

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)

February 13, 2009

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))

Item 1.01.

Entry into a Material Definitive Agreement.

(1) *Wachovia Credit Facility*

Amendment and Forbearance Agreement dated February 13, 2009 by and among Pacific Ethanol, Inc., Kinergy Marketing LLC and Wachovia Capital Finance Corporation (Western)

On February 13, 2009, Kinergy Marketing, LLC ("Kinergy"), a wholly-owned subsidiary of Pacific Ethanol, Inc. (the "Company"), and the Company, entered into an Amendment and Forbearance Agreement (the "Amendment and Forbearance Agreement") with Wachovia Capital Finance Corporation (Western) ("Wachovia"). The Amendment and Forbearance Agreement relates to a \$40.0 million credit facility for Kinergy under a Loan and Security Agreement dated July 28, 2008 by and among Kinergy, the parties thereto from time to time as the Lenders, Wachovia and Wachovia Bank, National Association (the "Loan Agreement," and together with all other related loan documents, the "Loan Documents"). Kinergy's credit facility is described in more detail under the heading "Wachovia Loan Transaction" below.

The Amendment and Forbearance Agreement identifies certain existing defaults under the Loan Agreement. The Amendment and Forbearance Agreement provides that Wachovia will forbear from exercising its rights and remedies under the Loan Documents and applicable law, on the terms and conditions set forth in the Amendment and Forbearance Agreement, for a period of time (the "Forbearance Period") commencing on February 13, 2009 and ending on the earlier to occur of (i) February 28, 2009, and (ii) the date that any new default occurs under the Loan Agreement or a default occurs under the Amendment and Forbearance Agreement. Upon Kinergy's request, Wachovia may, in its sole and absolute discretion, extend the date the Forbearance Period terminates to March 31, 2009.

The Amendment and Forbearance Agreement increased the interest rates applicable to the credit facility to the default rates under the Loan Agreement, which is (i) for eurodollar rate loans, a rate equal to (a) the London Interbank Offered Rate (LIBOR), divided by 0.90 (subject change based upon the reserve percentage in effect from time to time under Regulation D of the Board of Governors of the Federal Reserve System), plus (b) 4.50%, or (ii) for prime rate loans, a rate equal to (a) the greater of the prime rate published by Wachovia Bank from time to time, or the federal funds rate then in effect plus 0.50%, plus (b) 2.25%. The foregoing rate increases are effective as of January 1, 2009 and are to continue for the duration of the Forbearance Period. In addition, under the Amendment and Forbearance Agreement, all loans, letters of credit and other financial accommodations provided by Wachovia to Kinergy during the Forbearance Period are to be made and provided in the sole and absolute discretion of Wachovia.

The Amendment and Forbearance Agreement requires Kinergy to provide Wachovia with certain budgets and projections on a weekly basis during the Forbearance Period. The Amendment and Forbearance Agreement also requires Kinergy to provide Wachovia, on or prior to February 28, 2009, with an agreement, in form and substance satisfactory to Wachovia, under which WestLB AG and other lenders have agreed to forbear from exercising their rights against the Company and certain of its subsidiaries for such forbearance period and on such terms and conditions as shall be acceptable to Wachovia; provided, that if the Forbearance Period is extended by Wachovia then the required date of delivery of such agreement shall be extended to March 31, 2009.

The Amendment and Forbearance Agreement also amended the Loan Agreement in various respects, including by (i) reducing by \$500,000 amounts available for borrowing based on Kinerger's eligible accounts receivable and inventory levels, subject to any reserves established by Wachovia, (ii) reducing the inventory loan limit from \$20,000,000 to \$5,000,000, thereby reducing the available borrowing base related to inventory levels by \$15,000,000, (iii) reducing the letter of credit limit from \$10,000,000 to \$500,000, and (iv) reducing the aggregate principal amount of the loans outstanding at any time against eligible in-transit inventory from \$10,000,000 to \$2,500,000 and against eligible inventory consisting of biodiesel from \$3,000,000 to \$200,000. In addition, the maximum available credit was reduced from \$40,000,000 to \$10,000,000, representing a reduction in available credit which is not currently being utilized by Kinerger. The Amendment and Forbearance Agreement also amended the definition of "Material Adverse Effect" in the Loan Agreement to include material adverse effects occurring with respect to the Company or any of its subsidiaries, rather than only Kinerger, and included as an event of default under the Loan Agreement any Material Adverse Effect with respect to Kinerger, the Company or any of their respective subsidiaries.

The Amendment and Forbearance Agreement also includes a general release in favor of Wachovia of any claims, whether known or unknown, that Kinerger or the Company may have had against Wachovia. Kinerger was required to pay Wachovia a forbearance fee of \$50,000, in addition to any other fees, charges, interest and expenses payable under the Loan Documents. If the Forbearance Period is extended to March 31, 2009, Kinerger is required to pay an additional forbearance fee of \$50,000. The Amendment and Forbearance Agreement also includes customary representations and warranties and other customary terms and conditions.

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

Wachovia Loan Transaction

Loan and Security Agreement dated July 28, 2008 by and among Kinerger Marketing LLC, the parties thereto from time to time as the Lenders, Wachovia Capital Finance Corporation (Western) and Wachovia Bank, National Association

Guarantee dated July 28, 2008 by Pacific Ethanol, Inc. in favor of Wachovia Capital Finance Corporation (Western)

Descriptions of the Loan and Security Agreement and the Guarantee are set forth in the Company's Current Report on Form 8-K for July 28, 2008 filed with the Securities and Exchange Commission on August 1, 2008 and such descriptions are incorporated herein by this reference. Such descriptions do not purport to be complete and are qualified in their entireties by reference to the Loan and Security Agreement and Guarantee, which are filed as Exhibits 10.3 and 10.4, respectively, to this report and incorporated herein by reference.

(2) *WestLB Credit Agreement*

Limited Waiver and Forbearance Agreement dated as of February 17, 2009 by and among Pacific Ethanol Holding Co. LLC, Pacific Ethanol Madera LLC, Pacific Ethanol Columbia, LLC, Pacific Ethanol Stockton, LLC, Pacific Ethanol Magic Valley, LLC, WestLB AG, New York Branch, Amarillo National Bank and the Lenders identified therein

On February 17, 2009, Pacific Ethanol Holding Co. LLC, Pacific Ethanol Madera LLC, Pacific Ethanol Columbia, LLC, Pacific Ethanol Stockton, LLC and Pacific Ethanol Magic Valley, LLC, each indirect wholly-owned subsidiaries of the Company (collectively, "Borrowers"), and WestLB AG, New York Branch, Amarillo National Bank and the senior secured lenders identified therein entered into a Limited Waiver and Forbearance Agreement (the "Waiver and Forbearance Agreement"). The Waiver and Forbearance Agreement relates to loans under a Credit Agreement dated as of February 27, 2007 by and among the foregoing parties (the "Credit Agreement"). The Credit Agreement is described in more detail under the heading "WestLB Loan Transaction" below.

The Waiver and Forbearance Agreement identifies certain existing defaults and certain anticipated defaults under the Credit Agreement. The Waiver and Forbearance Agreement provides that WestLB and the senior secured lenders will forbear from exercising their rights and remedies under the Credit Agreement and related documents and applicable law, on the terms and conditions set forth in the Waiver and Forbearance Agreement, for a period of time (the "Forbearance Period") commencing on February 17, 2009 and ending on the earlier to occur of (i) February 27, 2009, (ii) the date that any new default occurs under the Credit Agreement or a default occurs under the Waiver and Forbearance Agreement, and (iii) the date on which all obligations have been paid in full and the Credit Agreement has been terminated.

The Waiver and Forbearance Agreement provides that Borrowers may withdraw funds otherwise required to be reserved in an account designated solely for the Company's Stockton, California plant and use such funds in accordance with an agreed-upon 13-week cash flow forecast. The amount of such funds is approximately \$2.0 million.

The Amendment and Forbearance Agreement requires Kinergy to provide WestLB with certain budgets and projections on an weekly basis.

The Waiver and Forbearance Agreement also includes a general release in favor of WestLB and the senior secured lenders of any claims, whether known or unknown, that any Borrower may have had against them. Borrowers are required to reimburse WestLB for all fees and expenses, including reasonable and documented legal fees and other expenses of counsel and other advisors. The Waiver and Forbearance Agreement also includes customary representations and warranties and other customary terms and conditions.

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

Credit Agreement, dated as of February 27, 2007, by and among Pacific Ethanol Holding Co. LLC, Pacific Ethanol Madera LLC, Pacific Ethanol Columbia, LLC, Pacific Ethanol Stockton, LLC, Pacific Ethanol Imperial, LLC, and Pacific Ethanol Magic Valley, LLC, as borrowers, the lenders party thereto, WestLB AG, New York Branch, as administrative agent, lead arranger and sole book runner, WestLB AG, New York Branch, as collateral agent, Union Bank of California, N.A., as accounts bank, Mizuho Corporate Bank, Ltd., as lead arranger and co-syndication agent, CIT Capital Securities LLC, as lead arranger and co-syndication agent, Cooperative Centrale Raiffeisen-Boerenleenbank BA., Rabobank Nederland, New York Branch, and Banco Santander Central Hispano S.A., New York Branch (as amended by that certain Successor Accounts Bank and Amendment Agreement dated as of August 27, 2007, as further amended by that certain Waiver and Third Amendment to Credit Agreement dated as of March 25, 2008, as further amended by that certain Fourth Amendment to Credit Agreement dated as of April 24, 2008, as further amended by that certain Fifth Amendment to Credit Agreement dated as of October 24, 2008 and as further amended by that certain Sixth Amendment to Credit Agreement dated as of December 30, 2008)

A description of the Credit Agreement is set forth in the Company's Current Report on Form 8-K for February 27, 2007 filed with the Securities and Exchange Commission on March 2, 2007; and a description of the Waiver and Third Amendment to Credit Agreement is set forth in the Company's Current Report on Form 8-K for March 26, 2008 filed with the Securities and Exchange Commission on March 27, 2008 and such descriptions are incorporated herein by reference. Such descriptions do not purport to be complete and are qualified in their entireties by reference to the Credit Agreement and the Waiver and Third Amendment to Credit Agreement, which are filed as Exhibits 10.5 and 10.6 to this report and incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

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

<u>Number</u>	<u>Description</u>
10.1	Amendment and Forbearance Agreement dated February 13, 2009 by and among Pacific Ethanol, Inc., Kinergy Marketing LLC and Wachovia Capital Finance Corporation (Western) (1)
10.2	Limited Waiver and Forbearance Agreement dated as of February 17, 2009 by and among Pacific Ethanol Holding Co. LLC, Pacific Ethanol Madera LLC, Pacific Ethanol Columbia, LLC, Pacific Ethanol Stockton, LLC, Pacific Ethanol Magic Valley, LLC, WestLB AG, New York Branch, Amarillo National Bank and the Lenders identified therein (1)

- 10.3 Loan and Security Agreement dated July 28, 2008 by and among Kinergy Marketing LLC, the parties thereto from time to time as Lenders, Wachovia Capital Finance Corporation (Western) and Wachovia Bank, National Association (2)
- 10.4 Guarantee dated July 28, 2008 by and between Pacific Ethanol, Inc. in favor of Wachovia Capital Finance Corporation (Western) (2)
- 10.5 Credit Agreement, dated as of February 27, 2007, by and among Pacific Ethanol Holding Co. LLC, Pacific Ethanol Madera LLC, Pacific Ethanol Columbia, LLC, Pacific Ethanol Stockton, LLC, Pacific Ethanol Imperial, LLC, and Pacific Ethanol Magic Valley, LLC, as borrowers, the lenders party thereto, WestLB AG, New York Branch, as administrative agent, lead arranger and sole book runner, WestLB AG, New York Branch, as collateral agent, Union Bank of California, N.A., as accounts bank, Mizuho Corporate Bank, Ltd., as lead arranger and co-syndication agent, CIT Capital Securities LLC, as lead arranger and co-syndication agent, Cooperative Centrale Raiffeisen-Boerenleenbank B.A., Rabobank Nederland, New York Branch, and Banco Santander Central Hispano S.A., New York Branch (3)
- 10.6 Waiver and Third Amendment to Credit Agreement dated as of March 25, 2008 by and among by and among Amarillo National Bank, WestLB AG, New York Branch, Pacific Ethanol Holding Co. LLC, Pacific Ethanol Madera LLC, Pacific Ethanol Columbia, LLC, Pacific Ethanol Stockton, LLC, Pacific Ethanol Magic Valley, LLC, Pacific Ethanol, Inc. and the Lenders party thereto (4)

- (1) Filed herewith.
- (2) Filed as an exhibit to the Registrant's Form 8-K for July 28, 2008 filed with the Securities and Exchange Commission on August 1, 2008.
- (3) Filed as an exhibit to the Registrant's Form 8-K for February 27, 2007 filed with the Securities and Exchange Commission on March 2, 2007.
- (4) Filed as an exhibit to the Registrant's Form 8-K for March 26, 2008 filed with the Securities and Exchange Commission on March 27, 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: February 20, 2009

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	Amendment and Forbearance Agreement dated February 13, 2009 by and among Pacific Ethanol, Inc., Kinergy Marketing LLC and Wachovia Capital Finance Corporation (Western)
10.2	Limited Waiver and Forbearance Agreement dated as of February 17, 2009 by and among Pacific Ethanol Holding Co. LLC, Pacific Ethanol Madera LLC, Pacific Ethanol Columbia, LLC, Pacific Ethanol Stockton, LLC, Pacific Ethanol Magic Valley, LLC, WestLB AG, New York Branch, Amarillo National Bank and the Lenders identified therein

KINERGY MARKETING LLC
400 Capitol Mall, Suite 2060
Sacramento, California 95814

February 13, 2009

Wachovia Capital Finance Corporation (Western),
as Agent for and on behalf of the
Lenders as referred to below
251 South Lake Avenue, Suite 900
Pasadena, California 91101

Re: Amendment and Forbearance Agreement

Ladies and Gentlemen:

Wachovia Capital Finance Corporation (Western) ("Wachovia"), in its capacity as agent ("Agent") for the Lenders from time to time party to the Loan Agreement referred to below, the Lenders and Kinergy Marketing LLC, an Oregon limited liability company ("Borrower"), have entered into certain financing arrangements pursuant to the Loan and Security Agreement, dated as of July 28, 2008, by and among Agent, Lenders and Borrower (the "Loan Agreement"), and all other Financing Agreements at any time executed and/or delivered in connection therewith or related thereto. All capitalized terms used herein shall have the meaning assigned thereto in the Loan Agreement, unless otherwise defined herein. Wachovia is currently both the Agent and the sole Lender under the Loan Agreement and is hereinafter referred to in this Amendment, in both such capacities, as "Wachovia".

It has come to the attention of Wachovia that (a) Borrower has failed to comply with Section 9.17 of the Loan Agreement as a result of the failure of Borrower to maintain EBITDA in the amount required by such Section for the twelve (12) consecutive month period ending December 31, 2008, which constitutes an Event of Default under Section 10.1(a)(i) of the Loan Agreement, (b) Borrower has failed to comply with Section 8.17 of the Loan Agreement as a result of the failure of Borrower to advise Wachovia in the Borrowing Base Certificate delivered to Wachovia on or about February 10, 2009 of the existence of an Event of Default resulting from the failure of Borrower to maintain EBITDA in the amount required by Section 9.17 for the twelve (12) consecutive month period ending December 31, 2008, which constitutes an Event of Default under Section 10.1(a)(iv) of the Loan Agreement, and (c) a pre-judgment writ of attachment has been ordered against Borrower in connection with the action filed on January 9, 2009 by Western Ethanol Company, LLC against Borrower in the Superior Court of California, County of Orange, which constitutes an Event of Default under Section 10.1(d) of the Loan Agreement (collectively, the "Specified Defaults").

Notwithstanding the occurrence and continuance of the Specified Defaults, Borrower and Pacific Ethanol Inc., a Delaware corporation, as Guarantor ("Parent"), have requested that Wachovia (a) forbear for a limited period of time from exercising its rights and remedies with respect to the Specified Defaults and (b) continue to make additional Revolving Loans to Borrower during such limited forbearance period; and Wachovia is willing to agree to the foregoing, on and subject to the terms and conditions set forth in this amendment and forbearance agreement (this "Agreement").

In consideration of the foregoing, the mutual agreements and covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Acknowledgment of Specified Defaults.

Borrower and Parent hereby acknowledge, confirm and agree that (a) the Specified Defaults described above have occurred and are continuing as of the date hereof and (b) as a result of the foregoing, Wachovia has the presently exercisable right to exercise all such rights and remedies against Borrower, Parent and/or the Collateral as are available to Wachovia under the Loan Agreement and the other Financing Agreements and under applicable law, all without notice to Borrower or Parent, except for such notice as may be expressly provided for in the Financing Agreements or required by applicable law, and such rights and remedies include, without limitation, the right, exercisable at any time and from time to time, to cease making any additional Revolving Loans or providing any other financial accommodations to Borrower.

2. Acknowledgment of Obligations, Security Interests and Financing Agreements.

(a) Acknowledgment of Obligations. Borrower and Parent hereby acknowledge, confirm and agree that Borrower is unconditionally indebted to Wachovia as of the close of business on February 11, 2009, in respect of the Loans and all other Obligations in the aggregate principal amount of not less than \$8,290,882.46, together with interest accrued and accruing thereon, and all fees, costs, expenses and other sums and charges now or hereafter payable by Borrower to Wachovia pursuant to the Loan Agreement and the other Financing Agreements, all of which are unconditionally owing by Borrower to Wachovia pursuant to the Financing Agreements, in each case without offset, defense or counterclaim of any kind, nature or description whatsoever.

(b) Acknowledgment of Security Interests. Borrower and Parent hereby acknowledge, confirm and agree that Wachovia has, and shall continue to have, valid, enforceable and perfected security interests in and liens upon the Collateral heretofore granted by Borrower to Wachovia pursuant to the Financing Agreements or otherwise granted to or held by Wachovia.

(c) Binding Effect of Financing Agreements. Borrower and Parent hereby acknowledge, confirm and agree that: (i) each of the Financing Agreements to which Borrower and Parent (as applicable) are a party has been duly executed and delivered to Wachovia by Borrower and Parent (as applicable), and each is in full force and effect as of the date hereof, (ii) the agreements and obligations of Borrower and Parent (as applicable) contained in such Financing Agreements to which they are a party and in this Agreement constitute the legal, valid and binding Obligations of Borrower and Parent (as applicable), enforceable against them in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability, and Borrower and Parent (as applicable) have no valid defense to the enforcement of such Obligations, and (iii) Wachovia is and shall be entitled to the rights, remedies and benefits provided for in the Financing Agreements and pursuant to applicable law, but subject to the terms and conditions of this Agreement.

3. No Waivers; Reservation of Rights. Wachovia has not waived, is not by this Agreement waiving, and has no intention of waiving, the Specified Defaults, any other Defaults or Events of Default which may be continuing on the date hereof or any Defaults or Events of Default which may occur after the date hereof (whether the same or similar to the Specified Defaults or otherwise).

4. Limited Forbearance Period; Forbearance Period Loans; Forbearance Termination.

(a) At Borrower's and Parent's request and in reliance upon Borrower's representations, warranties and covenants contained in this Agreement, and subject to the terms and conditions of this Agreement, Wachovia hereby agrees to forbear during the Forbearance Period (as defined below) from exercising any of its rights and remedies with respect to the Specified Defaults, whether arising under the Loan Agreement, the other Financing Agreements or applicable law. For the purposes of this Agreement, the "Forbearance Period" means the period commencing on the effective date of this Agreement and terminating on the earliest to occur of: (i) February 28, 2009, and (ii) the date on which any one or more of the following events has occurred and is continuing (hereinafter referred to as an "Additional Event of Default"): (A) Borrower's failure to perform or observe any of the terms and conditions of this Agreement or (B) the occurrence of any Default or Event of Default under the Loan Agreement that is not a Specified Default. Notwithstanding the foregoing, upon the request of Borrower, Wachovia may, in its sole and absolute discretion, extend the date set forth in subparagraph (a)(i) above to March 31, 2009.

(b) During the Forbearance Period, notwithstanding the existence of the Specified Defaults, at Borrower's and Parent's request and as an accommodation to Borrower, Wachovia agrees to continue making Revolving Loans to Borrower; provided, that, (i) except as otherwise provided for in this Agreement, all Revolving Loans shall be made in accordance with all other terms and conditions of the Loan Agreement, including (without limitation, Wachovia's continuing rights to impose Reserves), (ii) effective as of January 1, 2009, Borrower shall pay interest with respect to Loans and other Obligations at any time outstanding at the default Interest Rate set forth in Section 1.60(b) of the Loan Agreement and (iii) notwithstanding anything to the contrary contained in the Loan Agreement, in this Agreement or in any of the other Financing Agreements, all Revolving Loans, Letters of Credit and other financial accommodations provided by Wachovia to Borrower during the Forbearance Period shall be made and provided in the sole and absolute discretion of Wachovia.

(c) From and after termination or expiration of the Forbearance Period (the "Forbearance Termination Date"), Wachovia's agreement to forbear shall automatically and without further notice or action terminate and be of no further force and effect, and Wachovia shall have the immediate and unconditional right, in its discretion, to exercise any or all of its rights and remedies under the Loan Agreement, the other Financing Agreements and applicable law with respect to the Specified Defaults, any other Event of Default which may be continuing on the date hereof or any Additional Default or any Event of Default which may occur after the date hereof, including, without limitation, Wachovia's election to cease making, in Wachovia's sole discretion, any further Revolving Loans or providing any further Letters of Credit and/or Wachovia's election to enforce the security interests in and liens upon the Collateral or any portion thereof held by Wachovia. Wachovia has not waived any of such rights or remedies, and nothing in this Agreement, nor the making of any Revolving Loans or Letters of Credit from and after the date hereof or after the Forbearance Termination Date, nor any delay on Wachovia's part after the Forbearance Termination Date in exercising any such rights or remedies, can be construed as a waiver of any such rights or remedies. No termination of the Loan Agreement or any provisions thereof or any of the other Financing Agreements shall relieve or discharge Borrower or any Obligor of their respective duties, covenants and obligations under the Loan Agreement and the other Financing Agreements to which they are respectively a party until all Obligations have been indefeasibly paid and satisfied in full in immediately available funds.

(d) Notwithstanding anything to the contrary contained in this Agreement, (i) this Agreement does not constitute Wachovia's agreement or commitment to make any additional Revolving Loans or provide any Letters of Credit to Borrower from and after the Forbearance Termination Date, and all Revolving Loans made or Letters of Credit provided by Wachovia from and after the Forbearance Termination Date shall be made in Wachovia's sole and exclusive discretion, and (ii) nothing contained in this Agreement shall limit, impair or affect Wachovia's rights under the Loan Agreement with respect to the making of Revolving Loans and Letters of Credit (including, without limitation, Wachovia's right to establish and withhold Reserves in accordance with the Loan Agreement).

5. Forbearance Period Covenants. In order to induce Wachovia to (a) enter into this Agreement, (b) make Revolving Loans and other financial accommodations to Borrower during the Forbearance Period, subject to the terms and conditions set forth in this Agreement, and (c) forbear during the Forbearance Period from exercising Wachovia's rights and remedies with respect to the Specified Defaults, Borrower represents, warrants, covenants and agrees as follows:

(i) On or before the date hereof, Borrower shall deliver to Wachovia an initial thirteen (13) week budget, in form and substance satisfactory to Wachovia, which has been thoroughly reviewed by Borrower and its management and sets forth for the periods covered thereby: (A) projected weekly operating cash receipts for each week commencing with the week ending February 13, 2009, (B) projected weekly operating cash disbursements for each week commencing with the week ending February 13, 2009, (C) projected aggregate principal amount of outstanding Revolving Loans and Letters of Credit for each week commencing with the week ending as of February 13, 2009, and (D) projected weekly amounts of Revolving Loans and Letters of Credit available to Borrower under the terms, conditions and formulae of the Loan Agreement for each week commencing with the week ending February 13, 2009 (collectively, the "Projected Information"). In addition to the initial budget, by no later than 5:00 p.m. (Pacific time) on the second Business Day of each week commencing on February 17, 2009, Borrower shall furnish to Wachovia, in form and substance satisfactory to Wachovia, an updated thirteen (13) week budget prepared on a cumulative, weekly roll forward basis, together with a report that sets forth for the immediately preceding week a comparison of the actual cash receipts, cash disbursements, loan balance and loan availability to the Projected Information for such weekly periods set forth in the budget on a cumulative, weekly roll-forward basis, duly completed and executed by the Chief Executive Officer, Chief Financial Officer or other financial or senior officer of Borrower.

(ii) On or before the date hereof, Borrower shall deliver to Wachovia a fifty-two (52) week budget with respect to the Projected Information, which shall be in form and substance satisfactory to Wachovia.

(iii) On or before February 28, 2009, Borrower shall deliver or cause to be delivered to Wachovia an agreement, in form and substance satisfactory to Wachovia, pursuant to which West LB, as agent, and the other lenders have agreed to forbear from exercising their rights as against Parent and certain of its subsidiaries pursuant to the terms of their financing arrangements with Parent and certain of its subsidiaries for such forbearance period and on such terms and conditions as shall be acceptable to Wachovia; provided, that, if the Forbearance Period is extended by Agent and Required Lenders in their sole and absolute discretion in accordance with the terms hereof, then the date for Borrower to deliver such an agreement pursuant to this Section 5(iii) shall be extended to March 31, 2009.

6. Amendments to Loan Agreement.

(a) Additional Definitions. As used herein, the following terms shall have the meanings given to them below and the Loan Agreement and the other Financing Agreements are hereby amended to include, in addition and not in limitation, the following definitions:

“Availability Block” shall mean, at all times during the Forbearance Period, \$500,000.

“Forbearance Agreement” shall mean the Amendment and Forbearance Agreement, dated as of February 13, 2009, by and among Agent, Lenders, Borrower and Parent.

“Forbearance Period” shall have the meaning set forth in the Forbearance Agreement.

“Magic Valley Project” shall mean the ethanol plant located in Burley, Idaho owned by Pacific Ethanol Magic Valley, LLC, an indirect, wholly-owned subsidiary of Parent.

(b) Borrowing Base. The definition of “Borrowing Base” in Section 1.12 of the Loan Agreement is hereby amended and restated in its entirety as follows:

“1.12 “Borrowing Base” shall mean, at any time, the amount equal to:

(a) the sum of:

(i) eighty-five (85%) percent of the Eligible Accounts, plus

(ii) the lesser of (A) the Inventory Loan Limit or (B) seventy (70%) percent multiplied by the Value of the Eligible Inventory consisting of ethanol and biodiesel finished goods or (C) eighty-five (85%) percent of the Net Recovery Percentage multiplied by the Value of such Eligible Inventory consisting of ethanol and biodiesel finished goods, minus

(b) the Availability Block, minus

(c) Reserves.”

(c) Inventory Loan Limit. The definition of “Inventory Loan Limit” in Section 1.62 of the Loan Agreement is hereby amended and restated in its entirety as follows:

“1.62 “Inventory Loan Limit” shall mean the amount of \$5,000,000 (subject to increase as provided in Section 7 of the Forbearance Agreement).”

(d) Letter of Credit Limit. The definition of “Letter of Credit Limit” in Section 1.67 of the Loan Agreement is hereby amended and restated in its entirety as follows:

“1.67 “Letter of Credit Limit” shall mean the amount of \$500,000.”

(e) Material Adverse Effect. The definition of “Material Adverse Effect” in Section 1.73 of the Loan Agreement is hereby amended and restated in its entirety as follows:

“1.73 “Material Adverse Effect” shall mean any condition, change, effect or circumstance that, individually or when taken together with all such conditions, changes, effects or circumstances, has or would reasonably be expected to have an adverse effect on the financial condition, assets, properties, business, operations or results of operations of the Borrower, Parent, any Obligor or any of their respective subsidiaries which is material to the Borrower, Parent, any Obligor or any of their respective subsidiaries, excluding (a) any changes or effects that are not unique to the Borrower, Parent, any Obligor or any of their respective subsidiaries and do not adversely affect the Borrower, Parent, any Obligor or any of their respective subsidiaries disproportionately compared to their competitors, directly resulting from general changes in economic, financial or capital market, regulatory, political or national security conditions (including acts of war or terrorism), (b) changes in conditions generally applicable to the industries in which the Borrower, Parent, any Obligor or any of their respective subsidiaries is involved, (c) changes which result from the announcement or the consummation of the transactions contemplated hereby and (d) any changes or effects that have been disclosed to Agent and Lenders as of the date of the Forbearance Agreement, which has or would reasonably be expected to have a material adverse effect on the financial condition, assets, properties, business, operations or results of operations of the Borrower, Parent, any Obligor or any of their respective subsidiaries (the foregoing exclusion in this clause (d) shall not apply to any changes or effects that have not been disclosed to Agent and Lenders as of the date of the Forbearance Agreement or any changes or affects arising after the date of the Forbearance Agreement).”

(f) Maximum Credit. The definition of “Maximum Credit” in Section 1.76 of the Loan Agreement is hereby amended and restated in its entirety as follows:

“1.76 “Maximum Credit” shall mean the amount of \$10,000,000 (subject to increase as provided in Section 7 of the Forbearance Agreement).”

(g) Maximum Credit Increase Effective Date. The definition of “Maximum Credit Increase Effective Date” in Section 1.77 of the Loan Agreement is hereby amended and restated in its entirety as follows:

“1.77 [Reserved.]”

(h) Loans. Sections 2.1(b) and (c) of the Loan Agreement are hereby amended and restated in their entirety as follows:

“(b) Except in Agent’s discretion, with the consent of all Lenders, or as otherwise provided herein, (i) the aggregate amount of the Loans and the Letter of Credit Obligations outstanding at any time shall not exceed the Maximum Credit, (ii) the aggregate principal amount of the Revolving Loans and Letter of Credit Obligations outstanding at any time to Borrower shall not exceed the Borrowing Base, (iii) the aggregate principal amount of Revolving Loans and Letter of Credit Obligations based on Eligible Inventory shall not exceed the Inventory Loan Limit and (iv) the aggregate principal amount of the Revolving Loans outstanding at any time against (A) Eligible In-Transit Inventory shall not exceed \$2,500,000 and (B) Eligible Inventory consisting of biodiesel finished goods shall not exceed \$200,000.

(c) In the event that (i) the aggregate amount of the Loans and the Letter of Credit Obligations outstanding at any time exceed the Maximum Credit, or (ii) except as otherwise provided herein, the aggregate principal amount of the Revolving Loans and Letter of Credit Obligations outstanding to Borrower exceed the Borrowing Base or the Maximum Credit of Borrower, or (iii) the aggregate principal amount of Revolving Loans and Letter of Credit Obligations based on the Eligible Inventory exceed the Inventory Loan Limit, or (iv) the aggregate principal amount of the Revolving Loans outstanding at any time against (A) Eligible In-Transit Inventory exceeds \$2,500,000 or (B) Eligible Inventory consisting of biodiesel finished goods exceeds \$200,000, such event shall not limit, waive or otherwise affect any rights of Agent or Lenders in such circumstances or on any future occasions and Borrower shall, upon demand by Agent, which may be made at any time or from time to time, immediately repay to Agent the entire amount of any such excess(es) for which payment is demanded.”

(i) Increase in Maximum Credit. Section 2.3 of the Loan Agreement is hereby amended and restated in its entirety as follows:

“2.3 [Reserved.]”

(j) Event of Default. Section 10.1 of the Loan Agreement is hereby amended as follows:

(i) Section 10.1(d) of the Loan Agreement is hereby amended and restated in its entirety as follows:

“(d) (i) any judgment for the payment of money is rendered against Borrower or any Obligor (other than Parent) in excess of \$100,000 in any one case or in excess of \$250,000 in the aggregate (to the extent not covered by insurance where the insurer has assumed responsibility in writing for such judgment) and shall remain undischarged or unvacated for a period in excess of thirty (30) days or execution shall at any time not be effectively stayed, or any judgment other than for the payment of money, or injunction, attachment, garnishment or execution is rendered against Borrower or any Obligor (other than Parent) or any of the Collateral having a value in excess of \$100,000 or (ii) any judgment for the payment of money is rendered against Parent or any of its subsidiaries (other than Borrower or Pacific Ethanol Imperial LLC) in excess of \$500,000 in any one case or in excess of \$1,000,000 in the aggregate (to the extent not covered by insurance where the insurer has assumed responsibility in writing for such judgment) and shall remain undischarged or unvacated for a period in excess of thirty (30) days or execution shall at any time not be effectively stayed, or any judgment other than for the payment of money, or injunction, attachment, garnishment or execution is rendered against Parent or any of its subsidiaries (other than Borrower or Pacific Ethanol Imperial LLC) or any of the Collateral having a value in excess of \$500,000;”

(ii) Section 10.1(f) of the Loan Agreement is hereby amended and restated in its entirety as follows:

“(f) (i) Borrower, Parent, any Obligor or any of their respective subsidiaries (other than Pacific Ethanol Imperial LLC) makes an assignment for the benefit of creditors or makes or sends notice of a bulk transfer, (ii) Borrower or any Obligor (other than Parent) calls a meeting of its creditors or principal creditors in connection with a moratorium or adjustment of the Indebtedness due to them, or (iii) from and after February 28, 2009, Parent or any of its subsidiaries (other than Borrower, any Obligor or Pacific Ethanol Imperial LLC) calls a meeting of its creditors or principal creditors in connection with a moratorium or adjustment of the Indebtedness due to them; provided, that, if the Forbearance Period is extended by Agent and Required Lenders in their sole and absolute discretion in accordance with the terms of the Forbearance Agreement, then the date set forth in this clause (iii) shall be March 31, 2009.”

(iii) Section 10.1(g) of the Loan Agreement is hereby amended and restated in its entirety as follows:

“(g) a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at law or in equity) is filed against Borrower, Parent, any Obligor or any of their respective subsidiaries or all or any part of its properties and such petition or application is not dismissed within forty-five (45) days after the date of its filing or Borrower, Parent, any Obligor or any of their respective subsidiaries shall file any answer admitting or not contesting such petition or application or indicates its consent to, acquiescence in or approval of, any such action or proceeding or the relief requested is granted sooner;”

(iv) Section 10.1(h) of the Loan Agreement is hereby amended and restated in its entirety as follows:

“(h) a case or proceeding under the bankruptcy laws of the United States of America now or hereafter in effect or under any insolvency, reorganization, receivership, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction now or hereafter in effect (whether at a law or equity) is filed by Borrower, Parent, any Obligor or any of their respective subsidiaries or for all or any part of its property;”

(v) Section 10.1(i) of the Loan Agreement is hereby amended and restated in its entirety as follows:

“(i) (i) any default in respect of any Indebtedness of Borrower or any Obligor (other than Parent) (other than Indebtedness owing to Agent and Lenders hereunder), in any case in an amount in excess of \$100,000, which default continues for more than the applicable cure period, if any, with respect thereto or any default by Borrower or any Obligor (other than Parent) under any Material Contract, which default continues for more than the applicable cure period, if any, with respect thereto and/or is not waived in writing by the other parties thereto or (ii) any default in respect of any Indebtedness of Parent or any of its subsidiaries (other than Borrower) (other than in connection with the Master Lease Agreement, dated June 9, 2008, between Parent and Varilease Finance, Inc.), in any case in an amount in excess of \$500,000, which default continues for more than the applicable cure period, if any, with respect thereto or any default by Parent or any of its subsidiaries (other than Borrower) under any material contract, which default continues for more than the applicable cure period, if any, with respect thereto and/or is not waived in writing by the other parties thereto;”

(vi) Section 10.1(m) of the Loan Agreement is hereby amended and restated in its entirety as follows:

“(m) the indictment by any Governmental Authority, or as Agent may reasonably determine, the threatened indictment by any Governmental Authority of Borrower, Parent, any Obligor or any of their respective subsidiaries of which Borrower, Parent, any Obligor or any of their respective subsidiaries or Agent receives notice, in either case, as to which there is a reasonable possibility of an adverse determination, in the reasonable determination of Agent, under any criminal statute, or commencement or threatened commencement of criminal or civil proceedings against Borrower, Parent, any Obligor or any of their respective subsidiaries, pursuant to which statute or proceedings the penalties or remedies sought or available include forfeiture of (i) any of the Collateral having a value in excess of \$250,000 or (ii) any other property of Borrower, Parent, any Obligor or any of their respective subsidiaries which is necessary or material to the conduct of its business;”

(vii) Section 10.1(o) of the Loan Agreement is hereby amended and restated in its entirety as follows:

“(o) there shall have occurred a Material Adverse Effect as to Borrower, Parent, any Obligor or any of their respective subsidiaries; or”

7. Increase in Maximum Credit and/or Inventory Loan Limit in connection with the Magic Valley Project. In connection with the Magic Valley Project, upon the request of Borrower and after the receipt by Wachovia of all documents, reports and such other information as Wachovia shall request in connection with the Magic Valley Project, all of which shall be in form and substance satisfactory to Wachovia, Wachovia may, in its sole and absolute discretion, increase (a) the Maximum Credit from \$10,000,000 to \$12,000,000 and (b) the Inventory Loan Limit from \$5,000,000 to \$6,000,000.

8. Representations and Warranties. In addition to the continuing representations and warranties heretofore made by Borrower and Parent to Wachovia pursuant to the Loan Agreement and the other Financing Agreements to which they are respectively a party and made hereinabove, Borrower and Parent hereby represent and warrant with and to Wachovia as follows (which representations, warranties and covenants are continuing and shall survive the execution and delivery of this Agreement and shall be incorporated into and made a part of the Financing Agreements):

(a) Other than the Specified Defaults, no Default or Event of Default exists on the date of this Agreement; and

(b) This Agreement has been duly executed and delivered by Borrower and Parent and is in full force and effect as of the date hereof, and the agreements and obligations of Borrower and Parent contained herein constitute their legal, valid and binding obligations, enforceable against Borrower and Parent in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability.

9. Conditions Precedent. This Agreement shall not become effective unless all of the following conditions precedent have been satisfied in full, as determined by Wachovia:

(a) The receipt by Wachovia of an original (or faxed or electronic copy) of this Agreement, duly authorized, executed and delivered by Borrower and Parent; and

(b) As of the date of this Agreement, other than the Specified Defaults, no Default or Event of Default shall have occurred and be continuing.

10. Amendment and Forbearance Fee. In addition to all other fees, charges, interest and expenses payable by Borrower to Wachovia under the Loan Agreement and the other Financing Agreements, Borrower shall pay to Wachovia an amendment and forbearance fee in the amount of \$50,000, which fee shall be fully earned as of and payable in advance on the date hereof. If the Forbearance Period is extended by Wachovia in its sole and absolute discretion in accordance with the terms of this Agreement, Borrower shall pay to Wachovia a forbearance and extension fee in the amount of \$50,000, which shall be fully earned as of and payable on the date of such extension. The foregoing fees may be charged to any loan account of Borrower maintained by Wachovia.

11. Release of Wachovia; Covenant Not to Sue.

(a) In consideration of the agreements of Wachovia contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Borrower and Parent, on behalf of themselves, their successors, assigns, and legal representatives (collectively, "Releasor"), hereby absolutely, unconditionally and irrevocably release and forever discharge Wachovia and its successors and assigns, and its present and former shareholders, affiliates, subsidiaries, divisions, directors, officers, attorneys, employees, agents and other representatives (Wachovia and all such other parties being hereinafter referred to collectively as the "Lender Releasees" and individually as a "Lender Releasee"), of and from all demands, actions, causes of action, suits, covenants, contracts, controversies, agreements, promises, sums of money, accounts, bills, reckonings, damages and any and all other claims, counterclaims, defenses, rights of set-off, demands and liabilities whatsoever (individually, a "Claim" and collectively, "Claims") of every kind and nature, known or unknown, suspected or unsuspected, both at law and in equity, which such Releasor may now or hereafter own, hold, have or claim to have against the Lender Releasees or any of them for, upon, or by reason of any nature, cause or thing whatsoever which arises from the beginning of the world to the day of execution of this Agreement, including, without limitation, for or on account of, or in relation to, or in any way in connection with the Loan Agreement or any of the other Financing Agreements, as amended and supplemented through the date hereof; provided, that, nothing in this paragraph 11(a) shall release or relieve Wachovia from any of its obligations, covenants and/or agreements under this Agreement or under the Loan Agreement and other Financing Agreements.

(b) EACH OF BORROWER AND PARENT HEREBY EXPLICITLY WAIVES ALL RIGHTS UNDER AND ANY BENEFITS OF ANY COMMON LAW OR STATUTORY RULE OR PRINCIPLE WITH RESPECT TO THE RELEASE OF SUCH CLAIMS, INCLUDING, WITHOUT LIMITATION, SECTION 1542 OF THE CALIFORNIA CIVIL CODE, WHICH PROVIDES AS FOLLOWS:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH A CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM, MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

EACH OF BORROWER AND PARENT AGREES THAT NO SUCH COMMON LAW OR STATUTORY RULE OR PRINCIPLE, INCLUDING SECTION 1542 OF THE CALIFORNIA CIVIL CODE OR SIMILAR LAW IN ANOTHER JURISDICTION, SHALL AFFECT THE VALIDITY OR SCOPE OR ANY OTHER ASPECT OF THIS RELEASE.

(c) Borrower and Parent understand, acknowledge and agree that the release set forth above may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provision of such release.

(d) Borrower and Parent agree that no fact, event, circumstance, evidence or transaction which could now be asserted or which may hereafter be discovered shall affect in any manner the final and unconditional nature of the release set forth above.

(e) Borrower and Parent, on behalf of themselves and their successors, assigns, and other legal representatives, hereby absolutely, unconditionally and irrevocably covenant and agree with each Releasee that they will not sue (at law, in equity, in any regulatory proceeding or otherwise) any Releasee on the basis of any Claim released, remised and discharged by Releasors pursuant to paragraph 11(a) above. If any Releasor violates the foregoing covenant, such Releasor agrees to pay, in addition to such other damages as any Releasee may sustain as a result of such violation, all attorneys' fees and costs incurred by any Releasee as a result of such violation.

12. Reviewed by Attorneys. Borrower and Parent represent and warrant that they: (a) understand fully the terms of this Agreement and the consequences of the execution and delivery hereof, (b) have been afforded an opportunity to have this Agreement reviewed by, and to discuss the same with, such attorneys and other persons as Borrower and Parent may wish, and (c) have entered into this Agreement of its own free will and accord and without threat, duress or other coercion of any kind by any person. Borrower and Parent acknowledge and agree that this Agreement shall not be construed more favorably in favor of Borrower and Parent, on the one hand, or Wachovia, on the other hand, based upon which party drafted the same, it being acknowledged that Wachovia, Borrower and Parent contributed substantially to the negotiation and preparation of this Agreement.

13. Effect of this Agreement. Except as modified pursuant hereto, no other changes or modifications to the Loan Agreement and the other Financing Agreements are intended or implied and in all other respects the Loan Agreement and the other Financing Agreements are hereby specifically ratified, restated and confirmed by all parties hereto as of the effective date hereof. To the extent of any conflict between the terms of this Agreement and the Loan Agreement or any of the other Financing Agreements, the terms of this Agreement shall control. The Loan Agreement and this Agreement shall be read and construed as one agreement.

14. Further Assurances. At Wachovia's request, Borrower and Parent shall execute and deliver such additional documents and take such additional actions as Wachovia requests to effectuate the provisions and purposes of this Agreement and to protect and/or maintain perfection of Wachovia's security interests in and liens upon the Collateral.

15. Governing Law. The validity, interpretation and enforcement of this Agreement in any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise shall be governed by the internal laws of the State of California (without giving effect to principles of conflicts of law).

16. Binding Effect. This Agreement shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns

17. Counterparts. This Agreement may be executed in any number of counterparts, but all of such counterparts when executed shall together constitute one and the same Agreement. In making proof of this Agreement, it shall not be necessary to produce or account for more than one counterpart thereof signed by each of the parties hereto.

[SIGNATURE PAGE FOLLOWS]

Very truly yours,

KINERGY MARKETING LLC,
as Borrower

By: /s/ JOSEPH HANSEN

Name: Joseph Hansen

Title: Chief Financial Officer

PACIFIC ETHANOL, INC,
as Parent

By: /s/ JOSEPH HANSEN

Name: Joseph Hansen

Title: Chief Financial Officer

AGREED TO:

WACHOVIA CAPITAL FINANCE CORPORATION
(WESTERN),
as Agent and sole Lender

By: /s/ CARLOS VALLES

Name: Carlos Valles

Title: Director

LIMITED WAIVER AND FORBEARANCE AGREEMENT

THIS LIMITED WAIVER AND FORBEARANCE AGREEMENT (this “**Agreement**”) is entered into as of February 17, 2009, by and among Pacific Ethanol Holding Co. LLC (“**Holding**”), Pacific Ethanol Madera LLC (“**Madera**”), Pacific Ethanol Columbia, LLC (“**Columbia**”), Pacific Ethanol Stockton, LLC (“**Stockton**”) and Pacific Ethanol Magic Valley, LLC (“**Magic Valley**” and together with Holding, Madera, Columbia and Stockton, the “**Borrowers**”), WestLB AG, New York Branch, as administrative agent for the Lenders (in such capacity, the “**Administrative Agent**”), WestLB AG New York Branch, as collateral agent for the Senior Secured Parties (in such capacity, the “**Collateral Agent**” and, collectively with the Administrative Agent, the “**Agent**”) and Amarillo National Bank, as accounts bank for the Lenders (the “**Accounts Bank**”), as parties to the Credit Agreement (defined below). Capitalized terms used in this Agreement which are not otherwise defined herein, shall have the meanings given such terms in the Credit Agreement.

RECITALS:

WHEREAS, the Borrowers, Administrative Agent, Collateral Agent, Accounts Bank and the lenders party thereto from time to time are parties to that certain Credit Agreement dated as of February 27, 2007 (as amended by that certain Successor Accounts Bank and Amendment Agreement dated as of August 27, 2007, as further amended by that certain Waiver and Third Amendment to Credit Agreement dated as of March 25, 2008, as further amended by that certain Fourth Amendment to Credit Agreement dated as of April 24, 2008, as further amended by that certain Fifth Amendment to Credit Agreement dated as of October 24, 2008 and as further amended by that certain Sixth Amendment to Credit Agreement dated as of December 30, 2008, the “**Credit Agreement**”);

WHEREAS, the Defaults and Events of Default set forth on Schedule I attached hereto have occurred and are continuing under the Credit Agreement (collectively, the “**Existing Events of Default**”);

WHEREAS, the Borrowers have advised Administrative Agent that, in the future, it may not be in compliance with certain provisions of the Credit Agreement which would give rise to the events of default set forth on Schedule II attached hereto (collectively the “**Anticipated Defaults**”);

WHEREAS, as a result of the occurrence of the Existing Events of Default and pursuant to the Credit Agreement and other Financing Documents, (i) the Senior Secured Parties are under no further obligation to make Loans or other financial accommodations to Borrowers under the Credit Agreement and (ii) the Agent and the Senior Secured Parties are entitled, among other things, to enforce their rights and remedies against the Borrowers and the Collateral, including, without limitation, accrual of default interest, the right to accelerate and immediately demand payment in full of the Obligations and foreclose on the Collateral;

WHEREAS, the Borrowers have requested that the Senior Secured Parties waive the provisions set forth in Sections 6.07(h), 6.08, and 8.05, solely to permit the Borrowers (i) to withdraw the funds otherwise required to be reserved in the Stockton Construction Account and (ii) use such funds, pursuant to and in accordance with the Initial 13-Week Cash Flow Forecast (as hereinafter defined) attached hereto as Exhibit 1 (the “**Limited Waivers**”);

WHEREAS, the Borrowers have requested that the Agent and the Senior Secured Parties agree and, subject to the terms and conditions of this Agreement, the Agent and the Senior Secured Parties have agreed, to forbear from demanding immediate payment of certain amounts and exercising their right to foreclose on any or all of the Collateral from the date hereof through the earliest to occur of (i) February 27, 2009; (ii) the date of termination of the Forbearance Period pursuant to Section 6 hereof; and (iii) the date on which all of the Obligations have been paid in full and the Credit Agreement has been terminated (the “**Forbearance Period**”) and to provide the Limited Waivers subject to the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises set forth above, the terms and conditions contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrowers, the Agent and Senior Secured Parties hereby agree as follows:

1. Incorporation of Preliminary Statements. The preliminary statements set forth above are hereby incorporated into this Agreement as accurate and complete statements of fact. Without limiting the foregoing, each Borrower hereby acknowledges and agrees that (a) the Existing Events of Default have occurred and are continuing under the terms of the Credit Agreement, and none of the Borrowers has any disputes, defenses or counterclaims of any kind with respect thereto; (b) the Senior Secured Parties are under no obligation to make Loans or other financial accommodations to the Borrowers under the Credit Agreement; (c) the Agent, on behalf of the Senior Secured Parties has, and shall continue to have, valid, enforceable and perfected security interests in and liens upon the Collateral heretofore granted by Borrowers to the Collateral Agent and Senior Secured Parties pursuant to the Financing Agreements or otherwise granted to or held by the Collateral Agent or the Senior Secured Parties; (d) absent the effectiveness of this Agreement, the Agent and Senior Secured Parties have the right to immediately enforce their security interest in, and liens on, the Collateral; and (e) the outstanding Loans and all other Obligations are payable pursuant to the Credit Agreement, without defense, dispute, offset, withholding, recoupment, counterclaim or deduction of any kind.

2. Forbearance.

(a) Each Borrower agrees and acknowledges that the Existing Events of Default set forth on Schedule I have occurred and are continuing.

(b) Each Borrower has advised the Agent that the Borrower will likely not be in compliance with certain provisions of the Credit Agreement which would give rise to the Anticipated Defaults set forth on Schedule II.

(c) Each Borrower hereby agrees and acknowledges that (i) Schedule I represents a complete and accurate list of all Existing Events of Default which are in existence as of the Effective Date (as hereinafter defined); and (ii) Schedule II represents a complete and accurate list of all provisions in the Credit Agreement which it reasonably believes may give rise to an Anticipated Default.

(d) Provided that no Forbearance Default (as defined below) occurs, subject to the terms and conditions of this Agreement and satisfaction of the conditions precedent to the effectiveness of this Agreement set forth in Section 4 below, during the Forbearance Period, the Agent and the Senior Secured Parties hereby forbear from exercising, on account of the Existing Events of Default and Anticipated Defaults, those rights and remedies afforded to them under the Credit Agreement, the other Financing Documents and applicable law.

3. Limited Waiver. Subject to the terms and condition of this Agreement and satisfaction of the conditions precedent set forth in Section 4, the Agent and Senior Secured Parties hereby grant the Limited Waivers. The Agent and Senior Secured Parties agree that the Limited Waivers set forth in this Section shall be limited precisely as written and, except as set forth in this Agreement, shall not be deemed to be a consent to any amendment, waiver or modification of any other term or condition of the Credit Agreement or any other Financing Document.

4. Conditions of Effectiveness of this Agreement. This Agreement shall become effective as of the date hereof (the “Effective Date”) when, and only when:

(a) The Agent shall have received counterparts of this Agreement duly executed and delivered by the Borrowers and the Accounts Bank;

(b) The Agent shall have received the Initial 13-Week Cash Flow Forecast and 52-Week Cash Flow Forecast, each in a format acceptable to the Agent;

(c) The Agent shall have received an agreement, in form and substance satisfactory to the Agent, pursuant to which Wachovia, as agent, and the other lenders have agreed to forbear from exercising their rights against Pacific Ethanol Inc. (“PEI”) and Kinergy Marketing, LLC (“Kinergy”) pursuant to the terms of their financing arrangements with PEI and Kinergy for such forbearance period and such forbearance shall be in full force and effect;

(d) All of the representations and warranties of the Borrowers contained in this Agreement shall be true and correct on and as of the Effective Date (unless stated to relate solely to an earlier date, in which case such representations and warranties shall be true and correct as of such earlier date); and

(e) The Agent shall have received payment in full of all fees and expenses due and payable in accordance with the terms of this Agreement and the Credit Agreement (including reasonable and documented legal fees and expenses of the Agent’s counsel and other advisors).

5. Representations and Warranties. To induce the Agent and the Senior Secured Parties to enter into this Agreement, each Borrower represents and warrants to the Agent and the Senior Secured Parties (which representations and warranties shall be made on and as of the Effective Date):

(a) Such Borrower has the requisite corporate power and authority and the legal right to execute and deliver this Agreement, and to perform the transactions contemplated hereby. The execution, delivery and performance by such Borrower of this Agreement, (i) are within the Borrower's corporate power; (ii) have been duly authorized by all necessary corporate or other action; (iii) do not contravene or cause the Borrower or any other Loan Party to be in default under (x) any provision of the Borrower's or other Loan Party's formation documents or bylaws, (y) any contractual restriction contained in any indenture, loan or credit agreement, lease, mortgage, security agreement, bond, note or other agreement or instrument binding on or affecting the Borrower or other Loan Party or its property, or (z) any law, rule, regulation, order, license requirement, writ, judgment, award, injunction, or decree applicable to, binding on or affecting the Borrower or other Loan Party or its property; (iv) will not result in the creation or imposition of any Lien upon any of the property of the Borrower or other Loan Party or any Subsidiary thereof other than those in favor of the Agent or any Senior Secured Party, all pursuant to the Financing Documents; and (e) do not require the consent or approval of any Governmental Authority or any other Person, other than those which have been duly obtained, made or complied with and which are in full force and effect.

(b) This Agreement has been duly executed and delivered by such Borrower. Each of this Agreement, the Credit Agreement (as modified herein) and the Financing Documents (as modified hereby) to which each Borrower is a party is the legal, valid and binding obligation of such Borrower, enforceable against such Borrower in accordance with its terms, subject, as to enforceability, to (A) any applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting the enforceability of creditors' rights generally and (B) general equitable principles, whether applied in a proceeding at law or in equity, and is in full force and effect.

(c) Except as to those representations and warranties now made inconsistent with the terms of this Agreement or which constitute an Existing Event of Default or an Anticipated Default, the representations and warranties of each Borrower and Loan Party contained in each Financing and Project Document (other than any such representations or warranties that, by their terms, are specifically made as of a date other than the date hereof) are true and correct in all material respects on and as of the date hereof as though made on and as of the date hereof.

(d) No Default or Event of Default under the Credit Agreement arising other than as a result of the Existing Events of Defaults or the Anticipated Defaults shall have occurred and be continuing or would result after giving effect to any of the transactions contemplated on the date hereof.

(e) No Forbearance Default (defined below) has occurred.

6. Forbearance Defaults: The following events shall constitute "**Forbearance Defaults**"):

(a) any failure to pay monthly principal payments, interest payments or any other payments in accordance with the terms of the Credit Agreement; or

(b) any Borrower or Loan Party shall fail to observe or perform any other term, covenant, or agreement binding on it contained in this Agreement, or any other agreement, instrument, or document executed in connection with this Agreement; or

(c) the occurrence of an Event of Default under the Credit Agreement or any of the other Financing Documents or any Project Document, other than an Existing Event of Default or an Anticipated Default; or

(d) any instrument, document, report, schedule, agreement, representation or warranty, oral or written, made or delivered to the Agent or any Senior Secured Parties by any Borrower or Loan Party shall be false or misleading in any material respect when made, or deemed made, or delivered.

Upon the occurrence of any Forbearance Default, the Agent, upon the direction of the Required Senior Secured Parties, may by notice to Borrowers immediately terminate the Forbearance Period and/or declare all of the Obligations immediately due and payable; provided, however, that upon the occurrence of any Event of Default described in Section 9.01(i) of the Credit Agreement, the Forbearance Period shall automatically terminate and all Obligations shall automatically become immediately due and payable, without notice or demand of any kind. Upon the termination or expiration of the Forbearance Period, if at such time the outstanding amount of the Obligations have not been paid in full, the Agent and the Senior Secured Parties shall be entitled to exercise all of their rights and remedies under the Credit Agreement, the other Financing Documents and applicable law, including, without limitation, the right to declare all of the Obligations to be immediately due and payable and to enforce their liens on, and security interests in, the Collateral. The occurrence of any Forbearance Default shall constitute an Event of Default under the Credit Agreement and the other Financing Documents.

7. Forbearance Period Covenants. In order to induce the Senior Secured Parties to enter into this Agreement and forbear during the Forbearance Period from exercising the Agent and Senior Secured Parties' rights and remedies with respect to the Existing Events of Defaults, each Borrower covenants as follows:

(a) On or before the date hereof, the Borrowers shall deliver to the Agent an initial thirteen (13) week cash flow forecast of Pacific Ethanol and its Subsidiaries attached hereto as Exhibit 1 (the "Initial 13-Week Cash Flow Forecast"), in form and substance satisfactory to the Agent, which has been thoroughly reviewed by the Borrowers and its management and sets forth for the periods covered thereby: (i) projected weekly operating cash receipts for Pacific Ethanol and each of its Subsidiaries (on a consolidated and on an entity by entity basis) for each week commencing with the week ending February 20, 2009, (ii) projected weekly operating cash disbursements for Pacific Ethanol and each of its Subsidiaries (on a consolidated and on an entity by entity basis) for each week commencing with the week ending February 20, 2009, and (iii) projected aggregate principal amount of outstanding and available Loans for the Borrowers each week commencing with the week ending as of February 20, 2009 (collectively, the "Projected Information"). In addition to the Initial 13-Week Cash Flow Forecast, by no later than 5:00 p.m. (Pacific time) on the second Business Day of each week commencing on February 24, 2009, Borrowers shall deliver to the Agent, in form and substance satisfactory to the Agent, an updated thirteen (13) week forecast for Pacific Ethanol and each of its Subsidiaries (on a consolidated and on an entity by entity basis) prepared on a cumulative, weekly roll forward basis, together with a report that sets forth for the immediately preceding week a comparison of the actual cash receipts, cash disbursements, loan balance and loan availability to the Projected Information for such weekly periods set forth in the forecast on a cumulative, weekly roll-forward basis, duly completed and executed by the Chief Executive Officer, Chief Financial Officer or other financial or senior officer of the Borrowers.

(b) On or before the date hereof, Borrowers shall deliver to the Agent, a fifty-two (52) week forecast with respect to the Projected Information, which shall be in form and substance satisfactory to Agent (the “52-Week Cash Flow Forecast”).

8. Status of Credit Agreement and Other Financing Documents; No Novation; Reservation of Rights and Remedies

(a) Upon the Effective Date, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import, and each reference in the Financing Documents to the Credit Agreement, shall mean and be a reference to the Credit Agreement as modified and supplemented hereby.

(b) This Agreement shall be limited solely to the matters expressly set forth herein and shall not (i) constitute an amendment or waiver of, or a forbearance with respect to, any term or condition of the Credit Agreement or any other Financing Document, except as expressly provided herein, (ii) prejudice any right or rights which the Agent, any Senior Secured Party or any Senior Secured Parties (as defined in Section 10 below) may now have or may have in the future under or in connection with the Credit Agreement or any other Financing Document, (iii) require the Agent or any Senior Secured Party to agree to a similar transaction or forbearance on a future occasion.

(c) Except to the extent specifically provided herein, the respective provisions of the Credit Agreement and the other Financing Documents shall not be amended, modified, waived, impaired or otherwise affected hereby, and such documents and the Obligations under each of them are hereby confirmed as being in full force and effect.

(d) This Agreement is not a novation nor is it to be construed as a release, waiver or modification of any of the terms, conditions, representations, warranties, covenants, rights or remedies set forth in the Credit Agreement, or any of the other Financing Documents, except as specifically set forth herein.

(e) Except as expressly provided herein, the Agent and the Senior Secured Parties expressly reserve all rights, claims and remedies that any of them have or may have against the Borrowers.

9. Acknowledgment of Validity and Enforceability of the Credit Agreement and other Financing Documents. Each Borrower expressly acknowledges and agrees that the Credit Agreement and the other Financing Documents to which it is a party are valid and enforceable by the Senior Secured Parties against such Borrower and, except as expressly modified pursuant to this Agreement, expressly reaffirms each of its Obligations under each Financing Document to which it is a party. Each Borrower further expressly acknowledges and agrees that the Agent, for its own benefit and for the benefit of the Senior Secured Parties, has a valid, duly perfected, first priority and fully enforceable security interest in and lien against each item of Collateral. Each Borrower agrees that it shall not dispute the validity or enforceability of the Credit Agreement or any of the other Financing Documents or any of its Obligations thereunder, or the validity, priority, enforceability or extent of the Agent's security interest in or lien against any item of Collateral, either during or following the expiration of the Forbearance Period.

10. **Release; Covenant Not to Sue.**

(a) Each Loan Party acknowledges that the Agent and the Senior Secured Parties would not enter into this Agreement without the Borrowers' assurance that each Borrower has no claim against the Agent or any Senior Secured Parties, their respective parent corporations, Subsidiaries, Affiliates, officers, directors, shareholders, employees, attorneys, agents, professionals and servants, or any of their respective predecessors, successors, heirs and assigns (collectively, the "Senior Secured Parties" and each, a "Senior Secured Party") arising out of the Financing Documents or the transactions contemplated thereby. Each Loan Party, for itself and on behalf of its officers and directors, and its respective predecessors, successors and assigns (collectively, the "Releasors") releases each Senior Secured Party from any known or unknown claims which any Borrower now has against any Senior Secured Party of any nature, including any claims that any Releasor, or any Releasor's successors, counsel and advisors may in the future discover they would have had now if they had known facts not now known to them, whether founded in contract, in tort or pursuant to any other theory of liability, arising out of or related to the Financing Documents or the transactions contemplated thereby (individually, a "Claim" and collectively, "Claims").

(b) Except as expressly provided herein, the Releasors each expressly waive any statutory or other limitation on the enforceability of a general release of unknown claims which, if known, would have materially affected this Agreement. EACH RELEASOR HEREBY EXPLICITLY WAIVES ALL RIGHTS UNDER AND ANY BENEFITS OF ANY COMMON LAW OR STATUTORY RULE OR PRINCIPLE WITH RESPECT TO THE RELEASE OF SUCH CLAIMS, INCLUDING, WITHOUT LIMITATION, SECTION 1542 OF THE CALIFORNIA CIVIL CODE, WHICH PROVIDES AS FOLLOWS:

- A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

EACH RELEASOR AGREES THAT NO SUCH COMMON LAW OR STATUTORY RULE OR PRINCIPLE, INCLUDING SECTION 1542 OF THE CALIFORNIA CIVIL CODE OR SIMILAR LAW IN ANOTHER JURISDICTION, SHALL AFFECT THE VALIDITY OR SCOPE OR ANY OTHER ASPECT OF THIS AGREEMENT.

(c) The provisions, waivers and releases set forth in this Section 10 are binding upon each Releasor. The provisions, waivers and releases of this Section 10 shall inure to the benefit of each Senior Secured Party.

(d) The provisions of this Section 10 shall survive payment in full of the Obligations, full performance of all of the terms of this Agreement, the Credit Agreement and the other financing Documents and/or any action by the Agent or any Senior Secured Party to exercise any remedy available under the Financing Documents or applicable law.

(e) Each Releasor represents and warrants that each such Releasor is the sole and lawful owner of all right, title and interest in and to all of the claims released hereby and each such Releasor has not heretofore voluntarily, by operation of law or otherwise, assigned or transferred or purported to assign or transfer to any person any such claim or any portion thereof. Each Releasor shall jointly and severally indemnify and hold harmless each Senior Secured Party from and against any claim, demand, damage, debt, liability (including payment of reasonable attorneys' fees and costs actually incurred whether or not litigation is commenced) based on or arising out of any such assignment or transfer.

(f) Each Releasor, on behalf of themselves and their successors, assigns, and other legal representatives, hereby absolutely, unconditionally covenant and agree with each Senior Secured Party that they will not sue (at law, in equity, in any regulatory proceeding or otherwise) any Senior Secured Party on the basis of any Claim released, remised and discharged by the Senior Secured Parties pursuant to Section 10(a) above. If any Releasor violates the foregoing covenant, such Releasor agrees to pay, in addition to such other damages as any Senior Secured Party may sustain as a result of such violation, all attorneys' fees and costs incurred by any Senior Secured Party as a result violation.

11. No Waiver. Each Borrower hereby acknowledges and agrees that the Agent's or any Senior Secured Party's failure, at any time or times hereafter, to require strict performance by the Borrowers of any provision or term of this Agreement, the Credit Agreement or any other Financing Document shall not waive, affect or diminish any right of the Agent or any Senior Secured Party thereafter to demand strict compliance and performance therewith. Any suspension or waiver by the Agent or the Senior Secured Parties of a Forbearance Default or of an Event of Default shall not, except as may be expressly set forth herein, suspend, waive or affect any other Forbearance Default or any other Event of Default, whether the same is prior or subsequent thereto and whether of the same or of a different kind or character.

12. Sole Benefit of Parties. This Agreement is solely for the benefit of the parties hereto and their respective successors and assigns, and no other Person shall have any right, benefit or interest under or because of the existence of this Agreement.

13. Limitation on Relationship Between Parties. The relationship of the Agent and the Senior Secured Parties, on the one hand, and the Borrowers, on the other hand, has been and shall continue to be, at all times, that of creditor and debtor. Nothing contained in this Agreement, any instrument, document or agreement delivered in connection herewith or in the Credit Agreement or any of the other Financing Documents shall be deemed or construed to create a fiduciary relationship between the parties.

14. No Assignment. This Agreement shall not be assignable by any Borrower without the written consent of the Administrative Agent. Each Senior Secured Party may assign to one or more Persons all or any part of, or any participation interest in, such Senior Secured Party's rights and benefits hereunder in accordance with Section 11.3 of the Credit Agreement provided that such Person is bound by the terms and limitations of this Agreement.

15. Miscellaneous. This Agreement is a Financing Document. The section and subsection titles contained in this Agreement are included for the sake of convenience only, and shall not affect the meaning or interpretation of this Agreement, the Credit Agreement or any other Financing Documents or any provisions hereof or thereof.

16. Governing Law. **THIS AGREEMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK (OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW), APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE AND ANY APPLICABLE LAWS OF THE UNITED STATES OF AMERICA.**

17. Consultation with Counsel. Each Borrower represents to the Agent and the Senior Secured Parties that it has discussed this Agreement, including the provisions of Sections 10, 13 and 16 hereof, with its attorneys.

18. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

19. Headings. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

20. No Course of Dealing. The Senior Secured Parties have entered into this Agreement on the express understanding with the Borrowers that in entering into this Agreement the Senior Secured Parties are not establishing any course of dealing with the Borrowers. The Agent's and the Senior Secured Parties' rights to require strict performance with all the terms and conditions of the Credit Agreement as modified by this Agreement and the other Financing Documents shall not in any way be impaired by the execution of this Agreement. Neither the Agent nor any Senior Secured Party shall be obligated in any manner to execute any amendments or further waivers, and if any such amendments or further waivers are requested in the future, assuming the terms and conditions thereof are acceptable to them, the Agent and the Senior Secured Parties may require the payment of fees in connection therewith.

21. Expenses. The Borrowers hereby acknowledge and agree that all fees, costs and expenses of Agent and Senior Secured Parties (including the reasonable and documented fees, costs and expenses of counsel or other advisors, if any) incurred in connection with the transactions contemplated by this Agreement shall be payable by the Borrowers in accordance with the Credit Agreement.

22. Further Assurances. At the Agent's request, Borrowers shall execute and deliver such additional documents and take such additional actions as the Agent requests to effectuate the provisions and purposes of this Agreement and to protect and/or maintain perfection of the Senior Secured Parties' security interests in and liens upon the Collateral.

* * *

[signature page follows]

IN WITNESS WHEREOF, this Agreement has been duly executed as of the day and year first above written.

PACIFIC ETHANOL HOLDING CO. LLC,
as Borrower

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

PACIFIC ETHANOL MADERA LLC,
as Borrower

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

PACIFIC ETHANOL COLUMBIA, LLC,
as Borrower

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

PACIFIC ETHANOL STOCKTON, LLC,
as Borrower

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

PACIFIC ETHANOL MAGIC VALLEY LLC,
as Borrower

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

WESTLB AG, NEW YORK BRANCH,
as Administrative Agent

By: /s/ PETRA BECKERT

Name: Petra Beckert, Executive Director
Title: Duly Authorized Signatory

By: /s/ DOMINICK D'ASCOLL

Name: Dominick D'Ascoll, Director
Title: Duly Authorized Signatory

WESTLB AG, NEW YORK BRANCH,
as Collateral Agent

By: /s/ PETRA BECKERT

Name: Petra Beckert, Executive Director
Title: Duly Authorized Signatory

By: /s/ DOMINICK D'ASCOLL

Name: Dominick D'Ascoll, Director
Title: Duly Authorized Signatory

WESTLB AG, NEW YORK BRANCH,
as Senior Secured Party

By: /s/ PETRA BECKERT

Name: Petra Beckert, Executive Director
Title: Duly Authorized Signatory

By: /s/ DOMINICK D'ASCOLL

Name: Dominick D'Ascoll, Director
Title: Duly Authorized Signatory

AMARILLO NATIONAL BANK,
as Accounts Bank

By: _____

Name:

Title:

AMARILLO NATIONAL BANK,
as Senior Secured Party

By: _____

Name:

Title:

BANCO DE SABADELL,
as Senior Secured Party

By: _____

Name:

Title:

CIFC FUNDING 2007-48 LTD.,
as Senior Secured Party

By: _____

Name:

Title:

CIFC FUNDING 2007-50 LTD.,
as Senior Secured Party

By: _____

Name:

Title:

CIFC FUNDING 2007-III LTD.,
as Senior Secured Party

By: /s/ STEPHEN J. VACCARO _____

Name: Stephen J. Vaccaro

Title: Co-Chief Investment Officer

CIFC FUNDING 2007-IV LTD.,
as Senior Secured Party

By: /s/ STEPHEN J. VACCARO _____

Name: Stephen J. Vaccaro

Title: Co-Chief Investment Officer

CIT CAPITAL SECURITIES LLC,
as Lead Arranger and Co-Syndication Agent
Senior Secured Party

By: _____
Name:
Title:

CIT CAPITAL USA INC.,
as Senior Secured Party

By: _____
Name:
Title:

CITIGROUP FINANCIAL PRODUCTS INC.,
as Senior Secured Party

By: _____

Name:

Title:

CREDIT SUISSE CANDLEWOOD
SPECIAL SITUATIONS MASTER FUND,
LTD.

By: Credit Suisse Alternative Capital, Inc. as
investment manager

By: _____

Name:

Title:

LISPENARD STREET CREDIT (MASTER), LTD.

By: DiMaio Ahmad Capital LLC, as Investment
Manager

By: /s/ JERRY CUDZIL

Name: Jerry Cudzil

Title: Authorized Signatory

POND VIEW CREDIT (MASTER), L.P.

By: DiMaio Ahmad Capital LLC, as Investment
Manager

By: /s/ JERRY CUDZIL

Name: Jerry Cudzil

Title: Authorized Signatory

UNITED FCS, PCA (F/K/A FARM CREDIT
SERVICES OF MINNESOTA VALLEY, PCA),
D/B/A FCS COMMERCIAL FINANCE GROUP,
as Senior Secured Party

By: /s/ DANIEL I. BEST _____

Name: Daniel I. Best

Title: Asst. Vice President

HAF FUNDING 2008-1 LIMITED,
as Senior Secured Party

By: /s/ _____

Name:

Title:

GREENSTONE FARM CREDIT
SERVICES, ACA/FLCA,
as Senior Secured Party

By: /s/ ALFRED S. COMPTON, JR.

Name: Alfred S. Compton, Jr.

Title: Vice President/Managing Director

METROPOLITAN LIFE INSURANCE
COMPANY,
as Senior Secured Party

By: /s/JOHN A. TANYERI
Name: John A. Tanyeri
Title: Director

NORDKAP BANK AG,
as Senior Secured Party

By: /s/ NIKLAUS HASLER

Name: Niklaus Hasler
Title: CEO

By: /s/ BATCHIMEG GADOLA

Name: Batchimeg Gadola
Title: Transactor

NORDDEUTSCHE LANDESBANK
GIROZENTRALE NEW YORK
BRANCH,
as Senior Secured Party

By: /s/ JOSEF HAAS
Name: Josef Haas
Title: Senior Director

By: /s/ ANDREN VERTIS
Name: Andren Vertis
Title: Director

NORTHWEST FARM CREDIT
SERVICES, FLCA,
as Senior Secured Party

By: /s/ CASEY KINZER

Name: Casey Kinzer

Title: Account Manager

COOPERATIEVE CENTRALE
RAIFFEISEN-BOERENLEENBANK
B.A.,
“RABOBANK NEDERLAND”, NEW
YORK BRANCH,
as Senior Secured Party

By: /s/ JEFF BLISS

Name: Jeff Bliss
Title: Executive Director

By: /s/ BRETT DELFINO

Name: Brett Delfino
Title: Executive Director

BANCO SANTANDER CENTRAL
HISPANO S.A., NEW YORK
BRANCH,
as Lead Arranger and Co-Documentation
Agent

By: _____

Name:
Title:

By: _____

Name:
Title:

BANCO SANTANDER CENTRAL
HISPANO S.A., NEW YORK
BRANCH,
as Senior Secured Party

By: _____

Name:
Title:

By: _____

Name:
Title:

SHOREBANK PACIFIC,
as Senior Secured Party

By: _____

Name:

Title:

SCHEDULE I

EXISTING EVENTS OF DEFAULT

- (a) Breach by Borrowers of Section 9.01(c), which requires Borrowers to strictly comply with the performance and observance of any of its obligations under Section 7.01(g)(vi). Several construction expenses relating to the Stockton Plant (estimated at \$150,000) were unknowingly paid from the Operating Account due to changes in Borrowers' staff and inadequate plant coding of invoices. Also, approximately \$175,000 of construction costs relating to the Stockton Plant were initially paid out of the Stockton Construction Acct, and will be reimbursed with equity from Pacific Ethanol.
- (b) Breach by Borrowers of Section 9.01(c), which requires Borrowers to strictly comply with the performance and observance of any of its obligations under Section 7.02(p). Section 7.02(p) prohibits a suspension or abandonment for more than 60 days without the prior written approval of the Required Senior Secured Parties and Madera and Burley Plants have not produced ethanol for a period greater than 60 days as of the date hereof.
- (c) Breach by Borrowers of Section 9.01(c), which requires Borrowers to strictly comply with the performance and observance of any of its obligations under Section 7.02(s). Borrowers have failed to comply with the Restricted Payments provisions set forth in Section 7.02(s) when (i) repaying amounts advanced from Pacific Ethanol to support plant operations; (ii) transferring funds by and among, the Borrowers, Pacific Ethanol and its Subsidiaries, Pacific Ag. Products and Kinergy from time to time including, but not limited to, transferring funds to Pacific Ethanol in connection with the payment of dividends to holders of Pacific Ethanol's Series B Preferred Shares.
- (d) Breach by Borrowers of Section 9.01(d), which requires Borrowers to comply with the performance and observance of their obligations under Section 3.10(c) and such failure remained unremedied for a period of thirty (30) days after any Borrowers obtained or should have obtained, knowledge thereof. The Borrowing Base Certificate for December 31, 2008 is expected to demonstrate that the then-outstanding principal amount of the Working Capital Loans exceeds the then-effective Aggregate Working Capital Commitment or the then-applicable Working Capital Loan Availability. The Borrowers will not be able to repay such excess amount as required by Section 3.10(c).
- (e) Breach by Borrowers of Section 9.01(d), which requires Borrowers to comply with the performance and observance of its obligations under Section 7.01(s) and such failure remained unremedied for a period of thirty (30) days after any Borrowers obtained or should have obtained, knowledge thereof. Borrowers failed to prepare quarterly calculations required by Section 7.01(s).
- (f) Breach by Borrowers of Section 9.01(d), which requires Borrowers to comply with the performance and observance of its obligations under Section 7.01(y) and such failure remained unremedied for a period of thirty (30) days after any Borrowers obtained or should have obtained, knowledge thereof. Final Completion of the Stockton Plant was not achieved by January 25, 2009, as required by Section 7.01(y).
-

(g) Breach by Borrowers of Section 9.01(d), which requires Borrowers to comply with the performance and observance of its obligations under Section 7.03(n) and such failure remains unremedied for a period of thirty (30) days after any Borrowers obtains or should have obtained, knowledge thereof. Borrowers have informed the Agent that they will not deliver the Borrowing Base Certificated in accordance with Section 7.03(n) by February 15, 2009.

(h) Breach by Borrowers of Section 9.01(g), which prohibits any judgment to be rendered against any or all of the Borrowers in an amount in excess of \$2,000,000 in the aggregate and against Kinergy in an amount in excess of \$2,500,000 in the aggregate. Western Ethanol Company, LLC has obtained a pre-judgment writ of attachment in the amount of \$3,700,000 against Kinergy.

(i) Breach by Borrowers of Section 9.01(f), which may impose a cross-default to the Kinergy Marketing LLC financing arrangement with Wachovia.

SCHEDULE II

ANTICIPATED DEFAULTS

(a) Breach by Borrowers of Section 9.01(f), which imposes a cross-default to the Pacific Ethanol Imperial LLC financing arrangement with Lyle. Pacific Ethanol expects to be in default of certain payment obligations by the first week of March.

(b) Breach by Borrowers of Section 9.01(o), which prohibits an Event of Abandonment. An Event of Abandonment will occur if any of the Plants are placed into hot idle or cold shut down for more than 90 days.

EXHIBIT 1

INITIAL 13-WEEK CASH FLOW FORECAST

[See Attached]

