
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)

November 7, 2008

PACIFIC ETHANOL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

000-21467

(Commission File Number)

41-2170618

(IRS Employer
Identification No.)

**400 Capitol Mall, Suite 2060
Sacramento, California**

(Address of principal executive offices)

95814

(Zip Code)

Registrant's telephone number, including area code:

(916) 403-2123

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement.

Loan Restructuring with Lyles United, LLC

On November 7, 2008, Pacific Ethanol Imperial, LLC (“PE Imperial”) restructured its \$30.0 million loan from Lyles United, LLC (“Lyles United”) as described below. A description of the prior loan from Lyles United is included further below under the caption “Prior Loan from Lyles United, LLC.”

On November 7, 2008, PE Imperial, Pacific Ethanol, Inc. (the “Company”), Pacific Ethanol California, Inc. (“PE California”) and Lyles United entered into a Loan Restructuring Agreement (the “Agreement”). The Agreement provides that the Company would assume all of PE Imperial’s obligations under the two Secured Promissory Notes in the aggregate principal amount of \$30.0 million issued by PE Imperial in favor of Lyles United and issue a single Amended and Restated Promissory Note (“New Note”) in the principal amount of \$30.0 million in favor of Lyles United. The Agreement provides that Lyles United would cancel the prior two Secured Promissory Notes in consideration of the issuance of the New Note. The New Note is due March 15, 2009 and accrues interest at the Prime Rate of interest as reported from time to time in *The Wall Street Journal*, plus three percent (3.00%), computed on the basis of a 360-day year of twelve 30-day months. The New Note includes cross-default provisions to other agreements entered into among the Company and its affiliates and Lyles United and its affiliates. The Agreement also provides that Lyles United’s security interest in the assets of PE Imperial would be terminated and the Company’s Unconditional Guaranties of PE Imperial’s obligations under the two Secured Promissory Notes would likewise be terminated. The Agreement provides that the Company and Lyles United would jointly instruct PE California through an Irrevocable Joint Instruction Letter to remit directly to Lyles United any cash distributions received by PE California on account of its ownership interests in PE Imperial and Front Range Energy, LLC until such time as the New Note is repaid in full. In addition, the Agreement provides that PE California would enter into a Limited Recourse Guaranty to the extent of such cash distributions in favor of Lyles United. Also, the Agreement provides that Pacific Ag. Products, LLC (“PAP”) would guaranty the Company’s obligations under the New Note pursuant to an Unconditional Guaranty and pledge all of its assets as security therefor pursuant to a Security Agreement. Finally, the Agreement provides that PE Imperial was to pay all accrued and unpaid interest on the two Secured Promissory Notes through November 6, 2008 in the aggregate amount of \$2,205,243.06. PE Imperial, PE California and PAP are each direct or indirect wholly-owned subsidiaries of the Company.

On November 7, 2008, the relevant parties executed each of the New Note and the aforementioned Irrevocable Joint Instruction Letter, Limited Recourse Guaranty, Unconditional Guaranty and Security Agreement and PE Imperial paid all accrued and unpaid interest on the two Secured Promissory Notes through November 6, 2008 in the amount set forth above. Each of the aforementioned New Note, Irrevocable Joint Instruction Letter, Limited Recourse Guaranty, Unconditional Guaranty and Security Agreement contain customary representations, warranties, terms and conditions.

Copies of the Agreement, New Note and the aforementioned Irrevocable Joint Instruction Letter, Limited Recourse Guaranty, Unconditional Guaranty and Security Agreement are attached hereto as Exhibits 10.1 through 10.6, respectively, and are incorporated herein by this reference. The foregoing descriptions of such documents are qualified in their entirety by reference to the full text of the documents.

Prior Loan from Lyles United, LLC

In November 2007, PE Imperial, an indirect subsidiary of the Company, borrowed \$15.0 million from Lyles United under a Secured Promissory Note containing customary terms and conditions. The loan accrued 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 February 25, 2009. In connection with an extension of the loan, on March 27, 2008, the Company issued a warrant to purchase 100,000 shares of the Company's common stock at an exercise price of \$8.00 per share. The warrant is exercisable at any time during the 18-month period after the date of issuance. The loan was secured by substantially all of the assets of PE Imperial pursuant to a Security Agreement dated November 28, 2007 by and between PE Imperial and Lyles United that contained customary terms and conditions and an Amendment No. 1 to Security Agreement dated December 27, 2007 by and between PE Imperial and Lyles United (collectively, the "Security Agreement"). The Company 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, PE Imperial entered into a Letter Agreement dated November 28, 2007 with Lyles United under which PE Imperial committed to award the primary construction and mechanical contract to Lyles United 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 PE Imperial electing, in its sole discretion, to proceed with the Project and Lyles United or its affiliate having all necessary licenses and being otherwise ready, willing and able to perform the primary construction and mechanical contract. In the event the foregoing conditions are satisfied and PE Imperial awards such contract to a party other than Lyles United or one of its affiliates, PE Imperial will be required to pay to Lyles United, as liquidated damages, an amount equal to \$5.0 million.

In December 2007, PE Imperial borrowed an additional \$15.0 million from Lyles United under a second Secured Promissory Note containing customary terms and conditions. The loan accrued interest at a rate equal to the Prime Rate of interest as reported from time to time in *The Wall Street Journal*, plus four percent (4.00%), computed on the basis of a 360-day year of twelve 30-day months. The loan was due on March 31, 2009. The loan was secured by substantially all of the assets of PE Imperial pursuant to the Security Agreement. The Company guaranteed the repayment of the loan pursuant to an Unconditional Guaranty dated December 27, 2007 containing customary terms and conditions.

Item 1.02 Termination of a Material Definitive Agreement.

Upon entry into the Agreement as described in Item 1.01 above, the aforementioned two Secured Promissory Notes, Security Agreement by PE Imperial, and Unconditional Guaranties by the Company were terminated.

Item 2.02. Results of Operations and Financial Condition.

On November 10, 2008, the Company issued a press release announcing certain results of operations for the three and nine months ended September 30, 2008. A copy of the press release is furnished (not filed) as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

On November 7, 2008, the Company issued the New Note and the parties to the aforementioned Limited Recourse Guaranty and Unconditional Guaranty entered into those Guaranties. The disclosures contained above under Item 1.01 are incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

- (a) Financial statements of businesses acquired. Not applicable.
- (b) Pro forma financial information. Not applicable.
- (c) Shell company transactions. Not applicable.
- (c) Exhibits.

<u>Number</u>	<u>Description</u>
10.1	Loan Restructuring Agreement dated as of November 7, 2008 by and among Pacific Ethanol, Inc., Pacific Ethanol Imperial, LLC, Pacific Ethanol California, Inc. and Lyles United United, LLC
10.2	Amended and Restated Promissory Note dated November 7, 2008 by Pacific Ethanol, Inc. in favor of Lyles United United, LLC
10.3	Security Agreement dated as of November 7, 0028 by and between Pacific Ag. Products, LLC and Lyles United United, LLC
10.4	Limited Recourse Guaranty dated November 7, 2008 by Pacific Ethanol California, Inc. in favor of Lyles United United, LLC
10.5	Unconditional Guaranty dated November 7, 2008 by Pacific Ag. Products, LLC in favor of Lyles United United, LLC
10.6	Irrevocable Joint Instruction Letter dated November 7, 2008 executed by Pacific Ethanol, Inc., Lyles United United, LLC and Pacific Ethanol California, Inc.
99.1	Press Release dated November 10, 2008

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: November 10, 2008

PACIFIC ETHANOL, INC.

By: /S/ CHRISTOPHER W. WRIGHT
Christopher W. Wright
Vice President, General Counsel & Secretary

EXHIBITS FILED WITH THIS REPORT

<u>Number</u>	<u>Description</u>
10.1	Loan Restructuring Agreement dated as of November 7, 2008 by and among Pacific Ethanol, Inc., Pacific Ethanol Imperial, LLC, Pacific Ethanol California, Inc. and Lyles United United, LLC
10.2	Amended and Restated Promissory Note dated November 7, 2008 by Pacific Ethanol, Inc. in favor of Lyles United United, LLC
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10.4	Limited Recourse Guaranty dated November 7, 2008 by Pacific Ethanol California, Inc. in favor of Lyles United United, LLC
10.5	Unconditional Guaranty dated November 7, 2008 by Pacific Ag. Products, LLC in favor of Lyles United United, LLC
10.6	Irrevocable Joint Instruction Letter dated November 7, 2008 executed by Pacific Ethanol, Inc., Lyles United United, LLC and Pacific Ethanol California, Inc.
99.1	Press Release dated November 10, 2008

LOAN RESTRUCTURING AGREEMENT

THIS LOAN RESTRUCTURING AGREEMENT (this "Agreement") is dated as of November 7, 2008, by and among PACIFIC ETHANOL IMPERIAL, LLC, a Delaware limited liability company ("PE Imperial"), PACIFIC ETHANOL, INC., a Delaware corporation (the "Company"), PACIFIC ETHANOL CALIFORNIA, INC. ("PECA"; together with PE Imperial and the Company, the "PE Parties") and LYLES UNITED, LLC, a Delaware limited liability company (the "Lender"). PE Imperial, the Company, PECA and Lender are sometimes referred to individually as a "Party" and collectively as the "Parties" herein.

Witnesseth

WHEREAS, pursuant to a Secured Promissory Note dated as of November 28, 2007, executed by PE Imperial in favor of Lender as amended by that certain First Amendment to Secured Promissory Note dated as of December 27, 2007 executed by PE Imperial and Lender (collectively, the "First Note"), PE Imperial borrowed Fifteen Million Dollars (\$15,000,000) from Lender, which amount was secured by certain assets of PE Imperial pursuant to a Security Agreement dated as of November 28, 2007 by and between PE Imperial and Lender, as amended by that certain Amendment No. 1 to Security Agreement dated as of December 27, 2007 executed by PE Imperial and Lender (collectively, the "Security Agreement"); and

WHEREAS, pursuant to a Secured Promissory Note dated as of December 27, 2007, executed by PE Imperial in favor of Lender (collectively, the "Second Note"), PE Imperial borrowed an additional Fifteen Million Dollars (\$15,000,000) from Lender, which amount was secured by all assets of PE Imperial pursuant to the Security Agreement; and

WHEREAS, the obligations of PE Imperial under the First Note and the Security Agreement, and all related obligations of PE Imperial to Lender, were guaranteed pursuant to a certain Unconditional Guaranty dated as of November 28, 2007 executed by the Company in favor of Lender (the "First Guaranty"); and the obligations of PE Imperial under the Second Note and the Security Agreement, and all related obligations of PE Imperial to Lender, were guaranteed pursuant to a certain Unconditional Guaranty dated as of December 27, 2007 executed by the Company in favor of Lender (the "Second Guaranty"); and

WHEREAS, as partial consideration for permitting the extension of the maturity date of the loan represented by the First Note, as contemplated therein, the Company issued to Lender a Warrant dated March 27, 2008 permitting the purchase by Lender of up to 100,000 shares of the Company's common stock, \$0.001 par value per share, at an exercise price equal to \$8.00 per share (the "Warrant"); and

WHEREAS, as partial consideration for the loan represented by the First Note, PE Imperial and Lender entered into a letter agreement dated November 28, 2007 concerning the award to Lender (or an affiliate) of PE Imperial's primary construction and mechanical contract in connection with the construction of an ethanol production facility at PE Imperial's Imperial Valley site in Brawley, California (the "Letter Agreement"); and

WHEREAS, the PE Parties have asked Lender to permit PE Imperial to assign its obligations under the First Note and Second Note to the Company, to release PE Imperial as a borrower and to release Lender's security interest in the assets of PE Imperial;

WHEREAS, the Lender has agreed to such requests in consideration of various undertakings, including the following:

(i) the Company shall assume all obligations of PE Imperial under the First Note and Second Note, and such First Note and Second Note shall be amended and restated as a single new note (the "New Note") executed by the Company in favor of Lender, thereby causing the Company to become the direct obligor as to the amounts originally borrowed by PE Imperial from Lender;

(ii) in consideration of Lender's agreement to release its security interest in the assets of PE Imperial and to release PE Imperial as a Borrower under the First and Second Notes, which release benefits PECA because PECA owns 100% of the ownership interests of PE Imperial:

(A) PECA shall enter into a Limited Recourse Guaranty pursuant to which PECA shall guarantee the obligations of the Company under the New Note, but with recourse only to cash distributions that PECA may receive from PE Imperial and from Front Range Energy LLC, a Colorado limited liability company ("Front Range"); and

(B) PECA shall cause its wholly-owned subsidiary Pacific Ag. Products, LLC, a California limited liability company ("PAP"), to guarantee the obligations of the Company under the New Note and to enter into a Security Agreement pledging its assets to Lender as collateral securing the obligations of the Company under the New Note;

(iii) the Company and Lender shall execute an irrevocable joint instruction letter, acknowledged and agreed to by PECA, pursuant to which PECA shall be obligated to immediately remit to Lender all cash distributions received on account of its ownership interest in Front Range and PE Imperial.

Agreement

NOW, THEREFORE, in consideration of the agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereby agree as follows:

1. Payment of Interest As Condition. Lender's obligations under Section 2 shall be subject to fulfillment of the following condition: PE Imperial shall pay to Lender all accrued and unpaid interest on the First Note and the Second Note through the day immediately prior to the date hereof, which aggregate amount the Parties acknowledge and agree is \$2,205,243.06.

2. Assignment and Assumption of Notes; Delivery of New Note and other Documents; Termination of Notes, Security Agreement and Guaranties.

(a) PE Imperial hereby assigns, and the Company hereby assumes, all of the obligations of PE Imperial under the First Note and the Second Note. Immediately following such assignment and assumption, the First Note and Second Note shall be amended and restated by the New Note. Lender acknowledges that, upon fulfillment of all conditions precedent, PE Imperial shall be released from all obligations to Lender under the First Note and Second Note. Promptly following the execution of this Agreement and the delivery of the New Note executed by the Company, Lender shall deliver to PE Imperial the original First Note and a copy of the Second Note, each marked "Superseded" and signed by Lender.

(b) Concurrently herewith, the following documents shall be executed and delivered as set forth below:

(i) The Company shall execute the New Note in the form attached hereto as Exhibit A and shall deliver the New Note to Lender;

(ii) the Company and Lender shall execute and deliver to PECA, and PECA shall in turn execute and deliver to the Company and Lender, an Irrevocable Joint Instruction Letter in the form attached hereto as Exhibit B;

(iii) PECA shall execute and deliver to Lender a Limited Recourse Guaranty in the form attached hereto as Exhibit C;

(iv) PECA shall cause PAP to execute and deliver to Lender an Unconditional Guaranty in the form attached hereto as Exhibit D; and

(v) PECA shall cause PAP to execute and deliver to Lender a Security Agreement in the form attached hereto as Exhibit E.

(c) PE Imperial and Lender agree that the Security Agreement is hereby terminated effective as of the date hereof and Lender does hereby release any and all security interests in and to the assets of PE Imperial including, without limitation, in any Collateral (as such term is defined in the Security Agreement). Lender grants permission to PE Imperial to file UCC termination statements effecting the release of said security interests in all applicable jurisdictions.

(d) The Company and Lender agree that the First Guaranty and the Second Guaranty are hereby terminated effective as of the date hereof.

3. Effectiveness of Warrant and Letter Agreement. The Parties hereby acknowledge and confirm that all of the terms and conditions of the Warrant and the Letter Agreement are in full force and effect and shall remain in full force and effect after giving effect to the execution and effectiveness of this Agreement and the transactions contemplated hereby.

4. Certain Representations, Warranties and Covenants.

(a) Lender hereby represents and warrants that it has not pledged or assigned either the First Note or the Second Note or any of its rights thereunder or under the Security Agreement or the First Guaranty or the Second Guaranty to any person or entity.

(b) Each of the Parties represents and warrants that it has not previously assigned any of the claims released in this agreement, in whole or in part, or taken any other steps which would adversely affect the rights which are the subject of this Agreement.

(c) Each of the Parties represents and warrants that it is authorized to enter into and execute this Agreement and to perform its obligations contemplated herein.

5. Notices. All notices, requests, demands, approvals, consents, waivers and other communications required or permitted to be given hereunder shall be in writing, with copies to all the other Parties hereto, and shall be deemed to have been duly given when (i) if delivered by hand, upon receipt, (ii) if sent by nationally recognized overnight delivery service (receipt requested), the next business day or (iii) if mailed by first-class registered or certified mail, return receipt requested, postage prepaid, four days after posting in the U.S. mails, in each case if delivered to the following addresses:

If to PE Imperial, PECA
or the Company: Pacific Ethanol, Inc.
400 Capitol Mall, Suite 2060
Sacramento, California 95814
Attn: Chief Financial Officer
AND
Attn: General Counsel

If to Lender: Lyles United, LLC
1210 West Olive Ave.
Fresno, California 93728
Attn: Will Lyles, Vice President

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

6. Miscellaneous.

(a) No Waiver. No course of dealing between the Parties, nor any failure to exercise, nor any delay in exercising, on the part of any Party, any right, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(b) Rights Cumulative. All of the rights and remedies of the Parties shall be cumulative and may be exercised singly or concurrently.

(c) Entire Agreement. This Agreement constitutes the entire agreement of the Parties with respect to the subject matter hereof and is intended to supersede all prior negotiations, understandings and agreements with respect thereto. No provision of this Agreement may be modified or amended except by a written agreement specifically referring to this Agreement and signed by the Parties hereto.

(d) Severability. In the event that any provision of this Agreement is held to be invalid, prohibited or unenforceable in any jurisdiction for any reason, unless such provision is narrowed by judicial construction, this Agreement shall, as to such jurisdiction, be construed as if such invalid, prohibited or unenforceable provision had been more narrowly drawn so as not to be invalid, prohibited or unenforceable. If, notwithstanding the foregoing, any provision of this Agreement is held to be invalid, prohibited or unenforceable in any jurisdiction, such provision, as to such jurisdiction, shall be ineffective to the extent of such invalidity, prohibition or unenforceability without invalidating the remaining portion of such provision or the other provisions of this Agreement and without affecting the validity or enforceability of such provision or the other provisions of this Agreement in any other jurisdiction.

(e) Headings. The headings of the Sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction hereof.

(f) Waiver of Breach or Default. No waiver of any breach or default or any right under this Agreement shall be considered valid unless in writing and signed by the Party giving such waiver, and no such waiver shall be deemed a waiver of any subsequent breach or default or right, whether of the same or similar nature or otherwise.

(g) Binding on Successors. This Agreement shall be binding upon and inure to the benefit of each Party hereto and its successors and assigns.

(h) Best Efforts. Each Party shall take such further action and execute and deliver such further documents as may be necessary or appropriate in order to carry out the provisions and purposes of this Agreement.

(i) Governing Law. This Agreement shall be construed in accordance with the laws of the State of California without reference to the conflicts of laws principles thereof. Each of the Parties hereto irrevocably submit to the exclusive jurisdiction of any California State or United States Federal court sitting in Fresno County, California over any action or proceeding arising out of or relating to this Agreement, and the Parties hereto hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such California State or Federal court. The Parties hereto agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The Parties hereto further waive any objection to venue in the State of California and any objection to an action or proceeding in the State of California on the basis of forum non conveniens. The Parties further agree that the successful or prevailing Party in any proceeding shall be entitled to recover reasonable attorneys' fees and other costs incurred in such proceeding.

(j) Waiver of Jury Trial. EACH PARTY HERETO HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL ENCOMPASSING OF ANY DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATER OF THIS AGREEMENT, INCLUDING WITHOUT LIMITATION CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. EACH PARTY HERETO ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT FOR EACH PARTY TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH PARTY HAS ALREADY RELIED ON THIS WAIVER IN ENTERING INTO THIS AGREEMENT AND THAT EACH PARTY WILL CONTINUE TO RELY ON THIS WAIVER IN THEIR RELATED FUTURE DEALINGS. EACH PARTY FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT SUCH PARTY HAS KNOWINGLY AND VOLUNTARILY WAIVES ITS RIGHTS TO A JURY TRIAL FOLLOWING SUCH CONSULTATION. THIS WAIVER IS IRREVOCABLE, MEANING THAT, NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS AND SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. IN THE EVENT OF A LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

(k) Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the Party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(Signature page follows.)

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

PE IMPERIAL:

PACIFIC ETHANOL IMPERIAL, LLC,
a Delaware limited liability company

By: /s/ JOHN T. MILLER

John T. Miller, COO

COMPANY:

PACIFIC ETHANOL, INC.,
a Delaware corporation

By: /s/ NEIL M. KOEHLER

Neil M. Koehler, CEO

PECA:

PACIFIC ETHANOL CALIFORNIA, INC.,
a California corporation

By: /s/ JOHN T. MILLER

John T. Miller, COO

LENDER:

LYLES UNITED, LLC,
a Delaware limited liability company

By: /s/ WILL LYLES

Will Lyles, Vice President

EXHIBIT A

Form of New Note

(attached hereto)

EXHIBIT B

Form of Irrevocable Joint Instruction Letter

(attached hereto)

EXHIBIT C

Form of Limited Recourse Guaranty

(attached hereto)

EXHIBIT D

Form of Unconditional Guaranty

(attached hereto)

EXHIBIT E

Form of Security Agreement

(attached hereto)

AMENDED AND RESTATED PROMISSORY NOTE

\$30,000,000

Fresno, California
November 7, 2008

FOR VALUE RECEIVED, the undersigned, PACIFIC ETHANOL, INC., a Delaware corporation, with its principal place of business at 400 Capitol Mall, Suite 2060, Sacramento, California 95814 ("Borrower"), hereby promises to pay to LYLES UNITED, LLC, a Delaware limited liability company, with its principal place of business at 1210 West Olive Ave., Fresno, California 93728 or its assigns ("Lender"), the principal sum of Thirty Million Dollars (\$30,000,000), together with interest thereon as hereinafter provided until this Note is paid in full.

1. Principal and Interest Payments. Interest on the unpaid principal amount hereof shall accrue at a rate per annum equal to the Prime Rate of interest as reported from time to time in *The Wall Street Journal*, plus three percent (3.00%), computed on the basis of a 360-day year of twelve 30-day months. All accrued and unpaid interest on this Note shall be due and payable on the first business day of each calendar month commencing on December 1, 2008 and continuing until the outstanding principal amount hereof shall have been paid in full. All remaining principal and any accrued but unpaid interest then owing under this Note shall be due and payable on March 15, 2009 (the "Maturity Date") unless the obligations hereunder are earlier accelerated or satisfied in accordance with the provisions of this Note. All payments by Borrower hereunder shall first apply to accrued and unpaid interest and then to the remaining principal balance under this Note.

2. Prepayment. Borrower shall have the right to prepay all or any part of the remaining balance of this Note at any time, without premium or penalty.

3. Payments and Computations. All payments on account of indebtedness evidenced by this Note shall be made not later than 5:00 p.m., California time, on the day when due in lawful money of the United States. Payments are to be made at such place as Lender may, from time to time, in writing appoint, and in the absence of such appointment, then at the principal place of business of Lender as set forth above.

4. Events of Default. The occurrence of any of the following shall constitute an "Event of Default" under this Note:

(a) *Failure to Pay.* Borrower shall fail to pay (i) when due any principal payment on the date due hereunder, or (ii) any interest or other payment required under the terms of this Note on the date due, and any such payment shall not have been made within five (5) days of Borrower's receipt of Lender's written notice to Borrower of such failure to pay; or

(b) *Breach of Note or other Agreements.* Borrower, or any direct or indirect subsidiary of Borrower, shall fail to comply with any material provision as to which it is obligated under:

(i) this Note; or

(ii) that certain Promissory Note dated October 20, 2008 in the principal amount of One Million Five Hundred Thousand Dollars (\$1,500,000) by Borrower in favor of Lyles Mechanical Co.; or

(iii) that certain Loan Restructuring Agreement dated the date hereof by and among Pacific Ethanol Imperial, LLC, Borrower and Lender; or

(iv) that certain Irrevocable Joint Instruction Letter dated the date hereof and executed by Borrower and Lender and acknowledged and agreed to by Pacific Ethanol California, Inc.; or

(v) the purchase order or construction contract, still under negotiation, relating to work performed by Lyles Mechanical Co. in connection with the beer well repair and other matters, as contemplated by paragraph 4 of that certain Memorandum of Understanding dated as of October 20, 2008 by and among Borrower, Pacific Ethanol Stockton, LLC and Lyles Mechanical Co., but only after such purchase order or construction contract is executed;

and any such failure to comply shall not have been cured within ten (10) days of Borrower's receipt of Lender's written notice to Borrower of such failure to comply.

(c) Voluntary Bankruptcy or Insolvency Proceedings. Borrower shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) be unable, or admit in writing its inability, to pay its debts generally as they mature, (iii) make a general assignment for the benefit of its or any of its creditors, (iv) be dissolved or liquidated, (v) become insolvent (as such term may be defined or interpreted under any applicable statute), (vi) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it, or (vii) take any action for the purpose of effecting any of the foregoing; or

(d) Involuntary Bankruptcy or Insolvency Proceedings. Proceedings for the appointment of a receiver, trustee, liquidator or custodian of Borrower or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to Borrower or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be dismissed or discharged within sixty (60) days of commencement.

5. Rights of Lender upon Default. Upon the occurrence or existence of any Event of Default (other than an Event of Default, referred to in Paragraphs 5(c) and 5(d)) and at any time thereafter during the continuance of such Event of Default, Lender may, by written notice to Borrower, immediately declare all outstanding obligations payable by Borrower hereunder to be immediately due and payable without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. Upon the occurrence or existence of any Event of Default described in Paragraphs 5(c) and 5(d), immediately and without notice, all outstanding obligations payable by Borrower hereunder shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. Upon the occurrence of an Event of Default, the interest rate on this Note shall increase to a rate per annum equal to the Prime Rate of interest as reported from time to time in The Wall Street Journal, plus six percent (6.00%), simple interest, per annum until such default is cured, and is payable together with the principal amount hereof in accordance with the payment terms set forth herein. In addition to the foregoing remedies, upon the occurrence or existence of any Event of Default, Lender may exercise any other right, power or remedy permitted by law, either by suit in equity or by action at law, or both.

6. Notices. All notices, requests, demands, approvals, consents, waivers and other communications required or permitted to be given hereunder shall be in writing, with copies to all the other parties hereto, and shall be deemed to have been duly given when (i) if delivered by hand, upon receipt, (ii) if sent by nationally recognized overnight delivery service (receipt requested), the next business day or (iii) if mailed by first-class registered or certified mail, return receipt requested, postage prepaid, four days after posting in the U.S. mails, in each case if delivered to the following addresses:

If to Borrower:	Pacific Ethanol, Inc. 400 Capitol Mall, Suite 2060 Sacramento, California 95814 Attn: Chief Financial Officer AND Attn: General Counsel
If to Lender:	Lyles United, LLC 1210 West Olive Ave. Fresno, California 93728 Attn: Will Lyles, Vice President

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.

7. Applicable Law. This Note shall be construed in accordance with the laws of the State of California, without regard to conflicts of laws principles. Borrower irrevocably submits to the exclusive jurisdiction of any California State or United States Federal court sitting in Fresno County, California over any action or proceeding arising out of or relating to this Note, and irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such California State or Federal court. Borrower agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Borrower waives any objection to venue in the State of California and any objection to an action or proceeding in the State of California on the basis of forum non conveniens.

8. Severability. The parties hereto intend and believe that each provision in this Note comports with all applicable local, state and federal laws and judicial decisions. However, if any provision or provisions, or if any portion of any provision or provisions, of this Note is found by a court of law to be in violation of any applicable local, state or federal ordinance, statute, law, administrative or judicial decision, or public policy, and if the court should declare that portion, provision or provisions to be illegal, invalid, unlawful, void or unenforceable as written, then it is the intent of Borrower and Lender that such portion, provision or provisions be given force to the fullest possible extent that they are legal, valid and enforceable, that the remainder of this Note shall be construed as if the illegal, invalid, unlawful, void or unenforceable portion, provision or provisions were not contained herein, and that the rights, obligations and interest of Borrower and Lender under the remainder of this Note shall continue in full force and effect.

9. Usury. In the event any interest is paid on this Note which is deemed to be in excess of the then legal maximum rate, then that portion of the interest payment representing an amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal of this Note.

10. Expenses; Waiver. If action is instituted to collect this Note, the Borrower shall pay all costs and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred in connection with such action. In addition, the successful or prevailing party in any proceeding shall be entitled to recover reasonable attorneys' fees and other costs incurred in such proceeding. Borrower and all parties now or hereafter liable for the payment hereof, whether as endorser, guarantor, surety or otherwise, generally waive demand, presentment for payment, notice of dishonor, protest and notice of protest, notice of intent to accelerate and notice of acceleration, diligence in collecting or bringing suit against any party hereto, and all other notices, and agree to all extensions, renewals, indulgences, releases or changes which from time to time may be granted by the Lender hereof and to all partial payments hereon, with or without notice before or after maturity.

11. Successors and Assigns. The rights and obligations hereunder of Borrower and Lender shall be binding upon and benefit the permitted successors, assigns, heirs, administrators and transferees of the parties.

12. Waiver and Amendment. Any provision of this Note may be amended, waived or modified only upon the prior written consent of Borrower and Lender.

13. Headings. The headings of the Paragraphs of this Note are inserted for convenience only and shall not be deemed to constitute part of this Note or to affect the construction hereof.

14. Time of the Essence. Time is of the essence as to all dates set forth herein.

Borrower has executed and delivered this Note as of the day and year first set forth above.

PACIFIC ETHANOL, INC.,
a Delaware corporation

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



SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement") is dated as of November 7, 2008, by and between PACIFIC AG. PRODUCTS, LLC, a California limited liability company ("PAP") and LYLES UNITED, LLC, a Delaware limited liability company (the "Secured Party").

WITNESSETH:

WHEREAS, pursuant to a Restructuring Agreement ("Restructuring Agreement") dated as of the date hereof by and among Pacific Ethanol Imperial, LLC ("PE Imperial"), Pacific Ethanol, Inc. (the "Company"), Pacific Ethanol California, Inc. ("PECA") and the Secured Party, such parties have agreed that the Company shall assume all obligations of PE Imperial under the First Note and Second Note (as defined in the Restructuring Agreement"), and such First Note and Second Note shall be amended and restated as a single new note (the "New Note," as defined in the Restructuring Agreement) executed by the Company in favor of Secured Party, thereby causing the Company to become the direct obligor as to the amounts originally borrowed by PE Imperial from Secured Party.

WHEREAS, the recitals set forth in the Restructuring Agreement are incorporated herein by this reference.

WHEREAS, in order to induce the Secured Party to allow the assignment and assumption of the First Note and the Second Note, and the cancellation thereof upon issuance of the New Note and for other good and valuable consideration, including as set forth in the Restructuring Agreement, PAP has agreed to execute and deliver to the Secured Party this Agreement for the benefit of the Secured Party and to grant to it a first-priority security interest in certain assets to secure the prompt payment, performance and discharge in full of all of the Company's obligations under the New Note and PAP's obligations under this Agreement.

NOW, THEREFORE, in consideration of the agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Certain Definitions. As used in this Agreement, the following terms shall have the meanings set forth in this Section 1. Terms used but not otherwise defined in this Agreement that are defined in Article 9 of the UCC (such as "general intangibles" and "proceeds") shall have the respective meanings given such terms in Article 9 of the UCC.

(a) "Collateral" means the collateral in which the Secured Party is granted a security interest by this Agreement and which shall include the following, and all improvements or betterments thereof, and all proceeds thereof, including, without limitation, all proceeds from the sale or transfer of the Collateral and of insurance covering the same and of any tort claims in connection therewith: all tangible and intangible assets of PAP, including, but not limited to, all inventory, accounts receivable, furniture, fixtures, equipment, patents, patent applications, trademarks, copyrights, trade secrets, and any other property interest (whether real or personal) or proprietary right or general intangible, as well as any document, instrument or drawings embodying the same, and all additions and accessions thereto, substitutions and replacements therefor, and all proceeds thereof.

(b) "Obligations" shall mean and include all loans, advances, debts, liabilities and obligations owed by the Company to the Secured Party and by PAP to the Secured Party of every kind and description, now existing or hereafter arising under or pursuant to the terms of the New Note or this Agreement, respectively, including, all interest, fees, charges, reasonable expenses, reasonable attorneys' fees and costs and accountants' fees and costs chargeable to and payable by the Company under the New Note and PAP hereunder, in each case, whether direct or indirect, absolute or contingent, due or to become due, and whether or not arising after the commencement of a proceeding under Title 11 of the United States Code (11 U. S. C. Paragraph 101 et seq.), as amended from time to time (including post-petition interest) and whether or not allowed or allowable as a claim in any such proceeding.

(c) "UCC" means the Uniform Commercial Code, as currently in effect in the State of California.

2. Grant of Security Interest. In order to induce the Secured Party to allow the assignment and assumption of the First Note and the Second Note, and the cancellation thereof upon issuance of the New Note and for other good and valuable consideration, including as set forth in the Restructuring Agreement, and to secure the complete and timely payment, performance and discharge in full, as the case may be, of all of the Obligations, PAP hereby, unconditionally and irrevocably, pledges, grants and hypothecates to the Secured Party, a continuing first-priority security interest in all of PAP's right, title and interest of whatsoever kind and nature in and to the Collateral (the "Security Interest").

3. Representations, Warranties, Covenants and Agreements of PAP. PAP represents and warrants to, and covenants and agrees with, the Secured Party as follows:

(a) Authority. PAP has the requisite corporate power and authority to enter into this Agreement and otherwise to carry out its obligations thereunder. The execution, delivery and performance by PAP of this Agreement and the filings contemplated therein have been duly authorized by all necessary action on the part of PAP and no further action is required by PAP. This Agreement constitutes a legal, valid and binding obligation of PAP enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditor's rights generally.

(b) Place of Business. PAP represents and warrants that it has no places of business or offices where its respective books of account and records are kept (other than temporarily at the offices of its attorneys or accountants) or places where Collateral is stored or located, except for the location for notices to PAP set forth in Section 13 below.

(c) Ownership. PAP is the sole owner of the Collateral free and clear of any liens, security interests, encumbrances, rights or claims, and is fully authorized to grant the Security Interest in and to pledge the Collateral. There is not on file in any governmental or regulatory authority, agency or recording office an effective financing statement, security agreement, license or transfer or any notice of any of the foregoing (other than those that have been filed in favor of the Secured Party pursuant to this Agreement) covering or affecting any of the Collateral. Subject to the terms of this Agreement, so long as this Agreement shall be in effect, PAP shall not execute and shall not knowingly permit to be on file in any such office or agency any such financing statement or other document or instrument (except to the extent filed or recorded in favor of the Secured Party pursuant to the terms of this Agreement).

(d) No Litigation. No part of the Collateral has been judged invalid or unenforceable. No written claim has been received that any Collateral or PAP's use of any Collateral violates the rights of any third party. There has been no adverse decision to PAP's claim of ownership rights in or exclusive rights to use the Collateral in any jurisdiction or to PAP's right to keep and maintain such Collateral in full force and effect, and there is no proceeding involving said rights pending or, to the best knowledge of PAP, threatened before any court, judicial body, administrative or regulatory agency, arbitrator or other governmental authority.

(e) Relocation of Business. PAP shall at all times maintain its books of account and records relating to the Collateral at its principal place of business and its Collateral at the location set forth for notices to PAP in Section 13 below and may not relocate such books of account and records or tangible Collateral unless it delivers to the Secured Party at least ten (10) days prior to such relocation (i) written notice of such relocation and the new location thereof (which must be within the contiguous United States), and (ii) evidence that appropriate financing statements and other necessary documents have been filed and recorded and other steps have been taken to perfect the Security Interest to create in favor of the Secured Party valid, perfected and continuing first-priority liens in the Collateral.

(f) Consents; Appraisals. This Agreement creates in favor of the Secured Party a valid security interest in the Collateral securing the payment and performance of the Obligations and, upon making the filings described in the immediately following sentence, a perfected first-priority security interest in such Collateral. Except for the filing of financing statements on Form-1 under the UCC in the State of California, no authorization or approval of or filing with or notice to any governmental authority or regulatory body is required either (i) for the grant by PAP of, or the effectiveness of, the Security Interest granted hereby or for the execution, delivery and performance of this Agreement by PAP, or (ii) for the perfection of or exercise by the Secured Party of its rights and remedies hereunder.

(g) Jurisdiction. On the date of execution of this Agreement, PAP will deliver to the Secured Party one or more executed UCC financing statements on Form-1 with respect to the Security Interest for filing in the State of California and in such other jurisdictions as may be requested by the Secured Party.

(h) No Conflict. The execution, delivery and performance of this Agreement does not conflict with or cause a breach or default, or an event that with or without the passage of time or notice, shall constitute a breach or default, under any agreement to which PAP is a party or by which PAP is bound. No consent (including, without limitation, from stock holders or creditors of PAP) is required for PAP to enter into and perform its obligations hereunder.

(i) Maintenance of Collateral. Subject to the terms of this Agreement, PAP shall at all times maintain Security Interest provided for hereunder as a valid and perfected first-priority security interest in the Collateral in favor of the Secured Party until this Agreement and the Security Interest hereunder shall terminate pursuant to Section 11. PAP shall safeguard and protect all Collateral for the account of the Secured Party. At the request of the Secured Party, PAP will sign and deliver to the Secured Party at any time or from time to time one or more financing statements pursuant to the UCC (or any other applicable statute) in form reasonably satisfactory to the Secured Party and will pay the cost of filing the same in all public offices wherever filing is, or is deemed by the Secured Party to be, necessary or desirable to effect the rights and obligations provided for herein.

(j) No Transfer. PAP will not transfer, pledge, hypothecate, encumber, license (except for non-exclusive licenses granted by PAP in the ordinary course of business), sell or otherwise dispose of any of the Collateral without the prior written consent of the Secured Party.

(k) Condition of Collateral. PAP shall keep and preserve the Collateral in good condition, repair and order and shall not operate or locate any such Collateral (or cause to be operated or located) in any area excluded from insurance coverage.

(l) Change in Collateral. PAP shall, within ten (10) days of obtaining knowledge thereof, advise the Secured Party promptly, in sufficient detail, of any substantial change in the Collateral, and of the occurrence of any event which would have a material adverse effect on the value of the Collateral or on the Secured Party's security interest therein.

(m) Inspection of Collateral. PAP shall permit the Secured Party and its representatives and agents to inspect the Collateral at any time, and to make copies of records pertaining to the Collateral as may be requested by the Secured Party from time to time.

(n) Best Efforts. PAP will take all steps reasonably necessary to diligently pursue and seek to preserve, enforce and collect any rights, claims, causes of action and accounts receivable in respect of the Collateral.

(o) Levy. PAP shall promptly notify the Secured Party in sufficient detail upon becoming aware of any attachment, garnishment, execution or other legal process levied against any Collateral and of any other information received by PAP that may materially affect the value of the Collateral, the Security Interest or the rights and remedies of the Secured Party hereunder.

4. Defaults. The following events shall be “Events of Default”:

(a) Any representation or warranty of PAP in this Agreement or in the New Note is incorrect in any material respect when made; or

(b) Any “Event of Default” under the New Note.

5. Duty To Hold In Trust. Upon the occurrence of any Event of Default and at any time thereafter, PAP shall, upon receipt by it of any revenue, income or other sums subject to the Security Interest, whether payable pursuant to the New Note or otherwise, or of any check, draft, note, trade acceptance or other instrument evidencing an obligation to pay any such sum, hold the same in trust for the Secured Party and shall forthwith endorse and transfer any such sums or instruments, or both, to the Secured Party for application to the satisfaction of the Obligations.

6. Rights and Remedies Upon Default. Upon occurrence of any Event of Default and at any time thereafter, the Secured Party shall have the right to exercise all of the remedies conferred hereunder and under the New Note, and the Secured Party shall have all the rights and remedies of a secured party under the UCC and/or any other applicable law (including the Uniform Commercial Code of any jurisdiction in which any Collateral is then located). Without limitation, the Secured Party shall have the following rights and powers:

(a) The Secured Party shall have the right to take possession of the Collateral and, for that purpose, enter, with the aid and assistance of any person, any premises where the Collateral, or any part thereof, is or may be placed and remove the same, and PAP shall assemble the Collateral and make it available to the Secured Party at places which the Secured Party shall reasonably select, whether at PAP’s premises or elsewhere, and make available to the Secured Party, without rent, all of PAP’s respective premises and facilities for the purpose of the Secured Party taking possession of, removing or putting the Collateral in saleable or disposable form.

(b) The Secured Party shall have the right to assign, sell, lease or otherwise dispose of and deliver all or any part of the Collateral, at public or private sale or otherwise, either with or without special conditions or stipulations, for cash or on credit or for future delivery, in such parcel or parcels and at such time or times and at such place or places, and upon such terms and conditions as the Secured Party may deem commercially reasonable, all without (except as shall be required by applicable statute and cannot be waived) advertisement or demand upon or notice to PAP or right of redemption of PAP, which are hereby expressly waived. Upon each such sale, lease, assignment or other transfer of Collateral, the Secured Party may, unless prohibited by applicable law which cannot be waived, purchase all or any part of the Collateral being sold, free from and discharged of all trusts, claims, right of redemption and equities of PAP, which are hereby waived and released.

7. Applications of Proceeds. The proceeds of any such sale, lease or other disposition of the Collateral hereunder shall be applied first, to the expenses of retaking, holding, storing, processing and preparing for sale, selling, and the like (including, without limitation, any taxes, fees and other costs incurred in connection therewith) of the Collateral, to the reasonable attorneys' fees and expenses incurred by the Secured Party in enforcing its rights hereunder and in connection with collecting, storing and disposing of the Collateral, and then to satisfaction of the Obligations, and to the payment of any other amounts required by applicable law, after which the Secured Party shall pay to PAP any surplus proceeds. If, upon the sale, license or other disposition of the Collateral, the proceeds thereof are insufficient to pay all amounts to which the Secured Party is legally entitled, the Company will remain liable for the deficiency and the reasonable fees of any attorneys employed by the Secured Party to collect such deficiency. To the extent permitted by applicable law, PAP waives all claims, damages and demands against the Secured Party arising out of the repossession, removal, retention or sale of the Collateral, unless due to the gross negligence or willful misconduct of the Secured Party.

8. Costs and Expenses. PAP agrees to pay all out-of-pocket fees, costs and expenses incurred in connection with any filing required hereunder, including without limitation, any financing statements, continuation statements, partial releases and/or termination statements related thereto or any expenses of any searches reasonably required by the Secured Party. PAP will also, upon demand, pay to the Secured Party the amount of any and all reasonable expenses, including the reasonable fees and expenses of its counsel and of any experts and agents, which the Secured Party may incur in connection with (i) the enforcement of this Agreement, or (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Collateral. Until so paid, any fees payable hereunder shall be added to the principal amount of the New Note.

9. Responsibility for Collateral. PAP assumes all liabilities and responsibility in connection with all Collateral, and the obligations of PAP hereunder or the obligations of the Company under the New Note shall in no way be affected or diminished by reason of the loss, destruction, damage or theft of any of the Collateral or its unavailability for any reason.

10. Security Interest Absolute. All rights of the Secured Party and all Obligations of PAP hereunder, shall be absolute and unconditional, irrespective of: (i) any lack of validity or enforceability of this Agreement, the New Note or any agreement entered into in connection with the foregoing, or any portion hereof or thereof; (ii) any change in the time, manner or place of payment or performance of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to any departure from the New Note or any other agreement entered into in connection with the foregoing; (iii) any exchange, release or nonperfection of any of the Collateral, or any release or amendment or waiver of or consent to departure from any other collateral for, or any guaranty, or any other security, for all or any of the Obligations; (iv) any action by the Secured Party to obtain, adjust, settle and cancel in its sole discretion any insurance claims or matters made or arising in connection with the Collateral; or (v) any other circumstance which might otherwise constitute any legal or equitable defense available to PAP, or a discharge of all or any part of the Security Interest granted hereby. Until the Obligations shall have been paid and performed in full, the rights of the Secured Party shall continue even if the Obligations are barred for any reason, including, without limitation, the running of the statute of limitations or bankruptcy.

PAP expressly waives presentment, protest, notice of protest, demand, notice of nonpayment and demand for performance. In the event that at any time any transfer of any Collateral or any payment received by the Secured Party hereunder shall be deemed by final order of a court of competent jurisdiction to have been a voidable preference or fraudulent conveyance under the bankruptcy or insolvency laws of the United States, or shall be deemed to be otherwise due to any party other than the Secured Party, then, in any such event, PAP's obligations hereunder shall survive cancellation of this Agreement, and shall not be discharged or satisfied by any prior payment thereof and/or cancellation of this Agreement, but shall remain a valid and binding obligation enforceable in accordance with the terms and provisions hereof. PAP waives all right to require the Secured Party to proceed against any other person or to apply any Collateral which the Secured Party may hold at any time, or to marshal assets, or to pursue any other remedy. PAP waives any defense arising by reason of the application of the statute of limitations to any obligation secured hereby.

11. Term of Agreement. This Agreement and the Security Interest shall terminate on the date on which all payments under the New Note have been made in full and all other Obligations have been paid or discharged. Upon such termination, the Secured Party, at the request and at the expense of PAP, will join in executing any termination statement with respect to any financing statement executed and filed pursuant to this Agreement.

12. Power of Attorney; Further Assurances.

(a) PAP authorizes the Secured Party, and does hereby make, constitute and appoint it, and its respective officers, agents, successors or assigns with full power of substitution, as PAP's true and lawful attorney-in-fact, with power, in its own name or in the name of PAP, to, after the occurrence and during the continuance of an Event of Default, (i) endorse any notes, checks, drafts, money orders, or other instruments of payment (including payments payable under or in respect of any policy of insurance) in respect of the Collateral that may come into possession of the Secured Party; (ii) to sign and endorse any UCC financing statement or any invoice, freight or express bill, bill of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with accounts, and other documents relating to the Collateral; (iii) to pay or discharge taxes, liens, security interests or other encumbrances at any time levied or placed on or threatened against the Collateral; (iv) to demand, collect, receipt for, compromise, settle and sue for monies due in respect of the Collateral; and (v) generally, to do, at the option of the Secured Party, and at PAP's expense, at any time, or from time to time, all acts and things which the Secured Party reasonably deems necessary to protect, preserve and realize upon the Collateral and the Security Interest granted therein in order to effect the intent of this Agreement and the New Note, all as fully and effectually as PAP might or could do; and PAP hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof. This power of attorney is coupled with an interest and shall be irrevocable for the term of this Agreement and thereafter as long as any of the Obligations shall be outstanding.

(b) On a continuing basis, PAP will make, execute, acknowledge, deliver, file and record, as the case may be, in the proper filing and recording places in any jurisdiction, including, without limitation, the State of California, all such instruments, and take all such action as may reasonably be deemed necessary or advisable, or as reasonably requested by the Secured Party, to perfect the Security Interest granted hereunder and otherwise to carry out the intent and purposes of this Agreement, or for assuring and confirming to the Secured Party the grant or perfection of a security interest in all the Collateral.

(c) PAP hereby irrevocably appoints the Secured Party as PAP's attorney-in-fact, with full authority in the place and stead of PAP and in the name of PAP, from time to time in the Secured Party's discretion, to take any action and to execute any instrument which the Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement, including the filing, in its sole discretion, of one or more financing or continuation statements and amendments thereto, relative to any of the Collateral without the signature of PAP where permitted by law.

13. Notices. All notices, requests, demands, approvals, consents, waivers and other communications required or permitted to be given hereunder shall be in writing, with copies to all the other parties hereto, and shall be deemed to have been duly given when (i) if delivered by hand, upon receipt, (ii) if sent by nationally recognized overnight delivery service (receipt requested), the next business day or (iii) if mailed by first-class registered or certified mail, return receipt requested, postage prepaid, four days after posting in the U.S. mails, in each case if delivered to the following addresses:

If to PAP: 400 Capitol Mall, Suite 2060
Sacramento, California 95814
Attn: Chief Financial Officer
AND
Attn: General Counsel

If to the Secured Party: Lyles United, LLC
1210 West Olive Ave.
Fresno, California 93728
Attn: Will Lyles, Vice President

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.

14. Other Security. To the extent that the Obligations are now or hereafter secured by property other than the Collateral or by the guarantee, endorsement or property of any other person, firm, corporation or other entity, then the Secured Party shall have the right, in its sole discretion, to pursue, relinquish, subordinate, modify or take any other action with respect thereto, without in any way modifying or affecting any of the Secured Party's rights and remedies hereunder.

15. Miscellaneous.

(a) No Waiver. No course of dealing between PAP and the Secured Party, nor any failure to exercise, nor any delay in exercising, on the part of the Secured Party, any right, power or privilege hereunder or under the New Note shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(b) Rights Cumulative. All of the rights and remedies of the Secured Party with respect to the Collateral, whether established hereby or by the New Note or by any other agreements, instruments or documents or by law shall be cumulative and may be exercised singly or concurrently.

(c) Entire Agreement. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and is intended to supersede all prior negotiations, understandings and agreements with respect thereto. Except as specifically set forth in this Agreement, no provision of this Agreement may be modified or amended except by a written agreement specifically referring to this Agreement and signed by the parties hereto.

(d) Severability. In the event that any provision of this Agreement is held to be invalid, prohibited or unenforceable in any jurisdiction for any reason, unless such provision is narrowed by judicial construction, this Agreement shall, as to such jurisdiction, be construed as if such invalid, prohibited or unenforceable provision had been more narrowly drawn so as not to be invalid, prohibited or unenforceable. If, notwithstanding the foregoing, any provision of this Agreement is held to be invalid, prohibited or unenforceable in any jurisdiction, such provision, as to such jurisdiction, shall be ineffective to the extent of such invalidity, prohibition or unenforceability without invalidating the remaining portion of such provision or the other provisions of this Agreement and without affecting the validity or enforceability of such provision or the other provisions of this Agreement in any other jurisdiction.

(e) Headings. The headings of the Sections and subsections of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction hereof.

(f) Waiver of Breach or Default. No waiver of any breach or default or any right under this Agreement shall be considered valid unless in writing and signed by the party giving such waiver, and no such waiver shall be deemed a waiver of any subsequent breach or default or right, whether of the same or similar nature or otherwise.

(g) Binding on Successors. This Agreement shall be binding upon and inure to the benefit of each party hereto and its successors and assigns.

(h) Best Efforts. Each party shall take such further action and execute and deliver such further documents as may be necessary or appropriate in order to carry out the provisions and purposes of this Agreement.

(i) Governing Law. This Agreement shall be construed in accordance with the laws of the State of California, except to the extent the validity, perfection or enforcement of a security interest hereunder in respect of any particular Collateral which are governed by a jurisdiction other than the State of California in which case such law shall govern. Each of the parties hereto irrevocably submit to the exclusive jurisdiction of any California State or United States Federal court sitting in Fresno County, California over any action or proceeding arising out of or relating to this Agreement, and the parties hereto hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such California State or Federal court. The parties hereto agree that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The parties hereto further waive any objection to venue in the State of California and any objection to an action or proceeding in the State of California on the basis of forum non conveniens. The parties further agree that the successful or prevailing party in any proceeding shall be entitled to recover reasonable attorneys' fees and other costs incurred in such proceeding.

(j) Waiver of Jury Trial. EACH PARTY HERETO HEREBY AGREES TO WAIVE ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL ENCOMPASSING OF ANY DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATER OF THIS AGREEMENT, INCLUDING WITHOUT LIMITATION CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. EACH PARTY HERETO ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT FOR EACH PARTY TO ENTER INTO A BUSINESS RELATIONSHIP, THAT EACH PARTY HAS ALREADY RELIED ON THIS WAIVER IN ENTERING INTO THIS AGREEMENT AND THAT EACH PARTY WILL CONTINUE TO RELY ON THIS WAIVER IN THEIR RELATED FUTURE DEALINGS. EACH PARTY FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT SUCH PARTY HAS KNOWINGLY AND VOLUNTARILY WAIVES ITS RIGHTS TO A JURY TRIAL FOLLOWING SUCH CONSULTATION. THIS WAIVER IS IRREVOCABLE, MEANING THAT, NOTWITHSTANDING ANYTHING HEREIN TO THE CONTRARY, IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS AND SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. IN THE EVENT OF A LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

(k) Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(Signature page follows.)

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed on the day and year first above written.

PAP:

PACIFIC AG. PRODUCTS, LLC,
a California limited liability company

By: /s/ JOHN T. MILLER

John T. Miller, COO

SECURED PARTY:

LYLES UNITED, LLC,
a Delaware limited liability company

By: /s/ WILL LYLES

Will Lyles, Vice President

LIMITED RECOURSE GUARANTY

BORROWER: PACIFIC ETHANOL, INC.
GUARANTOR: PACIFIC ETHANOL CALIFORNIA, INC.
LENDER: LYLES UNITED, LLC
LOAN AMOUNT: \$30,000,000.00
DATE: NOVEMBER 7, 2008

THIS LIMITED RECOURSE GUARANTY ("Guaranty") is executed by the above-named Guarantor in favor of LYLES UNITED, LLC, a Delaware limited liability company ("Lender"), as of the date set forth above.

1. Lender made a loan to Pacific Ethanol Imperial, LLC ("PE Imperial") in the Loan Amount set forth above (the "Loan"), which Loan was guaranteed by the Borrower and secured by the assets of PE Imperial. Lender has agreed to release its security interest in the assets of PE Imperial and to permit PE Imperial to assign its obligations under the Loan to Borrower, in consideration of, among other things, the execution and delivery of this Guaranty by Guarantor. Guarantor is willing to enter into this Guaranty because it owns 100% of the ownership interests of PE Imperial and is benefited by the release of Lender's security interest in the assets of PE Imperial and by PE Imperial's assignment of the Loan to Borrower. The Loan is to be evidenced by an Amended and Restated Promissory Note in said principal sum (the "Note").

2. For and in consideration of the recitations contained herein and to induce Lender to consent to the assignment of the Loan by PE Imperial to Borrower and to release its security interest in the assets of PE Imperial and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby irrevocably and absolutely guarantees to and for the benefit of Lender or order, the full and faithful payment and performance of all of Borrower's present and future indebtedness and obligations, direct or indirect, to Lender arising under or with respect to the Note (collectively, the "Obligations").

3. This Guaranty is, and is intended to be, a guaranty of the Obligations, in addition to any other guaranty, endorsement or collateral held by Lender therefor, whether or not furnished by Guarantor. Guarantor shall have no right of subrogation with respect to any payments made by Guarantor hereunder until all of the Obligations are paid or performed in full.

4. NOTWITHSTANDING THE FOREGOING OR ANY OTHER PROVISION OF THIS GUARANTY, IT IS AGREED AND UNDERSTOOD THAT THE LIABILITY OF GUARANTOR HEREUNDER SHALL BE LIMITED SOLELY TO THE AMOUNT OF FUTURE CASH DISTRIBUTIONS RECEIVED BY GUARANTOR ON ACCOUNT OF GUARANTOR'S OWNERSHIP INTEREST IN PE IMPERIAL AND FRONT RANGE ENERGY, LLC, A COLORADO LIMITED LIABILITY COMPANY, AS CONTEMPLATED BY THAT CERTAIN IRREVOCABLE JOINT INSTRUCTION LETTER OF EVEN DATE HERewith BY BORROWER AND LENDER AND ACKNOWLEDGED AND AGREED TO BY GUARANTOR, AND THERE SHALL BE NO OTHER RECOURSE AGAINST GUARANTOR OR ANY OTHER ASSETS OR PROPERTY OF GUARANTOR.

5. Guarantor authorizes Lender, without notice or demand and without affecting Guarantor's obligations hereunder, from time to time: (i) to renew, extend, increase, accelerate or otherwise change the time for payment of, the terms of or the interest on the Obligations or any part thereof; (ii) to take from any party and hold collateral for the payment and performance of the Obligations or any part thereof; (iii) to accept and hold any endorsement or guaranty of payment and performance of the Obligations or any part thereof and to release or substitute any such endorser or guarantor, or any party who has given any security interest in any collateral as security for the payment and performance of the Obligations or any part thereof, or any other party in any way obligated to pay or perform the Obligations or any part thereof; (iv) to direct the order or manner of the disposition of any and all collateral and the enforcement of any and all endorsements and guaranties relating to the Obligations or any part thereof as Lender, in its sole discretion, may determine; and (v) to determine how, when and what application of payments and credits, if any, shall be made on the Obligations or any part thereof, and to apply the same upon principal or interest or the portion thereof, if any, in excess of the amounts guaranteed under this Guaranty.

6. No delay or omission by Lender in exercising any right or remedy hereunder shall operate as a waiver thereof or of any other right or remedy, and no single or partial exercise thereof shall preclude any other or further exercise thereof or the exercise of any other right or remedy. All rights and remedies of Lender hereunder are cumulative. No invalidity, illegality or unenforceability of the Obligations shall release, diminish, or extinguish the liability of Guarantor hereunder. This Guaranty shall remain in full force and effect until the date on which all Obligations shall be paid in full.

7. Guarantor agrees that in the event all or any part of the liability of Borrower in respect of the Obligations hereafter ceases as a result of a non-judicial foreclosure by Lender of any or all of any collateral delivered to secure the Obligations, Guarantor nevertheless expressly assumes liability for the Obligations, notwithstanding that the effect of any applicable statutes or other governing law, may limit or prohibit Guarantor's right to proceed or pursue any remedies against Borrower, and notwithstanding that Guarantor may not be permitted to subrogate to Lender's position. Guarantor hereby waives any defense to the obligations and liabilities of Guarantor hereunder and any and all rights with respect thereto that Guarantor may otherwise have under the provisions of applicable statutes or other governing law as a result of Lender's election of any remedy which impairs or alters the rights of Guarantor against Borrower or any collateral held by Lender, and Guarantor expressly acknowledges and agrees that Lender may, in its sole discretion, elect to foreclose upon any collateral Lender holds by non-judicial foreclosure rather than by judicial foreclosure without impairing or affecting in any way whatsoever Lender's rights under this Guaranty, including the right to proceed against Guarantor for any deficiency following a non-judicial foreclosure sale. Guarantor understands and agrees that upon any foreclosure or assignment in lieu of foreclosure of any security held by Lender: (i) such security will no longer exist and that any right that Guarantor might otherwise have, upon full payment and performance of the Obligations to Lender by Guarantor, to participate in any such security or to be subrogated to any rights of Lender with respect to any such security, will be nonexistent; and (ii) Guarantor shall be deemed to have waived any right, title, interest or claim under any circumstances in or to any real or personal property held by Lender or any third party following any foreclosure or assignment in lieu of foreclosure of any such security.

8. Guarantor waives all rights to exoneration from any and all of their liabilities hereunder pursuant to the provisions of the California Civil Code and/or under any other applicable statutes or other governing law.

9. Guarantor waives any right to require Lender to: (i) proceed against Borrower; (ii) proceed against or exhaust any security held from Borrower; or (iii) pursue any other remedy Lender may have whatsoever. Until all Obligations of Borrower to Lender shall have been paid or performed in full, Guarantor shall have no right of subrogation, and waives any right to enforce any remedy which Lender now has or may hereinafter have against Borrower, and waives any benefit of and any right to participate in any security now or hereinafter held by Lender. Guarantor waives all presentments, demands for performance, notices of non-performance, protests, notices of protest, notices of dishonor and notices of acceptance of this Guaranty and of the existence, creation or incurring of new or additional Obligations. Guarantor's obligations and liabilities hereunder shall be separate and distinct from those of Borrower. If Borrower defaults under any of the Obligations, Lender, at its option, may proceed directly against Guarantor, without having commenced any action or obtained any judgment against Borrower or any other guarantor, and without applying any property of Borrower (or any other person) held as security for the payment and performance of the Obligations. The liability of Guarantor hereunder shall not be released, diminished, or extinguished by Lender's failure or delay in enforcing any of its rights.

10. It shall not be necessary for Lender to inquire into the powers of Borrower or its officers, directors, partners, or agent acting or purporting to act on its behalf, and any indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed hereunder.

11. Guarantor further agrees to pay all reasonable costs and expenses, including, without limitation, reasonable attorneys' fees, at any time paid or incurred by Lender in endeavoring to enforce this Guaranty.

12. This Guaranty is absolute and unconditional and shall not be affected by any act or thing whatsoever, except as herein provided. This Guaranty is not an accommodation, but rather a material consideration bargained for by Lender in agreeing to make the Loan. No modification or amendment of any provision of this Guaranty shall be effective unless in writing and subscribed by a duly authorized officer of Lender.

13. This Guaranty and the transactions evidenced hereby shall be construed and interpreted under the laws of the State of California, without regard to conflicts of laws principles. Guarantor irrevocably submits to the exclusive jurisdiction of any California State or United States Federal court sitting in Fresno County, California over any action or proceeding arising out of or relating to this Guaranty, and irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such California State or Federal court. Guarantor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Guarantor waives any objection to venue in the State of California and any objection to an action or proceeding in the State of California on the basis of forum non conveniens.

14. Nothing herein shall be construed to constitute Guarantor as a maker, co-maker or principal debtor.

15. If any provision of this Guaranty or portion of such provision, or the application thereof to any person or circumstance, shall, to any extent, be held invalid or unenforceable, the remainder of this Guaranty or the remainder of such provision and the application thereof to other persons or circumstances, other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Guaranty shall be valid and be enforced to the fullest extent permitted by the law. Unless the context otherwise requires, the masculine, feminine and neuter genders and the singular and the plural shall each be deemed to include one another, as appropriate.

16. Lender may, upon written notice to Guarantor, assign this Guaranty in whole or in part.

IN WITNESS WHEREOF, this Guaranty has been executed by Guarantor at Sacramento, California, as of the date first set forth above.

GUARANTOR:

PACIFIC ETHANOL CALIFORNIA, INC.

By: /s/ JOHN T. MILLER

Title: COO

UNCONDITIONAL GUARANTY

BORROWER: PACIFIC ETHANOL, INC.
GUARANTOR: PACIFIC AG. PRODUCTS, LLC
LENDER: LYLES UNITED, LLC
LOAN AMOUNT: \$30,000,000
DATE: NOVEMBER 7, 2008

THIS UNCONDITIONAL GUARANTY ("Guaranty") is executed by the above-named Guarantor in favor of LYLES UNITED, LLC, a Delaware limited liability company ("Lender"), as of the date set forth above.

1. Lender made a loan to Pacific Ethanol Imperial, LLC ("PE Imperial") in the Loan Amount set forth above (the "Loan"), which Loan was guaranteed by the Borrower and secured by the assets of PE Imperial. Lender has agreed to release its security interest in the assets of PE Imperial and to permit PE Imperial to assign its obligations under the Loan to Borrower, in consideration of, among other things, the execution and delivery of this Guaranty by Guarantor. Guarantor is willing to enter into this Guaranty because Borrower, through its subsidiary Pacific Ethanol California, Inc., indirectly owns 100% of the ownership interests of Guarantor and is benefited by the release of Lender's security interest in the assets of PE Imperial and by PE Imperial's assignment of the Loan to Borrower. The Loan is to be evidenced by an Amended and Restated Promissory Note in said principal sum (the "Note").

2. For and in consideration of the recitations contained herein and to induce Lender to consent to the assignment of the Loan by PE Imperial to Borrower and to release its security interest in the assets of PE Imperial and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby irrevocably and absolutely guarantees to and for the benefit of Lender or order, the full and faithful payment and performance of all of Borrower's present and future indebtedness and obligations, direct or indirect, to Lender arising under or with respect to the Note (collectively, the "Obligations").

3. This Guaranty is, and is intended to be, a guaranty of the Obligations, in addition to any other guaranty, endorsement or collateral held by Lender therefor, whether or not furnished by Guarantor. Guarantor shall have no right of subrogation with respect to any payments made by Guarantor hereunder until all of the Obligations are paid or performed in full.

4. Guarantor authorizes Lender, without notice or demand and without affecting Guarantor's obligations hereunder, from time to time: (i) to renew, extend, increase, accelerate or otherwise change the time for payment of, the terms of or the interest on the Obligations or any part thereof; (ii) to take from any party and hold collateral for the payment and performance of the Obligations or any part thereof; (iii) to accept and hold any endorsement or guaranty of payment and performance of the Obligations or any part thereof and to release or substitute any such endorser or guarantor, or any party who has given any security interest in any collateral as security for the payment and performance of the Obligations or any part thereof, or any other party in any way obligated to pay or perform the Obligations or any part thereof; (iv) to direct the order or manner of the disposition of any and all collateral and the enforcement of any and all endorsements and guaranties relating to the Obligations or any part thereof as Lender, in its sole discretion, may determine; and (v) to determine how, when and what application of payments and credits, if any, shall be made on the Obligations or any part thereof, and to apply the same upon principal or interest or the portion thereof, if any, in excess of the amounts guaranteed under this Guaranty.

5. No delay or omission by Lender in exercising any right or remedy hereunder shall operate as a waiver thereof or of any other right or remedy, and no single or partial exercise thereof shall preclude any other or further exercise thereof or the exercise of any other right or remedy. All rights and remedies of Lender hereunder are cumulative. No invalidity, illegality or unenforceability of the Obligations shall release, diminish, or extinguish the liability of Guarantor hereunder. This Guaranty shall remain in full force and effect until the date on which all Obligations shall be paid in full.

6. Guarantor agrees that in the event all or any part of the liability of Borrower in respect of the Obligations hereafter ceases as a result of a non-judicial foreclosure by Lender of any or all of any collateral delivered to secure the Obligations, Guarantor nevertheless expressly assumes liability for the Obligations, notwithstanding that the effect of any applicable statutes or other governing law, may limit or prohibit Guarantor's right to proceed or pursue any remedies against Borrower, and notwithstanding that Guarantor may not be permitted to subrogate to Lender's position. Guarantor hereby waives any defense to the obligations and liabilities of Guarantor hereunder and any and all rights with respect thereto that Guarantor may otherwise have under the provisions of applicable statutes or other governing law as a result of Lender's election of any remedy which impairs or alters the rights of Guarantor against Borrower or any collateral held by Lender, and Guarantor expressly acknowledges and agrees that Lender may, in its sole discretion, elect to foreclose upon any collateral Lender holds by non-judicial foreclosure rather than by judicial foreclosure without impairing or affecting in any way whatsoever Lender's rights under this Guaranty, including the right to proceed against Guarantor for any deficiency following a non-judicial foreclosure sale. Guarantor understands and agrees that upon any foreclosure or assignment in lieu of foreclosure of any security held by Lender: (i) such security will no longer exist and that any right that Guarantor might otherwise have, upon full payment and performance of the Obligations to Lender by Guarantor, to participate in any such security or to be subrogated to any rights of Lender with respect to any such security, will be nonexistent; and (ii) Guarantor shall be deemed to have waived any right, title, interest or claim under any circumstances in or to any real or personal property held by Lender or any third party following any foreclosure or assignment in lieu of foreclosure of any such security.

7. Guarantor waives all rights to exoneration from any and all of their liabilities hereunder pursuant to the provisions of the California Civil Code and/or under any other applicable statutes or other governing law.

8. Guarantor waives any right to require Lender to: (i) proceed against Borrower; (ii) proceed against or exhaust any security held from Borrower; or (iii) pursue any other remedy Lender may have whatsoever. Until all Obligations of Borrower to Lender shall have been paid or performed in full, Guarantor shall have no right of subrogation, and waives any right to enforce any remedy which Lender now has or may hereinafter have against Borrower, and waives any benefit of and any right to participate in any security now or hereinafter held by Lender. Guarantor waives all presentments, demands for performance, notices of non-performance, protests, notices of protest, notices of dishonor and notices of acceptance of this Guaranty and of the existence, creation or incurring of new or additional Obligations. Guarantor's obligations and liabilities hereunder shall be separate and distinct from those of Borrower. If Borrower defaults under any of the Obligations, Lender, at its option, may proceed directly against Guarantor, without having commenced any action or obtained any judgment against Borrower or any other guarantor, and without applying any property of Borrower (or any other person) held as security for the payment and performance of the Obligations. The liability of Guarantor hereunder shall not be released, diminished, or extinguished by Lender's failure or delay in enforcing any of its rights.

9. It shall not be necessary for Lender to inquire into the powers of Borrower or its officers, directors, partners, or agent acting or purporting to act on its behalf, and any indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed hereunder.

10. Guarantor further agrees to pay all reasonable costs and expenses, including, without limitation, reasonable attorneys' fees, at any time paid or incurred by Lender in endeavoring to enforce this Guaranty.

11. This Guaranty is absolute and unconditional and shall not be affected by any act or thing whatsoever, except as herein provided. This Guaranty is not an accommodation, but rather a material consideration bargained for by Lender in agreeing to make the Loan. No modification or amendment of any provision of this Guaranty shall be effective unless in writing and subscribed by a duly authorized officer of Lender.

12. This Guaranty and the transactions evidenced hereby shall be construed and interpreted under the laws of the State of California, without regard to conflicts of laws principles. Guarantor irrevocably submits to the exclusive jurisdiction of any California State or United States Federal court sitting in Fresno County, California over any action or proceeding arising out of or relating to this Guaranty, and irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such California State or Federal court. Guarantor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Guarantor waives any objection to venue in the State of California and any objection to an action or proceeding in the State of California on the basis of forum non conveniens.

13. Nothing herein shall be construed to constitute Guarantor as a maker, co-maker or principal debtor.

14. If any provision of this Guaranty or portion of such provision, or the application thereof to any person or circumstance, shall, to any extent, be held invalid or unenforceable, the remainder of this Guaranty or the remainder of such provision and the application thereof to other persons or circumstances, other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Guaranty shall be valid and be enforced to the fullest extent permitted by the law. Unless the context otherwise requires, the masculine, feminine and neuter genders and the singular and the plural shall each be deemed to include one another, as appropriate.

15. Lender may, upon written notice to Guarantor, assign this Guaranty in whole or in part.

IN WITNESS WHEREOF, this Guaranty has been executed by Guarantor at Sacramento, California, as of the date first set forth above.

GUARANTOR:

PACIFIC AG. PRODUCTS, LLC

By: /s/ JOHN T. MILLER

John T. Miller, COO

IRREVOCABLE JOINT INSTRUCTION LETTER

November 7, 2008

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

Ladies and Gentlemen:

Pacific Ethanol Imperial, LLC, a Delaware limited liability company ("PE Imperial"), Pacific Ethanol, Inc., a Delaware corporation (the "Company"), you, and Lyles United, LLC, a Delaware limited liability company ("Lender") have entered into a Loan Restructuring Agreement dated as of November 7, 2008 (the "Agreement") which contemplates the execution and delivery of this Irrevocable Joint Instruction Letter.

Until such time as Lender has informed you in writing that the New Note (as defined in the Agreement) has been repaid in full, you are hereby irrevocably authorized and instructed to immediately remit directly to Lender all future cash distributions received on account of your ownership interest in (i) PE Imperial, and (ii) Front Range Energy, LLC, a Colorado limited liability company. All such amounts remitted, despite being made directly by you to Lender, shall nevertheless be considered a distribution to the Company and a payment by the Company to Lender under the New Note. By its execution hereof, Lender hereby agrees to promptly inform you in writing at such time as the New Note has been repaid in full.

Lender is a beneficiary hereof, and no amendment or modification to the authorization and instructions set forth herein may be made without Lender's written consent.

Very truly yours,

PACIFIC ETHANOL, INC.

By: /s/ NEIL M.KOEHLER

Neil M. Koehler, CEO

LYLES UNITED, LLC

By: /s/ WILLLYLES

Will Lyles, Vice President

By its execution hereof, Pacific Ethanol California, Inc. hereby represents and warrants that it is authorized to enter into and execute this Irrevocable Joint Instruction Letter and to perform its obligations contemplated herein and agrees to perform all such obligations.

ACKNOWLEDGED AND AGREED:

PACIFIC ETHANOL CALIFORNIA, INC.

By: /s/ JOHN T. MILLER

John T. Miller, COO



Pacific Ethanol, Inc.

FOR IMMEDIATE RELEASE

INVESTOR RELATIONS:

916-403-2755

866-508-4969

InvestorRelations@pacificethanol.net

MEDIA CONTACT:

Joseph Hansen, Pacific Ethanol, Inc.

916-403-2123

jhansen@pacificethanol.net

PACIFIC ETHANOL, INC. ANNOUNCES THIRD QUARTER 2008 FINANCIAL RESULTS

Highlights

- **Net sales up 56% over Q3 of 2007 and up 64% over the nine months ended September 30, 2007**
- **Gallons sold up 30% from Q3 of 2007 to 65.0 million gallons**
- **Loss per diluted share of \$0.98 for Q3 2008, which includes \$26.6 million of non-cash asset impairment**
- **EBITDA was negative \$18.5 million for Q3 2008 and negative \$6.8 million for the nine months ended September 30, 2008**
- **Stockton plant commenced operations in the current quarter, thereby achieving the Company's goal of 220 million gallons per year**
- **Replaced Kinergy's line of credit with a new \$40 million credit facility during the quarter**

Sacramento, CA, November 10, 2008 – Pacific Ethanol, Inc. (NASDAQ GM: PEIX), the leading West Coast-based marketer and producer of ethanol, today announced its financial results for the quarter ended September 30, 2008.

Three Months Ended September 30, 2008

For the three months ended September 30, 2008, the Company reported net sales of \$184.0 million, an increase of \$65.9 million, or 56%, compared to \$118.1 million for the same period in 2007. This increase in net sales is primarily due to a substantial increase in sales volume, coupled with higher average sales prices. The Company's sales volume increased by 15.0 million gallons, or 30%, to 65.0 million gallons, compared to 50.0 million gallons for the same period in 2007. The Company's average sales price of ethanol increased by \$0.34 per gallon, or 16%, to \$2.45 per gallon compared to an average sales price of \$2.11 per gallon in the same period in 2007.

Average corn prices for the Company increased 54% for the three months ended September 30, 2008 as compared to the same period in 2007. Gross loss for the three months ended September 30, 2008 totaled \$20.3 million compared to gross profit of \$4.8 million for the same period in 2007. The Company's gross margin was negative 11.0% for the three months ended September 30, 2008 compared to a positive 4.0% for the same period in 2007. The gross loss for the three months ended September 30, 2008, was a direct result of highly volatile corn and ethanol prices, which contributed to the loss with a \$5.6 million valuation adjustment of our inventories.

The Company's net loss for the three months ended September 30, 2008 was \$54.9 million compared to \$4.8 million for the same period in 2007. The loss includes a non-cash asset impairment of \$26.6 million associated with the Company's suspended Imperial Valley project, which represents the net of \$43.8 million in property and equipment and \$17.2 million in construction-related liabilities.

Loss available to common stockholders for the three months ended September 30, 2008 was \$55.7 million compared to \$5.9 million for the same period in 2007. The Company reported loss per common share of \$0.98 for the three months ended September 30, 2008 as compared to \$0.15 for the same period in 2007. The Company's weighted-average number of diluted shares outstanding for the three months ended September 30, 2008 totaled 56.7 million.

During the third quarter, the Company completed its goal of reaching 220 million gallons per year of capacity by completing construction of its 60 million gallon plant in Stockton, California.



Pacific Ethanol, Inc.

Nine Months Ended September 30, 2008

For the nine months ended September 30, 2008, the Company reported net sales of \$543.5 million, an increase of \$212.4 million, or 64%, compared to \$331.1 million for the same period in 2007. This increase in net sales is primarily due to a substantial increase in sales volume, coupled with modestly higher average sales prices. The Company's sales volume increased by 58.2 million gallons, or 44%, to 191.0 million gallons, compared to 132.8 million gallons for the same period in 2007. The Company's average sales price of ethanol increased by \$0.21 per gallon, or 9%, to \$2.43 per gallon compared to an average sales price of \$2.22 per gallon for the same period in 2007.

Average corn prices increased 55% for the nine months ended September 30, 2008 as compared to the same period in 2007. Gross loss for the nine months ended September 30, 2008 totaled \$4.2 million compared to gross profit of \$31.2 million for the same period in 2007. The Company's gross margin was a negative 0.8% for the nine months ended September 30, 2008 compared to 9.4% for the same period in 2007.

The Company's net loss for the nine months ended September 30, 2008 was \$98.3 million compared to net income of \$0.3 million for the same period in 2007. The loss includes a non-cash asset impairment of \$26.6 million associated with its suspended Imperial Valley project and a non-cash goodwill impairment of \$87.0 million as result of completing its annual goodwill impairment test during the first quarter. Of the total goodwill impairment amount, \$48.4 million related to noncontrolling interests of the Company's variable interest entity, resulting in a net goodwill impairment of \$38.6 million, which is included in the Company's net loss for the nine months ended September 30, 2008.

Loss available to common stockholders for the nine months ended September 30, 2008 was \$102.4 million compared to \$2.9 million for the same period in 2007. The Company reported loss per common share of \$2.14 for the nine months ended September 30, 2008 as compared to \$0.07 for the same period in 2007. The Company's weighted-average number of diluted shares outstanding for the nine months ended September 30, 2008 totaled 47.8 million.

Neil Koehler, the Company's President and CEO, commented, "We saw unprecedented volatility in the corn and ethanol markets during the quarter and are disappointed with the resulting impact on margins. Despite the challenging operating environment, ethanol plays a significant and growing role in our nation's transportation fuel supply. We are pleased to report that we've met our goal of building 220 million gallons of operational capacity in the Western United States. We are focusing on operating at industry leading efficiencies and growing the markets for our feed and fuel products. With the recent election results, we expect continued strong support for the Renewable Fuels Standard and the economic development, energy independence and carbon dioxide reductions that ethanol provides."

Reconciliation of EBITDA to Net Income (Loss)

This press release contains, and the Company's conference call will include, references to unaudited earnings before interest, taxes, depreciation and amortization, including goodwill and asset impairments ("EBITDA"), a financial measure that is not in accordance with generally accepted accounting procedures ("GAAP"). The table set forth below provides a reconciliation of EBITDA to net income (loss). Management believes that EBITDA is a meaningful measure of liquidity and the Company's ability to service debt because it provides a measure of cash available for such purposes. Additionally, management provides an EBITDA measure so that investors will have the same financial information that management uses with the belief that it will assist investors in properly assessing the Company's performance on a period-over-period basis. EBITDA is not a measure of financial performance under GAAP, and should not be considered an alternative to net income or any other measure of performance under GAAP, or to cash flows from operating, investing or financing activities as an indicator of cash flows or as a measure of liquidity. EBITDA has limitations as an analytical tool and you should not consider it in isolation or as a substitute for analysis of the Company's results as reported under GAAP.

Earnings Call

The Company will host a live conference call and webcast today at 10:00 AM EST / 7:00 AM PST. Neil Koehler, Chief Executive Officer, and Joseph Hansen, Chief Financial Officer, will host the call.

To listen to the conference call, United States callers may dial **800-510-9834**. International callers may dial **617-614-3669**. All callers should enter access code **99195862**.

A link to the live audio webcast of the Company's earnings conference call may be found on the Company's website at www.pacificethanol.net.

Approximately one hour after the conclusion of the call, an audio replay of the call will be available. To listen to the replay, United States callers may dial **888-286-8010**. International callers may dial **617-801-6888**. All callers should enter access code **84624006**. The replay will be available through November 24, 2008.



Pacific Ethanol, Inc.

About Pacific Ethanol, Inc.

Pacific Ethanol is the largest West Coast-based marketer and producer of ethanol. Pacific Ethanol has ethanol plants in Madera and Stockton, California; Boardman, Oregon; and Burley, Idaho. Pacific Ethanol also owns a 42% interest in Front Range Energy, LLC which owns an ethanol plant in Windsor, Colorado. Central to Pacific Ethanol's growth strategy is its destination business model, whereby each respective ethanol plant achieves lower process and transportation costs by servicing local markets for both fuel and feed. Pacific Ethanol has achieved its goal of 220 million gallons per year of ethanol production capacity in 2008 and has the goal to increase total production capacity to 420 million gallons per year in 2010. In addition, Pacific Ethanol is working to identify and develop other renewable fuel technologies, such as cellulose-based ethanol production and bio-diesel.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

With the exception of historical information, the matters discussed in this press release are forward-looking statements that involve a number of risks and uncertainties. The actual future results of Pacific Ethanol could differ from those statements. Factors that could cause or contribute to such differences include, but are not limited to, the ability of Pacific Ethanol to obtain additional debt or equity financing, including additional working capital financing, or failing new sources of financing, the ability of Pacific Ethanol to reschedule or restructure its indebtedness; the ability of Pacific Ethanol to successfully capitalize on its internal growth initiatives; the ability of Pacific Ethanol to operate its plants at their planned production capacities; the price of ethanol relative to the price of corn and other inputs and the price of ethanol relative to the price of gasoline; and the factors contained in the "Risk Factors" section of Pacific Ethanol's Form 10-K filed with the Securities and Exchange Commission on March 27, 2008 and the "Risk Factors" section of Pacific Ethanol's Form 10-Q for the quarterly period ended September 30, 2008 to be filed with the Securities and Exchange Commission.

(tables follow)



Pacific Ethanol, Inc.

PACIFIC ETHANOL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net sales	\$ 183,980	\$ 118,118	\$ 543,489	\$ 331,123
Cost of goods sold	<u>204,265</u>	<u>113,359</u>	<u>547,673</u>	<u>299,902</u>
Gross profit (loss)	(20,285)	4,759	(4,184)	31,221
Selling, general and administrative expenses	6,731	5,920	24,275	23,742
Impairment of asset group	26,588	—	26,588	—
Impairment of goodwill	—	—	<u>87,047</u>	—
Income (loss) from operations	(53,604)	(1,161)	(142,094)	7,479
Other income (expense), net	<u>(2,774)</u>	<u>(998)</u>	<u>(4,184)</u>	<u>312</u>
Income (loss) before noncontrolling interest in variable interest entity	(56,378)	(2,159)	(146,278)	7,791
Noncontrolling interest in variable interest entity	<u>1,523</u>	<u>(2,683)</u>	<u>47,939</u>	<u>(7,502)</u>
Net income (loss) before provision for income taxes	(54,855)	(4,842)	(98,339)	289
Provision for income taxes	—	—	—	—
Net income (loss)	<u>\$ (54,855)</u>	<u>\$ (4,842)</u>	<u>\$ (98,339)</u>	<u>\$ 289</u>
Preferred stock dividends	<u>\$ (807)</u>	<u>\$ (1,050)</u>	<u>\$ (3,296)</u>	<u>\$ (3,150)</u>
Deemed dividend on preferred stock	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (761)</u>	<u>\$ —</u>
Loss available to common stockholders	<u>\$ (55,662)</u>	<u>\$ (5,892)</u>	<u>\$ (102,396)</u>	<u>\$ (2,861)</u>
Net loss per share, basic	<u>\$ (0.98)</u>	<u>\$ (0.15)</u>	<u>\$ (2.14)</u>	<u>\$ (0.07)</u>
Net loss per share, diluted	<u>\$ (0.98)</u>	<u>\$ (0.15)</u>	<u>\$ (2.14)</u>	<u>\$ (0.07)</u>
Weighted-average shares outstanding, basic and diluted	<u>56,717</u>	<u>39,928</u>	<u>47,791</u>	<u>39,833</u>



Pacific Ethanol, Inc.

PACIFIC ETHANOL, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

<u>ASSETS</u>	September 30, 2008 (unaudited)	December 31, 2007 *
Current Assets:		
Cash and cash equivalents	\$ 13,979	\$ 5,707
Investments in marketable securities	7,452	19,353
Accounts receivable, net	30,837	28,034
Restricted cash	12,152	780
Inventories	33,279	18,540
Prepaid expenses	1,828	1,498
Prepaid inventory	2,403	3,038
Derivative instruments	195	1,613
Other current assets	3,884	3,630
Total current assets	<u>106,009</u>	<u>82,193</u>
Property and equipment, net	<u>552,145</u>	<u>468,704</u>
Other Assets:		
Goodwill	--	88,168
Intangible assets, net	5,766	6,324
Other assets	9,689	6,211
Total other assets	<u>15,455</u>	<u>100,703</u>
Total Assets	<u>\$ 673,609</u>	<u>\$ 651,600</u>

* Amounts derived from the audited financial statements for the year ended December 31, 2007.



Pacific Ethanol, Inc.

PACIFIC ETHANOL, INC.
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(in thousands, except par value)

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	September 30, 2008 (unaudited)	December 31, 2007 *
Current Liabilities:		
Accounts payable – trade	\$ 21,613	\$ 22,641
Accrued liabilities	14,248	8,526
Accounts payable and accrued liabilities – construction-related	34,308	55,203
Contract retentions	948	5,358
Other liabilities – related parties	212	900
Current portion – notes payable	46,407	11,098
Short-term note payable	1,500	6,000
Derivative instruments	10,350	10,353
Total current liabilities	129,586	120,079
Notes payable, net of current portion	234,537	151,188
Other liabilities	3,493	1,965
Total Liabilities	367,616	273,232
Commitments and Contingencies		
Noncontrolling interest in variable interest entity	47,936	96,082
	47,936	96,082
Stockholders' Equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; Series A: 0 and 5,316 shares issued and outstanding as of September 30, 2008 and December 31, 2007, respectively		
Series B: 2,346 and 0 shares issued and outstanding as of September 30, 2008 and December 31, 2007, respectively	2	5
Common stock, \$0.001 par value; 100,000 shares authorized; 57,779 and 40,606 shares issued and outstanding as of September 30, 2008 and December 31, 2007, respectively	58	41
Additional paid-in capital	478,231	402,932
Accumulated other comprehensive income (loss)	471	(2,383)
Accumulated deficit	(220,705)	(118,309)
Total stockholders' equity	258,057	282,286
Total Liabilities and Stockholders' Equity	\$ 673,609	\$ 651,600

* Amounts derived from the audited financial statements for the year ended December 31, 2007.



Pacific Ethanol, Inc.

Reconciliation of EBITDA to Net Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<i>(in thousands) (unaudited)</i>				
Net income (loss)	\$ (54,855)	\$ (4,842)	\$ (98,339)	\$ 289
Adjustments:				
Interest expense*	3,290	1,826	10,544	2,814
Interest income*	(59)	(912)	(264)	(4,117)
Income taxes	--	--	--	--
Goodwill and asset impairments*	26,588	--	65,224	--
Depreciation and amortization expense*	6,554	2,563	16,032	7,930
Total adjustments	36,373	3,477	91,536	6,627
EBITDA	\$ (18,482)	\$ (1,365)	\$ (6,803)	\$ 6,916

* adjusted for non-controlling interest.

Commodity Price Performance

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<i>(unaudited)</i>				
Ethanol sales (million gallons)	65.0	50.0	191.0	132.8
Ethanol sales price per gallon	\$ 2.45	\$ 2.11	\$ 2.43	\$ 2.22
Delivered corn cost per bushel	\$ 6.99	\$ 4.54	\$ 6.48	\$ 4.19
Average basis	\$ 0.71	\$ 0.67	\$ 0.73	\$ 0.64
Corn cost – CBOT equivalent	\$ 6.28	\$ 3.87	\$ 5.75	\$ 3.55
Co-product return % (1)	21.6%	25.3%	22.6%	25.6%
Production commodity margin per gallon (2)	\$ 0.35	\$ 0.99	\$ 0.54	\$ 1.18

(1) Co-product revenue as a percentage of delivered cost of corn

(2) Ethanol sales price per gallon less net cost of corn (delivered cost of corn less co-product revenue)

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