudication that Indemnitee’s conduct was in bad faith, knowingly fraudulent or deliberately dishonest or constituted willful misconduct (but only to the extent of such specific determination); or (iv) on account of conduct that is established by a final judgment as constituting a breach of Indemnitee’s duty of loyalty to the Company or resulting in any personal profit or advantage to which Indemnitee is not legally entitled; (b) the Company shall not be obligated to indemnify or advance expenses to Indemnitee with respect to proceedings or claims initiated or brought by Indemnitee against the Company or its directors, officers, employees or other agents and not by way of defense, except (i) with respect to proceedings brought to establish or enforce a right to indemnification under the Indemnification Agreement or under any other agreement, provision in the Company’s Bylaws or Certificate of Incorporation or applicable law, or (ii) with respect to any other proceeding initiated by Indemnitee that is either approved by the Board of Directors or Indemnitee’s participation is required by applicable law; (c) the Company shall not be obligated to indemnify Indemnitee for any amounts paid in settlement of a proceeding effected without the Company’s written consent; and (d) the Company shall not be obligated to indemnify Indemnitee or otherwise act in violation of any undertaking appearing in and required by the rules and regulations promulgated under the Securities Act of 1933, as amended (the “Act”), or in any registration statement filed with the Securities and Exchange Commission under the Act.

“Expenses” shall be broadly construed and shall include, without limitation, all direct and indirect costs of any type or nature whatsoever (including, without limitation, all attorneys’, witness, or other professional fees and related disbursements, and other out-of-pocket costs of whatever nature), actually and reasonably incurred by Indemnitee in connection with the investigation, defense or appeal of a proceeding or establishing or enforcing a right to indemnification under the Indemnification Agreement, the Delaware General Corporation Law or otherwise, and amounts paid in settlement by or on behalf of Indemnitee, but shall not include any judgments, fines or penalties actually levied against Indemnitee for such individual’s violations of law. The term “expenses” shall also include reasonable compensation for time spent by Indemnitee for which he is not compensated by the Company or any subsidiary or third party (i) for any period during which Indemnitee is not an agent, in the employment of, or providing services for compensation to, the Company or any subsidiary; and (ii) if the rate of compensation and estimated time involved is approved by the directors of the Company who are not parties to any action with respect to which expenses are incurred, for Indemnitee while an agent of, employed by, or providing services for compensation to, the Company or any subsidiary.

If Indemnitee requests the Company to pay the expenses of any proceeding, the Company, if appropriate, shall be entitled to assume the defense of such proceeding or to participate to the extent permissible in such proceeding, with counsel reasonably acceptable to Indemnitee. Upon assumption of the defense by the Company, the Company shall not be liable to Indemnitee for any fees of counsel subsequently incurred by Indemnity with respect to the same proceeding.

In addition, the Company is required to advance expenses on behalf of the Indemnitee in connection with Indemnitee’s defense in any such proceeding; provided, that the Indemnitee undertakes in writing to repay such amounts to the extent that it is ultimately determined that the Indemnitee is not entitled to indemnification by the Company.

To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents of the Company or of any subsidiary, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies.

(d) Not applicable.

(e) The Company entered into Amended and Restated Executive Employment Agreements dated as of December 11, 2007 with each of the following executive officers, each of which Amended and Restated Executive Employment Agreements is substantially the same as the Executive Employment Agreement described in Item 5.02(c)(3) above for Joseph W. Hansen, the description of which is incorporated herein by reference, except as follows:

- Neil M. Koehler is employed as the Company’s President and Chief Executive Officer and is to receive a base salary of \$300,000 per year and is eligible to receive an annual discretionary cash bonus of up to 70% of his base salary, to be paid based upon performance criteria set by the board of directors and an additional cash bonus not to exceed 50% of the net free cash flow of Kinergy Marketing, LLC (defined as revenues of Kinergy Marketing, LLC, less Mr. Koehler’s salary and performance bonus, less capital expenditures and all expenses incurred specific to Kinergy Marketing, LLC), subject to a maximum of \$300,000 in any given year; provided, that such bonus will be reduced by ten percentage points each year, commencing in 2005, such that 2009 will be the final year of such bonus at 10% of net free cash flow. Kinergy Marketing, LLC is a wholly-owned subsidiary of the Company. Mr. Koehler’s Amended and Restated Executive Employment Agreement does not provide for any particular additional equity compensation grants but Mr. Koehler is eligible for future equity compensation grants in the sole discretion of the compensation committee of the Company’s board of directors. Mr. Koehler’s Amended and Restated Executive Employment Agreement does not provide for any relocation assistance. Mr. Koehler’s Amended and Restated Executive Employment Agreement is included as Exhibit 10.3 to this Current Report on Form 8-K.

- John T. Miller is employed as the Company's Chief Operating Officer and is to receive a base salary of \$250,000 per year and is eligible to receive an annual discretionary cash bonus of up to 50% of his base salary, to be paid based upon performance criteria set by the board of directors. Mr. Miller's Amended and Restated Executive Employment Agreement does not provide for any particular additional equity compensation grants but Mr. Miller is eligible for future equity compensation grants in the sole discretion of the compensation committee of the Company's board of directors. Mr. Miller's Amended and Restated Executive Employment Agreement does not provide for any relocation assistance. Mr. Miller's Amended and Restated Executive Employment Agreement is included as Exhibit 10.4 to this Current Report on Form 8-K.
- Christopher W. Wright is employed as the Company's Vice President, General Counsel and Secretary and is to receive a base salary of \$225,000 per year and is eligible to receive an annual discretionary cash bonus of up to 50% of his base salary, to be paid based upon performance criteria set by the board of directors. Mr. Wright's Amended and Restated Executive Employment Agreement does not provide for any particular additional equity compensation grants but Mr. Wright is eligible for future equity compensation grants in the sole discretion of the compensation committee of the Company's board of directors. Mr. Wright's Amended and Restated Executive Employment Agreement does not provide for any relocation assistance. Mr. Wright's Amended and Restated Executive Employment Agreement is included as Exhibit 10.5 to this Current Report on Form 8-K.

The disclosures included in Item 5.02(c)(3) above are incorporated herein by reference.

**Item 9.01. Financial Statements and Exhibits.**

(a) Financial statements of businesses acquired.

Not applicable.

(b) Pro forma financial information.

Not applicable.

(c) Shell company transactions.

Not applicable.

(d) Exhibits.

<u>Number</u>	<u>Description</u>
10.1	Executive Employment Agreement dated December 11, 2007 by and between Pacific Ethanol, Inc. and Joseph W. Hansen (*)
10.2	Indemnification Agreement dated as of January 2, 2008 by and between Pacific Ethanol, Inc. and Joseph W. Hansen (*)
10.3	Amended and Restated Executive Employment Agreement dated December 11, 2007 by and between Pacific Ethanol, Inc. and Neil M. Koehler (*)
10.4	Amended and Restated Executive Employment Agreement dated December 11, 2007 by and between Pacific Ethanol, Inc. and John T. Miller (*)
10.5	Amended and Restated Executive Employment Agreement dated December 11, 2007 by and between Pacific Ethanol, Inc. and Christopher W. Wright (*)

\* Filed herewith.

## SIGNATURES

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.

Date: December 13, 2007

PACIFIC ETHANOL, INC.

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	Executive Employment Agreement dated December 11, 2007 by and between Pacific Ethanol, Inc. and Joseph W. Hansen
10.2	Indemnification Agreement dated as of January 2, 2008 by and between Pacific Ethanol, Inc. and Joseph W. Hansen
10.3	Amended and Restated Executive Employment Agreement dated December 11, 2007 by and between Pacific Ethanol, Inc. and Neil M. Koehler
10.4	Amended and Restated Executive Employment Agreement dated December 11, 2007 by and between Pacific Ethanol, Inc. and John T. Miller
10.5	Amended and Restated Executive Employment Agreement dated December 11, 2007 by and between Pacific Ethanol, Inc. and Christopher W. Wright

**PACIFIC ETHANOL, INC.**  
**EXECUTIVE EMPLOYMENT AGREEMENT**  
**for**  
**JOSEPH W. HANSEN**

This Executive Employment Agreement (“Agreement”) by and between Joseph W. Hansen (“Executive”) and Pacific Ethanol, Inc. (the “Company”) (collectively, the “Parties”) is effective as of the last date signed by the Parties.

**Whereas**, the Company desires to employ Executive to provide personal services to the Company, and wishes to provide Executive with certain compensation and benefits in return for his services;

**Whereas**, Executive wishes to be employed by the Company and to provide personal services to the Company in return for certain compensation and benefits; and

**Now, Therefore**, in consideration of the mutual promises and covenants contained herein, it is hereby agreed by and between the parties hereto as follows:

**1. Employment by the Company.**

**1.1 Position.** Subject to terms and conditions set forth herein, the Company agrees to employ Executive in the position of Chief Financial Officer and Executive hereby accepts such employment. During the term of Executive’s employment with the Company, Executive will devote Executive’s best efforts and substantially all of Executive’s business time and attention to the business of the Company, except for vacation periods as set forth herein and reasonable periods of illness or other incapacities permitted by the Company’s general employment policies. Executive’s first date of employment shall be January 2, 2008.

**1.2 Duties and Location.** Executive shall serve in an executive capacity and shall perform such duties as are customarily associated with Executive’s then current title, consistent with the bylaws of the Company and as required by the Company’s Board of Directors (the “Board”) and Chief Executive Officer. Executive shall report to the Company’s Chief Executive Officer. Executive’s primary office location shall be in Sacramento, California, or such other location as is acceptable to both the Executive and the Company. The Company reserves the right to reasonably require Executive to perform Executive’s duties at places other than Executive’s primary office location from time to time as agreed to by Executive, and to require reasonable business travel.

**1.3 Policies and Procedures.** The employment relationship between the parties shall be governed by the general employment policies and practices of the Company, except that when the terms of this Agreement differ from or are in conflict with the Company’s general employment policies or practices, this Agreement shall control.

## 2. Compensation.

**2.1 Salary.** For services to be rendered hereunder, Executive shall receive an annual salary at the rate of \$250,000.00, paid bi-weekly in the amount of \$9,615.38 (the "Base Salary"), subject to standard payroll deductions and withholdings and payable in accordance with the Company's regular payroll schedule. Executive's Base Salary shall be reviewed annually and may be increased as approved by the Board in its sole discretion.

**2.2 Annual Bonus.** Executive will be eligible for an annual discretionary bonus of up to fifty percent (50%) of his Base Salary (the "Annual Bonus"). Whether any Annual Bonus will be awarded, and the amount of the Annual Bonus awarded to Executive, shall be determined by the Board in its sole discretion based upon its consideration of both the Company's performance and Executive's performance. Since the Annual Bonus is intended both to reward past Company and Executive performance and to provide an incentive for Executive to remain with the Company, Executive must remain an active employee through the date that any such bonus is awarded to him in order to earn any such bonus. Executive will not earn any Annual Bonus (including a prorated bonus) if Executive's employment terminates for any reason before the Annual Bonus is awarded to him. Any Annual Bonus awarded by the Board shall be paid within the first quarter after the end of the calendar year.

**2.3 Standard Company Benefits.** Executive shall be entitled to participate in all employee benefit programs for which Executive is eligible under the terms and conditions of the benefit plans which may be in effect from time to time and provided by the Company to its employees generally; **provided, however,** that Executive shall not be entitled to accrued vacation pay.

**2.4 Restricted Stock; Options.** Subject to the approval of the Board, Executive shall be granted 52,650 shares of restricted Company stock (the "Restricted Stock"). The Restricted Stock shall vest according to a vesting schedule set forth in the governing restricted stock purchase agreement which shall be: 10,530 shares shall vest on 90<sup>th</sup> day following Executive's first date of employment, 10,530 shares shall vest on October 4, 2008, 10,530 shares shall vest on October 4, 2009, 10,530 shares shall vest on October 4, 2010, and 10,530 shares shall vest on October 4, 2011; **provided** that Executive remains employed by the Company. Executive shall also be eligible for additional grants of restricted stock and/or stock options from time to time as shall be determined by the Compensation Committee of the Board in its sole discretion, and shall be subject to such vesting, exercisability, and other provisions as the Board may determine in its discretion, after reviewing the performance of both Executive and the Company. Both the Restricted Stock and any stock options shall be governed in all respects by the terms of the applicable restricted stock purchase agreement, stock option agreement, grant notice and plan documents.

**2.5 Relocation Assistance.** Executive shall be entitled to participate in the Company's executive relocation assistance to program, which will cover real estate fees up to 6% of the sale price of your Wisconsin residence, reasonable closing costs, moving expenses for usual and customary household goods from Wisconsin and/or Southern California to Sacramento, plus a \$10,000 gross (not tax protected) lump sum payment for incidentals related to your move.

### **3. Confidential Information Obligations.**

**3.1 Confidential Information Agreement.** As a condition of employment, Executive agrees to execute and abide by the Employee Confidential Information and Inventions Agreement attached hereto as Exhibit A.

**3.2 Third Party Agreements and Information.** Executive represents and warrants that Executive's employment by the Company will not conflict with any prior employment or consulting agreement or other agreement with any third party, and that Executive will perform Executive's duties to the Company without violating any such agreement. Executive represents and warrants that Executive does not possess confidential information arising out of prior employment, consulting, or other third party relationships, which would be used in connection with Executive's employment by the Company, except as expressly authorized by that third party. During Executive's employment by the Company, Executive will use in the performance of Executive's duties only information which is generally known and used by persons with training and experience comparable to Executive's own, common knowledge in the industry, otherwise legally in the public domain, or obtained or developed by the Company or by Executive in the course of Executive's work for the Company.

### **4. Outside Activities During Employment.**

**4.1 Non-Company Business.** Except with the prior written consent of the Chief Executive Officer (in consultation with the General Counsel), Executive will not during the term of Executive's employment with the Company undertake or engage in any other employment, occupation or business enterprise, other than ones in which Executive is a passive investor. Executive may engage in civic and not-for-profit activities so long as such activities do not materially interfere with the performance of Executive's duties hereunder.

**4.2 No Adverse Interests.** Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known by him to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise, except as a passive investor in mutual or exchange traded funds.

### **5. Termination Of Employment.**

**5.1 At-Will Relationship.** Executive's employment relationship is at-will. Either Executive or the Company may terminate the employment relationship at any time, with or without Cause or advance notice.

**5.2 Termination without Cause; Resignation for Good Reason.** If, at any time, the Company terminates Executive's employment without Cause (as defined herein), or Executive resigns with Good Reason (as defined herein), and Executive executes and delivers the Separation Date Release of all claims set forth as Exhibit B hereto and allows such release to become effective, then the Company will provide Executive with the following severance benefits:

(a) **Cash Severance.** The Company shall pay Executive severance in the form of continuation of Executive's Base Salary in effect on Executive's last day of employment for a period of twelve (12) months after Executive's termination, subject to standard payroll deductions and withholdings and payable on the Company's regular payroll schedule; **provided, however,** that in the event the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), then the Company shall pay Executive severance in the form of continuation of Executive's Base Salary in effect on Executive's last day of employment for a period of eighteen (18) months after Executive's termination, subject to standard payroll deductions and withholdings and payable on the Company's regular payroll schedule. Each payment made pursuant to this Section 5.2(a) is intended to be a separate payment (as defined in Treasury Regulations Section 1.409A-2(b)(2)) from any other payments made pursuant to this Section 5.2(a) for purposes of the "short term deferral rule" under Treasury Regulations Section 1.409A-1(b)(4).

(b) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of twelve (12) months after the termination date; **provided, however,** that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer. Notwithstanding the foregoing, in the event the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), then (if eligible and coverage elected) the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of eighteen (18) months after the termination date; **provided, however,** that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer and Executive agrees to immediately notify the Company of any such coverage.

(c) **Accelerated Vesting.** If Executive has been employed by the Company for one full year or longer, then the Company will accelerate the vesting of any equity awards granted to Executive prior to Executive's employment termination such that twenty-five percent (25%) of all shares or options subject to such awards which are unvested as of the employment termination date shall be accelerated and deemed fully vested as of Executive's last day of employment; **provided, however,** that in the event, and without the requirement that Executive be employed for one full year or longer, the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), then the Company will accelerate the vesting of any equity awards granted to Executive prior to Executive's employment termination such that one hundred percent (100%) of all shares or options subject to such awards which are unvested as of the employment termination date shall be accelerated and deemed fully vested as of Executive's last day of employment.

**5.3 Termination for Cause; Resignation Without Good Reason.** If the Company terminates Executive's employment with the Company for Cause, or Executive resigns without Good Reason, then Executive will not be entitled to any further compensation from the Company (other than accrued salary, and accrued and unused vacation, through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

**5.4 Termination Due to Death or Disability.**

(a) **Death.** This Agreement shall terminate immediately upon Executive's death and Executive's estate shall not be entitled to any further compensation from the Company (other than accrued salary, and accrued and unused vacation, through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

(b) **Disability.** If Executive is incapacitated by accident, sickness or otherwise such that Executive is incapable of performing the services set forth in Section 1.1 herein, and such incapacity is certified by a qualified medical doctor, then this Agreement shall terminate. In such an event, and if Executive or someone authorized to act on his behalf executes and delivers the Separation Date Release of all claims set forth as Exhibit B hereto and allows such release to become effective, then the Company will provide Executive with the following severance benefits; **provided, however,** that these severance benefits shall be reduced by any amounts provided to Executive by any federal or state disability insurance payments or benefits, and any private insurance disability payments or benefits, provided to Executive:

(i) **Cash Severance.** The Company shall pay Executive severance in the form of continuation of Executive's Base Salary in effect on Executive's last day of employment for a period of twelve (12) months after Executive's termination, subject to standard payroll deductions and withholdings and payable on the Company's regular payroll schedule.

(ii) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of twelve (12) months after the termination date; **provided, however,** that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer.

(iii) **Accelerated Vesting.** If Executive has been employed by the Company for one full year or longer, then the Company will accelerate the vesting of any equity awards granted to Executive prior to Executive's employment termination such that twenty-five percent (25%) of all shares or options subject to such awards which are unvested as of the employment termination date shall be accelerated and deemed fully vested as of Executive's last day of employment.

**5.5 Deferred Compensation.** If the Company determines that any of the severance benefit payments fail to satisfy the distribution requirement of Section 409A(a)(2)(A) of the Internal Revenue Code as a result of Section 409A(a)(2)(B)(i) of the Internal Revenue Code, the payment of such benefit shall be accelerated to the minimum extent necessary so that the benefit is not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. (It is the intention of the preceding sentence to apply the short-term deferral provisions of Section 409A of the Internal Revenue Code, and the regulations and other guidance thereunder, to the severance benefit payments, and the payment schedule as revised after the application of the preceding sentence shall be referred to as the "Revised Payment Schedule.") However, if there is no Revised Payment Schedule that would avoid the application of Section 409A(a)(1) of the Internal Revenue Code, the payment of such benefits shall not be paid pursuant to a Revised Payment Schedule and instead shall be delayed to the minimum extent necessary so that such benefits are not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. The Board may attach conditions to or adjust the amounts paid pursuant to this Section 5.5 to preserve, as closely as possible, the economic consequences that would have applied in the absence of this Section 5.5; **provided, however**, that no such condition or adjustment shall result in the payments being subject to Section 409A(a)(1) of the Internal Revenue Code.

**5.6 Limitation on Payments.** In the event that the payments or other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute "parachute payments" within the meaning of Section 280G of the Code, and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then Executive's benefits under this Agreement shall be either (a) delivered in full, or (b) delivered to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. If a reduction in payments or benefits constituting "parachute payments" is necessary pursuant to the foregoing provision, reduction shall occur in the following order unless the Executive elects in writing a different order (**provided, however**, that such election shall be subject to Company approval if made on or after the date on which the event that triggers the parachute payment occurs): reduction of cash payments; cancellation of accelerated vesting of stock awards; reduction of employee benefits. If acceleration of vesting of stock award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant of the Executive's stock awards unless the Executive elects in writing a different order for cancellation.

Unless the Company and Executive otherwise agree in writing, any determination required under this Section 5.6 shall be made in writing by the Company's independent public accountants (the "Accountants"), whose determination shall be conclusive and binding upon Executive and the Company for all purposes and may be relied upon by the Company. For purposes of making the calculations required by this Section 5.6, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and Executive shall further to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 5.6. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 5.6.

**5.7 No Mitigation.** Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as the result of employment by another employer after the date of termination, or otherwise, except for health insurance benefits as set forth herein.

**5.8 Definitions.**

(a) For purposes of this Agreement, "Cause" shall mean any one or more of the following:

(i) Executive's indictment or conviction of any felony or of any crime involving dishonesty;

(ii) Executive's participation in any fraud or other act of willful misconduct against the Company (including any material breach of Company policy that causes or reasonably could cause harm to the Company);

(iii) Executive's refusal to comply with any lawful directive of the Company;

(iv) Executive's material breach of Executive's fiduciary, statutory, contractual, or common law duties to the Company (including any material breach of this Agreement or the Confidential Information and Inventions Agreement); or

(v) Conduct by Executive which in the good faith and reasonable determination of the Board demonstrates gross unfitness to serve.

**Provided, however,** that in the event that any of the foregoing events is reasonably capable of being cured, the Company shall, within twenty (20) days after the discovery of such event, provide written notice to the Executive describing the nature of such event and Executive shall thereafter have ten (10) business days to cure such event.



(b) For purposes of this Agreement, Executive shall have “**Good Reason**” for Executive’s resignation if: (w) any of the following occurs without Executive’s consent; (x) Executive notifies the Company in writing, within twenty (20) days after the occurrence of one of the following events that Executive intends to terminate his employment no earlier than thirty (30) days after providing such notice; (y) the Company does not cure such condition within thirty (30) days following its receipt of such notice or states unequivocally in writing that it does not intend to attempt to cure such condition, and (z) the Executive resigns from employment within thirty (30) days following the end of the period within which the Company was entitled to remedy the condition constituting Good Reason but failed to do so:

(i) the assignment to Executive of any duties or responsibilities which result in the material diminution of Executive’s authority, duties or responsibility; **provided, however**, that the acquisition of the Company and subsequent conversion of the Company to a division or unit of the acquiring corporation will not by itself result in a material diminution of Executive’s authority, duties or responsibility;

(ii) a material reduction by the Company in Executive’s annual base salary, except to the extent the base salaries of all other executive officers of the Company are accordingly reduced;

(iii) a relocation of Executive’s place of work, or the Company’s principal executive offices if Executive’s principal office is at such offices, to a location that increases Executive’s daily one-way commute by more than thirty-five (35) miles; or

(iv) any material breach by the Company of any material provision of this Agreement, including but not limited to Section 7.7.

(c) For purposes of this Agreement, “**Change in Control**” shall 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 Securities Exchange Act of 1934 (“Exchange Act”)), or persons acting as a group, 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 a majority (*e.g.*, 50% plus one share) of the combined voting power of the Company, (ii) there is a merger, consolidation or other business combination transaction of the Company with or into another corporation, entity or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of the Company (or the surviving entity) outstanding immediately after such transaction, or (iii) all or substantially all of the Company’s assets are sold.

**6. Arbitration.**

To ensure the timely and economical resolution of disputes that may arise in connection with Executive's employment with the Company, Executive and the Company agree that any and all disputes, claims, or causes of action arising from or relating to the enforcement, breach, performance, negotiation, execution, or interpretation of this Agreement, Executive's employment, or the termination of Executive's employment, shall be resolved to the fullest extent permitted by law by final, binding and confidential arbitration, by a single arbitrator, in Sacramento, California, conducted by JAMS under the then applicable JAMS rules. **By agreeing to this arbitration procedure, both Executive and the Company waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding.** The arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision, to include the arbitrator's essential findings and conclusions and a statement of the award. The arbitrator shall be authorized to award any or all remedies that Executive or the Company would be entitled to seek in a court of law. The Company shall pay all JAMS' arbitration fees in excess of the amount of court fees that would be required if the dispute were decided in a court of law. Nothing in this Agreement is intended to prevent either Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration.

**7. General Provisions.**

**7.1 Notices.** Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of personal delivery (including personal delivery by fax) or the next day after sending by overnight carrier, to the Company at its primary office location and to Executive at his address as listed on the Company payroll.

**7.2 Severability.** Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction to the extent possible in keeping with the intent of the parties.

**7.3 Waiver.** Any waiver of any breach of any provisions of this Agreement must be in writing to be effective, and it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

**7.4 Complete Agreement.** This Agreement, including Exhibit A, constitutes the entire agreement between Executive and the Company and it is the complete, final, and exclusive embodiment of their agreement with regard to this subject matter. It is entered into without reliance on any promise or representation other than those expressly contained herein, and it cannot be modified or amended except in a writing signed by the Executive and a duly authorized officer of the Company.

**7.5 Counterparts.** This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same Agreement.

**7.6 Headings.** The headings of the sections hereof are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

**7.7 Successors and Assigns.** This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive and the Company, and their respective successors, assigns, heirs, executors and administrators, except that Executive may not assign any of his duties hereunder and he may not assign any of his rights hereunder without the written consent of the Company, which shall not be withheld unreasonably. The Company shall obtain the assumption of this Agreement by any successor or assign of the Company.

**7.8 Choice of Law.** All questions concerning the construction, validity and interpretation of this Agreement will be governed by the law of the State of California.

**In Witness Whereof**, the parties have executed this Agreement.

**Pacific Ethanol, Inc.**

By: /s/ Neil M. Koehler

Neil M. Koehler  
President and Chief Executive Officer

Date: 12/11/2007

**Understood and Agreed:**

**Executive**

By: /s/ Joseph W. Hansen  
Joseph W. Hansen

Date: 12/11/2007

PACIFIC ETHANOL, INC.

INDEMNITY AGREEMENT

This Indemnity Agreement (this "Agreement") dated as of January 2, 2008, is made by and between Pacific Ethanol, Inc., a Delaware corporation (the "Company"), and Joseph W. Hansen ("Indemnitee").

Recitals

A. The Company desires to attract and retain the services of highly qualified individuals as directors, officers, employees and agents.

B. The Company's bylaws (the "Bylaws") require that the Company indemnify its directors, and empowers the Company to indemnify its officers, employees and agents, as authorized by the Delaware General Corporation Law, as amended (the "Code"), under which the Company is organized and such Bylaws expressly provide that the indemnification provided therein is not exclusive and contemplates that the Company may enter into separate agreements with its directors, officers and other persons to set forth specific indemnification provisions.

C. Indemnitee does not regard the protection currently provided by applicable law, the Company's governing documents and available insurance as adequate under the present circumstances, and the Company has determined that Indemnitee and other directors, officers, employees and agents of the Company may not be willing to serve or continue to serve in such capacities without additional protection.

D. The Company desires and has requested Indemnitee to serve or continue to serve as a director, officer, employee or agent of the Company, as the case may be, and has proffered this Agreement to Indemnitee as an additional inducement to serve in such capacity.

E. Indemnitee is willing to serve, or to continue to serve, as a director, officer, employee or agent of the Company, as the case may be, if Indemnitee is furnished the indemnity provided for herein by the Company.

Agreement

Now Therefore, in consideration of the mutual covenants and agreements set forth herein, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Definitions.

(a) **Agent.** For purposes of this Agreement, the term "agent" of the Company means any person who: (i) is or was a director, officer, employee or other fiduciary of the Company or a subsidiary of the Company; or (ii) is or was serving at the request or for the convenience of, or representing the interests of, the Company or a subsidiary of the Company, as a director, officer, employee or other fiduciary of a foreign or domestic corporation, partnership, joint venture, trust or other enterprise.

(b) **Expenses.** For purposes of this Agreement, the term “expenses” shall be broadly construed and shall include, without limitation, all direct and indirect costs of any type or nature whatsoever (including, without limitation, all attorneys’, witness, or other professional fees and related disbursements, and other out-of-pocket costs of whatever nature), actually and reasonably incurred by Indemnitee in connection with the investigation, defense or appeal of a proceeding or establishing or enforcing a right to indemnification under this Agreement, the Code or otherwise, and amounts paid in settlement by or on behalf of Indemnitee, but shall not include any judgments, fines or penalties actually levied against Indemnitee for such individual’s violations of law. The term “expenses” shall also include reasonable compensation for time spent by Indemnitee for which he is not compensated by the Company or any subsidiary or third party (i) for any period during which Indemnitee is not an agent, in the employment of, or providing services for compensation to, the Company or any subsidiary; and (ii) if the rate of compensation and estimated time involved is approved by the directors of the Company who are not parties to any action with respect to which expenses are incurred, for Indemnitee while an agent of, employed by, or providing services for compensation to, the Company or any subsidiary.

(c) **Proceedings.** For purposes of this Agreement, the term “proceeding” shall be broadly construed and shall include, without limitation, any threatened, pending, or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought in the right of the Company or otherwise and whether of a civil, criminal, administrative or investigative nature, and whether formal or informal in any case, in which Indemnitee was, is or will be involved as a party or otherwise by reason of: (i) the fact that Indemnitee is or was a director or officer of the Company; (ii) the fact that any action taken by Indemnitee or of any action on Indemnitee’s part while acting as director, officer, employee or agent of the Company; or (iii) the fact that Indemnitee is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, and in any such case described above, whether or not serving in any such capacity at the time any liability or expense is incurred for which indemnification, reimbursement, or advancement of expenses may be provided under this Agreement.

(d) **Subsidiary.** For purposes of this Agreement, the term “subsidiary” means any corporation or limited liability company of which more than 50% of the outstanding voting securities or equity interests are owned, directly or indirectly, by the Company and one or more of its subsidiaries, and any other corporation, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the request of the Company as a director, officer, employee, agent or fiduciary.

(e) **Independent Counsel.** For purposes of this Agreement, the term “independent counsel” means a law firm, or a partner (or, if applicable, member) of such a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five (5) years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party, or (ii) any other party to the proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “independent counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement.

**2. Agreement to Serve.** Indemnitee will serve, or continue to serve, as a director, officer, employee or agent of the Company or any subsidiary, as the case may be, faithfully and to the best of his or her ability, at the will of such corporation (or under separate agreement, if such agreement exists), in the capacity Indemnitee currently serves as an agent of such corporation, so long as Indemnitee is duly appointed or elected and qualified in accordance with the applicable provisions of the bylaws or other applicable charter documents of such corporation, or until such time as Indemnitee tenders his or her resignation in writing; provided, however, that nothing contained in this Agreement is intended as an employment agreement between Indemnitee and the Company or any of its subsidiaries or to create any right to continued employment of Indemnitee with the Company or any of its subsidiaries in any capacity.

The Company acknowledges that it has entered into this Agreement and assumes the obligations imposed on it hereby, in addition to and separate from its obligations to Indemnitee under the Bylaws, to induce Indemnitee to serve, or continue to serve, as a director, officer, employee or agent of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as a director, officer, employee or agent of the Company.

**3. Indemnification.**

**(a) Indemnification in Third Party Proceedings.** Subject to Section 10 below, the Company shall indemnify Indemnitee to the fullest extent permitted by the Code, as the same may be amended from time to time (but, only to the extent that such amendment permits Indemnitee to broader indemnification rights than the Code permitted prior to adoption of such amendment), if Indemnitee is a party to or threatened to be made a party to or otherwise involved in any proceeding, for any and all expenses, actually and reasonably incurred by Indemnitee in connection with the investigation, defense, settlement or appeal of such proceeding.

**(b) Indemnification in Derivative Actions and Direct Actions by the Company.** Subject to Section 10 below, the Company shall indemnify Indemnitee to the fullest extent permitted by the Code, as the same may be amended from time to time (but, only to the extent that such amendment permits Indemnitee to broader indemnification rights than the Code permitted prior to adoption of such amendment), if Indemnitee is a party to or threatened to be made a party to or otherwise involved in any proceeding by or in the right of the Company to procure a judgment in its favor, against any and all expenses actually and reasonably incurred by Indemnitee in connection with the investigation, defense, settlement, or appeal of such proceedings.

**4. Indemnification of Expenses of Successful Party.** Notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits or otherwise in defense of any proceeding or in defense of any claim, issue or matter therein, including the dismissal of any action without prejudice, the Company shall indemnify Indemnitee against all expenses actually and reasonably incurred in connection with the investigation, defense or appeal of such proceeding.

**5. Partial Indemnification.** If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of any expenses actually and reasonably incurred by Indemnitee in the investigation, defense, settlement or appeal of a proceeding, but is precluded by applicable law or the specific terms of this Agreement to indemnification for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled.

**6. Advancement of Expenses.** To the extent not prohibited by law, the Company shall advance the expenses incurred by Indemnitee in connection with any proceeding, and such advancement shall be made within twenty (20) days after the receipt by the Company of a statement or statements requesting such advances (which shall include invoices received by Indemnitee in connection with such expenses but, in the case of invoices in connection with legal services, any references to legal work performed or to expenditures made that would cause Indemnitee to waive any privilege accorded by applicable law shall not be included with the invoice) and upon request of the Company, an undertaking to repay the advancement of expenses if and to the extent that it is ultimately determined by a court of competent jurisdiction in a final judgment, not subject to appeal, that Indemnitee is not entitled to be indemnified by the Company. Advances shall be unsecured, interest free and without regard to Indemnitee's ability to repay the expenses. Advances shall include any and all expenses actually and reasonably incurred by Indemnitee pursuing an action to enforce Indemnitee's right to indemnification under this Agreement, or otherwise and this right of advancement, including expenses incurred preparing and forwarding statements to the Company to support the advances claimed. Indemnitee acknowledges that the execution and delivery of this Agreement shall constitute an undertaking providing that Indemnitee shall, to the fullest extent required by law, repay the advance if and to the extent that it is ultimately determined by a court of competent jurisdiction in a final judgment, not subject to appeal, that Indemnitee is not entitled to be indemnified by the Company. The right to advances under this Section shall continue until final disposition of any proceeding, including any appeal therein. This Section 6 shall not apply to any claim made by Indemnitee for which indemnity is excluded pursuant to Section 10(b).

**7. Notice and Other Indemnification Procedures.**

**(a) Notification of Proceeding.** Indemnitee will notify the Company in writing promptly upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any proceeding or matter which may be subject to indemnification or advancement of expenses covered hereunder. The failure of Indemnitee to so notify the Company shall not relieve the Company of any obligation which it may have to Indemnitee under this Agreement or otherwise.

**(b) Request for Indemnification and Indemnification Payments.** Indemnitee shall notify the Company promptly in writing upon receiving notice of any demand, judgment or other requirement for payment that Indemnitee reasonably believes to be subject to indemnification under the terms of this Agreement, and shall request payment thereof by the Company. Indemnification payments requested by Indemnitee under Section 3 hereof shall be made by the Company no later than sixty (60) days after receipt of the written request of Indemnitee. Claims for advancement of expenses shall be made under the provisions of Section 6 herein.

(c) **Application for Enforcement.** In the event the Company fails to make timely payments as set forth in Sections 6 or 7(b) above, Indemnitee shall have the right to apply to any court of competent jurisdiction for the purpose of enforcing Indemnitee's right to indemnification or advancement of expenses pursuant to this Agreement. In such an enforcement hearing or proceeding, the burden of proof shall be on the Company to prove by that indemnification or advancement of expenses to Indemnitee is not required under this Agreement or permitted by applicable law. Any determination by the Company (including its Board of Directors, stockholders or independent counsel) that Indemnitee is not entitled to indemnification hereunder, shall not be a defense by the Company to the action nor create any presumption that Indemnitee is not entitled to indemnification or advancement of expenses hereunder.

(d) **Indemnification of Certain Expenses.** The Company shall indemnify Indemnitee against all expenses incurred in connection with any hearing or proceeding under this Section 7 unless the Company prevails in such hearing or proceeding on the merits in all material respects.

8. **Assumption of Defense.** In the event the Company shall be requested by Indemnitee to pay the expenses of any proceeding, the Company, if appropriate, shall be entitled to assume the defense of such proceeding, or to participate to the extent permissible in such proceeding, with counsel reasonably acceptable to Indemnitee. Upon assumption of the defense by the Company and the retention of such counsel by the Company, the Company shall not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same proceeding, provided that Indemnitee shall have the right to employ separate counsel in such proceeding at Indemnitee's sole cost and expense. Notwithstanding the foregoing, if Indemnitee's counsel delivers a written notice to the Company stating that such counsel has reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of any such defense or the Company shall not, in fact, have employed counsel or otherwise actively pursued the defense of such proceeding within a reasonable time, then in any such event the fees and expenses of Indemnitee's counsel to defend such proceeding shall be subject to the indemnification and advancement of expenses provisions of this Agreement.

9. **Insurance.** To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, or agents of the Company or of any subsidiary ("D&O Insurance"), Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies. If, at the time of the receipt of a notice of a claim pursuant to the terms hereof, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement of such proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such proceeding in accordance with the terms of such policies.



## 10. Exceptions.

(a) **Certain Matters.** Any provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement to indemnify Indemnitee on account of any proceeding with respect to (i) remuneration paid to Indemnitee if it is determined by final judgment or other final adjudication that such remuneration was in violation of law (and, in this respect, both the Company and Indemnitee have been advised that the Securities and Exchange Commission believes that indemnification for liabilities arising under the federal securities laws is against public policy and is, therefore, unenforceable and that claims for indemnification should be submitted to appropriate courts for adjudication, as indicated in Section 10(d) below); (ii) a final judgment rendered against Indemnitee for an accounting, disgorgement or repayment of profits made from the purchase or sale by Indemnitee of securities of the Company against Indemnitee or in connection with a settlement by or on behalf of Indemnitee to the extent it is acknowledged by Indemnitee and the Company that such amount paid in settlement resulted from Indemnitee's conduct from which Indemnitee received monetary personal profit, pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended, or other provisions of any federal, state or local statute or rules and regulations thereunder; (iii) a final judgment or other final adjudication that Indemnitee's conduct was in bad faith, knowingly fraudulent or deliberately dishonest or constituted willful misconduct (but only to the extent of such specific determination); or (iv) on account of conduct that is established by a final judgment as constituting a breach of Indemnitee's duty of loyalty to the Company or resulting in any personal profit or advantage to which Indemnitee is not legally entitled. For purposes of the foregoing sentence, a final judgment or other adjudication may be reached in either the underlying proceeding or action in connection with which indemnification is sought or a separate proceeding or action to establish rights and liabilities under this Agreement.

(b) **Claims Initiated by Indemnitee.** Any provision herein to the contrary notwithstanding, the Company shall not be obligated to indemnify or advance expenses to Indemnitee with respect to proceedings or claims initiated or brought by Indemnitee against the Company or its directors, officers, employees or other agents and not by way of defense, except (i) with respect to proceedings brought to establish or enforce a right to indemnification under this Agreement or under any other agreement, provision in the Bylaws or Certificate of Incorporation or applicable law, or (ii) with respect to any other proceeding initiated by Indemnitee that is either approved by the Board of Directors or Indemnitee's participation is required by applicable law. However, indemnification or advancement of expenses may be provided by the Company in specific cases if the Board of Directors determines it to be appropriate.

(c) **Unauthorized Settlements.** Any provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement to indemnify Indemnitee under this Agreement for any amounts paid in settlement of a proceeding effected without the Company's written consent. Neither the Company nor Indemnitee shall unreasonably withhold consent to any proposed settlement; provided, however, that the Company may in any event decline to consent to (or to otherwise admit or agree to any liability for indemnification hereunder in respect of) any proposed settlement if the Company is also a party in such proceeding and determines in good faith that such settlement is not in the best interests of the Company and its stockholders.

(d) **Securities Act Liabilities.** Any provision herein to the contrary notwithstanding, the Company shall not be obligated pursuant to the terms of this Agreement to indemnify Indemnitee or otherwise act in violation of any undertaking appearing in and required by the rules and regulations promulgated under the Securities Act of 1933, as amended (the "Act"), or in any registration statement filed with the SEC under the Act. Indemnitee acknowledges that paragraph (h) of Item 512 of Regulation S-K currently generally requires the Company to undertake in connection with any registration statement filed under the Act to submit the issue of the enforceability of Indemnitee's rights under this Agreement in connection with any liability under the Act on public policy grounds to a court of appropriate jurisdiction and to be governed by any final adjudication of such issue. Indemnitee specifically agrees that any such undertaking shall supersede the provisions of this Agreement and to be bound by any such undertaking.

**11. Nonexclusivity and Survival of Rights.** The provisions for indemnification and advancement of expenses set forth in this Agreement shall not be deemed exclusive of any other rights which Indemnitee may at any time be entitled under any provision of applicable law, the Company's Certificate of Incorporation, Bylaws or other agreements, both as to action in Indemnitee's official capacity and Indemnitee's action as an agent of the Company, in any court in which a proceeding is brought, and Indemnitee's rights hereunder shall continue after Indemnitee has ceased acting as an agent of the Company and shall inure to the benefit of the heirs, executors, administrators and assigns of Indemnitee. The obligations and duties of the Company to Indemnitee under this Agreement shall be binding on the Company and its successors and assigns until terminated in accordance with its terms. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his or her corporate status prior to such amendment, alteration or repeal. To the extent that a change in the Code, whether by statute or judicial decision, permits greater indemnification or advancement of expenses than would be afforded currently under the Company's Certificate of Incorporation, Bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, by Indemnitee shall not prevent the concurrent assertion or employment of any other right or remedy by Indemnitee.

**12. Term.** This Agreement shall continue until and terminate upon the later of: (a) five (5) years after the date that Indemnitee shall have ceased to serve as a director or and/or officer, employee or agent of the Company; or (b) one (1) year after the final termination of any proceeding, including any appeal then pending, in respect to which Indemnitee was granted rights of indemnification or advancement of expenses hereunder.

No legal action shall be brought and no cause of action shall be asserted by or in the right of the Company against an Indemnitee or an Indemnitee's estate, spouse, heirs, executors or personal or legal representatives after the expiration of five (5) years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such five-year period; provided, however, that if any shorter period of limitations is otherwise applicable to such cause of action, such shorter period shall govern.

**13. Subrogation.** In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who, at the request and expense of the Company, shall execute all papers required and shall do everything that may be reasonably necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

**14. Interpretation of Agreement.** It is understood that the parties hereto intend this Agreement to be interpreted and enforced so as to provide indemnification to Indemnitee to the fullest extent now or hereafter permitted by law.

**15. Severability.** If any provision of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever, (a) the validity, legality and enforceability of the remaining provisions of the Agreement (including without limitation, all portions of any paragraphs of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, all portions of any paragraph of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that are not themselves invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable and to give effect to Section 14 hereof.

**16. Amendment and Waiver.** No supplement, modification, amendment, or cancellation of this Agreement shall be binding unless executed in writing by the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

**17. Notice.** Except as otherwise provided herein, any notice or demand which, by the provisions hereof, is required or which may be given to or served upon the parties hereto shall be in writing and, if by telegram, telecopy or telex, shall be deemed to have been validly served, given or delivered when sent, if by overnight delivery, courier or personal delivery, shall be deemed to have been validly served, given or delivered upon actual delivery and, if mailed, shall be deemed to have been validly served, given or delivered three (3) business days after deposit in the United States mail, as registered or certified mail, with proper postage prepaid and addressed to the party or parties to be notified at the addresses set forth on the signature page of this Agreement (or such other address(es) as a party may designate for itself by like notice). If to the Company, notices and demands shall be delivered to the attention of the Secretary of the Company.

**18. Governing Law.** This Agreement shall be governed exclusively by and construed according to the laws of the State of California, as applied to contracts between California residents entered into and to be performed entirely within California.

**19. Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute but one and the same Agreement. Only one such counterpart need be produced to evidence the existence of this Agreement.

**20. Headings.** The headings of the sections of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction hereof.

**21. Entire Agreement.** This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, understandings and negotiations, written and oral, between the parties with respect to the subject matter of this Agreement; provided, however, that this Agreement is a supplement to and in furtherance of the Company's Certificate of Incorporation, Bylaws, the Code and any other applicable law, and shall not be deemed a substitute therefor, and does not diminish or abrogate any rights of Indemnatee thereunder.

**In Witness Whereof**, the parties hereto have entered into this Agreement effective as of the date first above written.

**PACIFIC ETHANOL, INC.**

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

**INDEMNITEE**

/s/ Joseph W. Hansen  
Signature of Indemnitee

Joseph W. Hansen  
Print or Type Name of Indemnitee

**PACIFIC ETHANOL, INC.**

**AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT  
for  
NEIL M. KOEHLER**

This Amended and Restated Executive Employment Agreement (“Agreement”) by and between Neil M. Koehler (“Executive”) and Pacific Ethanol, Inc. (the “Company”) (collectively, the “Parties”) is effective as of the last date signed by the Parties.

**WHEREAS**, the Company desires to employ Executive to provide personal services to the Company, and wishes to provide Executive with certain compensation and benefits in return for his services;

**WHEREAS**, Executive wishes to be employed by the Company and to provide personal services to the Company in return for certain compensation and benefits;

**WHEREAS**, the Parties entered into an Executive Employment Agreement on or about March 25, 2005, setting forth certain terms of Executive’s employment with the Company (the “Original Employment Agreement”) and now seek to supersede and replace the Original Employment Agreement with this Agreement;

**WHEREAS**, once this Agreement is effective, the parties agree that the Original Employment Agreement shall have no further force or effect;

**NOW, THEREFORE**, in consideration of the mutual promises and covenants contained herein, it is hereby agreed by and between the parties hereto as follows:

**1. EMPLOYMENT BY THE COMPANY.**

**1.1 Position.** Subject to terms and conditions set forth herein, the Company agrees to employ Executive in the position of President and Chief Executive Officer and Executive hereby accepts such employment. During the term of Executive’s employment with the Company, Executive will devote Executive’s best efforts and substantially all of Executive’s business time and attention to the business of the Company, except for vacation periods as set forth herein and reasonable periods of illness or other incapacities permitted by the Company’s general employment policies.

**1.2 Duties and Location.** Executive shall serve in an executive capacity and shall perform such duties as are customarily associated with Executive’s then current title, consistent with the bylaws of the Company and as required by the Company’s Board of Directors (the “Board”). Executive shall report to the Board. Executive’s primary office location shall be a location mutually acceptable to both the Executive and the Company. The Company reserves the right to reasonably require Executive to perform Executive’s duties at places other than Executive’s primary office location from time to time as agreed to by Executive, and to require reasonable business travel.

**1.3 Policies and Procedures.** The employment relationship between the parties shall be governed by the general employment policies and practices of the Company, except that when the terms of this Agreement differ from or are in conflict with the Company's general employment policies or practices, this Agreement shall control.

## **2. COMPENSATION.**

**2.1 Salary.** For services to be rendered hereunder, Executive shall receive an annual salary at the rate of \$300,000.00, paid bi-weekly in the amount of \$11,538.46 (the "Base Salary"), subject to standard payroll deductions and withholdings and payable in accordance with the Company's regular payroll schedule. Executive's Base Salary shall be reviewed annually and may be increased as approved by the Board in its sole discretion.

**2.2 Annual Bonus.** Executive will be eligible for an annual discretionary bonus of up to seventy percent (70%) of his Base Salary (the "Annual Bonus"). Whether any Annual Bonus will be awarded, and the amount of the Annual Bonus awarded to Executive, shall be determined by the Board in its sole discretion based upon its consideration of both the Company's performance and Executive's performance. Since the Annual Bonus is intended both to reward past Company and Executive performance and to provide an incentive for Executive to remain with the Company, Executive must remain an active employee through the date that any such bonus is awarded to him in order to earn any such bonus. Executive will not earn any Annual Bonus (including a prorated bonus) if Executive's employment terminates for any reason before the Annual Bonus is awarded to him. Any Annual Bonus awarded by the Board shall be paid within the first quarter after the end of the calendar year.

**2.3 Additional Cash Bonus.** In addition to the Annual Bonus provided for in Section 2.2 above, Executive will be eligible for an additional cash bonus not to exceed 50% of the net free cash flow (defined as revenues of Kinergy Marketing, LLC, less Executive's salary and Annual Bonus, less capital expenditures and all expenses incurred specific to Kinergy Marketing, LLC), subject to a maximum of \$300,000 in any given year; **provided, however**, that such percentage will be reduced by ten percentage points each year, commencing in 2005, such that 2009 will be the final year of such bonus as 10% of net free cash flow.

**2.4 Standard Company Benefits.** Executive shall be entitled to participate in all employee benefit programs for which Executive is eligible under the terms and conditions of the benefit plans which may be in effect from time to time and provided by the Company to its employees generally; **provided, however**, that Executive shall not be entitled to accrued vacation pay.

**2.5 Restricted Stock; Options.** Executive has been granted certain shares of restricted Company stock (the "Restricted Stock"). Executive shall also be eligible for additional grants of restricted stock and/or stock options from time to time as shall be determined by the Compensation Committee of the Board in its sole discretion, and shall be subject to such vesting, exercisability, and other provisions as the Board may determine in its discretion, after reviewing the performance of both Executive and the Company. Both the Restricted Stock and any stock options shall be governed in all respects by the terms of the applicable restricted stock purchase agreement, stock option agreement, grant notice and plan documents.

### 3. CONFIDENTIAL INFORMATION OBLIGATIONS.

**3.1 Confidential Information Agreement.** As a condition of employment, Executive agrees to execute and abide by the Employee Confidential Information and Inventions Agreement attached hereto as Exhibit A.

**3.2 Third Party Agreements and Information.** Executive represents and warrants that Executive's employment by the Company will not conflict with any prior employment or consulting agreement or other agreement with any third party, and that Executive will perform Executive's duties to the Company without violating any such agreement. Executive represents and warrants that Executive does not possess confidential information arising out of prior employment, consulting, or other third party relationships, which would be used in connection with Executive's employment by the Company, except as expressly authorized by that third party. During Executive's employment by the Company, Executive will use in the performance of Executive's duties only information which is generally known and used by persons with training and experience comparable to Executive's own, common knowledge in the industry, otherwise legally in the public domain, or obtained or developed by the Company or by Executive in the course of Executive's work for the Company.

### 4. OUTSIDE ACTIVITIES DURING EMPLOYMENT.

**4.1 Non-Company Business.** Except with the prior written consent of the Board, Executive will not during the term of Executive's employment with the Company undertake or engage in any other employment, occupation or business enterprise, other than ones in which Executive is a passive investor. Executive may engage in civic and not-for-profit activities so long as such activities do not materially interfere with the performance of Executive's duties hereunder.

**4.2 No Adverse Interests.** Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known by him to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise, except as a passive investor in mutual or exchange traded funds.

### 5. TERMINATION OF EMPLOYMENT.

**5.1 At-Will Relationship.** Executive's employment relationship is at-will. Either Executive or the Company may terminate the employment relationship at any time, with or without Cause or advance notice.

**5.2 Termination without Cause; Resignation for Good Reason.** If, at any time, the Company terminates Executive's employment without Cause (as defined herein), or Executive resigns with Good Reason (as defined herein), and Executive executes and delivers the Separation Date Release of all claims set forth as Exhibit B hereto and allows such release to become effective, then the Company will provide Executive with the following severance benefits:



(a) **Cash Severance.** The Company shall pay Executive severance in the form of continuation of Executive's Base Salary in effect on Executive's last day of employment for a period of twelve (12) months after Executive's termination, subject to standard payroll deductions and withholdings and payable on the Company's regular payroll schedule; **provided, however,** that in the event the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), then the Company shall pay Executive severance in the form of continuation of Executive's Base Salary in effect on Executive's last day of employment for a period of eighteen (18) months after Executive's termination, subject to standard payroll deductions and withholdings and payable on the Company's regular payroll schedule. Each payment made pursuant to this Section 5.2(a) is intended to be a separate payment (as defined in Treasury Regulations Section 1.409A-2(b)(2)) from any other payments made pursuant to this Section 5.2(a) for purposes of the "short term deferral rule" under Treasury Regulations Section 1.409A-1(b)(4).

(b) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of twelve (12) months after the termination date; **provided, however,** that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer. Notwithstanding the foregoing, in the event the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), then (if eligible and coverage elected) the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of eighteen (18) months after the termination date; **provided, however,** that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer and Executive agrees to immediately notify the Company of any such coverage.

(c) **Accelerated Vesting.** If Executive has been employed by the Company for one full year or longer, then the Company will accelerate the vesting of any equity awards granted to Executive prior to Executive's employment termination such that twenty-five percent (25%) of all shares or options subject to such awards which are unvested as of the employment termination date shall be accelerated and deemed fully vested as of Executive's last day of employment; **provided, however,** that in the event, and without the requirement that Executive be employed for one full year or longer, the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), then the Company will accelerate the vesting of any equity awards granted to Executive prior to Executive's employment termination such that one hundred percent (100%) of all shares or options subject to such awards which are unvested as of the employment termination date shall be accelerated and deemed fully vested as of Executive's last day of employment.

**5.3 Termination for Cause; Resignation Without Good Reason.** If the Company terminates Executive's employment with the Company for Cause, or Executive resigns without Good Reason, then Executive will not be entitled to any further compensation from the Company (other than accrued salary, and accrued and unused vacation, through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

**5.4 Termination Due to Death or Disability.**

(a) **Death.** This Agreement shall terminate immediately upon Executive's death and Executive's estate shall not be entitled to any further compensation from the Company (other than accrued salary, and accrued and unused vacation, through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

(b) **Disability.** If Executive is incapacitated by accident, sickness or otherwise such that Executive is incapable of performing the services set forth in Section 1.1 herein, and such incapacity is certified by a qualified medical doctor, then this Agreement shall terminate. In such an event, and if Executive or someone authorized to act on his behalf executes and delivers the Separation Date Release of all claims set forth as Exhibit B hereto and allows such release to become effective, then the Company will provide Executive with the following severance benefits; **provided, however,** that these severance benefits shall be reduced by any amounts provided to Executive by any federal or state disability insurance payments or benefits, and any private insurance disability payments or benefits, provided to Executive:

(i) **Cash Severance.** The Company shall pay Executive severance in the form of continuation of Executive's Base Salary in effect on Executive's last day of employment for a period of twelve (12) months after Executive's termination, subject to standard payroll deductions and withholdings and payable on the Company's regular payroll schedule.

(ii) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of twelve (12) months after the termination date; **provided, however,** that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer.

(iii) **Accelerated Vesting.** If Executive has been employed by the Company for one full year or longer, then the Company will accelerate the vesting of any equity awards granted to Executive prior to Executive's employment termination such that twenty-five percent (25%) of all shares or options subject to such awards which are unvested as of the employment termination date shall be accelerated and deemed fully vested as of Executive's last day of employment.

**5.5 Deferred Compensation.** If the Company determines that any of the severance benefit payments fail to satisfy the distribution requirement of Section 409A(a)(2)(A) of the Internal Revenue Code as a result of Section 409A(a)(2)(B)(i) of the Internal Revenue Code, the payment of such benefit shall be accelerated to the minimum extent necessary so that the benefit is not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. (It is the intention of the preceding sentence to apply the short-term deferral provisions of Section 409A of the Internal Revenue Code, and the regulations and other guidance thereunder, to the severance benefit payments, and the payment schedule as revised after the application of the preceding sentence shall be referred to as the “Revised Payment Schedule.”) However, if there is no Revised Payment Schedule that would avoid the application of Section 409A(a)(1) of the Internal Revenue Code, the payment of such benefits shall not be paid pursuant to a Revised Payment Schedule and instead shall be delayed to the minimum extent necessary so that such benefits are not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. The Board may attach conditions to or adjust the amounts paid pursuant to this Section 5.5 to preserve, as closely as possible, the economic consequences that would have applied in the absence of this Section 5.5; **provided, however,** that no such condition or adjustment shall result in the payments being subject to Section 409A(a)(1) of the Internal Revenue Code.

**5.6 Limitation on Payments.** In the event that the payments or other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute “parachute payments” within the meaning of Section 280G of the Code, and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the “Excise Tax”), then Executive’s benefits under this Agreement shall be either (a) delivered in full, or (b) delivered to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. If a reduction in payments or benefits constituting “parachute payments” is necessary pursuant to the foregoing provision, reduction shall occur in the following order unless the Executive elects in writing a different order (**provided, however,** that such election shall be subject to Company approval if made on or after the date on which the event that triggers the parachute payment occurs): reduction of cash payments; cancellation of accelerated vesting of stock awards; reduction of employee benefits. If acceleration of vesting of stock award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant of the Executive’s stock awards unless the Executive elects in writing a different order for cancellation.

Unless the Company and Executive otherwise agree in writing, any determination required under this Section 5.6 shall be made in writing by the Company’s independent public accountants (the “Accountants”), whose determination shall be conclusive and binding upon Executive and the Company for all purposes and may be relied upon by the Company. For purposes of making the calculations required by this Section 5.6, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and Executive shall further to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 5.6. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 5.6.

**5.7 No Mitigation.** Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as the result of employment by another employer after the date of termination, or otherwise, except for health insurance benefits as set forth herein.

**5.8 Definitions.**

(a) For purposes of this Agreement, “Cause” shall mean any one or more of the following:

(i) Executive’s indictment or conviction of any felony or of any crime involving dishonesty;

(ii) Executive’s participation in any fraud or other act of willful misconduct against the Company (including any material breach of Company policy that causes or reasonably could cause harm to the Company);

(iii) Executive’s refusal to comply with any lawful directive of the Company;

(iv) Executive’s material breach of Executive’s fiduciary, statutory, contractual, or common law duties to the Company (including any material breach of this Agreement or the Confidential Information and Inventions Agreement); or

(v) Conduct by Executive which in the good faith and reasonable determination of the Board demonstrates gross unfitness to serve.

**Provided, however,** that in the event that any of the foregoing events is reasonably capable of being cured, the Company shall, within twenty (20) days after the discovery of such event, provide written notice to the Executive describing the nature of such event and Executive shall thereafter have ten (10) business days to cure such event.

(b) For purposes of this Agreement, Executive shall have “Good Reason” for Executive’s resignation if:

(w) any of the following occurs without Executive’s consent; (x) Executive notifies the Company in writing, within twenty (20) days after the occurrence of one of the following events that Executive intends to terminate his employment no earlier than thirty (30) days after providing such notice; (y) the Company does not cure such condition within thirty (30) days following its receipt of such notice or states unequivocally in writing that it does not intend to attempt to cure such condition, and (z) the Executive resigns from employment within thirty (30) days following the end of the period within which the Company was entitled to remedy the condition constituting Good Reason but failed to do so:

(i) the assignment to Executive of any duties or responsibilities which result in the material diminution of Executive's authority, duties or responsibility; **provided, however**, that the acquisition of the Company and subsequent conversion of the Company to a division or unit of the acquiring corporation will not by itself result in a material diminution of Executive's authority, duties or responsibility;

(ii) a material reduction by the Company in Executive's annual base salary, except to the extent the base salaries of all other executive officers of the Company are accordingly reduced;

(iii) a relocation of Executive's place of work, or the Company's principal executive offices if Executive's principal office is at such offices, to a location that increases Executive's daily one-way commute by more than thirty-five (35) miles; or

(iv) any material breach by the Company of any material provision of this Agreement, including but not limited to Section 7.7.

(c) For purposes of this Agreement, "**Change in Control**" shall 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 Securities Exchange Act of 1934 ("Exchange Act")), or persons acting as a group, 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 a majority (*e.g.*, 50% plus one share) of the combined voting power of the Company, (ii) there is a merger, consolidation or other business combination transaction of the Company with or into another corporation, entity or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of the Company (or the surviving entity) outstanding immediately after such transaction, or (iii) all or substantially all of the Company's assets are sold.

## 6. ARBITRATION.

To ensure the timely and economical resolution of disputes that may arise in connection with Executive's employment with the Company, Executive and the Company agree that any and all disputes, claims, or causes of action arising from or relating to the enforcement, breach, performance, negotiation, execution, or interpretation of this Agreement, Executive's employment, or the termination of Executive's employment, shall be resolved to the fullest extent permitted by law by final, binding and confidential arbitration, by a single arbitrator, in Sacramento, California, conducted by JAMS under the then applicable JAMS rules. **By agreeing to this arbitration procedure, both Executive and the Company waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding.** The arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision, to include the arbitrator's essential findings and conclusions and a statement of the award. The arbitrator shall be authorized to award any or all remedies that Executive or the Company would be entitled to seek in a court of law. The Company shall pay all JAMS' arbitration fees in excess of the amount of court fees that would be required if the dispute were decided in a court of law. Nothing in this Agreement is intended to prevent either Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration.

## 7. GENERAL PROVISIONS.

**7.1 Notices.** Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of personal delivery (including personal delivery by fax) or the next day after sending by overnight carrier, to the Company at its primary office location and to Executive at his address as listed on the Company payroll.

**7.2 Severability.** Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction to the extent possible in keeping with the intent of the parties.

**7.3 Waiver.** Any waiver of any breach of any provisions of this Agreement must be in writing to be effective, and it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

**7.4 Complete Agreement.** This Agreement, including Exhibit A, constitutes the entire agreement between Executive and the Company and it is the complete, final, and exclusive embodiment of their agreement with regard to this subject matter. This Agreement supersedes and replaces the Original Employment Agreement in its entirety and the Original Employment Agreement shall have no further force or effect. It is entered into without reliance on any promise or representation other than those expressly contained herein, and it cannot be modified or amended except in a writing signed by the Executive and a duly authorized officer of the Company.

**7.5 Counterparts.** This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same Agreement.

**7.6 Headings.** The headings of the sections hereof are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

**7.7 Successors and Assigns.** This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive and the Company, and their respective successors, assigns, heirs, executors and administrators, except that Executive may not assign any of his duties hereunder and he may not assign any of his rights hereunder without the written consent of the Company, which shall not be withheld unreasonably. The Company shall obtain the assumption of this Agreement by any successor or assign of the Company.

**7.8 Choice of Law.** All questions concerning the construction, validity and interpretation of this Agreement will be governed by the law of the State of California.

**IN WITNESS WHEREOF**, the parties have executed this Agreement.

**Pacific Ethanol, Inc.**

By: /s/ John L. Prince  
The Head of the Board's Compensation Committee

Date: 12/11/2007

**Understood and Agreed:**

**Executive**

By: /s/ Neil M. Koehler  
Neil M. Koehler

Date: 12/11/2007

**PACIFIC ETHANOL, INC.**

**AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT  
for  
JOHN T. MILLER**

This Amended and Restated Executive Employment Agreement (“Agreement”) by and between John T. Miller (“Executive”) and Pacific Ethanol, Inc. (the “Company”) (collectively, the “Parties”) is effective as of the last date signed by the Parties.

**WHEREAS**, the Company desires to employ Executive to provide personal services to the Company, and wishes to provide Executive with certain compensation and benefits in return for his services;

**WHEREAS**, Executive wishes to be employed by the Company and to provide personal services to the Company in return for certain compensation and benefits;

**WHEREAS**, the Parties entered into an Executive Employment Agreement on or about June 26, 2006, setting forth certain terms of Executive’s employment with the Company (the “Original Employment Agreement”) and now seek to supersede and replace the Original Employment Agreement with this Agreement;

**WHEREAS**, once this Agreement is effective, the parties agree that the Original Employment Agreement shall have no further force or effect;

**NOW, THEREFORE**, in consideration of the mutual promises and covenants contained herein, it is hereby agreed by and between the parties hereto as follows:

**1. EMPLOYMENT BY THE COMPANY.**

**1.1 Position.** Subject to terms and conditions set forth herein, the Company agrees to employ Executive in the position of Chief Operating Officer and Executive hereby accepts such employment. During the term of Executive’s employment with the Company, Executive will devote Executive’s best efforts and substantially all of Executive’s business time and attention to the business of the Company, except for vacation periods as set forth herein and reasonable periods of illness or other incapacities permitted by the Company’s general employment policies.

**1.2 Duties and Location.** Executive shall serve in an executive capacity and shall perform such duties as are customarily associated with Executive’s then current title, consistent with the bylaws of the Company and as required by the Company’s Board of Directors (the “Board”) and Chief Executive Officer. Executive shall report to the Company’s Chief Executive Officer. Executive’s primary office location shall be a location mutually acceptable to both the Executive and the Company. The Company reserves the right to reasonably require Executive to perform Executive’s duties at places other than Executive’s primary office location from time to time as agreed to by Executive, and to require reasonable business travel.



**1.3 Policies and Procedures.** The employment relationship between the parties shall be governed by the general employment policies and practices of the Company, except that when the terms of this Agreement differ from or are in conflict with the Company's general employment policies or practices, this Agreement shall control.

## **2. COMPENSATION.**

**2.1 Salary.** For services to be rendered hereunder, Executive shall receive an annual salary at the rate of \$250,000.00, paid bi-weekly in the amount of \$9,615.38 (the "Base Salary"), subject to standard payroll deductions and withholdings and payable in accordance with the Company's regular payroll schedule. Executive's Base Salary shall be reviewed annually and may be increased as approved by the Board in its sole discretion.

**2.2 Annual Bonus.** Executive will be eligible for an annual discretionary bonus of up to fifty percent (50%) of his Base Salary (the "Annual Bonus"). Whether any Annual Bonus will be awarded, and the amount of the Annual Bonus awarded to Executive, shall be determined by the Board in its sole discretion based upon its consideration of both the Company's performance and Executive's performance. Since the Annual Bonus is intended both to reward past Company and Executive performance and to provide an incentive for Executive to remain with the Company, Executive must remain an active employee through the date that any such bonus is awarded to him in order to earn any such bonus. Executive will not earn any Annual Bonus (including a prorated bonus) if Executive's employment terminates for any reason before the Annual Bonus is awarded to him. Any Annual Bonus awarded by the Board shall be paid within the first quarter after the end of the calendar year.

**2.3 Standard Company Benefits.** Executive shall be entitled to participate in all employee benefit programs for which Executive is eligible under the terms and conditions of the benefit plans which may be in effect from time to time and provided by the Company to its employees generally; **provided, however,** that Executive shall not be entitled to accrued vacation pay.

**2.4 Restricted Stock; Options.** Executive has been granted certain shares of restricted Company stock (the "Restricted Stock"). Executive shall also be eligible for additional grants of restricted stock and/or stock options from time to time as shall be determined by the Compensation Committee of the Board in its sole discretion, and shall be subject to such vesting, exercisability, and other provisions as the Board may determine in its discretion, after reviewing the performance of both Executive and the Company. Both the Restricted Stock and any stock options shall be governed in all respects by the terms of the applicable restricted stock purchase agreement, stock option agreement, grant notice and plan documents.

### 3. CONFIDENTIAL INFORMATION OBLIGATIONS.

**3.1 Confidential Information Agreement.** As a condition of employment, Executive agrees to execute and abide by the Employee Confidential Information and Inventions Agreement attached hereto as Exhibit A.

**3.2 Third Party Agreements and Information.** Executive represents and warrants that Executive's employment by the Company will not conflict with any prior employment or consulting agreement or other agreement with any third party, and that Executive will perform Executive's duties to the Company without violating any such agreement. Executive represents and warrants that Executive does not possess confidential information arising out of prior employment, consulting, or other third party relationships, which would be used in connection with Executive's employment by the Company, except as expressly authorized by that third party. During Executive's employment by the Company, Executive will use in the performance of Executive's duties only information which is generally known and used by persons with training and experience comparable to Executive's own, common knowledge in the industry, otherwise legally in the public domain, or obtained or developed by the Company or by Executive in the course of Executive's work for the Company.

### 4. OUTSIDE ACTIVITIES DURING EMPLOYMENT.

**4.1 Non-Company Business.** Except with the prior written consent of the Chief Executive Officer (in consultation with the General Counsel), Executive will not during the term of Executive's employment with the Company undertake or engage in any other employment, occupation or business enterprise, other than ones in which Executive is a passive investor. Executive may engage in civic and not-for-profit activities so long as such activities do not materially interfere with the performance of Executive's duties hereunder.

**4.2 No Adverse Interests.** Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known by him to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise, except as a passive investor in mutual or exchange traded funds.

### 5. TERMINATION OF EMPLOYMENT.

**5.1 At-Will Relationship.** Executive's employment relationship is at-will. Either Executive or the Company may terminate the employment relationship at any time, with or without Cause or advance notice.

**5.2 Termination without Cause; Resignation for Good Reason.** If, at any time, the Company terminates Executive's employment without Cause (as defined herein), or Executive resigns with Good Reason (as defined herein), and Executive executes and delivers the Separation Date Release of all claims set forth as Exhibit B hereto and allows such release to become effective, then the Company will provide Executive with the following severance benefits:

(a) **Cash Severance.** The Company shall pay Executive severance in the form of continuation of Executive's Base Salary in effect on Executive's last day of employment for a period of twelve (12) months after Executive's termination, subject to standard payroll deductions and withholdings and payable on the Company's regular payroll schedule; **provided, however,** that in the event the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), then the Company shall pay Executive severance in the form of continuation of Executive's Base Salary in effect on Executive's last day of employment for a period of eighteen (18) months after Executive's termination, subject to standard payroll deductions and withholdings and payable on the Company's regular payroll schedule. Each payment made pursuant to this Section 5.2(a) is intended to be a separate payment (as defined in Treasury Regulations Section 1.409A-2(b)(2)) from any other payments made pursuant to this Section 5.2(a) for purposes of the "short term deferral rule" under Treasury Regulations Section 1.409A-1(b)(4).

(b) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of twelve (12) months after the termination date; **provided, however,** that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer. Notwithstanding the foregoing, in the event the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), then (if eligible and coverage elected) the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of eighteen (18) months after the termination date; **provided, however,** that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer and Executive agrees to immediately notify the Company of any such coverage.

(c) **Accelerated Vesting.** If Executive has been employed by the Company for one full year or longer, then the Company will accelerate the vesting of any equity awards granted to Executive prior to Executive's employment termination such that twenty-five percent (25%) of all shares or options subject to such awards which are unvested as of the employment termination date shall be accelerated and deemed fully vested as of Executive's last day of employment; **provided, however,** that in the event, and without the requirement that Executive be employed for one full year or longer, the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), then the Company will accelerate the vesting of any equity awards granted to Executive prior to Executive's employment termination such that one hundred percent (100%) of all shares or options subject to such awards which are unvested as of the employment termination date shall be accelerated and deemed fully vested as of Executive's last day of employment.

**5.3 Termination for Cause; Resignation Without Good Reason.** If the Company terminates Executive's employment with the Company for Cause, or Executive resigns without Good Reason, then Executive will not be entitled to any further compensation from the Company (other than accrued salary, and accrued and unused vacation, through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

**5.4 Termination Due to Death or Disability.**

(a) **Death.** This Agreement shall terminate immediately upon Executive's death and Executive's estate shall not be entitled to any further compensation from the Company (other than accrued salary, and accrued and unused vacation, through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

(b) **Disability.** If Executive is incapacitated by accident, sickness or otherwise such that Executive is incapable of performing the services set forth in Section 1.1 herein, and such incapacity is certified by a qualified medical doctor, then this Agreement shall terminate. In such an event, and if Executive or someone authorized to act on his behalf executes and delivers the Separation Date Release of all claims set forth as Exhibit B hereto and allows such release to become effective, then the Company will provide Executive with the following severance benefits; **provided, however,** that these severance benefits shall be reduced by any amounts provided to Executive by any federal or state disability insurance payments or benefits, and any private insurance disability payments or benefits, provided to Executive:

(i) **Cash Severance.** The Company shall pay Executive severance in the form of continuation of Executive's Base Salary in effect on Executive's last day of employment for a period of twelve (12) months after Executive's termination, subject to standard payroll deductions and withholdings and payable on the Company's regular payroll schedule.

(ii) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of twelve (12) months after the termination date; **provided, however,** that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer.

(iii) **Accelerated Vesting.** If Executive has been employed by the Company for one full year or longer, then the Company will accelerate the vesting of any equity awards granted to Executive prior to Executive's employment termination such that twenty-five percent (25%) of all shares or options subject to such awards which are unvested as of the employment termination date shall be accelerated and deemed fully vested as of Executive's last day of employment.

**5.5 Deferred Compensation.** If the Company determines that any of the severance benefit payments fail to satisfy the distribution requirement of Section 409A(a)(2)(A) of the Internal Revenue Code as a result of Section 409A(a)(2)(B)(i) of the Internal Revenue Code, the payment of such benefit shall be accelerated to the minimum extent necessary so that the benefit is not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. (It is the intention of the preceding sentence to apply the short-term deferral provisions of Section 409A of the Internal Revenue Code, and the regulations and other guidance thereunder, to the severance benefit payments, and the payment schedule as revised after the application of the preceding sentence shall be referred to as the "Revised Payment Schedule.") However, if there is no Revised Payment Schedule that would avoid the application of Section 409A(a)(1) of the Internal Revenue Code, the payment of such benefits shall not be paid pursuant to a Revised Payment Schedule and instead shall be delayed to the minimum extent necessary so that such benefits are not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. The Board may attach conditions to or adjust the amounts paid pursuant to this Section 5.5 to preserve, as closely as possible, the economic consequences that would have applied in the absence of this Section 5.5; **provided, however,** that no such condition or adjustment shall result in the payments being subject to Section 409A(a)(1) of the Internal Revenue Code.

**5.6 Limitation on Payments.** In the event that the payments or other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute "parachute payments" within the meaning of Section 280G of the Code, and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then Executive's benefits under this Agreement shall be either (a) delivered in full, or (b) delivered to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. If a reduction in payments or benefits constituting "parachute payments" is necessary pursuant to the foregoing provision, reduction shall occur in the following order unless the Executive elects in writing a different order (**provided, however,** that such election shall be subject to Company approval if made on or after the date on which the event that triggers the parachute payment occurs): reduction of cash payments; cancellation of accelerated vesting of stock awards; reduction of employee benefits. If acceleration of vesting of stock award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant of the Executive's stock awards unless the Executive elects in writing a different order for cancellation.

Unless the Company and Executive otherwise agree in writing, any determination required under this Section 5.6 shall be made in writing by the Company's independent public accountants (the "Accountants"), whose determination shall be conclusive and binding upon Executive and the Company for all purposes and may be relied upon by the Company. For purposes of making the calculations required by this Section 5.6, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and Executive shall further to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 5.6. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 5.6.

**5.7 No Mitigation.** Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as the result of employment by another employer after the date of termination, or otherwise, except for health insurance benefits as set forth herein.

**5.8 Definitions.**

(a) For purposes of this Agreement, "**Cause**" shall mean any one or more of the following:

(i) Executive's indictment or conviction of any felony or of any crime involving dishonesty;

(ii) Executive's participation in any fraud or other act of willful misconduct against the Company (including any material breach of Company policy that causes or reasonably could cause harm to the Company);

(iii) Executive's refusal to comply with any lawful directive of the Company;

(iv) Executive's material breach of Executive's fiduciary, statutory, contractual, or common law duties to the Company (including any material breach of this Agreement or the Confidential Information and Inventions Agreement); or

(v) Conduct by Executive which in the good faith and reasonable determination of the Board demonstrates gross unfitness to serve.

**Provided, however,** that in the event that any of the foregoing events is reasonably capable of being cured, the Company shall, within twenty (20) days after the discovery of such event, provide written notice to the Executive describing the nature of such event and Executive shall thereafter have ten (10) business days to cure such event.

(b) For purposes of this Agreement, Executive shall have “**Good Reason**” for Executive’s resignation if: (w) any of the following occurs without Executive’s consent; (x) Executive notifies the Company in writing, within twenty (20) days after the occurrence of one of the following events that Executive intends to terminate his employment no earlier than thirty (30) days after providing such notice; (y) the Company does not cure such condition within thirty (30) days following its receipt of such notice or states unequivocally in writing that it does not intend to attempt to cure such condition, and (z) the Executive resigns from employment within thirty (30) days following the end of the period within which the Company was entitled to remedy the condition constituting Good Reason but failed to do so:

(i) the assignment to Executive of any duties or responsibilities which result in the material diminution of Executive’s authority, duties or responsibility; **provided, however**, that the acquisition of the Company and subsequent conversion of the Company to a division or unit of the acquiring corporation will not by itself result in a material diminution of Executive’s authority, duties or responsibility;

(ii) a material reduction by the Company in Executive’s annual base salary, except to the extent the base salaries of all other executive officers of the Company are accordingly reduced;

(iii) a relocation of Executive’s place of work, or the Company’s principal executive offices if Executive’s principal office is at such offices, to a location that increases Executive’s daily one-way commute by more than thirty-five (35) miles; or

(iv) any material breach by the Company of any material provision of this Agreement, including but not limited to Section 7.7.

(c) For purposes of this Agreement, “**Change in Control**” shall 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 Securities Exchange Act of 1934 (“Exchange Act”)), or persons acting as a group, 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 a majority (*e.g.*, 50% plus one share) of the combined voting power of the Company, (ii) there is a merger, consolidation or other business combination transaction of the Company with or into another corporation, entity or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of the Company (or the surviving entity) outstanding immediately after such transaction, or (iii) all or substantially all of the Company’s assets are sold.

## 6. ARBITRATION.

To ensure the timely and economical resolution of disputes that may arise in connection with Executive's employment with the Company, Executive and the Company agree that any and all disputes, claims, or causes of action arising from or relating to the enforcement, breach, performance, negotiation, execution, or interpretation of this Agreement, Executive's employment, or the termination of Executive's employment, shall be resolved to the fullest extent permitted by law by final, binding and confidential arbitration, by a single arbitrator, in Sacramento, California, conducted by JAMS under the then applicable JAMS rules. **By agreeing to this arbitration procedure, both Executive and the Company waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding.** The arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision, to include the arbitrator's essential findings and conclusions and a statement of the award. The arbitrator shall be authorized to award any or all remedies that Executive or the Company would be entitled to seek in a court of law. The Company shall pay all JAMS' arbitration fees in excess of the amount of court fees that would be required if the dispute were decided in a court of law. Nothing in this Agreement is intended to prevent either Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration.

## 7. GENERAL PROVISIONS.

**7.1 Notices.** Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of personal delivery (including personal delivery by fax) or the next day after sending by overnight carrier, to the Company at its primary office location and to Executive at his address as listed on the Company payroll.

**7.2 Severability.** Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction to the extent possible in keeping with the intent of the parties.

**7.3 Waiver.** Any waiver of any breach of any provisions of this Agreement must be in writing to be effective, and it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

**7.4 Complete Agreement.** This Agreement, including Exhibit A, constitutes the entire agreement between Executive and the Company and it is the complete, final, and exclusive embodiment of their agreement with regard to this subject matter. This Agreement supersedes and replaces the Original Employment Agreement in its entirety and the Original Employment Agreement shall have no further force or effect. It is entered into without reliance on any promise or representation other than those expressly contained herein, and it cannot be modified or amended except in a writing signed by the Executive and a duly authorized officer of the Company.



**7.5 Counterparts.** This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same Agreement.

**7.6 Headings.** The headings of the sections hereof are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

**7.7 Successors and Assigns.** This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive and the Company, and their respective successors, assigns, heirs, executors and administrators, except that Executive may not assign any of his duties hereunder and he may not assign any of his rights hereunder without the written consent of the Company, which shall not be withheld unreasonably. The Company shall obtain the assumption of this Agreement by any successor or assign of the Company.

**7.8 Choice of Law.** All questions concerning the construction, validity and interpretation of this Agreement will be governed by the law of the State of California.

**IN WITNESS WHEREOF**, the parties have executed this Agreement.

**Pacific Ethanol, Inc.**

By: /s/ Neil M. Koehler

\_\_\_\_\_  
Neil M. Koehler  
President and Chief Executive Officer

Date: 12/11/2007

**Understood and Agreed:**

**Executive**

By: /s/ John T. Miller  
\_\_\_\_\_  
John T. Miller

Date: 12/11/2007

**PACIFIC ETHANOL, INC.**

**AMENDED AND RESTATED EXECUTIVE EMPLOYMENT AGREEMENT  
for  
CHRISTOPHER W. WRIGHT**

This Amended and Restated Executive Employment Agreement (“Agreement”) by and between Christopher W. Wright (“Executive”) and Pacific Ethanol, Inc. (the “Company”) (collectively, the “Parties”) is effective as of the last date signed by the Parties.

**WHEREAS**, the Company desires to employ Executive to provide personal services to the Company, and wishes to provide Executive with certain compensation and benefits in return for his services;

**WHEREAS**, Executive wishes to be employed by the Company and to provide personal services to the Company in return for certain compensation and benefits;

**WHEREAS**, the Parties entered into an Executive Employment Agreement on or about June 26, 2006, setting forth certain terms of Executive’s employment with the Company (the “Original Employment Agreement”) and now seek to supersede and replace the Original Employment Agreement with this Agreement;

**WHEREAS**, once this Agreement is effective, the parties agree that the Original Employment Agreement shall have no further force or effect;

**NOW, THEREFORE**, in consideration of the mutual promises and covenants contained herein, it is hereby agreed by and between the parties hereto as follows:

**1. EMPLOYMENT BY THE COMPANY.**

**1.1 Position.** Subject to terms and conditions set forth herein, the Company agrees to employ Executive in the position of Vice President, General Counsel and Secretary and Executive hereby accepts such employment. During the term of Executive’s employment with the Company, Executive will devote Executive’s best efforts and substantially all of Executive’s business time and attention to the business of the Company, except for vacation periods as set forth herein and reasonable periods of illness or other incapacities permitted by the Company’s general employment policies.

**1.2 Duties and Location.** Executive shall serve in an executive capacity and shall perform such duties as are customarily associated with Executive’s then current title, consistent with the bylaws of the Company and as required by the Company’s Board of Directors (the “Board”) and Chief Executive Officer. Executive shall report to the Company’s Chief Executive Officer. Executive’s primary office location shall be a location mutually acceptable to both the Executive and the Company. The Company reserves the right to reasonably require Executive to perform Executive’s duties at places other than Executive’s primary office location from time to time as agreed to by Executive, and to require reasonable business travel.

**1.3 Policies and Procedures.** The employment relationship between the parties shall be governed by the general employment policies and practices of the Company, except that when the terms of this Agreement differ from or are in conflict with the Company's general employment policies or practices, this Agreement shall control.

## **2. COMPENSATION.**

**2.1 Salary.** For services to be rendered hereunder, Executive shall receive an annual salary at the rate of \$225,000.00, paid bi-weekly in the amount of \$8,653.85 (the "Base Salary"), subject to standard payroll deductions and withholdings and payable in accordance with the Company's regular payroll schedule. Executive's Base Salary shall be reviewed annually and may be increased as approved by the Board in its sole discretion.

**2.2 Annual Bonus.** Executive will be eligible for an annual discretionary bonus of up to fifty percent (50%) of his Base Salary (the "Annual Bonus"). Whether any Annual Bonus will be awarded, and the amount of the Annual Bonus awarded to Executive, shall be determined by the Board in its sole discretion based upon its consideration of both the Company's performance and Executive's performance. Since the Annual Bonus is intended both to reward past Company and Executive performance and to provide an incentive for Executive to remain with the Company, Executive must remain an active employee through the date that any such bonus is awarded to him in order to earn any such bonus. Executive will not earn any Annual Bonus (including a prorated bonus) if Executive's employment terminates for any reason before the Annual Bonus is awarded to him. Any Annual Bonus awarded by the Board shall be paid within the first quarter after the end of the calendar year.

**2.3 Standard Company Benefits.** Executive shall be entitled to participate in all employee benefit programs for which Executive is eligible under the terms and conditions of the benefit plans which may be in effect from time to time and provided by the Company to its employees generally; **provided, however,** that Executive shall not be entitled to accrued vacation pay.

**2.4 Restricted Stock; Options.** Executive has been granted certain shares of restricted Company stock (the "Restricted Stock"). Executive shall also be eligible for additional grants of restricted stock and/or stock options from time to time as shall be determined by the Compensation Committee of the Board in its sole discretion, and shall be subject to such vesting, exercisability, and other provisions as the Board may determine in its discretion, after reviewing the performance of both Executive and the Company. Both the Restricted Stock and any stock options shall be governed in all respects by the terms of the applicable restricted stock purchase agreement, stock option agreement, grant notice and plan documents.

### 3. CONFIDENTIAL INFORMATION OBLIGATIONS.

**3.1 Confidential Information Agreement.** As a condition of employment, Executive agrees to execute and abide by the Employee Confidential Information and Inventions Agreement attached hereto as Exhibit A.

**3.2 Third Party Agreements and Information.** Executive represents and warrants that Executive's employment by the Company will not conflict with any prior employment or consulting agreement or other agreement with any third party, and that Executive will perform Executive's duties to the Company without violating any such agreement. Executive represents and warrants that Executive does not possess confidential information arising out of prior employment, consulting, or other third party relationships, which would be used in connection with Executive's employment by the Company, except as expressly authorized by that third party. During Executive's employment by the Company, Executive will use in the performance of Executive's duties only information which is generally known and used by persons with training and experience comparable to Executive's own, common knowledge in the industry, otherwise legally in the public domain, or obtained or developed by the Company or by Executive in the course of Executive's work for the Company.

### 4. OUTSIDE ACTIVITIES DURING EMPLOYMENT.

**4.1 Non-Company Business.** Except with the prior written consent of the Chief Executive Officer, Executive will not during the term of Executive's employment with the Company undertake or engage in any other employment, occupation or business enterprise, other than ones in which Executive is a passive investor. Executive may engage in civic and not-for-profit activities so long as such activities do not materially interfere with the performance of Executive's duties hereunder.

**4.2 No Adverse Interests.** Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known by him to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise, except as a passive investor in mutual or exchange traded funds.

### 5. TERMINATION OF EMPLOYMENT.

**5.1 At-Will Relationship.** Executive's employment relationship is at-will. Either Executive or the Company may terminate the employment relationship at any time, with or without Cause or advance notice.

**5.2 Termination without Cause; Resignation for Good Reason.** If, at any time, the Company terminates Executive's employment without Cause (as defined herein), or Executive resigns with Good Reason (as defined herein), and Executive executes and delivers the Separation Date Release of all claims set forth as Exhibit B hereto and allows such release to become effective, then the Company will provide Executive with the following severance benefits:

(a) **Cash Severance.** The Company shall pay Executive severance in the form of continuation of Executive's Base Salary in effect on Executive's last day of employment for a period of twelve (12) months after Executive's termination, subject to standard payroll deductions and withholdings and payable on the Company's regular payroll schedule; **provided, however,** that in the event the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), then the Company shall pay Executive severance in the form of continuation of Executive's Base Salary in effect on Executive's last day of employment for a period of eighteen (18) months after Executive's termination, subject to standard payroll deductions and withholdings and payable on the Company's regular payroll schedule. Each payment made pursuant to this Section 5.2(a) is intended to be a separate payment (as defined in Treasury Regulations Section 1.409A-2(b)(2)) from any other payments made pursuant to this Section 5.2(a) for purposes of the "short term deferral rule" under Treasury Regulations Section 1.409A-1(b)(4).

(b) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of twelve (12) months after the termination date; **provided, however,** that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer. Notwithstanding the foregoing, in the event the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), then (if eligible and coverage elected) the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of eighteen (18) months after the termination date; **provided, however,** that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer and Executive agrees to immediately notify the Company of any such coverage.

(c) **Accelerated Vesting.** If Executive has been employed by the Company for one full year or longer, then the Company will accelerate the vesting of any equity awards granted to Executive prior to Executive's employment termination such that twenty-five percent (25%) of all shares or options subject to such awards which are unvested as of the employment termination date shall be accelerated and deemed fully vested as of Executive's last day of employment; **provided, however,** that in the event, and without the requirement that Executive be employed for one full year or longer, the Company terminates Executive's employment without Cause, or Executive resigns with Good Reason, within three (3) months before or otherwise in anticipation of, or within twelve (12) months after, a Change in Control (as defined below), then the Company will accelerate the vesting of any equity awards granted to Executive prior to Executive's employment termination such that one hundred percent (100%) of all shares or options subject to such awards which are unvested as of the employment termination date shall be accelerated and deemed fully vested as of Executive's last day of employment.

**5.3 Termination for Cause; Resignation Without Good Reason.** If the Company terminates Executive's employment with the Company for Cause, or Executive resigns without Good Reason, then Executive will not be entitled to any further compensation from the Company (other than accrued salary, and accrued and unused vacation, through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

**5.4 Termination Due to Death or Disability.**

(a) **Death.** This Agreement shall terminate immediately upon Executive's death and Executive's estate shall not be entitled to any further compensation from the Company (other than accrued salary, and accrued and unused vacation, through Executive's last day of employment), including severance pay, pay in lieu of notice or any other such compensation.

(b) **Disability.** If Executive is incapacitated by accident, sickness or otherwise such that Executive is incapable of performing the services set forth in Section 1.1 herein, and such incapacity is certified by a qualified medical doctor, then this Agreement shall terminate. In such an event, and if Executive or someone authorized to act on his behalf executes and delivers the Separation Date Release of all claims set forth as Exhibit B hereto and allows such release to become effective, then the Company will provide Executive with the following severance benefits; **provided, however,** that these severance benefits shall be reduced by any amounts provided to Executive by any federal or state disability insurance payments or benefits, and any private insurance disability payments or benefits, provided to Executive:

(i) **Cash Severance.** The Company shall pay Executive severance in the form of continuation of Executive's Base Salary in effect on Executive's last day of employment for a period of twelve (12) months after Executive's termination, subject to standard payroll deductions and withholdings and payable on the Company's regular payroll schedule.

(ii) **Continued Health Insurance Coverage.** To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company's then-current group health insurance policies, Executive may be eligible to continue Executive's then-current group health insurance benefits after termination of Employment. If eligible and if Executive timely elects continued health insurance coverage, then the Company shall pay the Company's portion of any premiums necessary to provide coverage for a period of twelve (12) months after the termination date; **provided, however,** that no such premium payments shall be made following the effective date of Executive's coverage by a medical, dental or vision insurance plan of a subsequent employer. Executive shall notify the Company immediately if he becomes covered by a medical, dental or vision insurance plan of a subsequent employer.

(iii) **Accelerated Vesting.** If Executive has been employed by the Company for one full year or longer, then the Company will accelerate the vesting of any equity awards granted to Executive prior to Executive's employment termination such that twenty-five percent (25%) of all shares or options subject to such awards which are unvested as of the employment termination date shall be accelerated and deemed fully vested as of Executive's last day of employment.

**5.5 Deferred Compensation.** If the Company determines that any of the severance benefit payments fail to satisfy the distribution requirement of Section 409A(a)(2)(A) of the Internal Revenue Code as a result of Section 409A(a)(2)(B)(i) of the Internal Revenue Code, the payment of such benefit shall be accelerated to the minimum extent necessary so that the benefit is not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. (It is the intention of the preceding sentence to apply the short-term deferral provisions of Section 409A of the Internal Revenue Code, and the regulations and other guidance thereunder, to the severance benefit payments, and the payment schedule as revised after the application of the preceding sentence shall be referred to as the "Revised Payment Schedule.") However, if there is no Revised Payment Schedule that would avoid the application of Section 409A(a)(1) of the Internal Revenue Code, the payment of such benefits shall not be paid pursuant to a Revised Payment Schedule and instead shall be delayed to the minimum extent necessary so that such benefits are not subject to the provisions of Section 409A(a)(1) of the Internal Revenue Code. The Board may attach conditions to or adjust the amounts paid pursuant to this Section 5.5 to preserve, as closely as possible, the economic consequences that would have applied in the absence of this Section 5.5; **provided, however,** that no such condition or adjustment shall result in the payments being subject to Section 409A(a)(1) of the Internal Revenue Code.

**5.6 Limitation on Payments.** In the event that the payments or other benefits provided for in this Agreement or otherwise payable to Executive (i) constitute "parachute payments" within the meaning of Section 280G of the Code, and (ii) would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then Executive's benefits under this Agreement shall be either (a) delivered in full, or (b) delivered to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the Excise Tax, results in the receipt by Executive on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. If a reduction in payments or benefits constituting "parachute payments" is necessary pursuant to the foregoing provision, reduction shall occur in the following order unless the Executive elects in writing a different order (**provided, however,** that such election shall be subject to Company approval if made on or after the date on which the event that triggers the parachute payment occurs): reduction of cash payments; cancellation of accelerated vesting of stock awards; reduction of employee benefits. If acceleration of vesting of stock award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant of the Executive's stock awards unless the Executive elects in writing a different order for cancellation.

Unless the Company and Executive otherwise agree in writing, any determination required under this Section 5.6 shall be made in writing by the Company's independent public accountants (the "Accountants"), whose determination shall be conclusive and binding upon Executive and the Company for all purposes and may be relied upon by the Company. For purposes of making the calculations required by this Section 5.6, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and Executive shall further to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 5.6. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 5.6.

**5.7 No Mitigation.** Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as the result of employment by another employer after the date of termination, or otherwise, except for health insurance benefits as set forth herein.

**5.8 Definitions.**

(a) For purposes of this Agreement, "Cause" shall mean any one or more of the following:

(i) Executive's indictment or conviction of any felony or of any crime involving dishonesty;

(ii) Executive's participation in any fraud or other act of willful misconduct against the Company (including any material breach of Company policy that causes or reasonably could cause harm to the Company);

(iii) Executive's refusal to comply with any lawful directive of the Company;

(iv) Executive's material breach of Executive's fiduciary, statutory, contractual, or common law duties to the Company (including any material breach of this Agreement or the Confidential Information and Inventions Agreement); or

(v) Conduct by Executive which in the good faith and reasonable determination of the Board demonstrates gross unfitness to serve.

**Provided, however,** that in the event that any of the foregoing events is reasonably capable of being cured, the Company shall, within twenty (20) days after the discovery of such event, provide written notice to the Executive describing the nature of such event and Executive shall thereafter have ten (10) business days to cure such event.



(b) For purposes of this Agreement, Executive shall have “**Good Reason**” for Executive’s resignation if: (w) any of the following occurs without Executive’s consent; (x) Executive notifies the Company in writing, within twenty (20) days after the occurrence of one of the following events that Executive intends to terminate his employment no earlier than thirty (30) days after providing such notice; (y) the Company does not cure such condition within thirty (30) days following its receipt of such notice or states unequivocally in writing that it does not intend to attempt to cure such condition, and (z) the Executive resigns from employment within thirty (30) days following the end of the period within which the Company was entitled to remedy the condition constituting Good Reason but failed to do so:

(i) the assignment to Executive of any duties or responsibilities which result in the material diminution of Executive’s authority, duties or responsibility; **provided, however**, that the acquisition of the Company and subsequent conversion of the Company to a division or unit of the acquiring corporation will not by itself result in a material diminution of Executive’s authority, duties or responsibility;

(ii) a material reduction by the Company in Executive’s annual base salary, except to the extent the base salaries of all other executive officers of the Company are accordingly reduced;

(iii) a relocation of Executive’s place of work, or the Company’s principal executive offices if Executive’s principal office is at such offices, to a location that increases Executive’s daily one-way commute by more than thirty-five (35) miles; or

(iv) any material breach by the Company of any material provision of this Agreement, including but not limited to Section 7.7.

(c) For purposes of this Agreement, “**Change in Control**” shall 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 Securities Exchange Act of 1934 (“Exchange Act”)), or persons acting as a group, 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 a majority (*e.g.*, 50% plus one share) of the combined voting power of the Company, (ii) there is a merger, consolidation or other business combination transaction of the Company with or into another corporation, entity or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of the Company (or the surviving entity) outstanding immediately after such transaction, or (iii) all or substantially all of the Company’s assets are sold.

## 6. ARBITRATION.

To ensure the timely and economical resolution of disputes that may arise in connection with Executive's employment with the Company, Executive and the Company agree that any and all disputes, claims, or causes of action arising from or relating to the enforcement, breach, performance, negotiation, execution, or interpretation of this Agreement, Executive's employment, or the termination of Executive's employment, shall be resolved to the fullest extent permitted by law by final, binding and confidential arbitration, by a single arbitrator, in Sacramento, California, conducted by JAMS under the then applicable JAMS rules. **By agreeing to this arbitration procedure, both Executive and the Company waive the right to resolve any such dispute through a trial by jury or judge or administrative proceeding.** The arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision, to include the arbitrator's essential findings and conclusions and a statement of the award. The arbitrator shall be authorized to award any or all remedies that Executive or the Company would be entitled to seek in a court of law. The Company shall pay all JAMS' arbitration fees in excess of the amount of court fees that would be required if the dispute were decided in a court of law. Nothing in this Agreement is intended to prevent either Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration.

## 7. GENERAL PROVISIONS.

**7.1 Notices.** Any notices provided hereunder must be in writing and shall be deemed effective upon the earlier of personal delivery (including personal delivery by fax) or the next day after sending by overnight carrier, to the Company at its primary office location and to Executive at his address as listed on the Company payroll.

**7.2 Severability.** Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction to the extent possible in keeping with the intent of the parties.

**7.3 Waiver.** Any waiver of any breach of any provisions of this Agreement must be in writing to be effective, and it shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

**7.4 Complete Agreement.** This Agreement, including Exhibit A, constitutes the entire agreement between Executive and the Company and it is the complete, final, and exclusive embodiment of their agreement with regard to this subject matter. This Agreement supersedes and replaces the Original Employment Agreement in its entirety and the Original Employment Agreement shall have no further force or effect. It is entered into without reliance on any promise or representation other than those expressly contained herein, and it cannot be modified or amended except in a writing signed by the Executive and a duly authorized officer of the Company.

**7.5 Counterparts.** This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together will constitute one and the same Agreement.

**7.6 Headings.** The headings of the sections hereof are inserted for convenience only and shall not be deemed to constitute a part hereof nor to affect the meaning thereof.

**7.7 Successors and Assigns.** This Agreement is intended to bind and inure to the benefit of and be enforceable by Executive and the Company, and their respective successors, assigns, heirs, executors and administrators, except that Executive may not assign any of his duties hereunder and he may not assign any of his rights hereunder without the written consent of the Company, which shall not be withheld unreasonably. The Company shall obtain the assumption of this Agreement by any successor or assign of the Company.

**7.8 Choice of Law.** All questions concerning the construction, validity and interpretation of this Agreement will be governed by the law of the State of California.

**IN WITNESS WHEREOF**, the parties have executed this Agreement.

**Pacific Ethanol, Inc.**

By: /s/ Neil M. Koehler

\_\_\_\_\_  
Neil M. Koehler

President and Chief Executive Officer

Date: 12/11/2007  
\_\_\_\_\_

**Understood and Agreed:**

**Executive**

By: /s/ Christopher W. Wright

\_\_\_\_\_  
Christopher W. Wright

Date: 12/11/2007  
\_\_\_\_\_