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) **March 26, 2008**

PACIFIC ETHANOL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**000-21467**	**41-2170618**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

400 Capitol Mall, Suite 2060 Sacramento, California	**95814**
(Address of principal executive offices)	(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 1.01. Entry into a Material Definitive Agreement.

Investment by Lyles United, LLC

On March 27, 2008, Pacific Ethanol, Inc. (the "Company") closed the transactions described below in connection with the sale of its Series B Cumulative Convertible Preferred Stock (the "Series B Preferred Stock").

Securities Purchase Agreement dated March 18, 2008 between Pacific Ethanol, Inc. and Lyles United, LLC

On March 18, 2008, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with Lyles United, LLC (the "Purchaser"). The Purchase Agreement provides for the sale by the Company and the purchase by the Purchaser of (i) 2,051,282 shares of the Company's Series B Preferred Stock, all of which are initially convertible into an aggregate of 6,153,846 shares of the Company's common stock based on an initial three-for-one conversion ratio, and (ii) a warrant (the "Warrant") to purchase an aggregate of 3,076,923 shares of the Company's common stock at an exercise price of $7.00 per share, for an aggregate purchase price of $40 million. The Series B Preferred Stock is to be created under the Certificate of Designations described below. The Purchase Agreement includes customary representations and warranties on the part of both the Company and the Purchaser and other customary terms and conditions. In addition, the Purchase Agreement provides that the Company shall not undertake any project or series of projects involving the investment of more than $1.0 million of new capital, for the acquisition or improvement of a fixed asset which extends the life or increases the productivity of the asset, individually or in the aggregate, which is not already contemplated by the Company's cash flow projections until the Company repays an aggregate of $30.0 million in debt loaned to the Company by the Purchaser as further described below.

The description of the Purchase Agreement does not purport to be complete and is qualified in its entirety by reference to the Purchase Agreement, which is filed as Exhibit 10.1 to this report and incorporated by reference herein.

Warrant dated March 27, 2008 issued by Pacific Ethanol, Inc. in favor of Lyles United, LLC

The Warrant is exercisable for up to 3,076,923 shares of the Company's common stock at an exercise price of $7.00 per share at any time during the period commencing on the date that is six months and one day from the date of the Warrant and ending ten years from the date of the Warrant. The Warrant contains customary anti-dilution provisions for stock splits, stock dividends and the like and other customary terms and conditions.

The description of the Warrant does not purport to be complete and is qualified in its entirety by reference to the Warrant, which is filed as Exhibit 10.3 to this report and incorporated by reference herein.

Certificate of Designations, Powers, Preferences and Rights of the Series B Cumulative Convertible Preferred Stock

The Certificate of Designations, Powers, Preferences and Rights of the Series B Cumulative Convertible Preferred Stock (the "Certificate of Designations") designates 3,000,000 shares of preferred stock as Series B Cumulative Convertible Preferred Stock.. The Series B Preferred Stock ranks senior in liquidation and dividend preferences to the Company's common stock and on parity with respect to dividend and liquidation rights with the Company's Series A Cumulative Redeemable Convertible Preferred Stock ("Series A Preferred Stock"). Holders of Series B Preferred Stock are entitled to quarterly cumulative dividends payable in arrears in cash in an amount equal to 7.00% of the purchase price per share of the Series B Preferred Stock on a *pari passu* basis with the holders of Series A Preferred Stock; however, subject to the provisions of the Letter Agreement described below, such dividends may, at the option of the Company, be paid in additional shares of Series B Preferred Stock based initially on the value of the purchase price per share of the Series B Preferred Stock. The holders of Series B Preferred Stock have a liquidation preference over the holders of the Company's common stock equivalent to the purchase price per share of the Series B Preferred Stock plus any accrued and unpaid dividends on the Series B Preferred Stock but on a *pro rata* and *pari passu* basis with the holders of Series A Preferred Stock. A liquidation will be deemed to occur upon the happening of customary events, including transfer of all or substantially all of the capital stock or assets of the Company or a merger, consolidation, share exchange, reorganization or other transaction or series of related transaction, unless holders of 66 2/3% of the Series B Preferred Stock vote affirmatively in favor of or otherwise consent that such transaction shall not be treated as a liquidation.

The holders of the Series B Preferred Stock have conversion rights initially equivalent to three shares of common stock for each share of Series B Preferred Stock. The conversion ratio is subject to customary antidilution adjustments. In addition, antidilution adjustments are to occur in the event that the Company issues equity securities at a price equivalent to less than $6.50 per share, including derivative securities convertible into equity securities (on an as-converted or as-exercised basis). Certain specified issuances will not result in antidilution adjustments (the "Anti-Dilution Excluded Securities"), including (i) securities issued to employees, officers or directors of the Company under any option plan, agreement or other arrangement duly adopted by the Company, the issuance of which is approved by the Compensation Committee of the Board of Directors of the Company, (ii) any common stock issued upon conversion of the Series A Preferred Stock or as payment of dividends thereon, (iii) Series B Preferred Stock and any common stock issued upon conversion of the Series B Preferred Stock or as payment of dividends thereon, (iv) securities issued upon conversion or exercise of any derivative securities outstanding on the date the Certificate of Designations is first filed with the Delaware Secretary of State, and (v) securities issued in connection with a stock split, stock dividend, combination, reorganization, recapitalization or other similar event for which adjustment to the conversion ratio of the Series B Preferred Stock is already made. The shares of Series B Preferred Stock are also subject to forced conversion upon the occurrence of a transaction that would result in an internal rate of return to the holders of the Series B Preferred Stock of 25% or more. The forced conversion is to be based upon the conversion ratio as last adjusted. Notwithstanding the foregoing, no shares of Series B Preferred Stock will be subject to forced conversion unless the shares of common stock issued or issuable to the holders upon conversion of the Series B Preferred Stock are registered for resale with the SEC and eligible for trading on The NASDAQ Stock Market or such other exchange approved by holders of 66 2/3% of the then outstanding shares of Series B Preferred Stock. Accrued but unpaid dividends on the Series B Preferred Stock are to be paid in cash upon any conversion of the Series B Preferred Stock.

The holders of Series B Preferred Stock vote together as a single class with the holders of the Company's Series A Preferred Stock and common stock on all actions to be taken by the Company's stockholders. Each share of Series B Preferred Stock entitles the holder to the number of votes equal to the number of shares of common stock into which each share of Series B Preferred Stock is convertible on all matters to be voted on by the stockholders of the Company. Notwithstanding the foregoing, the holders of Series B Preferred Stock are afforded numerous customary protective provisions with respect to certain actions that may only be approved by holders of a majority of the shares of Series B Preferred Stock. These protective provisions include limitations on (i) the increase or decrease of the number of authorized shares of Series B Preferred Stock, (ii) increase or decrease of the number of authorized shares of other capital stock, (iii) generally any actions that have an adverse effect on the rights and preferences of the Series B Preferred Stock, (iv) the authorization, creation or sale of any securities senior to or on parity with the Series B Preferred Stock as to voting, dividend, liquidation or redemption rights, including subordinated debt, (v) the authorization, creation or sale of any securities junior to the Series B Preferred Stock as to voting, dividend, liquidation or redemption rights, including subordinated debt, other than the Company's common stock, (vi) the authorization, creation or sale of any shares of Series B Preferred Stock other than the shares of Series B Preferred Stock authorized, created and sold under the Purchase Agreement, and (vii) engaging in a transaction that would result in an internal rate of return to holders of Series B Preferred Stock of less than 25%.

The holders of the Series B Preferred Stock are afforded preemptive rights with respect to certain securities offered by the Company. The preemptive rights of the holders of the Series B Preferred Stock are subordinate to the preemptive rights of, and prior exercise thereof by, the holders of the Series A Preferred Stock. So long as 50% of the shares of Series B Preferred Stock remain outstanding, and not including any securities of the Company as to which any holder of the Series A Preferred Stock has exercised its preemptive rights, each holder of Series B Preferred Stock has the right to purchase a *pro rata* portion of such securities equivalent to the number of shares of common stock then held by such holder (giving effect to the conversion of all shares of convertible preferred stock then held by such holder), divided by the total number of shares of common stock then held by all holders of the Series B Preferred Stock (giving effect to the conversion of all outstanding shares of convertible preferred stock then held by such holders), plus any amounts not purchased by other holders of Series B Preferred Stock. Notwithstanding the foregoing, certain proposed securities offerings will not result in preemptive rights in favor of the holders of the Series B Preferred Stock. These offerings include offerings of Anti-Dilution Excluded Securities as well as the issuance of securities other than for cash pursuant to a merger, consolidation, acquisition or similar business combination by the Company approved by the Board of Directors of the Company.

The description of the Certificate of Designations does not purport to be complete and is qualified in its entirety by reference to the Certificate of Designations, which is filed as Exhibit 10.2 to this report and incorporated by reference herein.

Registration Rights Agreement dated as of March 27, 2008 between Pacific Ethanol, Inc. and Lyles United, LLC

A Registration Rights Agreement between the Company and the Purchaser was executed upon the closing of the transactions contemplated by the Purchase Agreement. The Registration Rights Agreement is effective until the holders of the Series B Preferred Stock, and their affiliates, as a group, own less than 10% of the Series B Preferred Stock issued under the Purchase Agreement, including common stock into which such Series B Preferred Stock has been converted (the "Termination Date"). The Registration Rights Agreement provides that holders of a majority of the Series B Preferred Stock, including common stock into which such Series B Preferred Stock has been converted, may demand and cause the Company, at any time after the first anniversary of the Closing, to register on their behalf the shares of common stock issued, issuable or that may be issuable upon conversion of the Series B Preferred Stock and as payment of dividends thereon, and upon exercise of the Warrant as well as upon exercise of a warrant to purchase 100,000 shares of the Company's common stock at an exercise price of $8.00 per share and issued in connection with the extension of the maturity date of a loan, as discussed further below (collectively, the "Registrable Securities"). Following such demand, the Company is required to notify any other holders of the Series B Preferred Stock or Registrable Securities of its intent to file a registration statement and, to the extent requested by such holders, include them in the related registration statement. The Company is required to keep such registration statement effective until such time as all of the Registrable Securities are sold or until such holders may avail themselves of Rule 144 for sales of Registrable Securities without registration under the Securities Act of 1933, as amended. The holders are entitled to two demand registrations on Form S-1 and unlimited demand registrations on Form S-3; *provided, however*, that the Company is not obligated to effect more than one demand registration on Form S-3 in any calendar year.

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

Certain customary limitations to the Company's registration obligations are included in the Registration Rights Agreement. These limitations include the right of the Company to, in good faith, delay or withdrawal registrations requested by the holders under demand and "piggyback" registration rights, and the right to exclude certain portions of holders' Registrable Securities upon the advice of its underwriters. Following the registration of securities in which holders' Registrable Securities are included, the Company is obligated to refrain from registering any of its equity securities or securities convertible into equity securities until the earlier of the sale of all Registrable Securities subject to such registration statement and 180-days following the effectiveness of such registration statement. The Registration Rights Agreement also provides for customary registration procedures. The Company is responsible for all costs of registration, plus reasonable fees of one legal counsel for the holders, which fees are not to exceed $25,000 per registration.

The Registration Rights Agreement includes customary cross-indemnity provisions under which the Company is obligated to indemnify the holders and their affiliates as a result of losses caused by untrue or allegedly untrue statements of material fact contained or incorporated by reference in any registration statement under which Registrable Securities are registered, including any prospectuses or amendments related thereto. The Company's indemnity obligations also apply to omissions of material facts and to any failure on the part of the Company to comply with any law, rule or regulation applicable to such registration statement. Each holder is obligated to indemnify the Company and its affiliates as a result of losses caused by untrue or allegedly untrue statements of material fact contained in any registration statement under which Registrable Securities are registered, including any prospectuses or amendments related thereto, which statements were furnished in writing by that holder to the Company, but only to the extent of the net proceeds received by that holder with respect to securities sold pursuant to such registration statement. The holders' indemnity obligations also apply to omissions of material facts on the part of the holders.

In addition, the Registration Rights Agreement provides for reasonable access on the part of the Purchaser to all of the Company's books, records and other information and the opportunity to discuss the same with management of the Company. The Registration Rights Agreement includes customary representations and warranties on the part of both the Company and the Purchaser and other customary terms and conditions.

The description of the Registration Rights Agreement does not purport to be complete and is qualified in its entirety by reference to the Purchase Agreement, which is filed as Exhibit 10.4 to this report and incorporated by reference herein.

Relationship with Lyles United, LLC

The Company has had a lengthy business relationship with affiliates of, as well as prior business dealings with, Lyles United, LLC, as further described below.

In June 2003, Lyles Diversified, Inc., an affiliate of Lyles United, LLC, loaned $5.1 million to Pacific Ethanol California, Inc. ("PEI California"). As partial consideration for the loan, PEI California issued 1,000,000 shares of common stock to Lyles Diversified, Inc. Up to $1.5 million of the loan was convertible into additional shares of PEI California's common stock at a rate of $1.50 per share. Lyles Diversified, Inc. converted portions of the loan from time to time into an aggregate of 335,121 shares of PEI California's common stock. PEI California subsequently became a wholly-owned subsidiary of the Company's and in connection therewith, all of Lyles Diversified, Inc.'s shares of PEI California's common stock were exchanged for shares of the Company's common stock on a one-for-one basis. The loan was subsequently assigned to the Company and Lyles Diversified, Inc. converted the remaining balance of the $1.5 million initially eligible to be converted into 664,879 shares of the Company's common stock. In aggregate, Lyles Diversified, Inc. received 2,000,000 shares of the Company's common stock in connection with the loan transaction and the conversion of $1.5 million of debt. The loan was later further assigned to Pacific Ethanol Madera LLC ("PEI Madera"), an indirect subsidiary of the Company.

In November 2005, PEI Madera entered into a Design-Build Agreement with W.M. Lyles Co., an affiliate of Lyles United, LLC, that provided for design and build services to be rendered by W.M. Lyles Co. to PEI Madera with respect to the Company's ethanol production facility in Madera, California. The Madera facility was completed in October 2006.

In September 2007, Pacific Ethanol Stockton LLC ("PEI Stockton"), an indirect subsidiary of the Company, entered into a Construction Agreement with W.M. Lyles Co., an affiliate of Lyles United, LLC, for W.M. Lyles Co. to provide construction management and construction services to PEI Stockton with respect to the Company's ethanol production facility in Stockton, California. In December 2007, W.M. Lyles Co. assigned the Construction Agreement to Lyles Mechanical Co., another affiliate of Lyles United, LLC. The Stockton facility is in the process of being constructed.

In November 2007, Pacific Ethanol Imperial, LLC ("PEI Imperial"), an indirect subsidiary of the Company, borrowed $15.0 million from Lyles United, LLC under a Secured Promissory Note containing customary terms and conditions. The loan accrues interest at a rate equal to the Prime Rate of interest as reported from time to time in *The Wall Street Journal*, plus two percent (2.00%), computed on the basis of a 360-day year of twelve 30-day months. The loan was due 90-days after issuance or, if extended at the option of PEI Imperial, 365-days after the end of such 90-day period. This loan was extended by PEI Imperial and is due February 25, 2009. The Secured Promissory Note provided that if the loan was extended, the Company was to issue a warrant to purchase 100,000 shares of the Company's common stock at an exercise price of $8.00 per share. The Company issued the warrant simultaneously with the closing of the transactions contemplated by the Purchase Agreement. The warrant is exercisable at any time during the 18-month period after the date of issuance. The loan is secured by substantially all of the assets of PEI Imperial pursuant to a Security Agreement dated November 28, 2007 by and between PEI Imperial and Lyles United, LLC that contains customary terms and conditions and an Amendment No. 1 to Security Agreement dated December 27, 2007 by and between PEI Imperial and Lyles United, LLC (collectively, the "Security Agreement"). The Company has guaranteed the repayment of the loan pursuant to an Unconditional Guaranty dated November 28, 2007 containing customary terms and conditions. In connection with the loan, PEI Imperial entered into a Letter Agreement dated November 28, 2007 with Lyles United, LLC under which PEI Imperial committed to award the primary construction and mechanical contract to Lyles United, LLC or one of its affiliates for the construction of an ethanol production facility at the Company's Imperial Valley site near Calipatria, California (the "Project"), conditioned upon PEI Imperial electing, in its sole discretion, to proceed with the Project and Lyles United, LLC or its affiliate having all necessary licenses and is otherwise ready, willing and able to perform the primary construction and mechanical contract. In the event the foregoing conditions are satisfied and PEI Imperial awards such contract to a party other than Lyles United, LLC or one of its affiliates, PEI Imperial will be required to pay to Lyles United, LLC, as liquidated damages, an amount equal to $5.0 million.

In December 2007, PEI Imperial borrowed an additional $15.0 million from Lyles United, LLC under a second Secured Promissory Note containing customary terms and conditions. The loan accrues interest at a rate equal to the Prime Rate of interest as reported from time to time in *The Wall Street Journal*, plus two percent (2.00%), computed on the basis of a 360-day year of twelve 30-day months. The loan is due on March 31, 2008 or, if extended at the option of PEI Imperial, on March 31, 2009. If the loan is extended, the interest rate increases by two percentage points. The loan is secured by substantially all of the assets of PEI Imperial pursuant to the Security Agreement. The Company has guaranteed the repayment of the loan pursuant to an Unconditional Guaranty dated December 27, 2007 containing customary terms and conditions. The Company intends to extend the due date of the second Secured Promissory Note.

Ancillary Agreements

Letter Agreement dated March 27, 2008 by and between Pacific Ethanol, Inc., and Lyles United, LLC

In connection with the closing of the transactions contemplated by the Purchase Agreement, the Company entered into a Letter Agreement with Lyles United, LLC under which the Company expressly waives its rights under the Certificate of Designation to make dividend payments in additional shares of Series B Preferred Stock in lieu of cash dividend payments without the prior written consent of Lyles United, LLC.

The description of the Letter Agreement does not purport to be complete and is qualified in its entirety by reference to the Letter Agreement, which is filed as Exhibit 10.5 to this report and incorporated by reference herein.

Series A Preferred Stockholder Consent and Waiver dated March 27, 2008 by and between Pacific Ethanol, Inc. and Cascade Investment, L.L.C.

On March 27, 2008, the Company entered into a Series A Preferred Stockholder Consent and Waiver (the "Consent and Waiver") with Cascade Investment, L.L.C. ("Cascade"), the sole holder of the Company's issued and outstanding shares of Series A Preferred Stock. Pursuant to the Consent and Waiver, Cascade waived its preemptive rights as to the issuance and sale of the Series B Preferred Stock, consented to the authorization, creation, issuance and sale of the Series B Preferred Stock, and consented to the registration rights granted under the aforementioned Registration Rights Agreement. In addition, each of the Company and Cascade waived the right to adjust the conversion price of the Series A Preferred Stock with respect to the sale and issuance of the Series B Preferred Stock and any shares of common stock issuable on conversion thereof or shares of Series B Preferred Stock payable as a dividend thereon. Under the Consent and Waiver, the Company expressly waived its rights under the Certificate of Designations, Powers, Preferences and Rights of the Series A Preferred Stock to make dividend payments in additional shares of Series A Preferred Stock in lieu of cash dividend payments without the prior written consent of Cascade.

The description of the Consent and Waiver does not purport to be complete and is qualified in its entirety by reference to the Consent and Waiver, which is filed as Exhibit 10.6 to this report and incorporated by reference herein.

Waiver of Defaults under Credit Agreement and Amendment to Credit Agreement

Form of Waiver and Third Amendment to Credit Agreement dated as of March 25, 2008 by and among Pacific Ethanol, Inc. and the parties thereto

As previously disclosed, in the Company's Form 8-K for March 18, 2008 as filed with the Securities and Exchange Commission on March 18, 2008, in March 2008, the Company became aware of various events or circumstances which constituted defaults under its Credit Agreement. These events or circumstances included the existence of material weaknesses in the Company's internal control over financial reporting as of December 31, 2007, cash management activities that violated covenants in its Credit Agreement, failure to maintain adequate amounts in a designated debt service reserve account, the existence of a number of Eurodollar loans in excess of the maximum number permitted under the Company's Credit Agreement, and the Company's failure to pay all remaining project costs on its Madera and Boardman facilities by certain stipulated deadlines. On March 26, 2008, the Company obtained waivers from its lenders as to these defaults and was required to pay the lenders a consent fee in an aggregate amount of up to approximately $600,000. In addition to the waivers, the Company's lenders agreed to amend the Credit Agreement. These amendments include an increase in the frequency with which the Company is to deposit certain revenues into a restricted account each month, an increase the allowable Eurodollar loans from a maximum of seven to a maximum of ten, and the Company is required to pay all remaining project costs on its Madera and Boardman facilities by May 16, 2008.

The description of the Form of Waiver and Third Amendment to Credit Agreement does not purport to be complete and is qualified in its entirety by reference to the Form of Waiver and Third Amendment to Credit Agreement, which is filed as Exhibit 10.7 to this report and incorporated by reference herein.

Credit Facility

On February 27, 2007, the Company closed a debt financing transaction in the aggregate amount of up to $325,000,000 through certain of its wholly-owned indirect subsidiaries (the "Borrowers"). The primary purpose of the debt financing (the "Debt Financing") was to provide debt financing for the development, construction, installation, engineering, procurement, design, testing, start-up, operation and maintenance of five ethanol production facilities. On November 27, 2007, the Company amended the agreement to apply to four ethanol production facilities, thereby reducing the aggregate amount of available financing to up to $250,769,000. As of December 31, 2007, two of the four plants have been funded, with the remaining two expected to be funded in 2008. As of December 31, 2007, the outstanding balance under the Debt Financing was $101,508,000, comprised of $92,308,000 in construction loans and $9,200,000 in used lines of credit.

The Debt Financing, as amended, includes:

- four construction loan facilities in an aggregate amount of up to $230,800,000. Loans made under the construction loan facilities do not amortize, but require payment of accrued interest, and are fully due and payable on the earlier of October 27, 2008 or the date the construction loans made thereunder are converted into term loans (the "Conversion Date"), the latter of which is to be the date the last of the four plants achieves commercial operations. On the Conversion Date, the construction loans are to be converted into term loans;

- four term loan facilities in an aggregate amount of up to $230,800,000, which are intended to refinance the loans made under the construction loan facilities. The term loans are to be repaid ratably by each Borrower on a quarterly basis from and after the Conversion Date in an amount equal to 1.5% of the aggregate original principal amount of the corresponding term loan. The remaining principal balance and all accrued and unpaid interest on the term loans are fully due and payable on the date that is 84 months after the Conversion Date; and

- a working capital and letter of credit facility in an aggregate amount of up to $20,000,000 ($5,000,000 per facility) that is fully due and payable on the date that is 12 months after the Conversion Date, but is expected to be renewed on similar terms and conditions. During the term of the working capital and letter of credit facility, the Borrowers may borrow, repay and re-borrow amounts available under the facility.

Loans and letters of credit under the Debt Financing are subject to conditions precedent, including, among others, the absence of a material adverse effect; the absence of defaults or events of defaults; the accuracy of certain representations and warranties; the maintenance of a debt-to-equity ratio that is not in excess of 65:35; the contribution of all required equity by the Company to the Borrowers, which is expected to be approximately $227,000,000 in the aggregate; and the attainment of at least a 1.5-to-1.0 debt service coverage ratio. Also, the Borrowers may not be able to fully utilize the Debt Financing if the completed ethanol plants fail to meet certain minimum performance standards. Loans made under the construction and term loan facilities may not be re-borrowed once repaid or re-borrowed once prepaid. Finally, loan amounts under the construction and term loan facilities are limited to a percentage of project costs of the corresponding plant but are not to exceed approximately $1.15 per gallon of annual production capacity of the plant.

The Borrowers have the option to select from multiple interest rates that float with common interest rate indices, such as the LIBOR, with reset periods of differing durations. Depending upon the floating interest rate selected, the type of loan and whether the loan is made under a construction loan facility, a term loan facility or the working capital and letter of credit facility, loans under the Debt Financing bear interest at rates ranging from 3.75% to 4.35% over the selected interest rate index.

In addition to scheduled principal payments, starting after the Conversion Date, the term loan facilities require mandatory repayments of principal in amounts based on the Borrowers' free cash flow. The percentage of the Borrowers' free cash flow to be applied to principal repayments is to vary from 50% in the first two years following the Conversion Date to 75-100% in succeeding years, based upon repayment amounts measured against targeted balances.

Borrowings and the Borrowers' obligations under the Debt Financing are secured by a first-priority security interest in all of the equity interests in the Borrowers and substantially all the assets of the Borrowers. The security interests granted by the Borrowers under the Debt Financing restrict the assets and revenues of the Borrowers and therefore may inhibit the Company's ability to obtain other debt financing.

In connection with the Debt Financing, the Company also entered into a Sponsor Support Agreement under which the Company is to provide limited contingent equity support in connection with the development, construction, installation, engineering, procurement, design, testing, start-up and maintenance of the four ethanol production facilities. In particular, the Company has agreed to contribute to the Borrowers up to an aggregate of approximately $28,083,000 (the "Sponsor Funding Cap") of contingent equity in the event the Borrowers have insufficient funds to either pay their project costs as they become due and payable or, by delay in payment, cause the ethanol production facilities to fail to be completed by the Conversion Date. The Company has agreed to provide a warranty with respect to all ethanol plants other than its Madera facility, which is under standard warranty through the contractor. The warranty obligations of the Company with respect to the other three facilities extend one year beyond final completion of each facility. The warranty obligation will cease one year from the date the third ethanol plant achieves final completion. The Company's obligations under the warranty are capped at the Sponsor Funding Cap. Until the Company's contingent equity obligations have been fully performed or the warranty period has expired, the Company may not incur any secured indebtedness for borrowed money, grant liens on its assets or provide any secured credit enhancements in an aggregate amount in excess of $10,000,000 unless the Company provides the lenders under the Debt Financing with the same liens or credit support.

Item 3.02 Unregistered Sales of Equity Securities.

As described in Item 1.01 above, on March 27, 2008, the Company issued to Lyles United, LLC (i) 2,051,282 shares of the Company's Series B Preferred Stock, all of which are initially convertible into an aggregate of 6,153,846 shares of the Company's common stock based on an initial three-for-one conversion ratio, and (ii) a warrant to purchase an aggregate of 3,076,923 shares of the Company's common stock at an exercise price of $7.00 per share, for an aggregate purchase price of $40 million.

As described in Item 1.01 above, on March 27, 2008, the Company issued to Lyles United, LLC a warrant to purchase 100,000 shares of the Company's common stock at an exercise price of $8.00 per share in connection with the extension of the maturity date of a loan. The disclosures contained in Item 1.01 above are incorporated herein by reference.

Exemption from the registration provisions of the Securities Act of 1933 for the transaction described above is claimed under Section 4(2) of the Securities Act of 1933, among others, on the basis that such transaction did not involve any public offering and Lyles United, LLC was an accredited investor and had access to the kind of information that registration would provide. Appropriate investment representations were obtained, and the securities were or will be issued with restricted securities legends.

Item 3.03 Material Modification to Rights of Security Holders.

(a) Not applicable.

(b) Effective as of March 27, 2008, the Company consummated the sale of its Series B Preferred Stock to Lyles United, LLC as described above under Item 1.01. The rights and preferences of the Series B Preferred Stock are set forth in the Certificate of Designations, Powers, Preferences and Rights of the Series B Cumulative Convertible Preferred Stock as also described above under Item 1.01.

Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

(a) Effective as of March 27, 2008, the Company consummated the sale of its Series B Preferred Stock to Lyles United, LLC as described above under Item 1.01. The rights and preferences of the Series B Preferred Stock are set forth in the Certificate of Designations, Powers, Preferences and Rights of the Series B Cumulative Convertible Preferred Stock as also described above under Item 1.01.

(b) Not applicable.

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.

Number	Description
10.1	Securities Purchase Agreement dated March 18, 2008 between Pacific Ethanol, Inc. and Lyles United, LLC (*)
10.2	Certificate of Designations, Powers, Preferences and Rights of the Series B Cumulative Convertible Preferred Stock
10.3	Warrant dated March 27, 2008 issued by Pacific Ethanol, Inc. to Lyles United, LLC
10.4	Registration Rights Agreement dated as of March 27, 2008 by and between Pacific Ethanol, Inc. and Lyles United, LLC
10.5	Letter Agreement dated March 27, 2008 by and among Pacific Ethanol, Inc., Lyles United, LLC and Cascade Investment, L.L.C.
10.6	Series A Preferred Stockholder Consent and Waiver dated March 27, 2008 by and between Pacific Ethanol, Inc. and Cascade Investment, L.L.C.
10.7	Form of Waiver and Third Amendment to Credit Agreement dated as of March 25, 2008 by and among Pacific Ethanol, Inc. and the parties thereto.

(*) Filed as an exhibit to the Registrant's current report on Form 8-K for March 18, 2008 filed with the Securities and Exchange Commission on March 18, 2008 and incorporated herein by reference.

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: March 27, 2008

PACIFIC ETHANOL, INC.

By: /S/ JOSEPH W. HANSEN
Joseph W. Hansen
Chief Financial Officer

EXHIBITS FILED WITH THIS REPORT

Number	Description
10.2	Certificate of Designations, Powers, Preferences and Rights of the Series B Cumulative Convertible Preferred Stock
10.3	Warrant dated March 27, 2008 issued by Pacific Ethanol, Inc. to Lyles United, LLC
10.4	Registration Rights Agreement dated as of March 27, 2008 by and between Pacific Ethanol, Inc. and Lyles United, LLC
10.5	Letter Agreement dated March 27, 2008 by and among Pacific Ethanol, Inc., Lyles United, LLC and Cascade Investment, L.L.C.
10.6	Series A Preferred Stockholder Consent and Waiver dated March 27, 2008 by and between Pacific Ethanol, Inc. and Cascade Investment, L.L.C.
10.7	Form of Waiver and Third Amendment to Credit Agreement dated as of March 25, 2008 by and among Pacific Ethanol, Inc. and the parties thereto.

EXHIBIT 10.2

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

OF

PACIFIC ETHANOL, INC.

Pursuant to Section 151 of the
Delaware General Corporation Law

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

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

- 3,000,000 shares shall be designated Series B Cumulative Convertible Preferred Stock, par value $0.001 per share (the **"Series B Preferred Stock"**).

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

Section 1. Designation and Amount. 3,000,000 shares of the unissued preferred stock of the Corporation shall be designated as Series B Cumulative Convertible Preferred Stock, par value $.001 per share. The Series B Preferred Stock shall be issued in accordance with the Purchase Agreement at a purchase price of $19.50 per share (the **"Series B Issue Price"**).

Section 2. Rank. The Series B Preferred Stock shall rank: (i) subject to the requirements of Section 7, junior to any other class or series of capital stock of the Corporation hereafter created specifically ranking as to dividend rights, redemption rights, liquidation preference and other rights senior to the Series B Preferred Stock (the **"Senior Securities"**); (ii) senior to all of the Corporation's common stock, par value $0.001 per share (the **"Common Stock"**); (iii) senior to any class or series of capital stock of the Corporation hereafter created not specifically ranking as to dividend rights, redemption rights, liquidation preference and other rights senior to or on parity with any Series B Preferred Stock of whatever subdivision (collectively, with the Common Stock, the **"Junior Securities"**); and (iv) *pari passu* with respect to dividend and liquidation rights with the Corporation's Series A Cumulative Redeemable Convertible Preferred Stock (the **"Series A Preferred Stock"**) and, subject to the requirements of Section 7, *pari passu* with respect to any class or series of capital stock of the Corporation hereafter created specifically ranking on a parity with the Series B Preferred Stock (collectively, the **"Parity Securities"**).

Section 3. Dividends.

(a) So long as shares of Series B Preferred Stock remain outstanding, the holders of each share of the Series B Preferred Stock shall be entitled, from and after the date of issuance of such share, to receive, and shall be paid quarterly in arrears (beginning on the last day of the calendar quarter following the date of the initial issuance of Series B Preferred Stock) in cash out of funds legally available therefor, on a *pari passu* basis with the Holders of Series A Preferred Stock, prior and in preference to any distribution of any of the assets of the Corporation to the holders of the Common Stock, cumulative dividends, of an amount equal to 7.00% of the Series B Issue Price per share (as adjusted for any stock dividends, stock splits, combinations, recapitalizations involving equity securities of the Corporation, reclassifications or other similar events involving a change with respect to the Series B Preferred Stock) per annum with respect to each share of the Series B Preferred Stock; provided, however, that such dividend may, at the option of the Corporation, be paid to the holders of Series B Preferred Stock in shares of the Series B Preferred Stock valued at the Series B Issue Price (as adjusted for any stock dividends, stock splits, combinations, recapitalizations involving equity securities of the Corporation, reclassifications or other similar events involving a change with respect to the Series B Preferred Stock). The holders of shares of Series B Preferred Stock shall be entitled to receive such dividends immediately after the payment of any dividends to Senior Securities required by the Corporation's Certificate of Incorporation, as amended or amended and restated and in effect, including for this purpose any certificate(s) of designation (the **"Charter"**), prior and in preference to any dividends paid to Junior Securities but in parity with any distribution to the holders of Series A Preferred Stock and all other Parity Securities.

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

Section 4. Liquidation Preference.

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

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

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

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

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

Section 5. Conversion of Series B Preferred Stock. The Corporation and the record holders of the Series B Preferred Stock shall have conversion rights as follows:

(a) Right to Convert. Each record holder of Series B Preferred Stock shall be entitled to convert whole shares of Series B Preferred Stock for the Common Stock issuable upon conversion of the Series B Preferred Stock, at any time at the option of the holder thereof, subject to adjustment and limitations on conversion prior to obtaining stockholder approval as provided in Section 5(d) hereof, as follows: Each share of Series B Preferred Stock shall be convertible into such number of fully paid and nonassessable shares of Common Stock as is obtained by (I) multiplying the number of shares of Series B Preferred Stock so to be converted by the Series B Issue Price and (II) dividing the result thereof by the Conversion Price. The Conversion Price shall initially be $6.50 per share of Series B Preferred Stock, subject to adjustment as provided in Section 5(d). Accrued but unpaid dividends will be paid in cash upon any such conversion.

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

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

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

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

(ii) Delivery of Common Stock Upon Conversion. The Corporation no later than 6:00 p.m. (Pacific time) on the third (3rd) business day after receipt by the Corporation or its transfer agent of all necessary documentation duly executed and in proper form required for conversion, including the original Preferred Stock Certificates to be converted (or after provision for security or indemnification in the case of lost, stolen or destroyed certificates, if required), shall issue and surrender to a common courier for either overnight or (if delivery is outside the United States) two (2) day delivery to the holder as shown on the stock records of the Corporation a certificate for the number of shares of Common Stock to which the holder shall be entitled as aforesaid.

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

(iv) No Fractional Shares on Conversion. No fractional shares of Common Stock shall be issued upon conversion of the Series B Preferred Stock. In lieu of any fractional share to which the holder would otherwise be entitled, the Corporation shall (after aggregating all shares into which shares of Series B Preferred held by each holder could be converted) pay cash equal to such fraction multiplied by the Market Price per share of Common Stock on the Date of Conversion.

(d) Adjustment of Conversion Price.

(i) Adjustments of Conversion Price Upon Issuance of Common Stock. If at any time after the first filing of this Certificate of Designations, the Corporation shall issue or sell, or is, in accordance with Section 5(d)(i)(A) through (G) below, deemed to have issued or sold, any shares of Common Stock for a consideration per share less than the Conversion Price in effect immediately prior to the time of such issue or sale or deemed issue or sale, then, forthwith upon such issue or sale or deemed issue or sale, the Conversion Price shall be reduced to the price determined by dividing (x) an amount equal to the sum of (a) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the then existing Conversion Price and (b) the consideration, if any, received by the Corporation upon such issue or sale, by (y) the total number of shares of Common Stock outstanding immediately after such issue or sale. For purposes of determining the number of shares of Common Stock outstanding as provided in clauses (x) and (y) above, the number of shares of Common Stock issuable upon conversion of all outstanding shares of Series A Preferred Stock and Series B Preferred Stock, exercise of all outstanding Options (as defined below) and conversion of all outstanding Convertible Securities (as defined below) shall be deemed to be outstanding. Notwithstanding any other provision in this subsection to the contrary, if an adjustment to the Conversion Price pursuant to this Section 5(d) would require the Corporation, (I) to issue any shares of Common Stock upon conversion of the Series B Preferred Stock in excess of 19.99% of the total number of shares of Common Stock outstanding immediately prior to the closing (the **"Closing"**) of the transactions contemplated by the Purchase Agreement (when aggregated with all shares of Common Stock issued or issuable to such holders upon conversion of the Series B Preferred Stock or upon the payment of a dividend on the Series B Preferred Stock) at a price less than the greater of the Market Price per share immediately prior to the Closing or the Corporation's book value per share at December 31, 2007 as reflected in the Corporation's Form 8-K filed with the Securities and Exchange Commission immediately after the Closing (the **"Conversion Limitation"**), or (II) to otherwise obtain stockholder approval of the transactions contemplated by the Purchase Agreement pursuant to NASDAQ Marketplace Rule 4350(i), and such stockholder approval has not been obtained, (1) the Conversion Price shall not be reduced below the maximum extent that would not require shareholder approval under NASDAQ Marketplace Rule 4350(i), and (2) the Corporation shall use its commercially best efforts to obtain such stockholder approval as soon as reasonably practicable, including by calling a special meeting of the stockholders to vote on such Conversion Price adjustment. In no event shall the Corporation be obligated to issue any shares of Common Stock upon conversion of the Series B Preferred Stock in excess of the Conversion Limitation until stockholder approval has been obtained. Once stockholder approval of the transactions contemplated by the Purchase Agreement has been obtained, the Conversion Limitation shall be of no further force or effect.

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

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

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

(C) Change in Option Price or Conversion Rate. Upon the happening of any of the following events, namely, if (1) the purchase price or exercise price provided for in any Option referred to in Section 5(d)(i)(A), (2) the number of shares into which the Option is exercisable, (3) the additional consideration, if any, payable upon the conversion or exchange of any Convertible Securities referred to in Section 5(d)(i)(A) or (B), or (4) the rate at which Convertible Securities referred to in Section 5(d)(i)(A) or (B) are convertible into or exchangeable for Common Stock shall change at any time (including, but not limited to, changes under or by reason of provisions designed to protect against dilution), the Conversion Price in effect at the time of such event shall forthwith be readjusted to the Conversion Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold.

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

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

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

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

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

(iii) Adjustments for Subdivisions, Common Stock Dividends, Combinations or Consolidations of Common Stock. If the outstanding shares of Common Stock shall be subdivided or increased, by stock split, stock dividend or otherwise, into a greater number of shares of Common Stock, the Conversion Price shall concurrently with the effectiveness of such subdivision or payment of such stock dividend, be proportionately decreased. If the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, the Conversion Price shall, concurrently with the effectiveness of such combination or consolidation, be proportionately increased.

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

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

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

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

Section 6. Voting Rights. Except to the extent otherwise expressly provided by law and in Section 7, the Series B Preferred Stock shall vote together with all other classes and series of voting stock of the Corporation as a single class on all actions to be taken by the stockholders of the Corporation. Each share of Series B Preferred Stock shall entitle the holder thereof to the number of votes equal to the number of shares of Common Stock into which each share of Series B Preferred Stock is convertible (determined without regard to Section 5(c)(iv)) on all matters to be voted on by the stockholders of the Corporation; provided, however, that solely for purposes of this Section 6, the number of votes for each share of Series B Preferred Stock shall not exceed the number of shares of Common Stock into which each share of Series B Preferred Stock would be convertible if the applicable Conversion Price were $6.50 (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares).

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

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

(ii) increase or decrease the number of authorized shares of Preferred Stock or Common Stock (except any increase or decrease in the number of authorized shares of Series A Preferred Stock and the shares of Common Stock into which they are convertible, and as otherwise required by the Charter and this Certificate of Designations);

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

(iv) authorize, create, issue or sell any Senior Securities or any Parity Securities (other than additional shares of Series A Preferred Stock that may be issued as a dividend on the Series A Preferred Stock pursuant to Section 3(a) of the Certificate of Designations, Powers, Preferences and Rights of the Series A Preferred Stock (the **"Series A Preferred Certificate of Designations"**)) or securities that are convertible into Senior Securities or Parity Securities with respect to voting, dividend, liquidation or redemption rights, including subordinated debt;

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

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

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

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

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

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

(xi) unless the Corporation has obtained stockholder approval of the transactions contemplated by the Purchase Agreement pursuant to NASDAQ Marketplace Rule 4350(i), issue or sell, or engage in any transaction wherein the Corporation shall have been deemed to have issued or sold, any shares of Common Stock or securities convertible into Common Stock for a consideration per share that, as a result of the provisions of Section 5(d)(i), would result in the issuance of Common Stock upon conversion of the Series B Preferred Stock in excess of the Conversion Limitation.

Section 8. Status of Converted Stock. In the event any shares of Series B Preferred Stock shall be converted pursuant to Section 5 hereof, the shares so converted shall be canceled, shall return to the status of authorized but unissued Preferred Stock of no designated series, and shall not be issuable by the Corporation as Series B Preferred Stock.

Section 9. Preemptive Rights.

(a) So long as at least 50% of the shares of Series B Preferred Stock remain outstanding, the Corporation shall not issue, sell or exchange, agree to issue, sell or exchange, or reserve or set aside for issuance, sale or exchange, (i) any shares of the capital stock of the Corporation (excluding any shares of Series A Preferred Stock and any shares of Common Stock issuable upon conversion of Series A Preferred Stock), (ii) any option, warrant or other right to subscribe for, purchase or otherwise acquire any capital stock of the Corporation, or (iii) any securities convertible into capital stock of the Corporation (collectively, but not including any Series A Preemptive Rights Securities (as defined below), the **"Offered Securities"**), unless in each such case the Corporation shall have first complied with this Section 9; provided, however, that (x) the preemptive rights of any holder of Series B Preferred Stock shall not include rights with respect to any securities of the Corporation as to which any holder of Series A Preferred Stock has exercised its rights (the **"Series A Preemptive Rights Securities"**) and (y) the preemptive rights of the holder of Series B Preferred Stock shall not arise or be exercisable until after all holders of Series A Preferred Stock have exercised their preemptive rights, in whole or in part, or declined to exercise such rights. The Corporation shall deliver to each holder of the Series B Preferred Stock a written notice of any proposed, intended or potential (i.e., in the event the holders of the Series A Preemptive Rights Securities elect not to exercise any or all of their preemptive rights with respect to the Series A Preemptive Rights Securities) issuance, sale or exchange of Offered Securities (the **"Offer"**), which Offer shall (i) identify and describe the Offered Securities, (ii) describe the price and other terms upon which they are to be issued, sold or exchanged, and the number or amount of the Offered Securities to be issued, sold or exchanged, (iii) identify the persons or entities (if known) to which or with which the Offered Securities are to be offered, issued, sold or exchanged, and (iv) offer to issue and sell to or exchange with such holder of the Series B Preferred Stock (A) a pro rata portion of the Offered Securities determined by dividing (x) the aggregate number of shares of Common Stock then held by such holder of the Series B Preferred Stock (giving effect to the conversion of all shares of convertible preferred stock then held by such holder) by (y) the total number of shares of Common Stock then held by all holders of the Series B Preferred Stock (giving effect to the conversion of all outstanding shares of convertible preferred stock then held by such holders) (such pro rata portion of the Offered Securities, the **"Basic Amount"**), and (B) any additional portion of the Offered Securities attributable to the Basic Amounts of other holders of the Series B Preferred Stock as such holder shall indicate it will purchase or acquire should the other holders subscribe for less than their Basic Amounts (the **"Undersubscription Amount"**).

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

(c) The Corporation shall have 90 days from the expiration of the period set forth in Section 9(b) to issue, sell or exchange all or any part of such Offered Securities as to which a Notice of Acceptance has not been given by the holders of the Series B Preferred Stock (the **"Refused Securities"**), but only to the offerees or purchasers described in the Offer (if so described therein) and only upon terms and conditions (including, without limitation, unit prices and interest rates) which are not more favorable, in the aggregate, to the acquiring person or persons or less favorable to the Corporation than those set forth in the Offer.

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

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

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

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

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

Section 10. Reservation of Stock. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, for the purpose of effecting the conversion of shares of Series B Preferred Stock issued or issuable to the holders, such number of shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series B Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of Series B Preferred Stock, in addition to such other remedies as shall be available to the holder of Series B Preferred Stock, the Corporation shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number as shall be sufficient for such purposes, including, without limitation, using best efforts to obtain stockholder approval of any necessary amendment to the Charter.

Section 11. Definitions. As used in this Certificate, the following capitalized terms have the following meanings.

"Anti-Dilution Excluded Securities" mean any of the following securities: (1) securities issued to employees, officers or directors of the Corporation or options to purchase Common Stock granted by the Corporation to employees, officers or directors of the Corporation pursuant to any option plan, agreement or other arrangement duly adopted by the Corporation and the grant of which is approved by the compensation committee of the Board; (2) any Series A Preferred Stock issued as a dividend on shares of Series A Preferred Stock, (3) any Common Stock issued upon conversion of the Series A Preferred Stock; (4) the Series B Preferred Stock and any Common Stock issued upon conversion of the Series B Preferred Stock; (5) for the avoidance of doubt, securities issued on the conversion of any Convertible Securities or the exercise of any Options, in each case, outstanding on the date of the first filing of this Certificate of Designations; and (6) for the avoidance of doubt, securities issued in connection with a stock split, stock dividend, combination, reorganization, recapitalization or other similar event for which adjustment is made in accordance with Section 5(d)(iii) or (iv).

"Internal Rate of Return" means the discount rate that makes the net present value of all cash payments equal zero. In determining the Internal Rate of Return, the initial investment of the holders of the Series B Preferred Stock shall include all transaction costs and expenses incurred by the initial holder of the Series B Preferred Stock in connection with the transactions contemplated by the Purchase Agreement and all additional costs and expenses of the holders of Series B Preferred Stock in respect of the investment incurred through the date of the determination shall be treated as cash expenditures when made. For purposes of determining the Internal Rate of Return, any dividends, distributions or payments other than in cash shall be deemed to have no value. In determining the Internal Rate of Return in respect of a Transaction, the final payment for purposes of such determination shall be the cash, if any, distributable or payable to holders of the Series B Preferred Stock upon the closing of the Transaction assuming that the holders had converted all of the outstanding Series B Preferred Stock to Common Stock immediately prior to the closing of the Transaction.

"Market Price" shall be the closing sale price (on the applicable Trading Market) per share of Common Stock on any specified date, or, if such date does not fall on a Trading Day, then the closing sale price per share of Common Stock on the first Trading Day preceding such date which shall also constitute the "market price" for purposes of the Series A Preferred Certificate of Designations.

"Purchase Agreement" means that certain Securities Purchase Agreement, dated March 18, 2008, between the Corporation and Lyles United, LLC.

"Preemptive Rights Excluded Securities" mean any of the following securities: (1) securities issued to employees, officers or directors of the Corporation or options to purchase Common Stock granted by the Corporation to employees, officers or directors of the Corporation pursuant to any option plan, agreement or other arrangement duly adopted by the Corporation and the grant of which is approved by the compensation committee of the Board; (2) any Series A Preferred Stock issued as a dividend on shares of Series A Preferred Stock and any Common Stock issued on conversion of any shares of Series A Preferred Stock or as a dividend to any holder of Series A Preferred Stock; (3) the Series B Preferred Stock and any Common Stock issued on conversion of the Series B Preferred Stock or issued as a dividend on the Series B Preferred Stock; (4) for the avoidance of doubt, securities issued on the conversion of any Convertible Securities or the exercise of any Options, in each case, outstanding on the date of the first filing of this Certificate of Designations; (5) for the avoidance of doubt, securities issued in connection with a stock split, stock dividend, combination, reorganization, recapitalization or other similar event for which adjustment is made in accordance with Section 5(d)(iii), (iv) or (v); and (6) the issuance of securities of the Corporation issued for consideration other than cash pursuant to a merger, consolidation, acquisition or similar business combination by the Corporation approved by the Board.

"Trading Day" means any day on which the Common Stock is listed or quoted and traded on the applicable Trading Market.

"Trading Market" means the NASDAQ Global Market or, if the Common Stock is not then traded on the NASDAQ Global Market, any national securities exchange, market or trading or quotation facility on which the Common Stock is then listed or quoted.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be duly executed on its behalf by its Chief Financial Officer this 26th day of March, 2008.

PACIFIC ETHANOL, INC.

By: /s/ JOSEPH W. HANSEN
Name: Joseph W. Hansen
Title: Chief Financial Officer

EXHIBIT 10.3

NEITHER THESE SECURITIES NOR THE SECURITIES FOR WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS.

PACIFIC ETHANOL, INC.

WARRANT

Warrant No. W7-1 **Dated: March 27, 2008**

Pacific Ethanol, Inc., a Delaware corporation (the "**Company**"), hereby certifies that, for value received, LYLES UNITED, LLC or its registered assigns (the "**Holder**"), is entitled to purchase from the Company up to a total of 3,076,923 shares of common stock, $0.001 par value per share (the "**Common Stock**"), of the Company (each such share, a "**Warrant Share**" and all such shares, the "**Warrant Shares**") at an exercise price equal to $7.00 per share (as adjusted from time to time as provided in Section 8, the "**Exercise Price**"), subject to the terms and conditions contained herein. This Warrant (this "**Warrant**") is issued in connection with the purchase by Lyles United, LLC of shares of the Company's Series B Cumulative Convertible Preferred Stock (the **"Series B Preferred Stock"**) pursuant to the terms and conditions of that certain Securities Purchase Agreement dated March 18, 2008 between the Company and Lyles United, LLC (the **"Purchase Agreement"**). Capitalized terms not otherwise defined herein shall have their respective meanings as set forth in the Purchase Agreement.

1. **Registration of Warrant**. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "**Warrant Register**"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

2. **Registration of Transfers**. The Company shall register the transfer of any portion of this Warrant in the Warrant Register, upon surrender of this Warrant, with the Form of Assignment attached hereto duly completed and signed, to the Company at its address specified herein. Upon any such registration or transfer, a new warrant to purchase Common Stock, in substantially the form of this Warrant (any such new warrant, a "**New Warrant**"), evidencing the portion of this Warrant so transferred shall be issued to the transferee and a New Warrant evidencing the remaining portion of this Warrant not so transferred, if any, shall be issued to the transferring Holder. The acceptance of the New Warrant by the transferee thereof shall be deemed the acceptance by such transferee of all of the rights and obligations of a holder of a Warrant.

3. **Exercise and Duration of Warrants**.

(a) This Warrant shall be exercisable by the registered Holder from time to time during the term commencing on the date that is six (6) months and one (1) day from the date hereof and ending on the date that is ten (10) years from the date hereof (the "**Expiration Date**"). At 5:00 P.M., California time on the Expiration Date, the portion of this Warrant not exercised prior thereto shall be and become void and of no value.

(b) A Holder may exercise this Warrant by delivering to the Company (i) an exercise notice, in the form attached hereto (the "**Exercise Notice**"), appropriately completed and duly signed, and (ii) payment of the Exercise Price for the number of Warrant Shares as to which this Warrant is being exercised, and the date such items are delivered to the Company (as determined in accordance with the notice provisions hereof) is an "**Exercise Date**." The Holder shall not be required to deliver the original Warrant in order to effect an exercise hereunder. Execution and delivery of the Exercise Notice shall have the same effect as cancellation of the original Warrant and issuance of a New Warrant evidencing the right to purchase the remaining number of Warrant Shares.

4. **Delivery of Warrant Shares**.

(a) Upon exercise of this Warrant, the Company shall promptly (but in no event later than five (5) Business Days after the Exercise Date) issue or cause to be issued and cause to be delivered to or upon the written order of the Holder and in such name or names as the Holder may designate, a certificate for the Warrant Shares issuable upon such exercise. For purposes of this Warrant, "**Business Day**" means any day other than Saturday, Sunday or other day on which commercial banks in the State of California are authorized or required by law to remain closed. The Holder, or any person so designated by the Holder to receive Warrant Shares, shall be deemed to have become holder of record of such Warrant Shares as of the Exercise Date. It is acknowledged and agreed that certificates evidencing such Warrant Shares may bear a restrictive legend in substantially the following form:

> THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY APPLICABLE STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN COMPLIANCE WITH APPLICABLE STATE SECURITIES LAWS OR BLUE SKY LAWS.

(b) This Warrant is exercisable, either in its entirety or, from time to time, for a portion of the number of Warrant Shares. Upon surrender of this Warrant following one or more partial exercises, the Company shall issue or cause to be issued, at its expense, a New Warrant evidencing the right to purchase the remaining number of Warrant Shares.

5. **Charges, Taxes and Expenses**. Issuance and delivery of certificates for shares of Common Stock upon exercise of this Warrant shall be made without charge to the Holder for any issue or transfer tax, transfer agent fee or other incidental tax or expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the Company; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the registration of any certificates for Warrant Shares or Warrants in a name other than that of the Holder. The Holder shall be responsible for all other tax liability that may arise as a result of holding or transferring this Warrant or receiving Warrant Shares upon exercise hereof.

6. **Replacement of Warrant**. If this Warrant is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation hereof, or in lieu of and substitution for this Warrant, a New Warrant, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction and customary and reasonable bond or indemnity, if requested. Applicants for a New Warrant under such circumstances shall also comply with such other reasonable regulations and procedures and pay such other reasonable third-party costs as the Company may prescribe.

7. **Reservation of Warrant Shares**. The Company covenants that it will at all times reserve and keep available out of the aggregate of its authorized but unissued and otherwise unreserved Common Stock, solely for the purpose of enabling it to issue Warrant Shares upon exercise of this Warrant as herein provided, the number of Warrant Shares which are then issuable and deliverable upon the exercise of this entire Warrant, free from preemptive rights or any other contingent purchase rights of persons other than the Holder (after giving effect to the adjustments and restrictions of Section 8, if any). The Company covenants that all Warrant Shares so issuable and deliverable shall, upon the due exercise of this Warrant, and upon issuance of such Warrant Shares and the payment of the applicable Exercise Price in accordance with the terms hereof, be duly and validly authorized, issued and fully paid and nonassessable.

8. **Certain Adjustments**. The Exercise Price and number of Warrant Shares issuable upon exercise of this Warrant are subject to adjustment from time to time as set forth in this Section 8.

(a) **Stock Dividends and Splits**. If the Company, at any time while this Warrant is outstanding, (i) pays a stock dividend on its Common Stock or otherwise makes a distribution on any class of capital stock that is payable in shares of Common Stock, (ii) subdivides outstanding shares of Common Stock into a larger number of shares, or (iii) combines outstanding shares of Common Stock into a smaller number of shares, then in each such case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to clause (i) of this subsection shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution, and any adjustment pursuant to clause (ii) or (iii) of this subsection shall become effective immediately after the effective date of such subdivision or combination.

(b) **Number of Warrant Shares**. Simultaneously with any adjustment to the Exercise Price pursuant to subsection (a) of this Section 8, the number of Warrant Shares that may be purchased upon exercise of this Warrant shall be adjusted proportionately, so that after such adjustment the aggregate Exercise Price payable hereunder for the adjusted number of Warrant Shares shall be the same as the aggregate Exercise Price in effect immediately prior to such adjustment.

(c) **Reclassification, Reorganization and Consolidation**. In case of any merger, consolidation, share exchange, reclassification, reorganization, or change in the capital stock of the Company (other than as a result of a subdivision, combination, or stock dividend provided for in Section 8(a) above) (each, a "**Change of Control**"), then the Company shall make appropriate provisions so that the Holder of this Warrant shall have the right at any time prior to the expiration of this Warrant to purchase, at a total price equal to that payable upon the exercise of this Warrant, the kind and amount of shares of stock and other securities and property receivable in connection with such Change of Control by a holder of the same number of Warrant Shares as were purchasable by the Holder of this Warrant immediately prior to such Change of Control. In any such case appropriate provisions shall be made with respect to the rights and interest of the Holder of this Warrant so that the provisions hereof shall thereafter be applicable with respect to any shares of stock or other securities and property deliverable upon exercise hereof, and appropriate adjustments shall be made to the purchase price per share payable hereunder, provided the aggregate purchase price shall remain the same. The Company will use commercially best efforts, upon the consummation of any such Change of Control, to ensure that the successor entity, if any (if other than the Company), resulting from such Change of Control agrees by written instrument, executed and mailed or delivered to the registered Holder hereof at the last address of such Holder appearing on the books of the Company, to assume the obligations of the Company under this Warrant.

(d) **Calculations**. All calculations under this Section 8 shall be made to the nearest cent or the nearest 1/100th of a share, as applicable. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Company, and the disposition of any such shares shall be considered an issue or sale of Common Stock.

(e) **Notice of Adjustment**. When any adjustment is required to be made in the number or kind of shares purchasable upon exercise of this Warrant, or in the Exercise Price, the Company shall promptly notify the Holder of such event and of the number of Warrant Shares or other securities or property thereafter purchasable upon exercise of this Warrant.

9. **Payment of Exercise Price**. The Holder shall pay the Exercise Price in immediately available funds.

10. **Fractional Shares**. The Company shall not be required to issue or cause to be issued fractional Warrant Shares on the exercise of this Warrant. If any fraction of a Warrant Share would, except for the provisions of this Section 10, be issuable upon exercise of this Warrant, the number of Warrant Shares to be issued will be rounded up to the nearest whole share.

11. **Notices**. Any and all notices or other communications or deliveries hereunder (including without limitation any Exercise Notice) shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified below prior to 5:00 p.m. (California time) on a Business Day, (ii) the next Business Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number specified below on a day that is not a Business Day or later than 5:00 p.m. (California time) on any Business Day, (iii) the Business Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given. The address and facsimile number for such notices or communications shall be as follows:

If to the Company:	Pacific Ethanol, Inc. 400 Capitol Mall, Suite 2060 Sacramento, California 95814 Fax (916) 446-3937 Attn: Chief Financial Officer AND Attn: General Counsel
If to Holder:	Lyles United, LLC 1210 West Olive Ave. Fresno, California 93728 Fax (559) 487-7951 Attn: Will Lyles, Vice President
With a copy to:	Howard Rice Nemerovski Canady Falk & Rabkin, A Professional Corporation Three Embarcadero Center Seventh Floor San Francisco, California 94111 Fax (415) 217-5910 Attn: Gary P. Kaplan

or such other address or facsimile number as either party may designate to the other party hereto in accordance with the aforesaid procedure. Each party shall provide notice to the other party of any change in address or facsimile number.

12. **Warrant Agent**. The Company shall serve as warrant agent under this Warrant. Upon thirty (30) days' prior notice to the Holder, the Company may appoint a new warrant agent. Any corporation into which the Company or any new warrant agent may be merged or any corporation resulting from any consolidation to which the Company or any new warrant agent shall be a party or any corporation to which the Company or any new warrant agent transfers substantially all of its corporate trust or stockholders services business shall be a successor warrant agent under this Warrant without any further act. Any such successor warrant agent shall promptly cause notice of its succession as warrant agent to be mailed (by first class mail, postage prepaid) to the Holder at the Holder's last address as shown on the Warrant Register.

13. **Miscellaneous**.

(a) Subject to the restrictions on transfer set forth on the first page hereof, this Warrant may be assigned by the Holder. This Warrant may not be assigned by the Company except to a successor. This Warrant shall be binding on and inure to the benefit of the parties hereto and their respective successors and assigns. Subject to the preceding sentence, nothing in this Warrant shall be construed to give to any person other than the Company and the Holder any legal or equitable right, remedy or cause of action under this Warrant. This Warrant may be amended only in writing signed by the Company and the Holder and their successors and assigns.

(b) The Company will not, by amendment of its governing documents or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder against impairment.

(c) Governing Law; Venue; Waiver Of Jury Trial. ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY, ENFORCEMENT AND INTERPRETATION OF THIS WARRANT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA. EACH PARTY HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS SITTING IN THE COUNTY OF FRESNO, CALIFORNIA, FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION HEREWITH OR WITH ANY TRANSACTION CONTEMPLATED HEREBY OR DISCUSSED HEREIN (INCLUDING WITH RESPECT TO THE ENFORCEMENT OF ANY OF THE TRANSACTION DOCUMENTS), AND HEREBY IRREVOCABLY WAIVES, AND AGREES NOT TO ASSERT IN ANY SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF ANY SUCH COURT, THAT SUCH SUIT, ACTION OR PROCEEDING IS IMPROPER. EACH PARTY HEREBY IRREVOCABLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO PROCESS BEING SERVED IN ANY SUCH SUIT, ACTION OR PROCEEDING BY MAILING A COPY THEREOF VIA REGISTERED OR CERTIFIED MAIL OR OVERNIGHT DELIVERY (WITH EVIDENCE OF DELIVERY) TO SUCH PARTY AT THE ADDRESS IN EFFECT FOR NOTICES TO IT UNDER THIS AGREEMENT AND AGREES THAT SUCH SERVICE SHALL CONSTITUTE GOOD AND SUFFICIENT SERVICE OF PROCESS AND NOTICE THEREOF. NOTHING CONTAINED HEREIN SHALL BE DEEMED TO LIMIT IN ANY WAY ANY RIGHT TO SERVE PROCESS IN ANY MANNER PERMITTED BY LAW. THE COMPANY HEREBY WAIVES ALL RIGHTS TO A TRIAL BY JURY.

(d) The headings herein are for convenience only, do not constitute a part of this Warrant and shall not be deemed to limit or affect any of the provisions hereof.

(e) In case any one or more of the provisions of this Warrant shall be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Warrant shall not in any way be affected or impaired thereby and the parties will attempt in good faith to agree upon a valid and enforceable provision which shall be a commercially reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Warrant.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed by its authorized officer as of the date first indicated above.

PACIFIC ETHANOL, INC.

By: /s/ NEIL M. KOEHLER
Name: Neil M. Koehler
Title: President & CEO

FORM OF EXERCISE NOTICE

(To be executed by the Holder to exercise the right to purchase shares of Common Stock under the foregoing Warrant)

To: PACIFIC ETHANOL, INC.

The undersigned is the Holder of Warrant No. W7-1 (the "**Warrant**") issued by Pacific Ethanol, Inc., a Delaware corporation (the "**Company**"). Capitalized terms used herein and not otherwise defined have the respective meanings set forth in the Warrant.

1. The Warrant is currently exercisable to purchase a total of _____ Warrant Shares.

2. The undersigned Holder hereby exercises its right to purchase _____ Warrant Shares pursuant to the Warrant.

3. The Holder shall pay the sum of $_____ to the Company in accordance with the terms of the Warrant.

4. Pursuant to this exercise, the Company shall deliver to the holder _____ Warrant Shares in accordance with the terms of the Warrant.

5. Following this exercise, the Warrant shall be exercisable to purchase a total of _____ Warrant Shares.

Dated: _____ Name of Holder:

(Print)_____

By:_____
Name: _____
Title: _____

(Signature must conform in all respects to name of holder as specified on the face of the Warrant)

FORM OF ASSIGNMENT

[To be completed and signed only upon transfer of Warrant]

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____ the right represented by the within Warrant to purchase _____ shares of Common Stock of Pacific Ethanol, Inc. to which the within Warrant relates and appoints _____ attorney to transfer said right on the books of Pacific Ethanol, Inc. with full power of substitution in the premises.

Dated: _____, ____ _____

By:_____
(Signature must conform in all respects to name
of holder as specified on the face of the Warrant)

Print:_____

Address of transferee:

_____
_____
Fax: (___) _____
Attn:_____

In the presence of:
_____

Print:_____

EXHIBIT 10.4

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (the **"Agreement"**) dated as of March 27, 2008, is by and among Pacific Ethanol, Inc., a Delaware corporation (the **"Company"**), and Lyles United, LLC, a Delaware limited liability company (the **"Investor"**).

WHEREAS, the Company and the Investor have entered into a Securities Purchase Agreement dated March 18, 2008 (and, as amended from time to time, the **"Purchase Agreement"**), providing for the purchase by the Investor of (i) 2,051,282 shares of the Company's Series B Cumulative Convertible Preferred Stock (the "**Series B Preferred Stock**") (such shares, together with any additional shares of the Company's Series B Preferred Stock issued as a dividend thereon, the "**Shares**"), and (ii) a warrant (the "**Warrant**") to acquire up to 3,076,923 shares (the "**Warrant Shares**") of the Company's common stock, par value $0.001 per share (the "**Common Stock**"); and

WHEREAS, simultaneously with, and as a condition to, the closing of the transactions contemplated in the Purchase Agreement, the Company and the Investor desire to enter into this Agreement to provide certain registration and other rights with respect to the Registrable Securities (as hereinafter defined).

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained in this Agreement and the Purchase Agreement, and intending to be legally bound, the parties hereto agree as follows:

1. **Definitions**. As used in this Agreement, the following terms have the meanings indicated below or in the referenced sections of this Agreement:

"Adjustment Provisions" shall have the meaning set forth in Section 3(a).

"Affiliate" shall have the meaning set forth in the Purchase Agreement.

"Agreement" shall have the meaning set forth in the recitals hereof.

"Business Day shall mean any day other than Saturday, Sunday or other day on which commercial banks in the State of California are authorized or required by law to remain closed.

"Closing" shall have the meaning set forth in the Purchase Agreement.

"Commission" shall mean the United States Securities and Exchange Commission.

"Common Stock" shall have the meaning set forth in the recitals hereof.

"Company" shall have the meaning set forth in the recitals hereof.

"Conversion Shares" shall have the meaning set forth in the Purchase Agreement.

"Demand Registration" shall have the meaning set forth in Section 3(a).

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"FINRA" shall mean the Financial Industry Regulatory Authority, Inc.

"GAAP" shall mean generally accepted accounting principals, as in effect in the United States of America from time to time applied on a consistent basis.

"Investor" shall have the meaning set forth in the recitals hereof, and its successors, assigns and transferees.

"Investor Securities" shall mean the Shares, the Warrant Shares, the Conversion Shares and the Note Warrant Shares.

"Majority of the Registrable Securities" shall have the meaning set forth in Section 2(b).

"Note Warrant Shares" shall mean 100,000 shares of Common Stock acquired upon the exercise of the warrant issued in connection with that certain Secured Promissory Note by and between the Company and the Investor, dated November 28, 2007.

"Person" shall have the meaning set forth in the Purchase Agreement.

"Piggyback Registration" shall have the meaning set forth in Section 4(a).

"Purchase Agreement" shall have the meaning set forth in the recitals hereof.

"Registrable Securities" shall mean: (i) the Conversion Shares; (ii) the Warrant Shares; (iii) the Note Warrant Shares; and (iv) any securities issued or issuable with respect to the Conversion Shares, Warrant Shares or Note Warrant Shares by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization with respect to any of the securities referenced above; provided, however, that a Registrable Security ceases to be a Registrable Security when (a) it is registered under the Securities Act and disposed of in accordance with the registration statement covering it or (b) it is sold or transferred in accordance with the requirements of Rule 144 (or similar provisions then in effect) promulgated by the Commission under the Securities Act (**"Rule 144"**).

"Registration Expenses" shall have the meaning set forth in Section 6(a).

"Registration Statement" shall mean any registration statements contemplated by Section 3 and any additional registration statements contemplated by Section 4, including (in each case) the prospectus, amendments and supplements to such registration statement or prospectus, all exhibits attached thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

"Representatives" of a Person means the officers, employees, independent accountants, independent legal counsel and other representatives of such Person.

"Rule 415" shall mean Rule 415 (or similar provisions then in effect) promulgated by the Commission under the Securities Act.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"Shares" shall have the meaning set forth in the recitals hereof.

"Subsidiary" shall have the meaning set forth in the Purchase Agreement.

"Termination Date" shall mean the date that the Investor and its Affiliates, as a group, own less than 10% of the Investor Securities. For purposes of calculating such percentage of ownership, each Share shall be deemed to be equivalent to the number of shares of Common Stock into which they are convertible.

"**Warrant**" shall have the meaning set forth in the Purchase Agreement.

"**Warrant Shares**" shall have the meaning set forth in the Purchase Agreement.

2. **Securities Subject to this Agreement**.

(a) **Holders of Registrable Securities**. A Person is deemed to be a holder of Registrable Securities whenever that Person owns, directly or beneficially, or has the right to acquire, Registrable Securities, disregarding any legal restrictions upon the exercise of that right.

(b) **Majority of the Registrable Securities**. As used in this Agreement, the term **"Majority of the Registrable Securities"** means more than 50% of the Registrable Securities being registered or, where the context requires, a majority in interest of the Registrable Securities.

3. **Demand Registration**.

(a) **Request for Registration**. Subject to the provisions of Section 3(b), at any time after the first anniversary of the Closing, (A) one or more holders of the Registrable Securities representing a Majority of the Registrable Securities may demand that the Company register all or part of its Registrable Securities under the Securities Act (a **"Demand Registration"**) on Form S-1 (or a similar form then in effect) promulgated by the Commission under the Securities Act, provided that the Company shall not be obligated to effect a Demand Registration (i) during the one hundred eighty (180) days period commencing with the date of any secondary public offering or (ii) if the Company delivers notice to the holders of Registrable Securities within thirty (30) days of any registration request of its intent to file a registration statement for a secondary public offering within sixty (60) days, during the period starting with the date sixty (60) days prior to the Company's good faith estimate of the date of filing of, and ending on a date one hundred eighty (180) days after the date of such secondary public offering, provided that the Company is actively employing in good faith commercially best efforts to cause the registration statement covering such offering to become effective and (B) one or more holders of Registrable Securities representing a Majority of the Registrable Securities may request a Demand Registration on Form S-3 (or a similar form then in effect), provided that the Registrable Securities to be covered by any such Form S-3 shall be expected to result in aggregate gross proceeds of not less than $1,000,000. Within ten (10) days after receipt of a demand, the Company will notify in writing all holders of Registrable Securities of the demand. Any holder who wants to include its

Registrable Securities in the Demand Registration must notify the Company within ten (10) Business Days of receiving the notice of the Demand Registration. Except as provided in this Section 3, the Company will include in all Demand Registrations all Registrable Securities for which the Company receives the timely written requests for inclusion. Any such request to be included in a Demand Registration shall not be counted as a Demand Registration under this Section 3. All demands or requests made pursuant to this Section 3(a) must specify the number of Registrable Securities to be registered and the intended method of disposing of the Registrable Securities. The Company acknowledges that the plan of distribution contemplated by any such Registration Statement shall include offers and sales through underwriters or agents, offers and sales directly to investors, block trades and such other methods of offer and sale and that offers and sales may be on a continued or delayed basis under Rule 415. The Company will use its commercially best efforts to cause such Registration Statement to be declared effective by the Commission and to remain effective until such time as all of the shares of Common Stock designated thereunder are sold or the holders thereof are entitled to rely on Rule 144 for sales of Registrable Securities without registration under the Securities Act and without compliance with the public information, sales volume, manner of sale or notice requirements of Rule 144(c), (e), (f) or (h). The Company acknowledges that at the time the Company files any Registration Statement pursuant to this Section 3 the number of Registrable Securities may not be fixed due to the antidilution and other provisions related to the Shares (**"Adjustment Provisions"**). Accordingly, the Company agrees that it will register the number of Conversion Shares, Warrant Shares and Note Warrant Shares held by or issuable to the Investor as of the date of the filing of the Registration Statement and, to the extent permitted under the applicable rules under the Securities Act, the additional number of shares of Common Stock issuable pursuant to the Adjustment Provisions. The Company agrees that, thereafter, it will file, as soon as practicable but in no event later than thirty (30) days after the issuance of additional Registrable Securities that are not covered by such Registration Statement (due to the effect of the Adjustment Provisions) such amendments and/or supplements to the Registration Statement, and such additional Registration Statements as are necessary in order to ensure that at least 100% of the Conversion Shares, Warrant Shares and Note Warrant Shares held by or issuable to the Investor are included in a Registration Statement, and the Company will use its commercially best efforts to cause such amendments, supplements and additional Registration Statements to be declared effective within ninety (90) days following the issuance of such additional Registrable Securities that are not otherwise covered by an effective Registration Statement.

(b) **Number of Demands**. The holders of Registrable Securities shall have the right to two (2) Demand Registrations on Form S-1 (or a similar form then in effect) and shall have the right to an unlimited number of Demand Registrations on Form S-3 (or a similar form then in effect); provided, however, that the Company shall not be obligated to effect more than one (1) Demand Registration on Form S-3 in any calendar year.

(c) **Registration Expenses**. The Company shall pay or reimburse to the holders of the Registrable Securities included in a Demand Registration all Registration Expenses of those holders in connection with any Demand Registration (including the reasonable fees and disbursements of one counsel for such holders in connection with each such Demand Registration not to exceed $25,000 per registration, as described in Section 6).

(d) **Selection of Underwriters; Priority on Demand Registrations**. If the holders of Registrable Securities initiating a Demand Registration intend to distribute Registrable Securities covered by their request by means of an underwriting, such holders shall, after consultation with the Company, select the investment banker(s) and manager(s) that will administer the offering; provided, that the Company shall have given its prior written consent to such selection (which consent shall be not unreasonably withheld). The Company and the holders of Registrable Securities whose shares are being registered shall enter into a customary underwriting agreement with such investment banker(s) and manager(s).

If the managing underwriter advises the Company, in writing or otherwise, that an underwriters' over-allotment option, not in excess of fifteen percent (15%) of the total offering to be so effected, is necessary or desirable for the marketing of such offering, all Registrable Securities which are to be included in such offering pursuant to this Section 3(d) and any other securities shall be allocated pro rata to the primary portion of such offering and the underwriters' over-allotment portion on the basis of the total number of Registrable Securities and other securities requested to be included in the registration.

Notwithstanding any other provision of this Section 3, if the managing underwriter advises the Company, in writing or otherwise, that the total number or dollar amount of securities requested to be included in the registration exceeds the number or dollar amount of securities that can be sold, the Company will include the securities in the registration in the following order of priority: (i) first, among all holders requesting to include Registrable Securities in the Demand Registration (allocated pro rata among the holders of Registrable Securities requested to be included in the registration, on the basis of the dollar amount or number of Registrable Securities requested to be included, as the case may be); (ii) second, any other securities (provided they are of the same class as the securities sold by the Company) requested to be included, allocated among the holders of such securities in such proportions as the Company and those holders may agree; and (iii) third, to the Company for its account.

If any holder of Registrable Securities (other than the holder making the demand) disapproves of the terms of the underwriting, such holder may withdraw therefrom by giving written notice to the Company and the managing underwriter.

(e) **Delay in Filing**. Notwithstanding the foregoing, the Company may delay in filing a registration statement in connection with a Demand Registration and may withhold efforts to cause the registration statement to become effective, if the Company determines in good faith that such registration might involve initial or continuing disclosure obligations that the Board of Directors of the Company determines, in good faith, will not be in the best interest of the Company's stockholders. The Company may exercise such right to delay or withhold efforts not more than once in any twelve (12) month period and for not more than ninety (90) days at a time. If, after a registration statement becomes effective, the Company advises the holders of registered shares that the Company considers it appropriate for the registration statement to be amended, the Company shall use its best efforts to amend such registration statement, and the holders of such shares shall suspend any further sales of their registered shares until the Company advises them that the amended registration statement has been declared effective.

(f) **Effective Demand Registration**. A registration shall not constitute a Demand Registration until it has become effective and remains continuously effective for the lesser of (i) the period during which all Registrable Securities registered in the Demand Registration are sold and (ii) three hundred sixty (360) days; provided, however, that a registration shall not constitute a Demand Registration if (x) after such Demand Registration has become effective, such registration or the related offer, sale or distribution of Registrable Securities thereunder is interfered with by any stop order, injunction or other order or requirement of the Commission or other governmental agency or court for any reason not attributable to the holder requesting the Demand Registration and such interference is not thereafter eliminated, or (y) the conditions specified in the underwriting agreement, if any, entered into in connection with such Demand Registration are not satisfied or waived, other than by reason of a failure on the part of the holder requesting the Demand Registration.

4. **Piggyback Registrations**.

(a) **Right to Piggyback**. Whenever the Company proposes to register any of its securities in an underwritten offering under the Securities Act, whether for its own account or for the account of another stockholder (except for the registration of securities to be offered pursuant to an employee benefit plan on Form S-8, pursuant to a registration made on Form S-4 or any successor forms then in effect and except for the registration of securities held by Cascade Investment, L.L.C. (**"Cascade"**) pursuant to the terms and conditions of that certain Registration Rights and Stockholders Agreement dated as of April 13, 2006 between the Company and Cascade) at any time other than pursuant to a Demand Registration and the registration form to be used may be used for the registration of the Registrable Securities (a **"Piggyback Registration"**), it will so notify in writing all holders of Registrable Securities no later than the earlier to occur of (i) the tenth (10th) day following the Company's receipt of notice of exercise of other demand registration rights, or (ii) forty-five (45) days prior to the anticipated filing date. Subject to the provisions of Section 4(c), the Company will include in the Piggyback Registration all Registrable Securities with respect to which the Company has received written requests for inclusion within fifteen (15) days after the issuance of the Company's notice. Such Registrable Securities may be made subject to an underwriters' over-allotment option, if so requested by the managing underwriter. The holders of Registrable Securities may withdraw all or any part of the Registrable Securities from a Piggyback Registration at any time before ten (10) business days prior to the effective date of the Piggyback Registration. In any Piggyback Registration, the Company, the holders of Registrable Securities and any Person who hereafter becomes entitled to register its securities in a registration initiated by the Company must sell their securities on the same terms and conditions. A registration of Registrable Securities pursuant to this Section 4 shall not be counted as a Demand Registration pursuant to Section 3.

(b) **Piggyback Expenses**. The Company shall pay or reimburse to the holders of the Registrable Securities included in a Piggyback Registration all Registration Expenses of those holders in connection with the Piggyback Registration (including the reasonable fees and disbursements of one counsel for such holders in connection with each such Piggyback Registration not to exceed $25,000 per Piggyback Registration, as described in Section 6).

(c) **Underwriting; Priority on Piggyback Registrations**. The right of any such holder to be included in an underwritten registration pursuant to this Section 4 shall be conditioned upon such holder's participation in such underwriting and the inclusion of such holder's Registrable Securities in the underwriting to the extent provided herein. All holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company. If the managing underwriter gives the Company its written opinion that the total number or dollar amount of securities requested to be included in the registration exceeds the number or dollar amount of securities that can be sold, the Company will include the securities in the registration in the following order of priority: (i) first, subject to the first proviso below, all securities the Company or the stockholder, if any, on whose account securities are being registered proposes to sell; (ii) second, subject to the first proviso below, up to the full number or dollar amount of Registrable Securities requested to be included in the registration (allocated pro rata among the holders of Registrable Securities requested to be included in the registration, on the basis of the dollar amount or number of Registrable Securities requested to be included, as the case may be); and (iii) third, any other securities (provided they are of the same class as the securities sold by the Company) requested to be included, allocated among the holders of such securities in such proportions as the Company and those holders may agree; provided, however, that at least twenty percent (20%) of the Registrable Securities requested to be included in such registration shall be included in the offering; provided, further, that, (i) the holders of Registrable Securities shall not be subject to any cutback in the amount of Registrable Securities requested to be included in the registration unless all other holders of securities requesting to be included in such registration other than the stockholder, if any, on whose account securities are being registered have been excluded from such registration. In the event that the managing underwriter advises the Company that an underwriters' over-allotment option is necessary or advisable, the allocation provided for in this Section 4(c) shall apply to the determination of which securities are to be included in the registration of such shares. Except with the prior written consent of each holder of Registrable Securities, the Company shall not grant to any holder of the Company's securities any right to Piggyback Registration which would reduce the amount of Registrable Securities includable in such registration.

(d) **Selection of Underwriters**. If any Piggyback Registration is an underwritten offering, the Company will select as the investment banker(s) and manager(s) that will administer the offering a nationally recognized investment banker(s) and manager(s) with demonstrable industry-specific expertise and experience. The Company and the holders of Registrable Securities whose shares are being registered shall enter into a customary underwriting agreement with such investment banker(s) and manager(s), provided, however, that the liability of any holder of Registrable Securities shall be limited to such holder's net proceeds received from the sale of its Registrable Securities in such offering and such limitation shall not be amended by an underwriting agreement or arrangement.

(e) **Right to Terminate Registration**. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 4 prior to the effectiveness of such registration whether or not any holder has elected to include securities in such registration. The Registration Expenses of such withdrawn registration shall be borne by the Company in accordance with Section 7.

5. **Registration Procedures**.

(a) **Obligations of the Company**. Whenever required to register any Registrable Securities, the Company shall as expeditiously as practicable:

(i) prepare and file with the Commission to permit a public offering and resale of the Registrable Securities under the Securities Act which offering may, if so requested, be on a delayed or continuous basis under Rule 415 a registration statement on the appropriate form and use commercially best efforts to cause the registration statement to become effective. At least ten (10) days before filing a registration statement or prospectus or at least three (3) Business Days before filing any amendments or supplements thereto, the Company will furnish to the counsel of the holders of a Majority of the Registrable Securities being registered copies of all documents proposed to be filed for that counsel's review and approval, which approval shall not be unreasonably withheld or delayed;

(ii) immediately notify each seller of Registrable Securities of any stop order threatened or issued by the Commission and take all actions reasonably required to prevent the entry of a stop order or if entered to have it rescinded or otherwise removed;

(iii) prepare and file with the Commission such amendments and supplements to the registration statement and the corresponding prospectus necessary to keep the registration statement effective, in the case of the registration required by Section 3 for the period provided in Section 3 and in any other case for one hundred twenty (120) days or such shorter period as may be required to sell all Registrable Securities covered by the registration statement; and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by the registration statement during each period in accordance with the sellers' intended methods of disposition as set forth in the registration statement;

(iv) furnish to each seller of Registrable Securities a sufficient number of copies of the registration statement, each amendment and supplement thereto (in each case including all exhibits), the corresponding prospectus (including each preliminary prospectus), and such other documents as a seller may reasonably request to facilitate the disposition of the seller's Registrable Securities;

(v) use its commercially best efforts to register or qualify the Registrable Securities under securities or blue sky laws of jurisdictions in the United States of America as any seller requests within twenty (20) days following the original filing of a registration statement and do any and all other reasonable acts and things that may be necessary or advisable to enable the seller to consummate the disposition of the seller's Registrable Securities in such jurisdiction; provided, however, that the Company shall not be obligated to qualify as a foreign corporation to do business under the laws of any jurisdiction in which it is not then qualified or to file any general consent to service of process;

(vi) notify each seller of Registrable Securities, at any time when a prospectus is required to be delivered under the Securities Act, of any event as a result of which the prospectus or any document incorporated therein by reference contains an untrue statement of a material fact or omits to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which such statements were made, and use best efforts to prepare a supplement or amendment to the prospectus or any such document incorporated therein so that thereafter the prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which such statements were made;

(vii) cause all registered Registrable Securities to be listed on each securities exchange, if any, on which similar securities issued by the Company are then listed;

(viii) provide an institutional transfer agent and registrar and a CUSIP number for all Registrable Securities on or before the effective date of the registration statement;

(ix) enter into such customary agreements, including an underwriting agreement in customary form and take all other actions in connection with those agreements as the holders of a Majority of the Registrable Securities being registered or the underwriters, if any, reasonably request to expedite or facilitate the disposition of the Registrable Securities;

(x) make available for inspection by any seller of Registrable Securities, any underwriter participating in any disposition pursuant to the registration statement, and any attorney, accountant, or other agent of any seller or underwriter, all financial and other records, pertinent corporate documents, and properties of the Company, and cause the Company's officers, directors and employees to supply all information reasonably requested by any seller, underwriter, attorney, accountant, or other agent in connection with the registration statement; provided that an appropriate confidentiality agreement is executed by any such seller, underwriter, attorney, accountant or other agent;

(xi) in connection with any underwritten offering, obtain a **"comfort"** letter from the Company's independent public accountants in customary form and covering those matters customarily covered by **"comfort"** letters as the holders of a Majority of the Registrable Securities being registered or the managing underwriter reasonably requests, addressed to the underwriters and to the holders of the Registrable Securities being registered;

(xii) in connection with any underwritten offering, furnish an opinion of counsel representing the Company for the purposes of the registration, in the form and substance customarily given to underwriters in an underwritten public offering and reasonably satisfactory to counsel representing the holders of Registrable Securities being registered and the underwriter(s) of the offering, addressed to the underwriters and to the holders of the Registrable Securities being registered;

(xiii) use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its security holders, as soon as reasonably practicable, an earnings statement complying with the provisions of Section 11(a) of the Securities Act and covering the period of at least twelve (12) months, but not more than eighteen (18) months, beginning with the first month after the effective date of the Registration Statement;

(xiv) cooperate with each seller of Registrable Securities and each underwriter participating in the disposition of such Registrable Securities and their respective counsel in connection with any filings required to be made with the FINRA; and

(xv) take all other steps reasonably necessary to effect the registration of the Registrable Securities contemplated hereby.

(b) **Seller Information**. In the event of any registration by the Company, from time to time, the Company may require each seller of Registrable Securities subject to the registration to furnish to the Company information regarding such seller, the Registrable Securities held by them, and the distribution of the securities subject to the registration, and such seller shall furnish all such information reasonably requested by the Company.

(c) **Notice to Discontinue**. Each holder of Registrable Securities agrees by acquisition of such securities that, upon receipt of any notice from the Company of any event of the kind described in Section 5(a)(vi), the holder will discontinue disposition of Registrable Securities until the holder receives copies of the supplemented or amended prospectus contemplated by Section 5(a)(vi). In addition, if the Company requests, the holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in the holder's possession, of the prospectus covering the Registrable Securities current at the time of receipt of the notice. If the Company gives any such notice, the time period mentioned in Section 5(a)(iii) shall be extended by the number of days elapsing between the date of notice and the date that each seller receives the copies of the supplemented or amended prospectus contemplated in Section 5(a)(vi).

(d) **Notice by Holders**. Whenever the holders of Registrable Securities have requested that any Registrable Securities be registered pursuant to this Agreement, those holders shall notify the Company, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event concerning that holder of the Registrable Securities, as a result of which the prospectus included in the registration statement contains an untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

6. **Registration Expenses**. All costs and expenses incurred in connection with the Company's performance of or compliance with this Agreement (the **"Registration Expenses"**) shall be paid by the Company as provided in this Agreement. The term **"Registration Expenses"** includes without limitation all registration filing fees, reasonable professional fees and other reasonable expenses of the Company's compliance with federal, state and other securities laws (including fees and disbursements of counsel for the underwriters in connection with state or other securities law qualifications and registrations), printing expenses, messenger, telephone and delivery expenses; reasonable fees and disbursements of counsel for the Company and for one counsel for the holders of Registrable Securities not to exceed $25,000 per registration; reasonable fees and disbursement of the independent certified public accountants selected by the Company (including the expenses of any audit or **"comfort"** letters required by or incident to performance of the obligations contemplated by this Agreement); fees and expenses of the underwriters (excluding discounts and commissions); fees and expenses of any special experts retained by the Company at the request of the managing underwriters in connection with the registration; and applicable stock exchange and NASDAQ registration and filing fees. The term **"Registration Expenses"** does not include underwriting fees or commissions or transfer taxes, all of which shall be paid by each of the sellers of Registrable Securities with respect to the Registrable Securities sold by such seller.

7. **Indemnification**.

(a) **Indemnification by Company**. In the event of any registration of Registrable Securities under the Securities Act pursuant to this Agreement, to the full extent permitted by law, the Company agrees to indemnify and hold harmless each holder of Registrable Securities, its officers, directors, trustees, partners, employees, advisors and agents, and each Person who controls the holder (within the meaning of the Securities Act and the Exchange Act) against any and all losses, claims, damages, liabilities and expenses arising out of (i) any untrue or allegedly untrue statement of material fact contained in or incorporated by reference into any registration statement or any amendment thereof under which such Registrable Securities were registered under the Securities Act, any prospectus or preliminary prospectus contained therein or any amendment thereof or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, except to the extent the untrue statement or omission resulted from information that the holder furnished in writing to the Company expressly for use therein, and (ii) any failure to comply with any law, rule or regulation applicable to such registration. Such indemnity shall remain in full force and effect, regardless of any investigation made by such indemnified party, and shall survive the transfer of such Registrable Securities by such holder. In connection with a firm or best efforts underwritten offering, to the extent customarily required by the managing underwriter, the Company will indemnify the underwriters, their officers and directors and each Person who controls the underwriters (within the meaning of the Securities Act and the Exchange Act), to the extent customary in such agreements.

(b) **Indemnification by Holders of Securities**. In connection with any registration statement, each participating holder of Registrable Securities will furnish to the Company in writing such information and affidavits as the Company reasonably requests for use in connection with any registration statement or prospectus. Each participating holder agrees, severally and not jointly, to indemnify and hold harmless, to the extent permitted by law, the Company, its directors, officers, trustees, partners, employees, advisors and agents, and each Person who controls the Company (within the meaning of the Securities Act and the Exchange Act) against any and all losses, claims, damages, liabilities and expenses arising out of any untrue or allegedly untrue statement of a material fact or any omission or alleged omission to state a material fact required to be stated in the registration statement or prospectus or any amendment thereof or supplement thereto necessary to make the statements therein not misleading, but only to the extent that the untrue statement or omission is contained in or omitted from any information or affidavit the holder furnished in writing to the Company expressly for use therein and only in an amount not exceeding the net proceeds received by the holder with respect to securities sold pursuant to such registration statement. Such indemnity shall remain in full force and effect, regardless of any investigation made by the Company, and shall survive the transfer of such Registrable Securities by such holder. In connection with a firm or best efforts underwritten offering, to the extent customarily required by the managing underwriter, each participating holder of Registrable Securities will indemnify the underwriters, their officers and directors and each Person who controls the underwriters (within the meaning of the Securities Act and the Exchange Act), to the same extent as it has indemnified the Company; provided, however, that the indemnity obligations of any holder contained in such agreement shall be limited to the amount of such holder's net proceeds received from the sale of its Registrable Securities in such offering.

(c) **Indemnification Proceedings**. Any Person entitled to indemnification under this Agreement will (i) give prompt notice to the indemnifying party of any claim with respect to which it seeks indemnification and (ii) unless in the indemnified party's reasonable judgment a conflict of interest may exist between the indemnified and indemnifying parties with respect to the claim, permit the indemnifying party to assume the defense of the claim with counsel reasonably satisfactory to the indemnified party. If the indemnifying party does not assume the defense, the indemnifying party will not be liable for any settlement made without its consent (but that consent may not be unreasonably withheld). No indemnifying party will consent to entry of any judgment or will enter into any settlement that does not include as an unconditional term thereof the claimant's or plaintiff's release of the indemnified party from all liability concerning the claim or litigation or which includes any non-monetary settlement. An indemnifying party who is not entitled to or elects not to assume the defense of a claim will not be under an obligation to pay the fees and expenses of more than one counsel for all parties indemnified by the indemnifying party with respect to the claim, unless in the reasonable judgment of any indemnified party a conflict of interest may exist between the indemnified party and any other indemnified party with respect to the claim, in which event the indemnifying party shall be obligated to pay the fees and expenses of no more than one additional counsel for the indemnified parties.

(d) **Contribution**. If the indemnification provided for in Section 7(a) or (b) is unavailable to an indemnified party in respect of any losses, claims, damages, liabilities or expenses referred to therein, then each indemnifying party thereunder shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnified party and the indemnifying party in connection with the statements or omissions that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of the indemnified party and the indemnifying party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnified party and the indemnifying party and the parties' relative intent and knowledge.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 7(d) were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding anything herein to the contrary, no participating holder of Registrable Securities acting as an indemnifying party shall be required to contribute any amount in excess of the amount by which the net proceeds of the offering (before deducting expenses, if any) received by such participating holder exceeds the amount of any damages that such participating holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

The obligations of the Company and the holders of Registrable Securities under this Section 7 shall survive the completion of any offering of Registrable Securities in a registration statement, including the termination of this Agreement.

8. **Rule 144**. With a view to making available to the holders the benefits of certain rules and regulations of the Commission which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its commercially best efforts to:

(a) make and keep public information available, as those terms are understood and defined in Commission Rule 144 or any similar or analogous rule promulgated under the Securities Act, at all times after the date hereof;

(b) file with the Commission, in a timely manner, all reports and other documents required of the Company under the Exchange Act; and

(c) so long as a holder owns any Registrable Securities, furnish to such holder forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 of the Securities Act, and of the Exchange Act; a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as a holder may reasonably request in availing itself of any rule or regulation of the Commission allowing it to sell any such securities without registration.

9. **Participation in Underwritten Registration**. No Person may participate in any underwritten registration without (a) agreeing to sell securities on the basis provided in underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements (the holders of Registrable Securities in a Demand Registration pursuant to Section 3(d) and the Company in a piggyback registration pursuant to Section 4(d)), and (b) completing and executing all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required by the underwriting arrangements.

10. **Available Financial Information**. In the event that the Company ceases to be a reporting issuer under the Exchange Act, then for so long as the Company is not a reporting issuer or for so long as the Company shall fail to comply with its reporting obligations under the Exchange Act, the Company shall, to the extent that the Investor beneficially owns any of the Shares or Common Stock, deliver, or cause to be delivered, to the Investor:

(a) as soon as practicable after the end of each fiscal year of the Company, and in any event within ninety (90) days thereafter, a consolidated and consolidating balance sheets of the Company as of the end of such fiscal year, and consolidated and consolidating statements of income, changes in stockholders' equity and cash flows of the Company for such year, prepared in accordance with GAAP and setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and followed promptly thereafter (to the extent not then available) by such financial statements accompanied by the audit report with respect thereto of independent public accountants of recognized national standing selected by the Company; and

(b) as soon as practicable after the end of the first, second and third quarterly accounting periods in each fiscal year of the Company, and in any event within forty-five (45) days after the end of each such period, consolidated balance sheets of the Company as of the end of each quarterly period, and consolidated statements of income, changes in stockholders' equity and cash flows of the Company for such period and for the current fiscal year to date, prepared in accordance with GAAP and setting forth in comparative form the figures for the corresponding periods of the previous fiscal year, subject to changes resulting form normal year-end audit adjustments, all in reasonable detail and certified by the principal financial or accounting officer of the Company.

11. **Access**. During the period commencing on the date of the Closing and ending on the Termination Date, the Company shall afford, provide and furnish, and shall cause its Subsidiaries and the Representatives of the Company and its Subsidiaries to afford, provide and furnish to the Investor and their Representatives:

(i) during normal business hours and upon reasonable advance notice, reasonable access to the Representatives, properties, plants and other facilities and to all books and records of the Company and each of its Subsidiaries;

(ii) all financial, operating and other data and information regarding the Company and its Subsidiaries as the Investor and its Representatives may reasonably request; and

(iii) the opportunity to discuss the affairs, finances, operations and accounts of the Company and its Subsidiaries with the Company's officers on a periodic basis.

12. **Miscellaneous**.

(a) **Recapitalizations, Exchanges, etc**. The provisions of this Agreement shall apply to the full extent set forth herein with respect to (i) the Registrable Securities, (ii) any and all shares of voting common stock of the Company into which the Registrable Securities are converted, exchanged or substituted in any recapitalization or other capital reorganization by the Company and (iii) any and all equity securities of the Company or any successor or assign of the Company (whether by merger, consolidation, sale of assets or otherwise) which may be issued in respect of, in conversion of, in exchange for or in substitution of, or as a dividend upon, the Registrable Securities and shall be appropriately adjusted for any stock dividends, splits, reverse splits, combinations, recapitalizations and the like occurring after the date hereof. The Company shall use its best efforts to cause any successor or assign (whether by sale, merger or otherwise) to enter into a new registration rights agreement with the holders of Registrable Securities on terms substantially the same as this Agreement as a condition of any such transaction.

(b) **Amendment**. This Agreement may be amended or modified only by a written agreement executed by (i) the Company and (ii) the Investor.

(c) **Attorneys' Fees**. In any legal action or proceeding brought to enforce any provision of this Agreement, the prevailing party shall be entitled to recover all reasonable expenses, charges, court costs and attorneys' fees in addition to any other available remedy at law or in equity.

(d) **Benefit of Parties; Assignment**. Subject to the terms and conditions of the Purchase Agreement and this subsection (d), including, without limitation, the transfer restrictions contained therein, all of the terms and provisions of this Agreement shall be binding on and inure to the benefit of the parties and their respective successors and assigns, including, without limitation, all subsequent holders of securities entitled to the benefits of this Agreement who agree in writing to become bound by the terms of this Agreement.

(e) **Captions**. The captions of the sections and subsections of this Agreement are solely for convenient reference and shall not be deemed to affect the meaning or interpretation of any provision of this Agreement.

(f) **Cooperation**. The parties agree that after execution of this Agreement they will from time to time, upon the request of any other party and without further consideration, execute, acknowledge and deliver in proper form any further instruments and take such other action as any other party may reasonably require to carry out effectively the intent of this Agreement.

(g) **Counterparts; Facsimile Execution**. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement. Facsimile execution and delivery of this Agreement shall be legal, valid and binding execution and delivery for all purposes.

(h) **Entire Agreement**. Each party hereby acknowledges that no other party or any other person or entity has made any promises, warranties, understandings or representations whatsoever, express or implied, not contained in the Transaction Documents (as defined in the Purchase Agreement) and acknowledges that it has not executed this Agreement in reliance upon any such promises, representations, understandings or warranties not contained herein or therein and that the Transaction Documents supersede all prior agreements and understandings between the parties with respect thereto. There are no promises, covenants or undertakings other than those expressly set forth or provided for in the Transaction Documents.

(i) **Governing Law**. The internal law of the State of California will govern the interpretation, construction, and enforcement of this Agreement and all transactions and agreements contemplated hereby, notwithstanding any state's choice of law rules to the contrary.

(j) **Submission to Jurisdiction; Consent to Service of Process**. The parties hereto hereby irrevocably submit to the exclusive jurisdiction of any federal or state court located within Fresno County, California, over any dispute arising out of or relating to this Agreement or any of the transactions contemplated hereby and each party hereby irrevocably agrees that all claims in respect of such dispute or any suit, action or proceeding related thereto shall be heard and determined in such courts. The parties hereby irrevocably waive, to the fullest extent permitted by applicable law, any objection which they may now or hereafter have to the laying of venue of any such dispute brought in such court or any defense of inconvenient forum for the maintenance of such dispute. Each of the parties hereto agrees that a judgment in any such dispute may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(k) **No Inconsistent Agreements**. The Company represents and warrants that, except as disclosed in the Purchase Agreement, it has not granted to any Person the right to request or require the Company to register any securities issued by the Company other than the rights contained herein. The Company shall not, except with the prior written consent of at least a Majority of the Registrable Securities, enter into any agreement with respect to its securities that shall grant to any Person registration rights that in any way conflict with or are prior to or equal in right to the rights provided under this Agreement.

(l) **Notices**. All notices, requests, demands, or other communications that are required or may be given pursuant to the terms of this Agreement shall be in writing and properly addressed to the addresses of the parties set forth in the Purchase Agreement or to such other address(es) as the respective parties hereto shall from time to time designate to the other(s) in writing. All notices shall be effective upon receipt.

(m) **Specific Performance**. Each of the parties agrees that damages for a breach of or default under this Agreement would be inadequate and that in addition to all other remedies available at law or in equity that the parties and their successors and assigns shall be entitled to specific performance or injunctive relief, or both, in the event of a breach or a threatened breach of this Agreement.

(n) **Validity of Provisions**. Should any part of this Agreement for any reason be declared by any court of competent jurisdiction to be invalid, that decision shall not affect the validity of the remaining portion, which shall continue in full force and effect as if this Agreement had been executed with the invalid portion eliminated; provided, however, that this Agreement shall be interpreted to carry out to the greatest extent possible the intent of the parties and to provide to each party substantially the same benefits as such party would have received under this Agreement if such invalid part of this Agreement had been enforceable. Whenever the words **"include"** or **"including"** are used in the Agreement, they shall be deemed to be followed by the words **"without limitation."**

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

PACIFIC ETHANOL, INC.

By: /s/ NEIL M. KOEHLER
Neil M. Koehler, President and CEO

LYLES UNITED, LLC

By: /s/ WILLIAM M. LYLES IV
William M. Lyles IV, Vice President

Exhibit 10.5

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

March 27, 2008

Lyles United, LLC
1210 West Olive Avenue
Fresno, CA 93728

Re: Dividend Rights

Ladies and Gentlemen:

This side letter agreement (the **"Letter Agreement"**) is provided with reference to that certain Securities Purchase Agreement (the **"Securities Purchase Agreement"**) dated March 18, 2008, by and between Pacific Ethanol, Inc., a Delaware corporation (the **"Company"**), and Lyles United, LLC, a Delaware limited liability company (the **"Purchaser"**), with reference to the Company's Certificate of Designations, Powers, Preferences, and Rights of the Series B Cumulative Convertible Preferred Stock (the **"Series B Certificate of Designations"**) with respect to its Series B Cumulative Convertible Preferred Stock, $.001 par value per share (the **"Series B Preferred Stock"**), and with reference to the Company's Certificate of Designations, Powers, Preferences, and Rights of the Series A Cumulative Redeemable Convertible Preferred Stock (the **"Series A Certificate of Designations"**) with respect to its Series A Cumulative Redeemable Convertible Preferred Stock, $.001 par value per share (the **"Series A Preferred Stock"**). Capitalized terms not defined herein shall have the respective meanings given to such terms in the Securities Purchase Agreement.

In connection with the closing of the transactions contemplated by the Securities Purchase Agreement and in furtherance thereof, the Company desires to waive certain rights held by the Company and set forth in the Series B Certificate of Designations in favor of the Purchaser, in its capacity as the sole holder of all of the Company's outstanding shares of Series B Preferred Stock.

In consideration of the mutual covenants herein contained, and for other valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

1. Waiver of Series B PIK Right. The Company hereby expressly waives its right under Section 3(a) of the Series B Certificate of Designations to pay any dividends due and payable to the Purchaser as a holder of Series B Preferred Stock in shares of Series B Preferred Stock (the **"Series B PIK Right"**). The Company hereby covenants that it shall not, without the prior written consent of the Purchaser, exercise or attempt to exercise the Series B PIK Right provided for in Section 3(a) of the Series B Certificate of Designations at any time following the date of this Letter Agreement. In connection with waiving its Series B PIK Right, the Company hereby acknowledges to the Purchaser that the Company has, concurrently with the execution of this Letter Agreement, entered into that certain Series A Preferred Stockholder Consent and Waiver dated the date hereof with Cascade Investment, L.L.C., a Washington limited liability company (**"Cascade"**), whereby the Company has agreed, among other things, to waive its right under Section 3(a) of the Series A Certificate of Designations to pay any dividends due and payable to Cascade as a holder of Series A Preferred Stock in shares of Series A Preferred Stock.

2. Full Force and Effect. Except as otherwise provided herein, the Series B Certificate of Designations shall remain unchanged and in full force and effect. Except as expressly set forth above, nothing in this Letter Agreement shall be construed as a waiver of any rights of any of the parties to this Letter Agreement under the Series B Certificate of Designations.

In witness whereof, the parties have executed this Letter Agreement as of March 27, 2008.

PACIFIC ETHANOL, INC.

By: /s/ NEIL M. KOEHLER
Neil M. Koehler, President and CEO

LYLES UNITED, LLC

By: /s/ WILLIAM M. LYLES IV
William M. Lyles IV, Vice President

Exhibit 10.6

SERIES A PREFERRED STOCKHOLDER
CONSENT AND WAIVER

THIS SERIES A PREFERRED STOCKHOLDER CONSENT AND WAIVER (the **"Consent and Waiver"**) is entered into as of March 27, 2008 (the **"Effective Date"**) by and between Pacific Ethanol, Inc., a Delaware corporation (the **"Company"**), and Cascade Investment, L.L.C., a Washington limited liability company (the **"Cascade"**). Reference is hereby made to the Company's Certificate of Designations, Powers, Preferences and Rights of the Series A Cumulative Redeemable Convertible Preferred Stock (the **"Series A Certificate of Designations"**) with respect to the Company's Series A Cumulative Redeemable Convertible Preferred Stock, $.001 par value per share (the **"Series A Preferred Stock"**), a copy of which is attached hereto as Exhibit A. All capitalized terms used but not defined herein shall have the meanings set forth in the Series A Certificate of Designations.

R E C I T A L S

A. Pursuant to that certain Securities Purchase Agreement dated March 18, 2008 (the **"Securities Purchase Agreement"**) by and between the Company and Lyles United, LLC, a Delaware limited liability company (**"Lyles United"**), a copy of which is attached hereto as Exhibit B, the Company proposes to sell and issue to Lyles United the following: (i) 2,051,282 shares (the **"Preferred Shares"**) of the Company's Series B Cumulative Convertible Preferred Stock, par value $.001 per share (the **"Series B Preferred Stock"**), and (ii) a warrant to be dated March 27, 2008 (the **"Preferred Warrant"**) to acquire up to 3,076,923 shares (the **"Preferred Warrant Shares"**) of the Company's common stock, $0.001 par value per share (**"Common Stock"**), for the aggregate purchase price of $40,000,000.

B. Pursuant to that certain Secured Promissory Note dated November 28, 2007 by and between Pacific Ethanol Imperial, LLC, a Delaware limited liability company, and Lyles United, the Company proposes to issue to Lyles United a warrant (the **"Note Warrant"**) to acquire 100,000 shares of Common Stock (the **"Note Warrant Shares"**), a copy of which Note Warrant is attached hereto as Exhibit C. The Preferred Shares, Preferred Warrant, Preferred Warrant Shares, Note Warrant, and the Note Warrant Shares are collectively referred to herein as the **"Offered Securities"**.

C. Pursuant to that certain Registration Rights Agreement dated March 27, 2008 by and between the Company and Lyles United (the **"Lyles United Registration Rights Agreement"**), a copy of which is attached hereto as Exhibit D, the Company proposes to provide to Lyles United certain registration and other rights with respect to the Registrable Securities (as that term is defined in the Lyles United Registration Rights Agreement).

D. Pursuant to Section 9 of the Series A Certificate of Designations, Cascade, as holder of all of the issued and outstanding shares of Series A Preferred Stock, is afforded certain preemptive rights (the **"Preemptive Rights"**) with respect to the offer and sale by the Company of certain securities of the Company, including the Offered Securities.

E. Pursuant to Section 7 of the Series A Certificate of Designations, Cascade is afforded certain consent and approval rights with respect to certain actions that may be undertaken by the Company including (i) authorizing, creating, issuing or selling any securities ranking as to dividend rights and liquidation preferences, among other rights, on parity with the Series A Preferred Stock, (ii) altering, amending, repealing, substituting or waiving provisions of the Charter to provide for the creation of the Series B Preferred Stock, and (iii) authorizing or engaging in, or permitting any subsidiary to authorize or engage in, a transaction with any entity or person that is affiliated with a current or former director, officer or member of the Company or any of its subsidiaries (collectively, the **"Protected Actions"**).

F. The Company has engaged in certain transactions with affiliates of former directors of the Company and/or its subsidiaries, as more particularly described on Exhibit E attached hereto (collectively, the **"Prior Transactions"**), which Prior Transactions consisted of certain actions that are Protected Actions and which required the consent of Cascade.

G. The Company proposes to take certain current actions in connection with the transactions contemplated by the Securities Purchase Agreement and the issuance by the Company of the Note Warrant to Lyles United, which consist of the creation of the Series B Preferred Stock pursuant to the terms and conditions of the Series B Certificate of Designations, as well as any of the Prior Transactions that are currently continuing (collectively, the **"Current Transactions"**), and which are Protected Actions that require the consent of Cascade.

H. The Company anticipates that it will engage in certain future transactions with affiliates of former directors of the Company and/or its subsidiaries, as more particularly described on Exhibit F attached hereto (collectively, the **"Future Transactions"**), which Future Transactions are expected to consist of certain actions that are Protected Actions requiring the consent of Cascade.

I. Pursuant to Section 13(k) of that certain Registration Rights and Stockholders Agreement dated as of April 13, 2006 (the **"Cascade Registration Rights Agreement"**) between the Company and Cascade, a copy of which is attached hereto as Exhibit G, the Company shall not, except with the prior written consent of Cascade, enter into any agreement with respect to its securities that shall grant to any person registration rights that in any way conflict with or are prior to or equal in right to the rights provided under the Cascade Registration Rights Agreement. Certain of the rights provided to Lyles United under the Lyles United Registration Rights Agreement are equal in right to rights provided to Cascade under the Cascade Registration Rights Agreement.

J. In connection with the transactions contemplated by the Securities Purchase Agreement, (i) the Company proposes to waive the rights held by the Company to pay dividends on the Series B Preferred Stock in shares of the Series B Preferred Stock as set forth in the Series B Certificate of Designations (as defined below) in favor of Lyles United, in its capacity as the sole holder of all of the Company's outstanding shares of Series B Preferred Stock, (ii) the Company desires to waive the rights held by the Company to pay dividends on the Series A Preferred Stock in shares of the Series A Preferred Stock as set forth in the Series A Certificate of Designations in favor of Cascade, in its capacity as the sole holder of all of the Company's outstanding shares of Series A Preferred Stock and (iii) the Company and Cascade desire to waive the adjustment of the conversion price of the Series A Preferred Stock set forth in Section 5(d) of the Series A Certificate of Designations, but only with respect to the sale and issuance of the Offered Securities (and any shares of Common Stock issuable upon the conversion of the Series B Preferred Stock and any shares of Series B Preferred Stock payable as a dividend on the Series B Preferred Stock) to Lyles United pursuant to the terms of the Securities Purchase Agreement and the Note Warrant.

K. Cascade agrees to (i) waive its Preemptive Rights with respect to the Offered Securities, (ii) consent to the Protected Actions that the Company has taken in connection with the Prior Transactions, (iii) consent to the Protected Actions that the Company proposes to take in connection with the Current Transactions, (iv) consent to the Protected Actions that the Company proposes to take in connection with the Future Transactions, and (v) consent to the Company entering into the Lyles United Registration Rights Agreement.

L. The Company desires to (i) confirm to Cascade its intention to file a registration statement on Form S-3MEF with the Securities and Exchange Commission covering shares of Common Stock issuable upon conversion of the shares of Series A Preferred Stock issued to Cascade as a dividend payment in kind for dividends accrued on the Series A Preferred Stock for the quarter ended December 31, 2007 (the **"Underlying Dividend Shares"**) by no later than the date on which the Company files its Form 10-K for the year ended December 31, 2007 with the Securities and Exchange Commission, (ii) confirm to Cascade that no Redemption Event, as defined in the Series A Preferred Stock Certificate of Designations has occurred, and (iii) waive the rights held by the Company to pay dividends on the Series A Preferred Stock in shares of Series A Preferred Stock.

NOW THEREFORE, in consideration of the foregoing recitals, the mutual covenants and agreements set forth in this Consent and Waiver, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Waiver of Preemptive Rights**. Cascade hereby waives its Preemptive Rights as to any and all of the Offered Securities, and hereby further waives any notice period and any information delivery requirements set forth in Section 9(a) of the Series A Certificate of Designations with respect to such Preemptive Rights and the Offered Securities. Cascade hereby acknowledges that, upon the execution of this Consent and Waiver, the Company shall have no further notice or information delivery requirements with respect to Cascade's Preemptive Rights as they relate to the Offered Securities (and any shares of Common Stock issuable upon the conversion of the Series B Preferred Stock and any shares of Series B Preferred Stock payable as a dividend on the Series B Preferred Stock).

2. **Consent to Issuance of Series B Preferred Stock**. Cascade hereby consents to the authorization, creation, issuance and sale of a class of securities to be designated Series B Preferred Stock pursuant to the terms and conditions contained in that certain Certificate of Designations, Powers, Preferences and Rights of the Series B Cumulative Convertible Preferred Stock (the **"Series B Certificate of Designations"**), a copy of which is attached hereto as Exhibit H. Cascade acknowledges that the Series B Preferred Stock shall be *pari passu* with the Series A Preferred Stock with respect to dividend and liquidation rights.

3. **Waiver of Conversion Price Adjustment.** Each of Cascade and the Company hereby waives the conversion price adjustment of the Series A Preferred Stock set forth in Section 5(d) of the Series A Certificate of Designations, but only with respect to the sale and issuance of the Offered Securities (and any shares of Common Stock issuable upon the conversion of the Series B Preferred Stock and any shares of Series B Preferred Stock payable as a dividend on the Series B Preferred Stock) to Lyles United pursuant to the terms of the Securities Purchase Agreement and the Note Warrant.

4. **Consent to Lyles United Registration Rights Agreement**. Cascade hereby consents to the Company entering into the Lyles United Registration Rights Agreement.

5. **Consent to Protected Actions**. Cascade hereby consents to:

(a) the Prior Transactions;

(b) the Current Transactions; and

(c) the Future Transactions.

6. **Agreement to File Registration Statement**. The Company hereby agrees to file with the Securities and Exchange Commission a registration statement on Form S-3MEF covering the Underlying Dividend Shares by no later than the date on which the Company files its Form 10-K for the year ended December 31, 2007 with the Securities and Exchange Commission, and further covenants that with respect to any subsequent request by Cascade for registration of Registrable Securities (as defined in the Cascade Registration Rights Agreement), the Company shall file such Registration Statement (as defined in the Cascade Registration Rights Agreement) with the Securities and Exchange Commission within thirty (30) days of receipt of such request.

7. **Redemption Rights**. The Company hereby acknowledges and confirms to Cascade that, as of the Effective Date, no Redemption Event has occurred pursuant to the terms of the Series A Certificate of Designations.

8. **Waiver of Series A PIK Right**. The Company hereby expressly waives its rights under Section 3(a) of the Series A Certificate of Designations to pay any dividends due and payable to Cascade as a holder of Series A Preferred Stock in shares of the Series A Preferred Stock (the **"Series A PIK Right"**). The Company hereby covenants that it shall not, without the prior written consent of Cascade, exercise or attempt to exercise the Series A PIK Right provided for in Section 3(a) of the Series A Certificate of Designations at any time following the date of this Consent and Waiver. The Company further confirms and covenants that the dividends payable to Cascade on March 31, 2008 shall be paid in cash.

9. **Miscellaneous**.

(a) Entire Agreement. This Consent and Waiver constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes any prior understandings, agreements or representations by or between the parties, written or oral, to the extent they relate in any way to the subject matter hereof.

(b) Amendments and Waivers; Severability. This Consent and Waiver may not be amended or modified, and no provisions hereof may be waived, without the written consent of the Company and Cascade. No action taken pursuant to this Consent and Waiver shall be deemed to constitute a waiver by the party taking such action of compliance with any representation, warranty, covenant or agreement contained herein. The waiver by any party hereto of a breach of any provision of this Consent and Waiver shall not operate or be construed as a further or continuing waiver of such breach or as a waiver of any other or subsequent breach. No failure on the part of any party to exercise, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of such right, power or remedy by such party preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law.

(c) Governing Law. This Consent and Waiver shall be governed by, and construed, interpreted and enforced in accordance with, the laws of the State of Washington, without giving effect to the principles of conflicts of laws thereunder which would specify the application of the law of another jurisdiction.

(d) Counterparts. This Consent and Waiver may be executed, including by facsimile signature, in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

[signature page follows]

IN WITNESS WHEREOF, the undersigned has executed this Consent and Waiver as of March 27, 2008.

CASCADE INVESTMENT, L.L.C.

By: /s/ MICHAEL LARSEN
Name: Michael Larsen
Title: Business Manager

PACIFIC ETHANOL, INC.

By: /s/ NEIL M. KOEHLER
Name: Neil M. Koehler
Title: CEO

EXHIBIT A

SERIES A CERTIFICATE OF DESIGNATIONS

EXHIBIT B

SECURITIES PURCHASE AGREEMENT

EXHIBIT C

NOTE WARRANT

EXHIBIT D

LYLES UNITED REGISTRATION RIGHTS AGREEMENT

EXHIBIT E

PRIOR TRANSACTIONS

William M. Lyles IV is an officer and director of Lyles United LLC, a Delaware limited liability company (**"Lyles United"**), W.M. Lyles Co., a California corporation (**"W.M. Lyles"**) and Lyles Mechanical Co., a California corporation (**"Lyles Mechanical"**), and is a former member of the Board of Directors of the Company's wholly-owned subsidiary, Pacific Ethanol California, Inc., a California corporation (**"PECA"**). The Company or a subsidiary of the Company entered into the following transactions with Lyles United, W.M Lyles and Lyles Mechanical:

1. Prior to the adoption of the Series A Certificate of Designations, Pacific Ethanol Madera, LLC (**"PEM"**), and W.M Lyles entered into that certain Design-Build Agreement dated July 7, 2003 (the **"Agreement"**), pursuant to which W.M Lyles constructed the Madera ethanol plant. PEM and W.M Lyles subsequently adopted several amendments of the Agreement and a final settlement of all issues under the Agreement. A number of such amendments and the final settlement were approved subsequent to the adoption of the Series A Certificate of Designations and involved sums exceeding $100,000.

2. Pacific Ethanol Stockton, LLC (**"PES"**) and W.M. Lyles entered into the certain Construction Agreement for the Stockton Project dated September 14, 2007 (the **"Stockton Agreement"**), pursuant to which W.M. Lyles agreed to perform construction services related to the construction of Stockton ethanol plant. PES and W.M. Lyles subsequently entered into that certain Assignment and Agreement dated December 21, 2007, pursuant to which the obligations of W.M. Lyles under the Stockton Agreement were assumed by Lyles Mechanical. PES and Lyles Mechanical subsequently adopted several change orders to the Stockton Agreement.

3. The Company, Pacific Ethanol Imperial, LLC (**"PE Imperial"**), and Lyles United entered into two loan transactions involving a total principal amount of $30 million, represented by the following instruments (the **"Loan Instruments"**):

    a. Secured Promissory Note dated as of November 28, 2007 (as amended on December 27, 2007), including the attached Form of Warrant;

    b. Security Agreement dated as of November 28, 2007 (as amended on December 27, 2007);

    c. Unconditional Guaranty dated as of November 28, 2007;

    d. Letter Agreement dated as of November 28, 2007, pertaining to the construction of the Imperial ethanol plant;

e. Secured Promissory Note dated as of December 27, 2007; and

f. Unconditional Guaranty dated as of December 27, 2007.

Matters pertaining to Southern Counties Oil Co.:

Frank Greinke is an officer, director and owner of Southern Counties Oil Co. ("SCOC") and is a former member of the Board of Directors of the Company and PECA. SCOC is a customer of the Company's subsidiary, Kinergy Marketing, LLC ("Kinergy"), and since prior to the adoption of the Series A Certificate of Designations and to the present time, Kinergy has from time to time sold ethanol to SCOC at prevailing market prices.

EXHIBIT F

FUTURE TRANSACTIONS

Matters pertaining to Lyles United and its affiliates:

1. PES and Lyles Mechanical may adopt amendments and change orders to the Stockton Agreement.

2. The Company, PE Imperial, and Lyles United may extend any or all of the Loan Instruments.

3. Pursuant to the Letter Agreement dated as of November 28, 2007 by and between PE Imperial and Lyles United, if PE Imperial proceeds with the construction of the Imperial ethanol plan, it will award the primary construction and mechanical contract for this project to Lyles United or an affiliate of Lyles United.

Matters pertaining to Southern Counties Oil Co.:

Kinergy will from time to time sell ethanol to SCOC at prevailing market prices on arms-length terms that are no more favorable to SCOC than would be available in an arms-length transaction.

EXHIBIT G

CASCADE REGISTRATION RIGHTS AGREEMENT

EXHIBIT H

SERIES B CERTIFICATE OF DESIGNATIONS

Exhibi 10.7

WAIVER AND THIRD AMENDMENT TO CREDIT AGREEMENT

This WAIVER AND THIRD AMENDMENT TO CREDIT AGREEMENT (this "Agreement"), dated as of March 25, 2008, by and among Amarillo National Bank, as the Accounts Bank (the "Accounts Bank"), WestLB AG, New York Branch, as Administrative Agent (the "Administrative Agent"), WestLB AG, New York Branch, as Collateral Agent (the "Collateral Agent"), Pacific Ethanol Holding Co. LLC, a Delaware limited liability company ("Pacific Holding"), Pacific Ethanol Madera LLC, a Delaware limited liability company ("Madera"), Pacific Ethanol Columbia, LLC, a Delaware limited liability company ("Boardman"), Pacific Ethanol Stockton, LLC, a Delaware limited liability company ("Stockton"), and Pacific Ethanol Magic Valley, LLC, a Delaware limited liability company ("Burley" and, together with Pacific Holding, Madera, Boardman and Stockton, the "Borrowers"), Pacific Ethanol, Inc., a Delaware corporation (the "Sponsor"), Pacific Holding, as the Borrowers' Agent (the "Borrowers' Agent"), and the Lenders party hereto.

PREAMBLE

WHEREAS, the Borrowers, the Borrowers' Agent, each of the Lenders from time to time party thereto, the Administrative Agent, the Collateral Agent, the Accounts Bank, WestLB AG, New York Branch, as lead arranger and sole bookrunner, Mizuho Corporate Bank, Ltd., as lead arranger and co-syndication agent, CIT Capital Securities LLC, as lead arranger and co-syndication agent, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank Nederland", New York Branch, as lead arranger and co-documentation agent, and Banco Santander Central Hispano S.A, New York Branch, as lead arranger and co-documentation agent have entered into that certain Credit Agreement, dated as of February 27, 2007 (as amended, amended and restated, restated, supplemented or otherwise modified from time to time, the "Credit Agreement");

WHEREAS, Pacific Ethanol, Inc., a Delaware corporation ("Sponsor"), Pacific Holding and the Administrative Agent have entered into that certain Sponsor Support Agreement, dated as of February 27, 2007 (as amended, the "Sponsor Support Agreement");

WHEREAS, the Sponsor has provided to the Administrative Agent and the Lenders that certain Request for Waiver letter dated March 16, 2008 (as supplemented by the Sponsor's updated letter dated March 20, 2008, and attached hereto as Exhibit A, the "Request Letter") requesting certain waivers under and amendments to the Credit Agreement and the Sponsor Support Agreement; and

WHEREAS, the parties hereto desire to amend the Credit Agreement, and agree to certain waivers and covenants, each on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual benefits to be derived and the representations and warranties, conditions and promises herein contained, and intending to be legally bound hereby, the parties hereby agree as follows:

1. DEFINITIONS AND INTERPRETATION

Unless otherwise expressly set forth herein, capitalized terms used in this Agreement shall have the meaning set forth in the Credit Agreement and the principles of interpretation set forth in Section 1.02 of the Credit Agreement shall apply to this Agreement.

2. WAIVERS

2.1 **Cash Management Weakness**

2.1.1 Subject to the conditions set forth in Section 4 of this Agreement, the Lenders hereby waive any Defaults or Events of Default that may have occurred as a result of or in connection with (a) the inaccuracy of any representations and warranties made or deemed repeated under Sections 5.07 (*No Material Adverse Effect*), 5.12 (*Collateral*), 5.13(e) (*Ownership of Properties*), 5.18 (*No Defaults*), 5.21 (*Accuracy of Information*), 5.23 (*Separateness*), and 5.32 (*Accounts*), and 7.01(g) (*Use of Proceeds and Cash Flow*) of the Credit Agreement, (b) the Borrowers' failure to comply with the requirements of Sections 7.01(c)(i) (*Operations and Maintenance*), 7.01(e) (*Payment of Obligations*), 7.01(g) (*Use of Proceeds and Cash Flow*), 7.01(n) (*Maintenance of Liens; Creation of Liens on Newly Acquired Property*), 7.01(p) (*Separateness*), 7.02(b)(vi) (*Liens*), 7.02(i) (*Accounts*), 7.02(q) - (*Use of Proceeds; Margin Regulations*), 7.02(s) (*Restricted Payments*), 7.03 (*Reporting Requirements*), 8.02(a) (*Deposits into and Withdrawals from Project Accounts*) and 8.08 (*Revenue Account*) of the Credit Agreement and/or (c) the Borrowers' and the Sponsor's failure to comply with any other provisions of any of the Financing Documents that may have been breached, defaulted or violated, in each case only as a result of the Cash Management Weakness (as defined in the Request Letter).

2.2 **DSR Shortfall**

2.2.1 Subject to the conditions set forth in Section 4 of this Agreement, the Lenders hereby waive any Defaults or Events of Default that may have occurred as a result of or in connection with (a) the inaccuracy of any representations and warranties made or deemed repeated under Sections 5.18 (*No Defaults*) and 7.01(g) (*Use of Proceeds and Cash Flow*) of the Credit Agreement, (b) the Borrowers' failure to comply with the requirements of Sections 8.12 (*Debt Service Reserve Account*), 7.01(g) (*Use of Proceeds and Cash Flow*) and 7.03 (*Reporting Requirements*) of the Credit Agreement, and/or (c) the Borrowers' failure to comply with any other provisions of any of the Financing Documents that may have been breached, defaulted or violated, in each case only as a result of the DSR Shortfall (as defined in the Request Letter).

2.3 **Accounting Weakness**

2.3.1 Subject to the conditions set forth in Section 4 of this Agreement and solely with respect to the Accounting Weakness (as defined in the Request Letter and which shall be deemed to include any "material weaknesses" that may have occurred as a result of or in connection with the Cash Management Weakness), the Lenders hereby (i) waive the requirement that the Sponsor comply with Section 5.05(c) of the Sponsor Support Agreement with respect only to the Accounting Weakness and (ii) waive any Default or Event of Default that has occurred or might occur under the Credit Agreement or any other Financing Document as a result of the Sponsor's failure to comply with Section 5.05(c) of the Sponsor Support Agreement as a result solely of the Accounting Weakness.

2.4 **Eurodollar Loans**

2.4.1 With respect to the requirement in Section 3.05(e) - (*Interest Rates*) of the Credit Agreement that the Borrowers may not have more than seven (7) separate Eurodollar Loans at any time prior to the Conversion Date, the Lenders hereby waive any Default or Event of Default that may have occurred as a result of the Borrowers having more than seven (7) separate Eurodollar Loans outstanding.

2.5 **Final Completion**

2.5.1 Subject to the terms of the amendment in Section 3.3 of this Agreement, with respect to the requirement in Section 7.01(y) - (*Affirmative Covenants - Final Completion*) of the Credit Agreement that the Borrowers shall cause Final Completion for the Boardman Plant and the Madera Plant to occur on or before the date that is one hundred twenty (120) days after such Plant has achieved its Commercial Operation Date, the Lenders hereby waive such requirement and any Default or Event of Default resulting from the failure of Final Completion to have occurred for such Plants within such time period.

3. AMENDMENTS

3.1 **Waterfall**

3.1.1 Section 8.08(b)(i) (*Revenue Account*) of the Credit Agreement is hereby deleted and replaced with the following:

"(i) *first*:

(a) on each Monthly Date, (A) to Pacific Ethanol as payment of any Sponsor Support Reimbursements then due and owing in accordance with the Sponsor Support Agreement and (B) to the Operating Account, the amount certified by the Borrowers' Agent in such Revenue Account Withdrawal Certificate as required to pay Operation and Maintenance Expenses (other than Operation and Maintenance Expenses related to corn, natural gas, electricity, insurance premiums and/or Borrower Taxes) that, in each such case, are or will become due and payable during the immediately succeeding calendar month; provided, that the aggregate amount of such transfer of funds pursuant to clause (B) of this priority *first (a)* for all calendar months in such Fiscal Year, including amounts proposed to be drawn on such Monthly Date for the immediately succeeding calendar month, does not exceed the Permitted Operating Budget Deviation Levels for such immediately succeeding calendar month, as certified by the Borrower in such Revenue Account Withdrawal Certificate; and

(b) no more than once each calendar week, to the Operating Account, the amount certified by the Borrowers' Agent in such Revenue Account Withdrawal Certificate as required to pay some or all of the cost of corn, natural gas, electricity, insurance premiums and/or Borrower Taxes that, in each such case, are or will become due and payable during the current calendar month (provided that after giving effect to such transfer the amounts on deposit in or standing to the credit of the Operating Account for payment of such expenses shall not exceed the amounts anticipated to be due and payable for such expenses during the current calendar month)."

3.1.2 Section 8.08(c)(i) (*Revenue Account*) of the Credit Agreement is hereby deleted and replaced with the following:

"(i) *first*:

(a) on each Monthly Date, (A) to Pacific Ethanol, as payment of any Sponsor Support Reimbursements then due and owing in accordance with the Sponsor Support Agreement and (B) to the Operating Account, the amount certified by the Borrowers' Agent in such Revenue Account Withdrawal Certificate as required to pay Operation and Maintenance Expenses (other than Operation and Maintenance Expenses related to corn, natural gas, electricity, insurance premiums and/or Borrower Taxes) that, in each such case, are or will become due and payable during the immediately succeeding calendar month; provided, that the aggregate amount of such transfer of funds pursuant to clause (B) of this priority *first (a)* for all calendar months in such Fiscal Year, including amounts proposed to be drawn on such Monthly Date for the immediately succeeding calendar month, does not exceed the Permitted Operating Budget Deviation Levels for such immediately succeeding calendar month, as certified by the Borrower in such Revenue Account Withdrawal Certificate; and

(b) no more than once each calendar week, to the Operating Account, the amount certified by the Borrowers' Agent in such Revenue Account Withdrawal Certificate as required to pay some or all of the cost of corn, natural gas, electricity, insurance premiums and/or Borrower Taxes that, in each such case, are or will become due and payable during the current calendar month (provided that after giving effect to such transfer the amounts on deposit in or standing to the credit of the Operating Account for payment of such expenses shall not exceed the amounts anticipated to be due and payable for such expenses during the current calendar month)."

3.1.3 Paragraph (i) of Exhibit 8.08-A of the Credit Agreement is hereby amended by adding the following at the end thereof:

"**[**(and the Borrowers hereby certify that such amount does not exceed the Permitted Operating Budget Deviation Levels)**] [**(and the Borrowers hereby certify that (a) such amount will be applied to pay the cost of corn, natural gas, electricity, insurance premiums and/or Borrower Taxes that, in each such case, are or will become due and payable at any period of time during the current calendar month and (b) the aggregate total amounts withdrawn and transferred from the Revenue Account under Section 8.08(b)(i) (including pursuant to this Revenue Account Withdrawal Certificate) for costs arising from the purchase of corn, natural gas, and/or electricity, insurance premiums and/or Borrower Taxes due and payable in the current calendar month totals **[**____**]** Dollars ($**[**____**])]**;"

3.1.4 Paragraph (i) of Exhibit 8.08-B of the Credit Agreement is hereby amended by adding the following at the end thereof:

"**[**(and the Borrowers hereby certify that such amount does not exceed the Permitted Operating Budget Deviation Levels)**] [**(and the Borrowers hereby certify that (a) such amount will be applied to pay the cost of corn, natural gas, electricity, insurance premiums and/or Borrower Taxes that, in each such case, are or will become due and payable at any period of time during the current calendar month and (b) the aggregate total amounts withdrawn and transferred from the Revenue Account under Section 8.08(b)(i) (including pursuant to this Revenue Account Withdrawal Certificate) for costs arising from the purchase of corn, natural gas, and/or electricity, insurance premiums and/or Borrower Taxes due and payable in the current calendar month totals **[**____**]** Dollars ($**[**____**])]**;"

3.1.5 Footnote 1 of Exhibit 8.08-A is hereby deleted and replaced with the following:

"To be included in the certificate for transfer permitted under Section 8.08(b)(i). The first bracketed option applies to transfers on Monthly Dates. The second bracketed option applies to permitted weekly transfers."

3.1.6 Footnote 1 of Exhibit 8.08-B is hereby deleted and replaced with the following:

"To be included in the certificate for each Monthly Date/weekly transfer permitted under Section 8.08(c)(i). The first bracketed option applies to transfers on Monthly Dates. The second bracketed option applies to permitted weekly transfers."

3.2 **Eurodollar Loans**

3.2.1 Section 3.05(e) - (*Interest Rates*) of the Credit Agreement is hereby amended by deleting the words "seven (7)" and replacing them with "ten (10)".

3.3 **Final Completion**

3.3.1 Section 7.01(y) - (*Final Completion*) of the Credit Agreement is hereby deleted and replaced with the following:

"(y) Final Completion. The Borrowers shall cause Final Completion for each Plant with respect to which a Funding has been made to occur on or before (i) in the case of the Madera Plant and the Boardman Plant, May 16, 2008 and (ii) in the case of each of the Greenfield Plants, the date that is ninety (90) days after such Plant shall have achieved its Commercial Operation Date."

4. CONDITIONS

4.1 **Fee**

4.1.1 In consideration for each Lender's execution and delivery of this Agreement, the Sponsor hereby agrees to pay a waiver/amendment fee (the "Waiver/Amendment Fee") to each Lender who approves the amendments, modifications and waivers described in Sections 2 and 3 above (the "Waivers and Amendments") by returning an executed counterpart of this Agreement to the Administrative Agent, subject to the following:

(a) notwithstanding anything to the contrary herein, the Sponsor shall not be required to pay the Waiver/Amendment Fee to any Lender unless the Required Lenders have executed this Agreement on or before March 28, 2008;

(b) for each Lender that executes and delivers to the Administrative Agent an executed counterpart of this Agreement on or before 4:00 p.m. New York City time on March 25, 2008 (the "Early Approving Lenders"), the amount of the Waiver/Amendment Fee owed to such Early Approving Lender shall be one quarter of one percent (0.25%) of the aggregate total amount of each such Early Approving Lender's Term Loan Commitment and Working Capital Loan Commitment;

(c) for each Lender that executes and delivers to the Administrative Agent an executed counterpart of this Agreement after 4:00 p.m. New York City time on March 25, 2008 but on or before March 28, 2008 (the "Other Approving Lenders"), the amount of the Waiver/Amendment Fee owed to such Other Approving Lenders shall be fifteen-hundredths of one percent (0.15%) of the aggregate total amount of each such Other Approving Lender's Term Loan Commitment and Working Capital Loan Commitment;

(d) with respect to the Early Approving Lenders, the Sponsor shall pay the Waiver/Amendment Fee owed to such Early Approving Lenders to the Administrative Agent (for the account of such Early Approving Lenders) on the later of (i) the Business Day after the date on which the Required Lenders, the Administrative Agent, the Collateral Agent and the Accounts Bank have this executed this Agreement and (ii) March 26, 2008;

(e) with respect to the Other Approving Lenders, the Sponsor shall pay the Waiver/Amendment Fee owed to such Other Approving Lenders to the Administrative Agent (for the account of such Other Approving Lenders) on the later of (i) the Business Day after the date that this Agreement has been executed by the Supermajority Lenders, the Administrative Agent, the Collateral Agent and the Accounts Bank and (ii) March 26, 2008;

(f) this Agreement shall not be effective until the Waiver/Amendment Fee owed to the Early Approving Lenders has been paid in accordance with clause (d) above;

(g) the Waiver and Amendment under Section 2.3.1(i) of this Agreement shall not be effective until the Waiver/Amendment Fee owed to the Other Approving Lenders has been paid in accordance with clause (e) above; and

(h) the failure of the Sponsor to pay the Waiver/Amendment Fee owed to any Lender hereunder shall be a payment default under Section 9.01(a) of the Credit Agreement.

4.2 ***[Intentionally omitted.]***

4.3 **Comerica Accounts**

4.3.1 With respect to the accounts in the name of the Borrowers' Agent, Madera, Boardman or Burley held by Comerica Bank described in the Request Letter, the Borrowers hereby agree, on or before March 25, 2008, to (a) (i) enter into a Blocked Account Agreement with respect to each such Comerica account and (ii) comply with the limitations on the amounts which may be on deposit in a Local Account, as set forth in Section 7.02(b)(vi) of the Credit Agreement, or (b) (i) with respect to Madera and Boardman, transfer all funds held in such Comerica accounts into the Revenue Account or apply such funds to the payment of Operation and Maintenance Expenses and (ii) with respect to the Borrowers' Agent and Burley, transfer all funds held in such Comerica accounts into the Burley Construction Account or apply such funds to the payment of Burley Project Costs, and in the case of this clause (b) only, thereafter, permanently close each such Comerica account. The Borrowers further agree that the failure to timely satisfy this condition shall immediately void and terminate the effectiveness of this Agreement.

4.4 **DSR Payment**

4.4.1 With respect to the DSR Shortfall, the Sponsor hereby agrees to deposit three million four hundred thousand Dollars ($3,400,000) into the Debt Service Reserve Account on or before 4:00 p.m. New York City time on March 24, 2008. The Sponsor further agrees that the failure to timely satisfy this condition shall immediately void and terminate the effectiveness of this Agreement.

4.5 **Accuracy of Information**

4.5.1 Each Borrower hereby represents and warrants to each Agent and each Lender as of the date hereof, that all factual information contained in the Request Letter was, when taken as a whole (and after giving effect to any supplement of such information, including the Supporting Documentation) and as of the date furnished, true and accurate in every material respect and such factual information was not, when taken as a whole (and after giving effect to any supplement of such information, including the Supporting Documentation) and as of the date furnished, incomplete by omitting to state any material fact necessary to make such information not misleading in any material respect. The Borrowers further agree that any breach of this representation and warranty shall be subject to the provisions of Section 9.01(b) of the Credit Agreement (and shall be or become an Event of Default if not cured in accordance with the terms of such Section 9.01(b)).

4.6 **Shortfall**

4.6.1 With respect to the Shortfall, the Sponsor hereby agrees to deposit two million six hundred fifty thousand eight hundred thirty-two Dollars ($2,650,832) into the Revenue Account and fifty-two thousand five hundred sixty-four Dollars ($52,564) into the Burley Construction Account on or before 4:00 p.m. New York City time on March 24, 2008. The Sponsor and the Borrowers further agree that the failure to timely satisfy this condition shall immediately void and terminate the effectiveness of this Agreement.

4.6.2 In addition, with respect to the Shortfall, the Sponsor hereby agrees to deposit an additional five hundred eighty-five thousand Dollars ($585,000) into the Revenue Account on or before 4:00 p.m. New York City time on March 26, 2008. The Sponsor and the Borrowers further agree that the failure to timely satisfy this condition shall immediately void and terminate the effectiveness of this Agreement.

5. MISCELLANEOUS

5.1 **Counterparts**

This Agreement may be executed in two or more original copies and each such copy may be executed by each of the Parties in separate counterpart, each of which copies when executed and delivered by the Parties shall constitute an original, but all of which shall together constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or portable document format ("PDF") shall be effective as delivery of a manually executed counterpart of this Agreement.

5.2 **Governing Law**

This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, United States of America, without reference to conflicts of laws (other than Section 5-1401 of the New York General Obligations Law).

5.3 **Limited Purpose; Effect on Credit Agreement**

5.3.1 Except as expressly amended, modified or waived hereby or otherwise provided herein, all of the terms and conditions of the Credit Agreement and all other Financing Documents remain in full force and effect, and none of such terms and conditions are, or shall be construed as, otherwise amended, modified or waived. The Credit Agreement shall, together with the Waivers and Amendments, be read and construed as a single agreement. The Sponsor Support Agreement shall, together with the Waiver and Amendment referred to in Section 2.3 above, be read and construed as a single agreement. All references in the Credit Agreement, the Sponsor Support Agreement and any related documents, instruments and agreements (including the Financing Documents) shall hereafter refer to the Credit Agreement or the Sponsor Support Agreement or such related documents, instruments and agreements (as applicable), as amended hereby.

5.3.2 Notwithstanding anything contained herein, the Waivers and Amendments granted hereunder (a) are limited amendments, modifications and waivers, (b) are effective only with respect to the transactions described herein for the specific instance and the specific purpose for which they are given, (c) shall not be effective for any other purpose or transaction, and (d) do not constitute a basis for a subsequent waiver or consent of any of the provisions of the Credit Agreement. Except for the Waivers and Amendments in Section 2 of this Agreement, nothing herein shall constitute a waiver by the Lenders of any Default or Event of Default or a waiver by the Lenders of any right, power or remedy available to the Lenders or the other Senior Secured Parties under the Credit Agreement, whether any such defaults, rights, powers or remedies presently exist or arise in the future.

5.3.3 The parties acknowledge that, as of each date the Waivers and Amendments become effective pursuant to Section 5.4 below, no Material Adverse Effect, Default or Event of Default shall have occurred and be continuing as a result of or in connection with the Cash Management Weakness, the Accounting Weakness, the DSR Shortfall, or the matters referred to in Sections 2.4, 2.5 and 4.3 of this Agreement, and the Required Lenders direct the Administrative Agent and the Collateral Agent to not exercise any rights or remedies against the Sponsor or any of the Borrowers as a result of or in connection with the Cash Management Weakness, the Accounting Weakness, the Shortfall, the DSR Shortfall, or the matters referred to in Sections 2.4, 2.5 or 4.3 of this Agreement.

5.4 **Effectiveness**

5.4.1 This Agreement shall not become effective, and shall be of no force or effect, if the Required Lenders, Borrowers, Borrowers' Agent, Sponsor, Administrative Agent, Collateral Agent and Accounts Bank have not executed this Agreement on or before March 28, 2008.

5.4.2 The Waivers and Amendments (other than the Waiver and Amendment under Section 2.3.1(i) of this Agreement) shall become effective upon the later to occur of (a) the execution of this Agreement by each of the Required Lenders and (b) the payment in full by the Sponsor of the Waiver/Amendment Fee in the manner set forth in Section 4.1(d) above.

5.4.3 The Waiver and Amendment under Section 2.3.1(i) of this Agreement shall become effective upon the later to occur of (a) the execution of this Agreement by the Lenders (other than any Non-Voting Lender) holding an amount in excess of sixty-six and two-thirds percent (66.66%) of the Construction Loan Commitments and the Working Capital Loan Commitments (excluding the Construction Loan Commitments and the Working Capital Loan Commitments of all Non-Voting Lenders) (the "Supermajority Lenders") and (b) the payment in full by the Sponsor of the Waiver/Amendment Fee in the manner set forth in Section 4.1(e) above.

5.4.4 Once effective, the applicable Waivers and Amendments shall be binding on the Borrowers, the Sponsor, the Administrative Agent, the Collateral Agent, the Accounts Bank, the Lenders and their respective successors and assigns.

5.5 **Authority, Etc.**

(a) The execution and delivery by each of the Borrowers, the Sponsor and the Borrowers' Agent of this Agreement and the performance by each such Party of all of its agreements and obligations under the Credit Agreement as amended hereby are within its organizational authority and have been duly authorized by all necessary organizational action on the part of, and have been duly and validly executed by, such Party.

(b) The Required Lenders hereby authorize the Administrative Agent, the Collateral Agent and the Accounts Bank to enter into this Agreement.

5.6 **Representations and Warranties**

The Borrowers and Sponsor hereby certify that:

(a) except as provided in this Agreement, all representations and warranties by any Borrower or the Sponsor set forth in each Financing Document to which such Borrower or the Sponsor is a party are true and correct in all material respects on and as of the date hereof (except with respect to representations and warranties that expressly refer to an earlier date).

(b) other than the Defaults and Events of Default being waived in this Agreement, no Default, Funding Default or Event of Default has occurred and is continuing.

[*The remainder of this page is intentionally blank.***]**

IN WITNESS WHEREOF, the Parties have executed and delivered this Waiver and Third Amendment to Credit Agreement as of the date first above written.

PACIFIC ETHANOL HOLDING CO. LLC,
as Borrower

By: _____
Name:
Title:

PACIFIC ETHANOL MADERA LLC,
as Borrower

By: _____
Name:
Title:

PACIFIC ETHANOL COLUMBIA, LLC,
as Borrower

By: _____
Name:
Title:

PACIFIC ETHANOL STOCKTON, LLC,
as Borrower

By: _____
Name:
Title:

PACIFIC ETHANOL MAGIC VALLEY, LLC,
as Borrower

By: _____
Name:
Title:

PACIFIC ETHANOL HOLDING CO. LLC,
as Borrowers' Agent

By: _____
Name:
Title:

PACIFIC ETHANOL, INC.
as Sponsor

By: _____
Name:
Title:

WESTLB AG, NEW YORK BRANCH,
as Administrative Agent

By: _____
Name:
Title:

By: _____
Name:
Title:

WESTLB AG, NEW YORK BRANCH,
as Collateral Agent

By: _____
Name:
Title:

By: _____
Name:
Title:

WESTLB AG, NEW YORK BRANCH,
as Lender

By: _____
Name:
Title:

By: _____
Name:
Title:

AMARILLO NATIONAL BANK,
as Accounts Bank

By: _____
Name:
Title:

AMARILLO NATIONAL BANK,
as Lender

By: _____
Name:
Title:

_____
as Lender

By: _____
Name:
Title