

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K**

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

Date of Report (Date of earliest event reported)

**March 27, 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 No. 2 to Letter Re: Amendment and Forbearance Agreement dated March 27, 2009 by and among Wachovia Capital Finance Corporation (Western), Kinery Marketing LLC and Pacific Ethanol Inc.**

On February 13, 2009, Kinery Marketing LLC ("Kinery"), a wholly-owned subsidiary of Pacific Ethanol, Inc. (the "Company"), and the Company, entered into an Amendment and Forbearance (the "Forbearance Agreement") with Wachovia Capital Finance Corporation (Western) ("Wachovia"). The Forbearance Agreement related to a \$40.0 million credit facility for Kinery under a Loan and Security Agreement dated July 28, 2008 by and among Kinery, 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"). Kinery's credit facility is described in more detail under the heading "Wachovia Loan Transaction" below.

Among other things, the Forbearance Agreement provided that Wachovia would forbear from exercising its rights and remedies under the Loan Documents and applicable law, on the terms and conditions set forth in the Forbearance Agreement, for a period of time (the "Original 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 Forbearance Agreement.

On February 26, 2009, Kinery, the Company and Wachovia entered into Amendment No. 1 to Letter Re: Amendment and Forbearance Agreement. Under the Amended Forbearance Agreement, Wachovia extended the Original Forbearance Period to the earlier to occur of (i) March 31, 2009, and (ii) the date that any new default occurs under the Loan Agreement or a default occurs under the Forbearance Agreement.

On March 27, 2009, Kinery, the Company and Wachovia entered into Amendment No. 2 to Letter Re: Amendment and Forbearance Agreement ("Amended Forbearance Agreement"). Under the Amended Forbearance Agreement, Wachovia extended the Original Forbearance Period to the earlier to occur of (i) April 30, 2009, and (ii) the date that any new default occurs under the Loan Agreement or a default occurs under the Forbearance Agreement.

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

**Amendment No. 1 to Letter Re: Amendment and Forbearance Agreement dated February 26, 2009 by and among Pacific Ethanol, Inc., Kinergy Marketing LLC and Wachovia Capital Finance Corporation (Western)**

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

**Loan and Security Agreement dated July 28, 2008 by and among Kinergy 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)**

A description of Amendment No. 1 to Letter Re: Amendment and Forbearance Agreement is set forth in the Company's Current Report on Form 8-K for February 26, 2009 filed with the Securities and Exchange Commission on March 4, 2009 and such description is incorporated herein by reference. Such description does not purport to be complete and is qualified in its entirety by reference to Amendment No. 1 to Letter Re: Amendment and Forbearance Agreement, which is filed as Exhibit 10.7 to this report and incorporated herein by reference.

A description of the Amendment and Forbearance Agreement is set forth in the Company's Current Report on Form 8-K for February 13, 2009 filed with the Securities and Exchange Commission on February 20, 2009 and such description is incorporated herein by reference. Such description 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 10.10 to this report and incorporated herein by reference.

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 10.12 and 10.13, respectively, to this report and incorporated herein by reference.

*(2) WestLB Credit Agreement*

**Third Forbearance Agreement dated March 31, 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 March 31, 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 Third Forbearance Agreement (the "Third Forbearance Agreement"). The Third 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 Third Forbearance Agreement identifies certain existing defaults and certain anticipated defaults under the Credit Agreement. The Third 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 Third Forbearance Agreement, for a period of time (the "Forbearance Period") commencing on March 31, 2009 and ending on the earlier to occur of (i) April 30, 2009, (ii) the date that any new default occurs under the Credit Agreement or a default occurs under the Third Forbearance Agreement, and (iii) the date on which all obligations have been paid in full and the Credit Agreement has been terminated.

The Third Forbearance Agreement provides that Borrowers will not be required to make their principal, interest and related swap payments due and payable on March 31, 2009 and through the Forbearance Period. Further, the Third Forbearance Agreement provides that the Company shall receive proceeds of not less than \$2.0 million from the issuance of the Junior Notes, as defined below, and the Borrowers are required to provide an updated agreed-upon 13-week cash flow forecast. The Third Forbearance Agreement also includes customary representations and warranties and other customary terms and conditions.

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

**Second Limited Waiver and Forbearance Agreement dated February 27, 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**

**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**

**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 Second Limited Waiver and Forbearance Agreement is set forth in the Company's Current Report on Form 8-K for February 26, 2009 filed with the Securities and Exchange Commission on March 4, 2009. Such description does not purport to be complete and is qualified in its entirety by reference to the Second Limited Waiver and Forbearance Agreement which is filed as Exhibit 10.8 to this report and incorporated herein by reference.

A description of the Limited Waiver and Forbearance Agreement is set forth in the Company's Current Report on Form 8-K for February 13, 2009 filed with the Securities and Exchange Commission on February 20, 2009. Such description does not purport to be complete and is qualified in its entirety by reference to the Limited Waiver and Forbearance Agreement which is filed as Exhibit 10.11 to this report and incorporated herein by reference.

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 10.14 and 10.15 to this report and incorporated herein by reference.

**Second Forbearance Agreement dated March 30, 2009 by and among Pacific Ethanol, Inc., Pacific Ag Products, LLC, Pacific Ethanol California, Inc., Lyles United, LLC and Lyles Mechanical Co.**

On March 30, 2009, the Company, Pacific Ag Products, LLC, Pacific Ethanol California, Inc. (together “PE Parties”), Lyles United, LLC and Lyles Mechanical Co. (together “Lyles”) entered into a forbearance agreement (the “Lyles Forbearance Agreement”). The Lyles Forbearance Agreement relates to certain promissory notes by certain of the PE Parties in favor of Lyles (the “Lyles Notes”). The Lyles Notes require certain interest and principal payments due in March 2009, as to which the PE Parties have advised Lyles that they will be unable to pay and such events will constitute defaults under the Lyles Notes. The Lyles Notes and related documents are described in more detail under the heading “Lyles Loan Transaction” below.

The Lyles Forbearance Agreement provides that Lyles will forbear from exercising its rights and remedies under the Lyles Notes on the terms and conditions set forth in the Lyles Forbearance Agreement until the earliest to occur of (i) April 30, 2009; (ii) the date of termination of the forbearance period due to a default under the Lyles Forbearance Agreement; and (iii) the date on which all of the obligations under the Lyles Notes and related documents have been paid and discharged in full and the Lyles Notes has been canceled. Further, the Lyles Forbearance Agreement provides that the Company shall receive proceeds of not less than \$2.0 million from the issuance of the Junior Notes, as defined below. The Lyles Forbearance Agreement also includes customary representations and warranties and other customary terms and conditions.

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

*Lyles Loan Transaction*

**Forbearance Agreement dated February 26, 2009 by and among Pacific Ethanol, Inc., Pacific Ag Products, LLC, Pacific Ethanol California, Inc. and Lyles United, LLC.**

**Loan Restructuring Agreement dated as of November 7, 2008 by and among Pacific Ethanol, Inc., Pacific Ethanol Imperial, LLC, Pacific Ethanol California, Inc. and Lyles United, LLC**

**Amended and Restated Promissory Note dated November 7, 2008 by Pacific Ethanol, Inc. in favor of Lyles United, LLC**

**Security Agreement dated as of November 7, 2008 by and between Pacific Ag. Products, LLC and Lyles United, LLC**

**Limited Recourse Guaranty dated November 7, 2008 by Pacific Ethanol California, Inc. in favor of Lyles United, LLC**

**Unconditional Guaranty dated November 7, 2008 by Pacific Ag. Products, LLC in favor of Lyles United, LLC**

**Irrevocable Joint Instruction Letter dated November 7, 2008 executed by Pacific Ethanol, Inc., Lyles United, LLC and Pacific Ethanol California, Inc.**

**Promissory Note dated October 20, 2008 by and among Pacific Ethanol, Inc. and Lyles Mechanical Co.**

A description of the Forbearance Agreement is set forth in the Company's Current Report on Form 8-K for February 26, 2009 filed with the Securities and Exchange Commission on March 4, 2009 and such description is incorporated herein by this reference. Such description does not purport to be complete and is qualified in its entirety by reference to the Forbearance Agreement which is filed as Exhibit 10.9 to this report and incorporated herein by reference.

Descriptions of the Loan Restructuring Agreement, Amended and Restated Promissory Note, Security Agreement, Limited Recourse Guaranty, Unconditional Guaranty and Irrevocable Joint Instruction Letter are set forth in the Company's Current Report on Form 8-K for November 7, 2008 filed with the Securities and Exchange Commission on November 10, 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 Restructuring Agreement, Amended and Restated Promissory Note, Security Agreement, Limited Recourse Guaranty, Unconditional Guaranty and Irrevocable Joint Instruction Letter which are filed as Exhibits 10.16 through 10.21 to this report and incorporated herein by reference.

On October 20, 2008, the Company and Lyles Mechanical Co. entered into an unsecured promissory note ("Lyles Mechanical Note"). The Lyles Mechanical Note is for the principal amount of \$1,500,000 for final payment due to Lyles Mechanical Co. for final construction of the Company's ethanol production facility in Stockton, CA. Interest on the unpaid principal amount of the Lyles Mechanical Note accrues at a rate per annum of the Prime Rate of interest as reported from time to time in *The Wall Street Journal* plus two percent (2.00%). All principal and unpaid interest on the Lyles Mechanical Note was due on March 31, 2009 prior to the Lyles Forbearance Agreement. The description of the Lyles Mechanical Note does not purport to be complete and is qualified in its entirety by reference to the Lyles Mechanical Note, which is filed as Exhibit 10.4 to this report and incorporated herein by reference.

*(4) Junior Notes*

**Promissory Note dated March 30, 2009 by and among Pacific Ethanol, Inc. and William L. Jones**

**Promissory Note dated March 30, 2009 by and among Pacific Ethanol, Inc. and Neil M. Koehler**

On March 30, 2009, the Company, William L. Jones and Neil M. Koehler entered into two separate unsecured promissory notes (the “Junior Notes”). The Junior Notes are for the principal amount of \$1,000,000 each. Interest on the unpaid principal amount of the Junior Notes accrues at a rate per annum of 8.00%. All principal and unpaid interest on the Junior Notes are due and payable on March 30, 2010.

The description of the Junior Notes does not purport to be complete and is qualified in its entirety by reference to the Junior Notes, 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 No. 2 to Letter Re: Amendment and Forbearance Agreement dated March 27, 2009 by and among Wachovia Capital Finance Corporation (Western), Kinergy Marketing LLC and Pacific Ethanol Inc. (1)
10.2	Third Forbearance Agreement dated March 31, 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	Second Forbearance Agreement dated March 30, 2009 by and among Pacific Ethanol, Inc., Pacific Ag Products, LLC, Pacific Ethanol California, Inc., Lyles United, LLC and Lyles Mechanical Co. (1)
10.4	Promissory Note dated October 20, 2008 by and among Pacific Ethanol, Inc. and Lyles Mechanical Co. (1)
10.5	Promissory Note dated March 30, 2009 by and among Pacific Ethanol, Inc. and William L. Jones (1)
10.6	Promissory Note dated March 30, 2009 by and among Pacific Ethanol, Inc. and Neil M. Koehler (1)



- 10.7 Amendment No. 1 to Letter re: Amendment and Forbearance Agreement dated February 26, 2009 by and among Pacific Ethanol, Inc., Kinergy Marketing LLC and Wachovia Capital Finance Corporation (Western) (2)
- 10.8 Second Limited Waiver and Forbearance Agreement dated as of February 27, 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 (2)
- 10.9 Forbearance Agreement dated February 26, 2009 by and among Pacific Ethanol, Inc., Pacific Ag Products, LLC, Pacific Ethanol California, Inc. and Lyles United, LLC. (2)
- 10.10 Amendment and Forbearance Agreement dated February 13, 2009 by and among Pacific Ethanol, Inc., Kinergy Marketing LLC and Wachovia Capital Finance Corporation (Western) (3)
- 10.11 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 (3)
- 10.12 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 (4)
- 10.13 Guarantee dated July 28, 2008 by and between Pacific Ethanol, Inc. in favor of Wachovia Capital Finance Corporation (Western) (4)
- 10.14 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 (5)

- 10.15 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 (6)
- 10.16 Loan Restructuring Agreement dated as of November 7, 2008 by and among Pacific Ethanol, Inc., Pacific Ethanol Imperial, LLC, Pacific Ethanol California, Inc. and Lyles United, LLC (7)
- 10.17 Amended and Restated Promissory Note dated November 7, 2008 by Pacific Ethanol, Inc. in favor of Lyles United, LLC (7)
- 10.18 Security Agreement dated as of November 7, 2008 by and between Pacific Ag. Products, LLC and Lyles United, LLC (7)
- 10.19 Limited Recourse Guaranty dated November 7, 2008 by Pacific Ethanol California, Inc. in favor of Lyles United, LLC (7)
- 10.20 Unconditional Guaranty dated November 7, 2008 by Pacific Ag. Products, LLC in favor of Lyles United, LLC (7)
- 10.21 Irrevocable Joint Instruction Letter dated November 7, 2008 executed by Pacific Ethanol, Inc., Lyles United, LLC and Pacific Ethanol California, Inc. (7)

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- (1) Filed herewith.
- (2) Filed as an exhibit to the Registrant's Form 8-K for February 26, 2009 filed with the Securities and Exchange Commission on March 4, 2009.
- (3) Filed as an exhibit to the Registrant's Form 8-K for February 13, 2009 filed with the Securities and Exchange Commission on February 20, 2009.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) Filed as an exhibit to the Registrant's Form 8-K for November 7, 2008 filed with the Securities and Exchange Commission on November 10, 2008.

**SIGNATURES**

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

Date: April 2, 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 No. 2 to Letter Re: Amendment and Forbearance Agreement dated March 27, 2009 by and among Wachovia Capital Finance Corporation (Western), Kinergy Marketing LLC and Pacific Ethanol Inc.
10.2	Third Forbearance Agreement dated March 31, 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
10.3	Second Forbearance Agreement dated March 30, 2009 by and among Pacific Ethanol, Inc., Pacific Ag Products, LLC, Pacific Ethanol California, Inc., Lyles United, LLC and Lyles Mechanical Co.
10.4	Promissory Note dated October 20, 2008 by and among Pacific Ethanol, Inc. and Lyles Mechanical Co.
10.5	Promissory Note dated March 30, 2009 by and among Pacific Ethanol, Inc. and William L. Jones
10.6	Promissory Note dated March 30, 2009 by and among Pacific Ethanol, Inc. and Neil M. Koehler



**AMENDMENT NO. 2  
TO  
LETTER RE: AMENDMENT AND FORBEARANCE AGREEMENT**

THIS AMENDMENT NO. 2 TO LETTER RE: AMENDMENT AND FORBEARANCE AGREEMENT (this "Amendment"), dated as of March 27, 2009, is by and among WACHOVIA CAPITAL FINANCE CORPORATION (WESTERN), in its capacity as agent and sole lender ("Wachovia"), KINERGY MARKETING LLC ("Borrower") and PACIFIC ETHANOL, INC. ("Parent").

**WITNESSETH:**

WHEREAS, Wachovia, Borrower and Parent have previously entered into and executed that certain Letter re: Amendment and Forbearance Agreement, dated February 13, 2009, as amended by that certain Amendment No. 1 to Letter re: Amendment and Forbearance Agreement, dated as of February 26, 2009 (the "Forbearance Agreement");

WHEREAS, it has come to the attention of Wachovia that, in addition to the Specified Defaults (as defined in the Forbearance Agreement), (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 two (2) consecutive month period ending February 28, 2009, which constitutes an Event of Default under Section 10.1(a)(i) of the Loan Agreement, (b) Borrower will not be in compliance with Section 9.17 of the Loan Agreement as a result of the anticipated failure of Borrower to maintain EBITDA in the amount required by such Section for the three (3) consecutive month period ending March 31, 2009, which constitutes a Default under the Loan Agreement (together with the Specified Defaults, collectively, the "Currently Existing Defaults").

WHEREAS, Borrower and Parent have requested that Wachovia extend the Forbearance Period, which Wachovia is willing to do subject to the terms and provisions hereof; and

WHEREAS, by this Amendment, Wachovia, Borrower and Parent wish to evidence the extension of the Forbearance Period.

NOW THEREFORE, in consideration of the mutual benefits accruing to Wachovia, Borrower and Parent hereunder and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby agree as follows:

1. Existing Definitions. As used above and in this Amendment, all capitalized terms used herein and not otherwise defined herein shall have their respective meanings as set forth in the Forbearance Agreement.

2. Amendment to Definition of Applicable Margin. The definition of "Applicable Margin" in Section 1.6 of the Loan Agreement is hereby amended and restated in its entirety as follows:

"Applicable Margin" shall mean, as to the Interest Rate for Revolving

Loans which are Prime Rate Loans, three and one-half (3.50%) percent.”

3. Prime Rate Loans. Notwithstanding anything to the contrary contained in the Loan Agreement or the other Financing Agreements, effective as of March 1, 2009, Borrower shall have no right to request, and Wachovia shall have no obligation to make whatsoever, Eurodollar Rate Loans to Borrower.

4. Extension of Forbearance Period. At Borrower’s and Parent’s request and in reliance upon Borrower’s and Parent’s representations, warranties and covenants contained herein and in the Forbearance Agreement (as amended), as a one-time accommodation to Borrower and Parent, Wachovia hereby agrees to extend the Forbearance Period set forth in Section 4(a)(i) of the Forbearance Agreement from March 31, 2009 to April 30, 2009. The agreement of Wachovia to forbear from exercising any of its rights and remedies during the Forbearance Period shall apply to all of the Currently Existing Defaults.

5. Conditions Precedent. This Amendment 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 Amendment, duly authorized, executed and delivered by Borrower and Parent;

(b) The receipt by Wachovia of an updated thirteen (13) week budget with respect to the Projected Information, in form and substance satisfactory to Wachovia;

(c) The receipt by Wachovia of one or more unsecured promissory notes, in form and substance satisfactory to Wachovia, pursuant to which Parent has received from Persons proceeds of unsecured loans made to Parent in an aggregate amount of not less than \$2,000,000;

(d) The receipt by Wachovia of an amendment, in form and substance satisfactory to Wachovia, to the existing limited forbearance agreement among, West LB, as agent, the other lenders party thereto, Parent and certain of its subsidiaries party thereto, pursuant to which the limited forbearance period contained in such agreement is extended to April 30, 2009;

(e) The receipt by Wachovia of an amendment, in form and substance satisfactory to Wachovia, to the existing forbearance agreement among Lyles United, LLC, Parent and certain of its subsidiaries party thereto, pursuant to which the limited forbearance period contained in such agreement is extended to April 30, 2009; and

(f) As of the date of this Amendment, other than the Currently Existing Defaults, no Default or Event of Default shall have occurred and be continuing.

6. Amendment 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 extension fee in the amount of \$50,000, which fee shall be fully earned as of and payable in advance on the date hereof.

7. Effect of this Amendment. Except as modified pursuant hereto, no other changes or modifications to the Forbearance Agreement are intended or implied, and in all other respects the Forbearance Agreement is expressly ratified, restated and confirmed by all parties hereto as of the date hereof, except that, in the event of any conflict between any term or provision of this Amendment and any term or provision of the Forbearance Agreement, such term or provision of this Amendment shall control.

8. Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional actions as Wachovia requests to effectuate the provisions and purposes of this Amendment and to protect and/or maintain perfection of Wachovia's security interests in and liens upon the Collateral.

9. Counterparts. This Amendment may be executed in any number of counterparts, but all such counterparts shall together constitute but one and the same Amendment.

[SIGNATURE PAGE FOLLOWS]



IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed as of the day and year first above written.

**BORROWER:**

**KINERGY MARKETING LLC,**  
as Borrower

By: /s/ BRYON MCGREGOR  
Name: Bryon McGregor  
Title: VP Finance

**PARENT:**

**PACIFIC ETHANOL, INC,**  
as Parent

By: /s/ BRYON MCGREGOR  
Name: Bryon McGregor  
Title: VP Finance

**WACHOVIA:**

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

By: /s/ CARLOS VALLES  
Name: Carlos Valles  
Title: Director

*[Signature Page to Amendment No. 2 to Forbearance Agreement]*



### THIRD FORBEARANCE AGREEMENT

THIS THIRD FORBEARANCE AGREEMENT (this "Agreement") is entered into as of March 31, 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 Senior Secured Parties (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 Senior Secured Parties (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 Borrowers, Administrative Agent, Collateral Agent and the Senior Secured Parties entered into that certain Limited Waiver and Forbearance Agreement dated as of February 17, 2009 and that certain Second Limited Waiver and Forbearance Agreement dated as of February 27, 2009;

WHEREAS, the Borrowers were unable to pay the Term Loan interest payment due and payable on the scheduled payment date in accordance with Section 9.01(a) of the Credit Agreement, which nonpayment constituted an Event of Default (the "**Interest Payment Event of Default**");

WHEREAS, the Borrowers have advised Agent that they will be unable to pay the Term Loan principal and interest payment due and payable on the scheduled payment date in accordance with Section 9.01(a) of the Credit Agreement, which nonpayment will constitute an Event of Default (the "**Anticipated Principal Payment Default**");

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 Agent that they do not expect to be in compliance with certain other provisions of the Credit Agreement which would give rise during the Forbearance Period (as defined below) 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 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) April 30, 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**”);

WHEREAS, an Event of Default has occurred under Sections 5(a)(vi) and 5(a)(vii)(2) (together, the “**Interest Rate Protection Agreement Events of Default**”) of the ISDA Master Agreement dated February 26, 2007 (the “**Interest Rate Protection Agreement**”) between Holding and WestLB, New York Branch (in such capacity, the “**Interest Rate Protection Provider**”);

WHEREAS, Holding has advised the Interest Rate Protection Provider that it will be unable to pay the interest payment due and payable on the scheduled payment date in accordance with Section 5(a)(i) of the Interest Rate Protection Agreement, which nonpayment will constitute an Event of Default (the “**Anticipated Swap Interest Payment Default**”);

WHEREAS, Holding has requested that the Interest Rate Protection Provider agree and, subject to the terms and conditions of this Agreement, the Interest Rate Protection Provider has agreed, to refrain from terminating the Interest Rate Protection Agreement from the date hereof through the Forbearance Period 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 Interest Payment Event of Default and the Existing Events of Default have occurred and are continuing under the terms of the Credit Agreement and the Interest Rate Protection Agreement Events of Default have occurred and are continuing under the terms of the Interest Rate Protection 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 Interest Rate Protection Provider has the right to terminate the Interest Rate Protection Agreement on the date hereof; (d) 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; (e) 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 (f) the outstanding Loans and all other Obligations are payable pursuant to the Credit Agreement or Interest Rate Protection Agreement, as applicable, without defense, dispute, offset, withholding, recoupment, counterclaim or deduction of any kind.

## **2. Covenant re Interest Payment Event of Default and Anticipated Principal Payment Default.**

Provided that no Forbearance Default (as defined below) occurs, and subject in all respects to the terms and conditions of this Agreement including satisfaction of the conditions precedent to the effectiveness of this Agreement set forth in Section 4 below, during the Forbearance Period each Senior Secured Party agrees that it shall not (i) direct the Administrative Agent to declare all or any portion of the outstanding principal amount of the Loans and other Obligations to be due and payable or (ii) direct the Collateral Agent to exercise any or all remedies provided for under the Credit Agreement or the other Financing Documents solely on account of the Interest Payment Event of Default and the Anticipated Principal Payment Default. Nothing contained herein shall limit the right of a Senior Secured Party to exercise remedies with respect to the obligations under its Note(s). Upon termination of the Forbearance Period, the Senior Secured Parties shall have the right to enforce any and all remedies with respect to the Anticipated Principal Payment Default.

## **3. Forbearance.**

(a) Credit Agreement.

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

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

(iii) Each Borrower hereby agrees and acknowledges that (A) Schedule I represents a complete and accurate list of all Existing Events of Default (other than the Interest Payment Event of Default) which are in existence as of the Effective Date (as hereinafter defined); and (B) 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 (other than the Anticipated Principal Payment Default).

(iv) 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 the Anticipated Defaults, those rights and remedies afforded to them under the Credit Agreement, the other Financing Documents and applicable law.

(b) Interest Rate Protection Agreement.

(i) Holding acknowledges that the Interest Rate Protection Agreement Events of Default have occurred and are continuing.

(ii) Holding has advised the Interest Rate Protection Provider that it does not expect to be in compliance with Section 5(a)(i) of the Interest Rate Protection Agreement which would give rise to the Anticipated Swap Interest Payment Default.

(iii) Holding hereby agrees and acknowledges that (A) the Interest Rate Protection Agreement Events of Default completely and accurately represent all of the Events of Default (as defined in the Interest Rate Protection Agreement) or Termination Events (as defined in the Interest Rate Protection Agreement) which are in existence under the Interest Rate Protection Agreement as of the Effective Date; and (B) the Anticipated Swap Interest Payment Default completely and accurately represents all of the provisions of the Interest Rate Protection Agreement which it reasonably believes may give rise to an Event of Default under the Interest Rate Protection Agreement during the Forbearance Period;

(iv) 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 Interest Rate Protection Provider hereby agrees to not exercise, on account of the Interest Rate Protection Agreement Events of Default and the Anticipated Swap Interest Payment Default, those rights and remedies afforded it under the Interest Rate Protection Agreement, Credit Agreement, the other Financing Documents and applicable law; provided however, notwithstanding anything to the contrary set forth in the Credit Agreement, to the extent that the Interest Rate Protection Provider postpones or reschedules any accrued and unpaid interest payment due and payable under the Interest Rate Protection Agreement (whether during the term of this Agreement or at any time hereafter), upon termination of the Interest Rate Protection Agreement, such amounts shall be (A) excluded from the calculation of the Swap Termination Value and (B) included in the portion of the Obligations payable under Section 9.04(c) of the Credit Agreement.

**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 Updated 13-Week Cash Flow Forecast (as defined below) in form and substance 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 party thereto have agreed to forbear from exercising their rights against Pacific Ethanol Inc. (“**Pacific Ethanol**”) and Kinergy Marketing, LLC (“**Kinergy**”) pursuant to the terms of their financing arrangements with Pacific Ethanol and Kinergy co-terminous with the Forbearance Period and such forbearance shall be in full force and effect;

(d) The Agent shall have received an agreement, in form and substance satisfactory to the Agent, pursuant to which Lyles United, LLC agrees to forbear from exercising its rights against Pacific Ethanol, Pacific Ethanol California, Inc., and Pacific Ag Products, LLC, pursuant to the terms of that certain Loan Restructuring Agreement dated as of November 7, 2008 and the other instruments referred to therein, for a forbearance period co-terminous with the Forbearance Period and such forbearance shall be in full force and effect;

(e) The Agent shall have received evidence satisfactory to it that Pacific Ethanol has received proceeds of not less than \$2,000,000 from the issuance of notes (the “**Junior Notes**”) which Notes shall be satisfactory in all respects (including, without limitation, term and ranking) to the Agent. The Borrowers shall have concurrently provided the Agent and the Agent’s financial and legal advisors with a Updated 13-Week Cash Flow Forecast (as defined below) satisfactory in all respects to the Agent setting forth how Pacific Ethanol, Kinergy and the Borrowers will use such proceeds.

(f) 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

(g) 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), the Interest Rate Protection Agreement (as modified herein) and the other 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 the Interest Payment Event of Default, an Existing Event of Default, the Anticipated Principal Payment Default, an Anticipated Default, the Anticipated Swap Interest Payment Default or the Interest Rate Protection Agreement Events of 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 or Interest Rate Protection Agreement arising other than as a result of the Interest Payment Event of Default, Existing Events of Default, the Anticipated Defaults, the Anticipated Principal Payment Default, the Anticipated Swap Interest Payment Default or the Interest Rate Protection Agreement Events of Default 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 (as defined below) has occurred.

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

(a) any failure to pay principal payments (other than the Anticipated Principal Payment Default), interest payments (other than the Interest Payment Event of Default and the Anticipated Swap Interest Payment Default) or any other payments in accordance with the terms of the Credit Agreement or the Interest Rate Protection 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, the Interest Rate Protection Agreement or any of the other Financing Documents or any Project Document, other than an Existing Event of Default, an Anticipated Default, the Interest Payment Event of Default, the Anticipated Principal Payment Default, the Anticipated Swap Interest Payment Default or either of the Interest Rate Protection Agreement Events of Default;

(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; or

(e) the proceeds of the Junior Notes shall have been fully utilized by Pacific Ethanol, Kinerger and the Borrowers on or before April 30, 2009, or for any reason Pacific Ethanol fails to make available, or is unable to make available, to any Borrower, funds adequate to support such Borrower's current level of operations (taking into account any other sources of funding available to such Borrower).

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 Interest Rate Protection 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, the Interest Rate Protection 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 or otherwise refrain during the Forbearance Period from exercising the Agent and Senior Secured Parties' rights and remedies with respect to the Interest Payment Event of Default and the Existing Events of Default, each Borrower covenants that on or before the date hereof, the Borrowers shall deliver to the Agent an updated thirteen (13) week cash flow forecast of Pacific Ethanol and its Subsidiaries attached hereto as Exhibit 1 (the "Updated 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 March 30, 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 March 30, 2009, and (iii) projected aggregate principal amount of outstanding and available Loans for the Borrowers each week commencing with the week ending as of March 30, 2009 (collectively, the "Projected Information"). In addition to the Updated 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 March 31, 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.

**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, the Interest Rate Protection 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 Lender 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, including, without limitation, the accrual of interest at the Default Rate on overdue amounts in accordance with Section 3.06 of the Credit Agreement, 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, the Interest Rate Protection 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, the Interest Rate Protection 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 "Lender Parties" and each, a "Lender 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 Lender Party from any known or unknown claims which any Borrower now has against any Lender 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 Lender 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, the Interest Rate Protection Agreement and the other financing Documents and/or any action by the Agent or any Lender 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 Lender 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 Lender Party that they will not sue (at law, in equity, in any regulatory proceeding or otherwise) any Lender Party on the basis of any Claim released, remised and discharged by the Lender 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 Lender Party may sustain as a result of such violation, all attorneys' fees and costs incurred by any Lender 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, the Interest Rate Protection 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 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, the Interest Rate Protection 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 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, the Interest Rate Protection 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 and the Interest Rate Protection Agreement, each 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 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/ BRYON MCGREGOR  
Name: Bryon McGregor  
Title: VP Finance

PACIFIC ETHANOL MADERA LLC,  
as Borrower

By: /s/ BRYON MCGREGOR  
Name: Bryon McGregor  
Title: VP Finance

PACIFIC ETHANOL COLUMBIA, LLC,  
as Borrower

By: /s/ BRYON MCGREGOR  
Name: Bryon McGregor  
Title: VP Finance

PACIFIC ETHANOL STOCKTON, LLC,  
as Borrower

By: /s/ BRYON MCGREGOR  
Name: Bryon McGregor  
Title: VP Finance

PACIFIC ETHANOL MAGIC VALLEY LLC,  
as Borrower

By: /s/ BRYON MCGREGOR  
Name: Bryon McGregor  
Title: VP Finance

WESTLB AG, NEW YORK BRANCH, as Agent

By: /s/ RONALD SPITZER  
Name: Ronald Spitzer  
Title: Duly Authorized Signatory

By: /s/ DOMINICK D'ASCOLI  
Name: Domonick D'Ascoli  
Title: Duly Authorized Signatory

as Collateral Agent

WESTLB AG, NEW YORK BRANCH,

By: /s/ RONALD SPITZER  
Name: Ronald Spitzer  
Title: Duly Authorized Signatory

By: /s/ DOMINICK D'ASCOLI  
Name: Domonick D'Ascoli  
Title: Duly Authorized Signatory

as Senior Secured Party

WESTLB AG, NEW YORK BRANCH,

By: /s/ RONALD SPITZER  
Name: Ronald Spitzer  
Title: Duly Authorized Signatory

By: /s/ DOMINICK D'ASCOLI  
Name: Domonick D'Ascoli  
Title: Duly Authorized Signatory



WESTLB AG, NEW YORK BRANCH,

as Interest Rate Protection Provider

By: /s/ RONALD SPITZER

Name: Ronald Spitzer

Title: Duly Authorized Signatory

By: /s/ DOMINICK D'ASCOLI

Name: Domonick D'Ascoli

Title: Duly Authorized Signatory

Signature Page  
Execution Version

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AMARILLO NATIONAL BANK,  
as Accounts Bank

By: /s/ CRAIG L.  
SANDERS  
Name: Craig L. Sanders  
Title: Executive Vice President

AMARILLO NATIONAL BANK,  
as Senior Secured Party

By: /s/ CRAIG L.  
SANDERS  
Name: Craig L. Sanders  
Title: Executive Vice President

Signature Page  
Execution Version

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BANCO DE SABADELL,  
as Senior Secured Party

By: /s/ A. Von Dincklage  
Name: A. Von Dincklage  
Title: S.V.P.

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

By: \_\_\_\_\_  
Name:  
Title:

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

By: \_\_\_\_\_  
Name:  
Title:

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Execution Version

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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:

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CITIGROUP FINANCIAL PRODUCTS INC.,  
as Senior Secured Party

By: \_\_\_\_\_  
Name:  
Title:

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Execution Version

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CREDIT SUISSE CANDLEWOOD SPECIAL  
SITUATIONS MASTER FUND, LTD.

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

By: /s/ DAVID KOENIG

Name: David Koenig

Title: Authorized Signatory

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Execution Version

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LISPENARD STREET CREDIT (MASTER), LTD.  
By: DiMaio Ahmad Capital LLC, as Investment Manager

By: /s/ KULJINDER CHASE  
Name: Kuljinder Chase  
Title: Managing Director

POND VIEW CREDIT (MASTER), L.P.  
By: DiMaio Ahmad Capital LLC, as Investment Manager

By: /s/ KULJINDER CHASE  
Name: Kuljinder Chase  
Title: Managing Director

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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 J. BEST  
Name: Daniel J. Best  
Title: Asst. Vice President

Signature Page  
Execution Version

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HAF FUNDING 2008-1 LIMITED,  
as Senior Secured Party

By: \_\_\_\_\_  
Name:  
Title:

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Execution Version

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

By: /s/ ALFRED S. COMPTON, JR.  
Name: Alfred J. Compton, Jr.  
Title: Vice President / Managing Director

Signature Page  
Execution Version

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METROPOLITAN LIFE INSURANCE COMPANY,  
as Senior Secured Party

By: /s/ JOHN A. TANYERI

Name: John A. Tanyeri

Title: Director

Signature Page  
Execution Version

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NORDKAP BANK AG,  
as Senior Secured Party

By: /s/ JEFFREY P. RIOPELLE  
Name: Jeffrey P. Riopelle  
Title: SVP

By: /s/ BATCHIMEG GADOLA  
Name: Batchimeg Gadola  
Title: AVP

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Execution Version

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NORDDEUTSCHE LANDESBANK  
GIROZENTRALE NEW YORK BRANCH,  
as Senior Secured Party

By: /s/ JOSEF HAAS

Name: Josef Haas

Title: Senior Director

By: /s/ STEFANIE SCHOLZ

Name: Stefanie Scholz

Title: Managing Director

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Execution Version

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NORTHWEST FARM CREDIT SERVICES, FLCA,  
as Senior Secured Party

By: /s/ CASEY KINZER

Name: Casey Kinzer

Title: Account Manager

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Execution Version

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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/ ANDREW SHERMAN

Name: Andrew Sherman

Title: Executive Director

Signature Page  
Execution Version

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

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

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Execution Version

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SHOREBANK PACIFIC,  
as Senior Secured Party

By: /s/ KENDALL LEACH  
Name: Kendall Leach  
Title: SVP/CCO

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Execution Version

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

By: \_\_\_\_\_  
Name:  
Title:

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

By: \_\_\_\_\_  
Name:  
Title:

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Execution Version

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## 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 the Madera, Stockton 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 Kinery 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 did not deliver the Borrowing Base Certificate for the period month ending December 31, 2008 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 Kinery 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 Kinery.

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

(j) Breach by Borrowers of Section 9.01(f), which may impose a cross-default to the Interest Rate Protection Agreement with WestLB as a result of the Interest Rate Protection Agreement Events of Default.

(k) 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(d) and such failure remains unremedied for a period of thirty (30) days after any Borrowers obtains or should have obtained, knowledge thereof. The Borrowers have not delivered a statement of an Authorized Officer setting forth the details of the Events of Default listed on this Schedule I within five (5) days after the occurrence of such Events of Default, as required by Section 7.03(d).

Schedule I

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## 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.
- (c) 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(p) and such failure remains unremedied for a period of thirty (30) days after any Borrowers obtains or should have obtained, knowledge thereof. Borrowers did not deliver the Operating Statement due on February 16, 2009.
- (d) 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 Certificate for the month ending January 31, 2009 or February 28, 2009 by March 15, 2009 or April 15, 2009, respectively, in accordance with Section 7.03(n).
- (e) Breach by Borrowers of Section 9.01(d), which requires Borrowers to comply with the performance and observance of its obligations under Section 7.03(b) 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 be able to deliver the annual audit report for Pacific Ethanol and Holding within ninety (90) days after the end of the Fiscal Year accompanied by an unqualified opinion of the auditors stating that such financial statements shall not be subject to any "going concern" or like qualification or exception as to the scope of such audit.
- (f) Breach by Borrowers of Section 9.01(d), which requires Borrowers to comply with the performance and observance of its obligations under Section 7.03(d) and such failure remains unremedied for a period of thirty (30) days after any Borrowers obtains or should have obtained, knowledge thereof. Borrowers do not expect to deliver a statement of an Authorized Officer setting forth the details of the Anticipated Defaults listed on this Schedule II within five (5) days after the occurrence of such Anticipated Defaults, as required by Section 7.03(d).

**EXHIBIT 1**

**UPDATED 13-WEEK CASH FLOW FORECAST**

[See Attached]

Exhibit 1

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**SECOND FORBEARANCE AGREEMENT (LYLES UNITED, LLC)**

This SECOND FORBEARANCE AGREEMENT (LYLES UNITED) (“this Agreement”) is entered into as of March 30, 2009, by and among PACIFIC ETHANOL, INC., a Delaware corporation (the “Company”), PACIFIC AG. PRODUCTS, LLC (“PAP”), PACIFIC ETHANOL CALIFORNIA, INC. (“PECA”; together with PAP and the Company, the “PE Parties”, and each a “PE Party”), LYLES UNITED, LLC, a Delaware limited liability company (the “Lender”), and LYLES MECHANICAL CO., a California corporation (“Lyles Mechanical”), as parties to the Loan Documents or the Lyles Mechanical Note or both. The Company, PAP, PECA, Lyles Mechanical and Lender are sometimes referred to individually as a “Party” and collectively as the “Parties” herein. Capitalized terms used in this Agreement which are not otherwise defined herein shall have the meanings given such terms in the First Forbearance Agreement (defined below) or, to the extent the First Forbearance Agreement does not define such terms, in the Loan Documents (defined below).

**RECITALS:**

WHEREAS, Lender and the PE Parties are parties to that certain Forbearance Agreement (Lyles United), dated as of February 26, 2009 (the “First Forbearance Agreement”);

WHEREAS, the Note became due and payable without acceleration on March 15, 2009 (the “Maturity Date”), and Lender is the beneficiary under the PAP Guaranty, and is the Secured Party under the PAP Security Agreement, and is the beneficiary under the PECA Guaranty, and is a party to the Joint Instruction Letter, and is a party to the Restructuring Agreement, all of which relate to the Note (collectively, the “Loan Documents”);

WHEREAS, Lender’s affiliate, Lyles Mechanical, is the holder of that certain Promissory Note (Final Payment), dated October 20, 2008, in the principal amount of \$1.5 million by the Company in favor of Lyles Mechanical (the “Lyles Mechanical Note”), which will become due and payable without acceleration on March 31, 2009 (the “Lyles Mechanical Maturity Date”);

WHEREAS, the Company has not paid the accrued interest and the \$30.0 million principal balance of the Note due on the Maturity Date, and PAP and PECA did not pay such amounts under the Guarantees, all of which nonpayments constitute an Event of Default under the Note and defaults or events of default under the Guarantees and in accordance with the terms of each of the other Loan Documents (the “Existing Defaults”);

WHEREAS, the Company has advised Lyles Mechanical that it will be unable to pay the amount due and payable under the Lyles Mechanical Note on the Lyles Mechanical Maturity Date, which nonpayment will constitute an Event of Default under the Lyles Mechanical Note (the “Anticipated Default”);

WHEREAS, Lender has various rights and remedies after the occurrence of each of the Existing Defaults, which Lender has already agreed to forbear from exercising through March 31, 2009, pursuant to the First Forbearance Agreement;

WHEREAS, the Company intends to obtain unsecured loans of \$2 million from William L. Jones (“Jones”) and Neil M. Koehler (“Koehler”), who are principals of one or more of the PE Parties, in consideration of which the Company intends to issue to Jones and Koehler certain unsecured promissory notes (collectively, the “Junior Notes”); and

WHEREAS, the PE Parties have requested that Lender and Lyles Mechanical agree and, subject to the terms and conditions of this Agreement, Lender and Lyles Mechanical have agreed, during (and only during) the Forbearance Period as defined below in this paragraph, with respect to each of the Existing Defaults and the Anticipated Default, to forbear from any demand for immediate payment of any amounts due under the Note, Lyles Mechanical Note or the other Loan Documents as the case may be, and from any exercise of rights to foreclose on any or all of the property of any PE Party in which Lender has been granted a security interest under any of the Loan Documents, or to enforce the Guarantees, until the earliest to occur of (i) April 30, 2009; (ii) the date of termination of the Forbearance Period pursuant to Section 5 hereof; and (iii) the date on which all of the obligations under the Note, the Lyles Mechanical Note and under any of the other Loan Documents have been paid and discharged in full and the Note and Lyles Mechanical Note have been canceled (the “Forbearance Period”):

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 PE Parties, Lyles Mechanical and Lender 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 PE Party hereby acknowledges and agrees that (a) the Note and Lyles Mechanical Note are valid, outstanding and enforceable in accordance with their terms; (b) Lender has, and shall continue to have, valid, enforceable and perfected security interests in and liens upon the property of any PE Party in which Lender has been granted a security interest under any of the Loan Documents; (c) the Guarantees are valid and enforceable in accordance with their terms; (d) absent the effectiveness of this Agreement, Lender has, upon the occurrence of any event of default under any of the Loan Documents, the right to enforce its security interest in, and liens on, the property of any PE Party in which Lender has been granted a security interest under any of the Loan Documents, enforce the obligations of PAP and PECA under the Guarantees, and enforce its other rights and pursue its other remedies under the Loan Documents; (e) absent the effectiveness of the First Forbearance Agreement and this Agreement, the Note was payable in full on the Maturity Date and the Lyles Mechanical Note is payable in full on the Lyles Mechanical Maturity Date, and all obligations under the Note, the Lyles Mechanical Note and the Loan Documents are payable in accordance with the terms thereof, without defense, dispute, offset, withholding, recoupment, counterclaim or deduction of any kind; and (f) after giving effect to this Agreement, the Note and the Lyles Mechanical Note will be payable in full on the earlier to occur of April 30, 2009 and the termination of the Forbearance Period, and all obligations under the Note, the Lyles Mechanical Note and any other Loan Documents shall be payable on such date without defense, dispute, offset, withholding, recoupment, counterclaim or deduction of any kind.

## 2. **Forbearance.**

Provided that no Forbearance Default (as defined below) occurs, and subject in all respects to the terms and conditions of this Agreement including satisfaction of the conditions precedent to the effectiveness of this Agreement set forth in Section 3 below, during the Forbearance Period Lender and Lyles Mechanical agree that they shall not (i) declare the Lyles Mechanical Note to be due and payable or seek to collect all or any portion of the outstanding principal amount of the Note or Lyles Mechanical Note or interest thereon, or any other obligations under the Loan Documents, or (ii) exercise any remedies provided for under the Note, the Lyles Mechanical Note or the other Loan Documents or applicable law on account of the Existing Defaults and the Anticipated Defaults. Upon termination of the Forbearance Period, Lender and Lyles Mechanical shall have the right to enforce any and all remedies with respect to any default, including any event of default then outstanding under the Note or Lyles Mechanical Note or any of the other Loan Documents (including, without limitation, any Existing Default and the Anticipated Default), as applicable. Under all events and circumstances, the entire principal balance and all accrued and unpaid interest under the Note and Lyles Mechanical Note and any obligations under any of the other Loan Documents shall be due and payable immediately and in full upon expiration of the Forbearance Period (including without limitation upon termination of the Forbearance Period pursuant to Section 5 below) without any further notice or demand of any kind or nature whatsoever.

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

(a) Lender and Lyles Mechanical shall have received counterparts of this Agreement duly executed and delivered by the PE Parties, and Lender and Lyles Mechanical shall have executed this Agreement;

(b) Lender and Lyles Mechanical shall have received a copy of the final form of a forbearance agreement as executed by WestLB, in form and substance satisfactory to Lender and Lyles Mechanical, regarding the WestLB Credit Agreement (the “WestLB Forbearance Agreement”), providing for a forbearance period co-terminous with the Forbearance Period hereunder, and such forbearance shall be in full force and effect;

(c) Lender and Lyles Mechanical shall have received a copy of a final form of a forbearance agreement executed by Wachovia, in form and substance satisfactory to Lender and Lyles Mechanical, regarding the Wachovia Loan Agreement (the “Wachovia Forbearance Agreement”), providing for a forbearance period co-terminous with the Forbearance Period hereunder, and such forbearance shall be in full force and effect;

(d) Lender and Lyles Mechanical shall have received evidence satisfactory to them that the Company has received loan proceeds of not less than \$2 million nor more than \$3 million from the issuance of the Junior Notes, which Junior Notes shall be satisfactory in all respects (including, without limitation, term and ranking) to Lender and Lyles Mechanical; and

(e) All of the representations and warranties of the PE Parties 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).

**4. Representations and Warranties.** To induce Lender and Lyles Mechanical to enter into this Agreement, each of the PE Parties represents and warrants to Lender and Lyles Mechanical (which representations and warranties also shall be deemed made on and as of the Effective Date):

(a) Other than the Existing Defaults and the Anticipated Default, there is no default or event of default presently outstanding under the Loan Documents or Lyles Mechanical Note nor any default or event of default presently outstanding under the First Forbearance Agreement, nor any presently existing condition that will, with the passage of time, constitute a default or event of default under the Loan Documents, the Lyles Mechanical Note or the First Forbearance Agreement during the Forbearance Period;

(b) Such PE Party 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 PE Party of this Agreement, (i) are within the PE Party's corporate power; (ii) have been duly authorized by all necessary corporate or other action; (iii) do not contravene or cause the PE Party or any other PE Party to be in default under (x) any provision of the PE Party's or other PE 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 PE Party or other PE 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 PE Party or other PE Party or its property; (iv) will not result in the creation or imposition of any lien or encumbrance upon any of the property of the PE Party or other PE Party or any subsidiary thereof other than those in favor of Lender or Lyles Mechanical, all pursuant to the Loan Documents and the Lyles Mechanical Note; and (e) do not require the consent or approval of any governmental authority or any other person or entity, other than those which have been duly obtained, made or complied with and which are in full force and effect.

(c) This Agreement has been duly executed and delivered by such PE Party. Each of this Agreement, the Note and the Lyles Mechanical Note (as modified hereby) and the Loan Documents (as modified by the First Forbearance Agreement and by this Agreement) to which each PE Party is a party is the legal, valid and binding obligation of such PE Party, enforceable against such PE Party 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.

(d) Except as may be expressly stated to the contrary elsewhere in this Agreement, the representations and warranties of each PE Party contained in each Loan 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.

(e) No default or event of default under the Note, Lyles Mechanical Note or Loan Documents arising other than as a result of the Existing Defaults or the Anticipated Default shall have occurred and be continuing or would result after giving effect to any of the transactions contemplated on the date hereof.

(f) No Forbearance Default (as defined below) has occurred.

**5. Forbearance Defaults:** The following events shall constitute “Forbearance Defaults”:

(a) any PE Party shall fail to observe or perform any 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

(b) the occurrence of a default or event of default under the Note, the Lyles Mechanical Note or any of the Loan Documents, other than the Existing Defaults or the Anticipated Default; or

(c) any instrument, document, report, schedule, agreement, representation or warranty, oral or written, made or delivered to Lender or Lyles Mechanical by any PE Party shall be false or misleading in any material respect when made, or deemed made, or delivered; or

(d) any event of default has occurred and is outstanding under the WestLB Forbearance Agreement, or the Wachovia Forbearance Agreement, or any such forbearance agreement has terminated; or

(e) the proceeds of the Junior Notes shall have been fully utilized by the PE Parties, the Plant Entities, PEHC or any of them on or before April 30, 2009, or for any reason the Company fails to make available, or is unable to make available, to any of the PE Entities, funds adequate to support such PE Entity’s current level of operations (taking into account any other sources of funding available to such PE Entity).

Upon the occurrence of any Forbearance Default, Lender and/or Lyles Mechanical may by notice to the PE Parties immediately terminate the Forbearance Period and/or declare the obligations under the Lyles Mechanical Note immediately due and payable; provided, however, that upon the occurrence of any event of default described in sub-paragraph (c) (Voluntary Bankruptcy or Insolvency Proceeding) or (d) (Involuntary Bankruptcy or Insolvency Proceeding) of Section 4 of the Note, and as described in sub-paragraph (b) (Voluntary Bankruptcy or Insolvency Proceeding) or (c) (Involuntary Bankruptcy or Insolvency Proceeding) of Section 3 of the Lyles Mechanical Note, the Forbearance Period shall automatically terminate and all obligations under the Lyles Mechanical Note shall automatically become immediately due and payable, without notice or demand of any kind. Upon the termination or expiration of the Forbearance Period (including without limitation a termination of the Forbearance Period pursuant to this Section 5), if at such time the outstanding amount of the obligations under the Loan Documents and the Lyles Mechanical Note have not been paid in full, Lender and Lyles Mechanical shall be entitled to exercise all of their rights and remedies under the Note, the Lyles Mechanical Note, the Loan Documents and applicable law, as the case may be, including, without limitation, the right to declare all of the obligations under the Lyles Mechanical Note to be immediately due and payable, without notice or demand of any kind, and the right to enforce any liens on, and security interests in, the property of any PE Party in which Lender has been granted a security interest under any of the Loan Documents and enforce the PAP Guaranty and the PECA Guaranty. The occurrence of any Forbearance Default shall constitute an additional Event of Default under the Note, the Lyles Mechanical Note and the other Loan Documents, and the Note, the Lyles Mechanical Note, and each of the other Loan Documents is hereby deemed amended to incorporate such additional Event of Default.

**6. Forbearance Period Covenants.** In order to induce Lender and Lyles Mechanical to enter into this Agreement and forbear during the Forbearance Period from exercising Lender's or Lyles Mechanical's rights and remedies with respect to the Existing Defaults and the Anticipated Default, each PE Party covenants that (i) within two business days after the PE Parties or any of them provide any report to WestLB called for by Section 7 of the WestLB Forbearance Agreement, the PE Parties shall provide a copy of such report to Lender and Lyles Mechanical, (ii) each of the PE Parties shall supply to Lender and Lyles Mechanical any financial information or other report or data reasonably requested by Lender or Lyles Mechanical during the Forbearance Period, (iii) the PE Parties shall not borrow any funds from any source during the Forbearance Period, apart from the loans of up to \$2 million evidenced by the Junior Notes or additional loans of up to an additional \$1 million, on terms and conditions authorized in writing by Lender and Lyles Mechanical in their sole discretion, for an aggregate of not more than \$3 million in borrowing during the Forbearance Period, and (iv) apart from such loans of up to \$3 million in the aggregate, the PE Parties shall not incur any additional indebtedness during the Forbearance Period other than trade credit extended in the ordinary course of business, Wachovia's revolving line of credit to Kinergy, and unsecured indebtedness to professionals relating to restructuring of the PE Parties' indebtedness or bankruptcy.

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

(a) Upon the Effective Date, each reference any Loan Document to "this Agreement", "hereunder", "hereof" or words of like import, shall mean and be a reference to such Loan Document as modified and supplemented hereby.

(b) This Agreement shall be limited solely to the matters expressly set forth herein and, except as expressly provided herein, shall not (i) constitute an amendment or waiver of, or a forbearance with respect to, any term or condition of the Note, the Lyles Mechanical Note or any other Loan Document, (ii) prejudice any right or rights which Lender or Lyles Mechanical may now have or may have in the future under or in connection with the Note, the Lyles Mechanical Note or any other Loan Document, or (iii) require Lender or Lyles Mechanical to agree to any additional or future forbearance or to any other transaction of any type or nature whatsoever;

(c) Except to the extent specifically provided herein, the respective provisions of the Note, the Lyles Mechanical Note and the other Loan 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 Note or Lyles Mechanical Note, or any of the other Loan Documents, except as specifically set forth herein.

(e) Except as expressly provided herein, Lender and Lyles Mechanical expressly reserve all rights, claims and remedies that it has or may have against the PE Parties or any of them.

**8. Acknowledgment of Validity and Enforceability of the Note, the Lyles Mechanical Note and other Loan Documents.** Each of the PE Parties expressly acknowledges and agrees that the Lyles Mechanical Note and the Loan Documents to which it is a party are valid and enforceable by Lender and Lyles Mechanical against such PE Party, and except as expressly modified pursuant to this Agreement, expressly reaffirms each of its obligations under each Loan Document to which it is a party. Each of the PE Parties that has granted Lender a security interest in any such PE Party's property further expressly acknowledges and agrees that Lender has a valid, duly perfected, first priority and fully enforceable security interest in and lien against such property. Each of the PE Parties agrees that it shall not dispute the validity or enforceability of the Note, the Lyles Mechanical Note or any of the other Loan Documents or any of its obligations thereunder, or the validity, priority, enforceability or extent of any security interest of Lender in or against any property of such PE Party, either during or following the expiration of the Forbearance Period.

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

(a) Each of the PE Parties acknowledges that Lender and Lyles Mechanical would not enter into this Agreement without the PE Parties' assurance that each PE Party has no claim against Lender, Lyles Mechanical or any of its 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 "Lender-Related Parties" and each, a "Lender-Related Party") arising out of the Loan Documents or the transactions contemplated thereby. Each of the PE Parties, for itself and on behalf of its officers and directors, and its respective predecessors, successors and assigns (collectively, the "Releasors") releases each Lender-Related Party from any known or unknown claims which any PE Party now has against any Lender-Related 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 Loan Documents, the Lyles Mechanical Note 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 9 are binding upon each Releasor. The provisions, waivers and releases of this Section 9 shall inure to the benefit of each Lender-Related Party.

(d) The provisions of this Section 9 shall survive payment in full of the obligations, full performance of all of the terms of this Agreement, the Note, the Lyles Mechanical Note and the other Loan Documents and/or any action by Lender and Lyles Mechanical to exercise any remedy available under any of the Loan Documents, the Lyles Mechanical Note 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 Lender-Related 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 Lender-Related Party that they will not sue (at law, in equity, in any regulatory proceeding or otherwise) any Lender-Related Party on the basis of any Claim released, remised and discharged pursuant to Section 9(a) above. If any Releasor violates the foregoing covenant, such Releasor agrees to pay, in addition to such other damages as any Lender-Related Party may sustain as a result of such violation, all attorneys' fees and costs incurred by any Lender-Related Party as a result of such violation.



**10. No Waiver.** Each of the PE Parties hereby acknowledges and agrees that Lender's or Lyles Mechanical's failure, at any time or times hereafter, to require strict performance by any PE Party of any provision or term of this Agreement, the Note, the Lyles Mechanical Note or any other Loan Document shall not waive, affect or diminish any right of Lender or Lyles Mechanical thereafter to demand strict compliance and performance therewith. Any suspension or waiver by Lender or Lyles Mechanical 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.

**11. 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 or entity shall have any right, benefit or interest under or because of the existence of this Agreement.

**12. Limitation on Relationship Between Parties.** The relationship of Lender, Lyles Mechanical and the PE Parties has been and shall continue to be, at all times, that of creditor and debtor with respect to the loan outstanding under the Loan Documents, the Note, and the Lyles Mechanical Note. Nothing contained in this Agreement, any instrument, document or agreement delivered in connection herewith or in the Note, or in the Lyles Mechanical Note or any of the other Loan Documents shall be deemed or construed to create a fiduciary relationship between the parties.

**13. No Assignment.** This Agreement shall not be assignable by any PE Party without the written consent of Lender and Lyles Mechanical.

**14. Miscellaneous.** 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 Note, the Lyles Mechanical Note or any other Loan Document or any provisions hereof or thereof.

**15. Governing Law. THIS AGREEMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF CALIFORNIA (OTHER THAN THE CHOICE OF LAW PROVISIONS THEREOF), APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE AND ANY APPLICABLE LAWS OF THE UNITED STATES OF AMERICA.**

**16. Consultation with Counsel.** Each of the PE Parties represents to Lender and Lyles Mechanical that it has discussed this Agreement, including the provisions of Sections 9, 12 and 15 hereof, with its attorneys.

17. **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 facsimile or by “PDF” attachment to an email to the recipient Party shall be effective as delivery of a manually executed counterpart of this Agreement.

18. **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.

19. **No Course of Dealing.** The Lender and Lyles Mechanical have entered into this Agreement on the express understanding with the PE Parties that in entering into this Agreement neither Lender nor Lyles Mechanical is establishing any course of dealing with the PE Parties. The Lender’s and Lyles Mechanical’s rights to require strict performance with all the terms and conditions of the Loan Documents and the Lyles Mechanical Note as modified by this Agreement shall not in any way be impaired by the execution of this Agreement. The Lender and Lyles Mechanical shall not 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 Lender and Lyles Mechanical, Lender or Lyles Mechanical may require the payment of fees in connection therewith.

20. **Expenses.** Each of the PE Parties hereby acknowledges and agrees that all fees, costs and expenses of Lender and Lyles Mechanical (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 Company in accordance with the Note and the Lyles Mechanical Note.

21. **Further Assurances.** At Lender’s or Lyles Mechanical’s request, each of the PE Parties shall execute and deliver such additional documents and take such additional actions as Lender or Lyles Mechanical requests to effectuate the provisions and purposes of this Agreement and to protect and/or maintain perfection of Lender’s security interests in and liens upon any property of any PE Party in which Lender has been granted a security interest.

[SIGNATURE PAGE FOLLOWS]

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

PACIFIC ETHANOL, INC.

By: /s/ NEIL M. KOEHLER  
Name: Neil M. Koehler  
Title: Chief Executive Officer

PACIFIC AG. PRODUCTS, LLC

By: /s/ NEIL M. KOEHLER  
Name: Neil M. Koehler  
Title: Chief Executive Officer

PACIFIC ETHANOL CALIFORNIA, INC.

By: /s/ NEIL M. KOEHLER  
Name: Neil M. Koehler  
Title: Chief Executive Officer

LYLES UNITED, LLC

By: /s/ MICHAEL F. ELKINS  
Name: Michael F. Elkins  
Title: Vice President

LYLES MECHANICAL CO.

By: /s/ JOHN P. LEONARDO  
Name: John P. Leonardo  
Title: Secretary

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PROMISSORY NOTE  
(Final Payment)

\$1,500,000

Sacramento, California  
October 20, 2008

FOR VALUE RECEIVED, the undersigned, PACIFIC ETHANOL, INC, a Delaware corporation, with its principal place of business at 400 Capitol Mall, Suite 2060, Sacramento, California 95814 ("PEI"), hereby promises to pay to LYLES MECHANICAL CO., a California corporation, with its principal place of business at 1210 West Olive Ave., Fresno, California 93728 or its assigns ("Contractor") the principal sum of One Million, Five Hundred Thousand, and 00/100 Dollars (\$1,500,000.00), together with interest thereon as hereinafter provided until this Note is paid in full.

1. **Principal and Interest Payments.** The principal amount of this Note represents the final payment due to Contractor under the Construction Agreement for the Stockton Project dated March 6, 2008, as amended (the "Construction Agreement"). The principal amount and all accrued interest shall be paid to Contractor on March 31, 2009. Interest on the unpaid principal amount hereof shall accrue at a rate per annum equal to the Prime Rate of interest as reported from time to time in *The Wall Street Journal*, plus two percent (2.00%), computed on the basis of a 360-day year of twelve 30-day months. All payments under this Note shall be applied first to late fees and costs, if any, second to interest then due, if any, and then to the remaining principal balance under this Note.

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

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

(a) *Failure to Pay.* Borrower shall fail to pay (i) when due any principal payment on the date due hereunder, or (ii) any interest or other payment required under the terms of this Note on the date due or

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

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

4. **Rights of Contractor upon Default.** Upon the occurrence or existence of any Event of Default and at any time thereafter during the continuance of such Event of Default, Lender may, by written notice to Borrower, immediately declare all outstanding obligations payable by Borrower hereunder to be immediately due and payable. Upon the occurrence of an Event of Default, the interest rate on this Note shall increase to a rate per annum equal to the Prime Rate of interest as reported from time to time in The Wall Street Journal, plus six percent (6.00%), simple interest, per annum until such default is cured, and is payable together with the principal amount hereof in accordance with the payment terms set forth herein. In addition to the foregoing remedies, upon the occurrence or existence of any Event of Default, Contractor may exercise any other right, power or remedy permitted by law, either by suit in equity or by action at law, or both.

5. **Presentment, etc.** PEI expressly waives demand and presentment for payment, notice of nonpayment, protest, notice of protest, notice of dishonor, bringing of suit and diligence in taking any action to collect amounts called for hereunder and in the handling of securities at any time existing in connection herewith; and shall be liable for the payment of all sums owing and to be owing hereon, regardless of and without any notice, diligence, act or omission as or with respect to the collection of any amount called for hereunder or in connection with any rights, lien, interest or property at any and all times had or existing as security for any amount called for hereunder.

6. **Notices.** All notices to be given under this Note shall be given and shall be deemed served in the same manner as under the Construction Agreement.

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

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

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

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

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

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

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

**14. Time of the Essence.** Time is of the essence as to all dates set forth herein. PEI and Contractor have executed and delivered this Note as of the day and year first set forth above.

PACIFIC ETHANOL, INC.,  
a Delaware corporation

By: /s/ Neil M. Koehler  
Neil M. Koehler, Chief Executive Officer





## PROMISSORY NOTE

\$1,000,000

Sacramento, California  
March 30, 2009

FOR VALUE RECEIVED, the undersigned, PACIFIC ETHANOL, INC., a Delaware corporation ("Borrower"), hereby promises to pay to WILLIAM L. JONES or his assigns ("Lender"), the principal sum of One Million Dollars (\$1,000,000) (or such lesser amount as shall equal the aggregate unpaid principal amount loaned hereunder by Lender) together with interest thereon as hereinafter provided until this Note is paid in full.

1. **Loans.** Borrower may from time to time request in writing, and thereafter Lender shall make, by the next business day following such written request, loans hereunder in an aggregate amount of up to One Dollars (\$1,000,000). The aggregate principal amount of the loans made at any time under this Note shall never exceed the face amount of this Note.

2. **Principal and Interest Payments.** Interest on the unpaid principal amount hereof shall accrue at a rate per annum equal to eight percent (8.0%). All principal and accrued and unpaid interest then owing under this Note shall be due and payable on the first (1<sup>st</sup>) anniversary of the date first set forth above (the "Maturity Date") unless the obligations hereunder are earlier accelerated or satisfied in accordance with the provisions of this Note. All payments by Borrower hereunder shall first apply to accrued and unpaid interest and then to the remaining principal balance under this Note.

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

4. **Payments and Computations.** All payments on account of indebtedness evidenced by this Note shall be made not later than 5:00 p.m., California time, on the day when due in lawful money of the United States. Payments are to be made at such place as Lender may, from time to time, in writing appoint, and in the absence of such appointment, then at the principal place of business of Lender as set forth in Paragraph 7 below.

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

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

(b) *Breach of Note.* Borrower, or any direct or indirect subsidiary of Borrower, shall fail to comply with any material provision as to which it is obligated under this Note and any such failure to comply shall not have been cured within ten (10) days of Borrower's receipt of Lender's written notice to Borrower of such failure to comply.

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

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

**6. Rights of Lender upon Default.** Upon the occurrence or existence of any Event of Default (other than an Event of Default, referred to in Paragraphs 5(c) and 5(d)) and at any time thereafter during the continuance of such Event of Default, Lender may, by written notice to Borrower, immediately declare all outstanding obligations payable by Borrower hereunder to be immediately due and payable without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. Upon the occurrence or existence of any Event of Default described in Paragraphs 5(c) and 5(d), immediately and without notice, all outstanding obligations payable by Borrower hereunder shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. Upon the occurrence of an Event of Default, the interest rate on this Note shall increase by three percent (3.00%) per annum until such default is cured. In addition to the foregoing remedies, upon the occurrence or existence of any Event of Default, Lender may exercise any other right, power or remedy permitted by law, either by suit in equity or by action at law, or both.

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

If to Borrower: Pacific Ethanol, Inc.  
400 Capitol Mall, Suite 2060  
Sacramento, California 95814  
Attn: General Counsel

If to Lender: William L. Jones  
5705 N. West Avenue  
Fresno, CA 93711

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

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

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

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

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

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

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

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

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

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

PACIFIC ETHANOL, INC.  
a Delaware corporation

By: /s/ John T. Miller

\_\_\_\_\_  
John T. Miller, Chief Operating Officer

/s/ William L. Jones

\_\_\_\_\_  
WILLIAM L. JONES



PROMISSORY NOTE

\$1,000,000

Sacramento, California  
March 30, 2009

FOR VALUE RECEIVED, the undersigned, PACIFIC ETHANOL, INC., a Delaware corporation (“Borrower”), hereby promises to pay to NEIL M. KOEHLER or his assigns (“Lender”), the principal sum of One Million Dollars (\$1,000,000) (or such lesser amount as shall equal the aggregate unpaid principal amount loaned hereunder by Lender) together with interest thereon as hereinafter provided until this Note is paid in full.

1. **Loans.** Borrower may from time to time request in writing, and thereafter Lender shall make, by the next business day following such written request, loans hereunder in an aggregate amount of up to One Dollars (\$1,000,000). The aggregate principal amount of the loans made at any time under this Note shall never exceed the face amount of this Note.

2. **Principal and Interest Payments.** Interest on the unpaid principal amount hereof shall accrue at a rate per annum equal to eight percent (8.0%). All principal and accrued and unpaid interest then owing under this Note shall be due and payable on the first (1<sup>st</sup>) anniversary of the date first set forth above (the “Maturity Date”) unless the obligations hereunder are earlier accelerated or satisfied in accordance with the provisions of this Note. All payments by Borrower hereunder shall first apply to accrued and unpaid interest and then to the remaining principal balance under this Note.

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

4. **Payments and Computations.** All payments on account of indebtedness evidenced by this Note shall be made not later than 5:00 p.m., California time, on the day when due in lawful money of the United States. Payments are to be made at such place as Lender may, from time to time, in writing appoint, and in the absence of such appointment, then at the principal place of business of Lender as set forth in Paragraph 7 below.

5. **Events of Default.** The occurrence of any of the following shall constitute an “Event of Default” under this Note:

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

(b) *Breach of Note.* Borrower, or any direct or indirect subsidiary of Borrower, shall fail to comply with any material provision as to which it is obligated under this Note and any such failure to comply shall not have been cured within ten (10) days of Borrower’s receipt of Lender’s written notice to Borrower of such failure to comply.

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

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

**6. Rights of Lender upon Default.** Upon the occurrence or existence of any Event of Default (other than an Event of Default, referred to in Paragraphs 5(c) and 5(d)) and at any time thereafter during the continuance of such Event of Default, Lender may, by written notice to Borrower, immediately declare all outstanding obligations payable by Borrower hereunder to be immediately due and payable without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. Upon the occurrence or existence of any Event of Default described in Paragraphs 5(c) and 5(d), immediately and without notice, all outstanding obligations payable by Borrower hereunder shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. Upon the occurrence of an Event of Default, the interest rate on this Note shall increase by three percent (3.00%) per annum until such default is cured. In addition to the foregoing remedies, upon the occurrence or existence of any Event of Default, Lender may exercise any other right, power or remedy permitted by law, either by suit in equity or by action at law, or both.

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

If to Borrower: Pacific Ethanol, Inc.  
400 Capitol Mall, Suite 2060  
Sacramento, California 95814  
Attn: General Counsel

If to Lender: Neil M. Koehler  
2429 Bucklebury Lane Davis,  
California 95616



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

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

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

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

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

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

13. **Waiver and amendment** Any provision of this Note may be amended, waived or modified only upon the prior consent of Borrower and Lender.

PACIFIC ETHANOL, INC.  
a Delaware corporation

By. /s/ John T. Miller  
John T. Miller, Chief Operating Officer

/s/ Neil M. Koehler  
NEIL M. KOEHLER

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

15. **Time of the Essence.** Time is of the essence as to all dates and set forth herein.

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

