

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)

April 10, 2010

PACIFIC ETHANOL, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

000-21467

(Commission File Number)

41-2170618

(IRS Employer
Identification No.)

400 Capitol Mall, Suite 2060, Sacramento, CA

(Address of principal executive offices)

95814

(Zip Code)

Registrant's telephone number, including area code:

(916) 403-2123

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

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

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

Entry of Order Approving Stipulation for Settlement of Claim

On April 13, 2010, the Superior Court of the State of California for the County of Los Angeles entered an Order Approving Stipulation for Settlement of Claim (the "Order") in the matter entitled Socius CG II, Ltd. v. Pacific Ethanol, Inc. The Order provides for the full and final settlement of Socius GC II, Ltd.'s ("Socius") \$4,000,000 claim against us (the "Claim"). Socius purchased the Claim from Lyles United, LLC ("Lyles United"), a creditor of Pacific Ethanol, Inc., pursuant to the terms of a Purchase Agreement dated effective as of April 10, 2010 between Socius and Lyles United. The Claim consists of the right to receive \$4,000,000 of principal amount of and under a loan made by Lyles United to us pursuant to the terms of an Amended and Restated Promissory Note dated November 7, 2008 in the original principal amount of \$30,000,000. Pursuant to the terms of the Order, on April 14, 2010, we issued and delivered to Socius 3,750,000 shares of our common stock (the "Settlement Shares"), subject to adjustment as set forth in the Order.

The Settlement Shares represent approximately 5.67% of the total number of shares of our common stock outstanding immediately preceding the date of the Order. The total number of shares of our common stock to be issued to Socius or its designee in connection with the Order will be adjusted on the 6th trading day following the date on which the Settlement Shares are issued, as follows: (i) if the number of VWAP Shares (as defined below) exceeds the number of Settlement Shares initially issued, then we will issue to Socius or its designee additional shares of our common stock equal to the difference between the number of VWAP Shares and the number of Settlement Shares, and (ii) if the number of VWAP Shares is less than the number of Settlement Shares, then Socius or its designee will return to us for cancellation that number of shares as equals the difference between the number of VWAP Shares and the number of Settlement Shares.

The number of VWAP Shares is equal to (i) \$4,000,000 divided by 80% of the volume weighted average price as reported by Bloomberg LP ("VWAP") of our common stock over the 5-day trading period immediately following the date on which the Settlement Shares were delivered to Socius, plus (ii) \$30,213 for Socius' legal fees, expenses and costs incurred through March 29, 2010, plus an amount equal to Socius' reasonable legal fees, expenses and costs incurred after March 29, 2010, with the total divided by the VWAP of our common stock over the 5-day trading period immediately following the date on which the Settlement Shares were delivered to Socius. In no event will the number of shares of our common stock issued to Socius or its designee in connection with the settlement of the Claim, aggregated with all shares of our common stock then owned or beneficially owned or controlled by, collectively, Socius and its affiliates, at any time exceed (x) 9.99% of the total number of shares of our common stock then outstanding, or (y) without our prior written consent, that number of shares of our common stock that would trigger a new limitation under Internal Revenue Code Section 382. In addition, in no event will the aggregate number of shares of our common stock issued to Socius or its designee in connection with the settlement of the Claim, aggregated with any other shares of our common stock issued to Socius and/or its designees by us, at any time exceed 19.99% of the total number of shares of our common stock outstanding immediately preceding the date of the Order unless we have obtained either (1) stockholder approval of the issuance of more than such number of shares of our common stock pursuant to NASDAQ Marketplace Rule 5635(d) or (2) a waiver from NASDAQ of our compliance with Rule 5635(d).

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

Item 3.02 Unregistered Sale of Equity Securities.

The information set forth in Item 1.01 of this report is incorporated herein by reference.

The offer and sale of the securities described in Item 1.01 were effected in reliance on Section 3(a)(10) of the Securities Act of 1933, as amended.

Item 8.01 Other Events.

Purchase Agreement with Lyles United

On April 10, 2010, Socius and Lyles United entered into a Purchase Agreement (the "Purchase Agreement") which provides for the sale by Lyles United to Socius of Lyles United's right to the Claim. As of the date of the Purchase Agreement, we were indebted to Lyles United for unpaid principal amount of \$20,000,000 under the Lyles United Note. We are a party to the Purchase Agreement through our execution of an acknowledgment contained therein.

In the acknowledgment, we acknowledged and agreed with Socius and Lyles United (i) that certain of the recitals in the Purchase Agreement are true and correct, (ii) that the sale of the \$4,000,000 claim to Socius covers only such amount, that Lyles United reserves and preserves all of its other claims and interests under the Lyles United Note and that Lyles United's sale of the \$4,000,000 claim does not in any way prejudice or have any adverse effect on such other claims and interests of Lyles United under the Lyles United Note (iii) that the execution, delivery and performance of the Purchase Agreement does not and will not conflict with the terms of the Lyles United Note (or any credit enhancement documents that have been executed in connection with the Lyles United Note) nor will it require any waiver or consent, (iv) that the Lyles United Note is valid, outstanding and enforceable in accordance with its terms and is not subject to any defense or offset and that Lyles United continues to have a valid, enforceable and perfected security interest in certain of our assets pursuant to certain credit enhancement documents entered into by us and Lyles United in connection with the Lyles United Note, and (v) that Socius and Lyles United are relying on our acknowledgments and agreements in entering into the Purchase Agreement.

The description of the Purchase Agreement does not purport to be complete and is qualified in its entirety by reference to the Purchase Agreement, which is filed as Exhibit 99.1 to this report and incorporated herein by reference.

Complaint for Damages

In connection with the purchase of the Claim and pursuant to the terms of the Purchase Agreement, on April 12, 2010, Socius filed a complaint for damages against us with the Court. On April 13, 2010, our counsel and counsel for Socius filed with the Court a joint ex parte application for court order approving stipulation for settlement of Claim. After holding a hearing, the Court issued the Order on April 13, 2010.

Item 9.01 Financial Statements and Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
10.1	Order Approving Stipulation for Settlement of Claim (*)
99.1	Purchase Agreement dated April 10, 2010 by and between Lyles United, LLC and Socius CG II, Ltd. containing an Acknowledgment by Pacific Ethanol, Inc. (*)

* Filed herewith

SIGNATURES

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

Date: April 14, 2010

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	Order Approving Stipulation for Settlement of Claim (*)
99.1	Purchase Agreement dated April 10, 2010 by and between Lyles United, LLC and Socius CG II, Ltd. containing an Acknowledgment by Pacific Ethanol, Inc. (*)

ORIGINAL FILED
APR 13 2010
LOS ANGELES
SUPERIOR COURT

SUPERIOR COURT OF THE STATE OF CALIFORNIA
FOR THE COUNTY OF LOS ANGELES, CENTRAL DISTRICT

Socius CG II, Ltd.,

Plaintiff,

v.

Pacific Ethanol, Inc. and Does 1-10 Inclusive,

Defendants.

Case No. BC 435660

Assigned For All Purposes To:
Hon. Maureen Duffy-Lewis, Dept. 38

**[REDACTED] ORDER APPROVING
STIPULATION FOR SETTLEMENT OF
CLAIM**

Date: April 13, 2010
Time: 8:30 a.m.
Dept.: 38

Complaint Filed: April 12, 2010
Trial Date: None Set

The Joint Ex Parte Application For Court Order Approving Stipulation for Settlement of Claim (“Application”), jointly filed by Plaintiff Socius CG II, Ltd. (“Socius”) and Defendant Pacific Ethanol, Inc. (“PEI”), came on for hearing on April 13, 2010 at 8:30 a.m. in Department 38 of the above-entitled court, the Honorable Maureen Duffy-Lewis, Judge presiding.

The Court, having reviewed the Application, having been presented with a Stipulation for Settlement of Claim (the “Stipulation”), a copy of which is attached as Exhibit A to the Application, and after a hearing upon the fairness, adequacy and reasonableness of the terms and conditions of the issuance of shares of the common stock of PEI (the “Common Stock”) to Socius in exchange for the extinguishment of said claims, **IT IS THEREFORE ORDERED AS FOLLOWS:**

[PROPOSED] ORDER APPROVING SETTLEMENT OF CLAIM

1. The Stipulation is approved in its entirety.

2. In full and final settlement of Socius’ claim against PEI in the total amount of \$4,000,000 (the “Claim”), which Claim Socius purchased from a creditor of PEI, Lyles United, LLC (“Lyles United”) pursuant to a Purchase and Option Agreement between Socius and Lyles United, dated April 10, 2010 (the “Purchase Agreement”), and which Claim comprises a portion of the principal amount due and payable under a loan made from Lyles United to PEI with an aggregate principal balance of \$20,000,000, PEI will issue and deliver to Socius or its designee 3,750,000 shares of Common Stock, being approximately equal to 5% (but under no circumstance whatsoever more than 9.99%) of the total number of shares of Common Stock outstanding on the date of the Stipulation (the “Settlement Shares”), subject to adjustment as set forth in paragraph 4 below to reflect the intention of the parties that the total number of shares issued be based upon an average trading price of the Common Stock for a specified period of time subsequent to entry of this Order.

3. No later than the first business day following the date that the Court enters this Order approving the Stipulation, PEI shall: (i) immediately issue the number of shares of Common Stock required by paragraph 2 above to Socius’ or its designee’s balance account with The Depository Trust Company (DTC) through the Fast Automated Securities Transfer (FAST) Program of DTC’s Deposit/Withdrawal Agent

Commission (DWAC) system, without any restriction on transfer, time being of the essence, by transmitting by facsimile and overnight delivery such irrevocable and unconditional instruction to PEI's stock transfer agent, and (ii) cause its legal counsel to issue an opinion to PEI's transfer agent, in form and substance acceptable to both parties and such transfer agent, that the shares may be so issued.

4. The total number of shares of Common Stock to be issued to Socius or its designee in connection with the Stipulation and this Order shall be adjusted on the 6th trading day following the date on which the Settlement Shares are delivered to Socius or its designee as DWAC shares in compliance with paragraph 3 above, as follows: (i) if the number of VWAP Shares (as defined below) exceeds the number of Settlement Shares initially issued, then PEI will issue and deliver to Socius or its designee, as DWAC shares in accordance with paragraph 3 above, additional shares of Common Stock equal to the difference between the number of VWAP Shares and the number of Settlement Shares, and (ii) if the number of VWAP Shares is less than the number of Settlement Shares, then Socius or its designee will return to PEI for cancellation of that number of shares as equals the difference between the number of VWAP Shares and the number of Settlement Shares issued pursuant to paragraph 2 above or, in the alternative at the option of Socius, a book entry credit may be entered by PEI or its transfer agent reflecting that such shares are owed from Socius to PEI.

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[PROPOSED] ORDER APPROVING SETTLEMENT OF CLAIM

a. The number of VWAP Shares is equal to (i) \$4,000,000 divided by 80% of the trading volume weighted average price as reported by Bloomberg LP (the "VWAP") of the Common Stock over the 5-day trading period immediately following the date on which the Settlement Shares are delivered to Socius or its designee as DWAC shares in compliance with paragraph 3 above, plus (ii) \$30,213 for Socius' legal fees, expenses and costs incurred through March 29, 2010, plus an amount equal to Socius' reasonable legal fees, expenses and costs incurred after March 29, 2010, with the total divided by the VWAP of the Common Stock over the 5-day trading period immediately following the date on which the Settlement Shares are delivered to Socius or its designee as DWAC shares in compliance with paragraph 3 above.

b. In no event shall the number of shares of Common Stock issued to Socius or its designee in connection with the settlement of the Claim, aggregated with all shares of Common Stock then owned or beneficially owned or controlled by, collectively, Socius and its affiliates, at any time exceed (i) 9.99% of the total number of shares of Common Stock then outstanding, or (ii) without the prior written consent of PEI, that number of shares of Common Stock that would trigger a new limitation under IRS Code Section 382.

c. In no event shall the aggregate number of shares of Common Stock issued to Socius or its designee in connection with the settlement of the Claim, aggregated with any other shares of Common Stock issued to Socius and/or its designees by PEI, at any time exceed 19.99% of the total number of shares of Common Stock outstanding immediately preceding the date the Court enters the Order approving this stipulation unless PEI has obtained either (i) stockholder approval for the issuance of more than such number of shares of Common Stock pursuant to NASDAQ Marketplace Rule 5635(d) or (ii) a waiver from NASDAQ of compliance with Rule 5635(d).

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[PROPOSED] ORDER APPROVING SETTLEMENT OF CLAIM

5. For so long as Socius or any of its affiliates holds any shares of Common Stock of PEI, neither Socius nor any of its affiliates will: (i) vote any shares of Common Stock owned or controlled by it, or solicit any proxies or seek to advise or influence any person with respect to any voting securities of PEI; or (ii) engage or participate in any actions, plans or proposals which relate to or would result in (a) Socius or any of its affiliates acquiring additional securities of PEI, alone or together with any other person, which would result in Socius and its affiliates collectively beneficially owning or controlling more than 9.99% of the total outstanding Common Stock or other voting securities of PEI, (b) an extraordinary corporate transaction, such as a merger, reorganization or liquidation, involving PEI or any of its subsidiaries, (c) a sale or transfer of a material amount of assets of PEI or any of its subsidiaries, (d) any change in the present board of directors or management of PEI, including any plans or proposals to change the number or term of directors or to fill any existing vacancies on the board, (e) any material change in the present capitalization or dividend policy of PEI, (f) any other material change in PEI's business or corporate structure, including but not limited to, if PEI is a registered closed-end investment company, any plans or proposals to make any changes in its investment policy for which a vote is required by Section 13 of the Investment Company Act of 1940, (g) changes in PEI's charter, bylaws or instruments corresponding thereto or other actions which may impede the acquisition of control of PEI by any Person, (h) causing a class of securities of PEI to be delisted from a national securities exchange or to cease to be authorized to be quoted in an inter-dealer quotation system of a registered national securities association, (i) causing a class of equity securities of PEI to become eligible for termination of registration pursuant to Section 12(g)(4) of the Act, or (j) taking any action, intention, plan or arrangement similar to any of those enumerated above. The provisions of this paragraph 5 may not be modified or waived without further order of the Court.

6. For the period of one year from the date that the final number of Settlement Shares are delivered to Socius or its designee as DWAC shares in compliance with paragraph 3 above, and regardless of whether Socius or its affiliates then hold any debt or equity securities of PEI, Socius and its affiliates shall have the exclusive right to enter into transactions with PEI whereby PEI directly or indirectly issues common stock or common stock equivalents to a party (including without limitation Lyles United or its affiliates) in exchange for outstanding securities, claims or property interests, or partly in such exchange and partly for cash, including without limitation any such financing or transaction carried out pursuant to Section 3(a)(9) or Section 3(a)(10) of the Securities Act of 1933, as amended; provided, however, that the foregoing exclusivity provision shall not apply to (i) such transactions between PEI and any entity that is a creditor of any PEI subsidiary on the date hereof, or (ii) a convertible note financing (including later conversion of the notes to common stock) in a maximum amount of \$5 million with the creditor with whom PEI is currently in negotiations regarding such financing, or (iii) such transactions between PEI and two of its directors in respect of an aggregate of \$2 million in principal amount of notes issued by PEI to such directors provided that the securities issued

in exchange for such notes cannot be sold by such directors for at least six months subsequent to the issuance date.

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[PROPOSED] ORDER APPROVING SETTLEMENT OF CLAIM

2. This Order ends, finally and forever (i) any claims to payment or compensation of any kind or nature which Socius had, now has, or may assert in the future against PEI arising out of the Claim, and (ii) any claims, including without limitation for offset or counterclaim, which PEI had, now has, or may assert in the future against Socius arising out of the Claim. In this regard, and subject to compliance with this Order, effective upon the execution of this Order, each party hereby releases and forever discharges the other party, including all of the other party's employees, officers, directors, affiliates and attorneys, from any and all claims, demands, obligations (fiduciary or otherwise), and causes of action, whether known or unknown, suspected or unsuspected, arising out of, connected with, or incidental to the Claim.

7. This action is hereby dismissed with prejudice, provided that the court shall retain jurisdiction with regard to the Claim to enforce the terms of this Order.

8. The Stipulation and this Order may be enforced by any party to the Stipulation by a motion under California Code of Civil Procedure section 664.6, or by any procedure permitted by law in the Superior Court of Los Angeles County. Pursuant to the Stipulation, each party thereto further waives a statement of decision, and the right to appeal from this Order after entry. Except as expressly provided in Paragraph 4 above, each party shall bear its own attorney's fees, expenses and costs with regard to the Stipulation and this Order.

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[PROPOSED] ORDER APPROVING SETTLEMENT OF CLAIM

IT IS SO ORDERED.

DATED: APR 13 2010

MAUREEN DUFFY-LEWIS

JUDGE OF THE SUPERIOR COURT

201052545.2

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[PROPOSED] ORDER APPROVING SETTLEMENT OF CLAIM

PURCHASE AGREEMENT

This Purchase Agreement ("Agreement") is entered into as of April 10, 2010, by and between Socius CG II, Ltd., a Bermuda exempted company ("Purchaser"), and Lyles United, LLC, a Delaware limited liability company ("Creditor"), and, as to the Acknowledgment at the end of this Agreement, by Pacific Ethanol, Inc., a Delaware corporation ("PEI").

RECITALS

A. Purchaser and Creditor are parties to (and PEI has executed the "Acknowledgment By PEI" with respect to) that certain Purchase and Option Agreement dated as of March 2, 2010 (the "Master Agreement"); except as otherwise expressly stated herein, all capitalized words and terms used herein have the meanings ascribed to them in the Master Agreement;

B. PEI is indebted to Creditor pursuant to the terms of that certain Amended and Restated Promissory Note, payable to Creditor, dated November 7, 2008, in the original principal amount of \$30,000,000 (the "Note").

C. The obligations of PEI to Creditor under the Note are secured and/or credit enhanced by the terms of (i) that certain Security Agreement dated as of November 7, 2008 between Pacific Ag. Products, LLC, a California limited liability company and indirectly wholly-owned subsidiary of PEI, and Creditor (the "Security Agreement"), (ii) that certain Irrevocable Joint Instruction Letter dated November 7, 2008 among PEI, Pacific Ethanol California, Inc., a California corporation and wholly-owned subsidiary of PEI, and Creditor (the "Instruction Letter"), (iii) that certain Unconditional Guaranty dated November 7, 2008 by Pacific Ag. Products, LLC in favor of Creditor (the "PacAg Guaranty"), and (iv) that certain Limited Recourse Guaranty dated November 7, 2008 by Pacific Ethanol California, Inc. in favor of Creditor (the "PEC Guaranty") (the Security Agreement, Instruction Letter, PacAg Guaranty and PEC Guaranty hereinafter are collectively referred to as the "Credit Enhancement Documents").

D. As of the date of this Agreement, PEI is in default under the Note, and is indebted to Creditor for unpaid principal in the amount of \$20,000,000. PEI is also indebted to Creditor for accrued and unpaid interest, late fees and costs, and reimbursable fees or expenses related to the Note and the defaults thereunder, for a total amount due and payable by PEI to Creditor of \$23,598,226, consisting of \$20,000,000 principal amount, plus \$3,198,226 in unpaid interest accrued through April 10, 2010, plus \$400,000 in reimbursable fees or expenses as of the date hereof (such total amount, plus all additional interest that accrues on the unpaid principal balance under the Note on and after April 11, 2010, being collectively referred to herein as the "Indebtedness").

E. Pursuant to Section 6 of the Master Agreement, Creditor has exercised an Option to sell, transfer and assign to Purchaser its right to receive payment on a portion of the Indebtedness, which portion is Four Million Dollars (\$4,000,000) in principal amount as specified in the Option Exercise Notice provided by Creditor to Purchaser herewith (such portion of the Indebtedness being hereinafter referred to as the "Subject Claim"). Pursuant to such exercise by Creditor, Purchaser desires to purchase the Subject Claim, all subject to the terms and conditions set forth below.

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

1. Purchase and Sale of Subject Claim; Excluded Rights: Purchase Price.

(a) Upon the terms of this Agreement and subject only to the conditions subsequent set forth in Section 2 below, Purchaser hereby purchases from Creditor, and Creditor hereby sells, transfers, conveys and assigns to Purchaser, for the consideration specified below, all right, title and interest in and to the Subject Claim. It is expressly understood and agreed by the parties that the Subject Claim does not include, and the Purchaser under this Agreement is not purchasing or otherwise obtaining, (i) any rights under the Credit Enhancement Documents, which Creditor hereby expressly retains and preserves for its own benefit, (ii) except to the extent (if at all) expressly made part of the Subject Claim pursuant to the specific described components of the Subject Claim set forth in the Option Exercise Notice, any and all claims for accrued and unpaid interest owing to Creditor by PEI as of the date hereof under or in connection with the Note, including, without limitation, all accrued and unpaid interest on the Subject Claim as of the date hereof, all of which claims are expressly retained and preserved by Creditor for its own benefit, and (iii) except to the extent (if at all) expressly made part of the Subject Claim pursuant to the specific described components of the Subject Claim set forth in the Option Exercise Notice, any and all claims of Creditor against PEI for reimbursable fees or expenses under or in connection with the Note, which are expressly retained and preserved by Creditor for its own benefit.

(b) The total consideration to be paid by Purchaser to Creditor for the Subject Claim shall be Four Million Dollars (\$4,000,000) (the "Purchase Price"). The Purchase Price shall be due and payable by Purchaser to Creditor by wire transfer on the date set forth in sub-paragraph (b) of Section 2 below.

2. Conditions Subsequent.

(a) Notice of Filing of Action and Settlement Motion. No later than close of business on the third business day after the date of this Agreement, Purchaser shall provide written notice to Creditor that (i) Purchaser has filed an action (the "Action") against PEI in the Superior Court of the State of California for the County of Los Angeles (the "Court") for collection of the Subject Claim, specifying the date that the Action was commenced (the "Action Commencement Date"), and (ii) a motion in the Action has been filed seeking Court approval of the settlement of the Action on terms acceptable to Purchaser and in accordance with Section 3(a)(10) of the Securities Act of 1933, as amended (the "Settlement"). If such written notice is not provided by Purchaser to Creditor by the close of business on the third business day after the date of this Agreement, then this Agreement (including, without limitation, the provisions in the remainder of this Section 2) shall be deemed void ab initio and of no further force or effect, and no sale or assignment of the Subject Claim shall have occurred or be deemed to have occurred.

(b) Court Approval Notice. Purchaser shall provide written notice to Creditor reasonably promptly after the Court has entered an order in form and substance acceptable to Purchaser approving the Settlement (such written notice being hereinafter referred to as the "Court Approval Notice"). In all events and circumstances, if Purchaser has not provided the Court Approval Notice by the close of business on the tenth business day after the Action Commencement Date (regardless of whether Purchaser has simply overlooked providing such notice by such tenth business day, is not in a position to provide such notice by such tenth business day because the Court has not entered an order approving the Settlement by such tenth business day, or for any other reason in Purchaser's sole discretion Purchase has failed to timely provide the Court Approval Notice), then Creditor shall have the right to terminate and cancel this Agreement by providing written notice of termination to Purchaser at any time prior to receiving the Court Approval Notice from Purchaser. If such termination is so effected by Creditor, then this Agreement shall be deemed void ab initio and of no further force or effect, and no sale or assignment of the Subject Claim shall have occurred or be deemed to have occurred.

(c) Payment of Purchase Price. If the Court Approval Notice is provided by Purchaser to Creditor before Creditor has exercised any termination right set forth in sub-paragraph (b) immediately above, then no later than close of business on the second business day after the date the Court Approval Notice is provided by Purchaser to Creditor, Purchaser shall pay the Purchase Price to Creditor by wire transfer pursuant to the wire transfer instructions set forth in sub-paragraph (c) of Section 2 of the Master Agreement, as the same may be amended or superseded by Creditor from time to time by written notice pursuant to Section 10 of the Master Agreement (the date upon which the Purchase Price has been so timely paid by Purchaser to Creditor being hereinafter referred to as the "Payment Date"). If payment of the Purchase Price is not so timely made by Purchaser to Creditor on the Payment Date, then Creditor shall have the right to terminate and cancel this Agreement by providing written notice of termination to Purchaser at any time prior to payment of the Purchase Price. If such termination is so effected by Creditor, then this Agreement shall be deemed void ab initio and of no further force or effect, and no sale or assignment of the Subject Claim shall have occurred or be deemed to have occurred.

3. Upon (and only upon) the occurrence of the following four conditions subsequent: (i) the items specified in sub-paragraphs (i) and (ii) of subparagraph (c) of Section 6 of the Master Agreement, as such items pertain to this Agreement, having been timely provided by Purchaser to Creditor, (ii) written notice of the Action Commencement Date and of the filing of the motion for Court approval of the Settlement having been timely provided to Creditor by Purchaser pursuant to sub-paragraph (a) of Section 2 above, (iii) the Court Approval Notice having been provided by Purchaser to Creditor before Creditor has exercised any termination right pursuant to sub-paragraph (b) of Section 2 above, and (iv) the payment of the Purchase Price to Creditor before Creditor has exercised any termination right pursuant to sub-paragraph (c) of Paragraph 2 above,

(a) All conditions subsequent shall have been satisfied and the sale and assignment of the Subject Claim shall be complete and indefeasible, and

(b) Prior to the close of business on the second business day after the occurrence of the four conditions subsequent described above in this Section 3, Creditor shall take the actions set forth in sub-paragraph (y) of sub-paragraph (f) of Section 6 of the Master Agreement with respect to a New Allonge/Amendment that gives effect to the consummation of the sale and assignment of the Subject Claim to Purchaser.

4. Representations and Warranties of Creditor. The representations and warranties made by Creditor to Purchaser in Section 4 of the Master Agreement shall apply to this Agreement as set forth in sub-paragraph (f) of Section 4 of the Master Agreement.

5. Representations and Warranties of Purchaser. The representations and warranties made by Purchaser to Creditor in Section 5 of the Master Agreement shall apply to this Agreement as set forth in sub-paragraph (d) of Section 5 of the Master Agreement.

6. Fees and Expenses. Each of Creditor and Purchaser shall pay the fees and expenses of its own advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. Creditor understands that Purchaser shall not be liable for any commissions, selling expenses, orders, purchases, contracts, taxes, withholding, or obligations of any kind resulting from any of Creditor's transactions. Creditor agrees to satisfy any and all of its tax withholding and other obligations from the Purchase Price, and will indemnify, defend and hold Purchaser and its affiliates harmless with respect to all such obligations.

7. Choice of Law. This Agreement shall be governed by and construed according to the laws of the State of California, without giving effect to its choice of law principles. Creditor agrees that all actions and proceedings arising out of or relating directly or indirectly to this Agreement or any ancillary agreement or any other obligations shall be litigated solely and exclusively in the state or federal courts located in Los Angeles, California, that such courts are convenient forums, and that Creditor submits to the personal jurisdiction of such courts for purposes of any such actions or proceedings.

8. Limitation of Damages. Each of the parties hereby waives any right which it may have to claim or recover any incidental, special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. Purchaser shall have no liability hereunder for any delay in or failure to obtain Court Approval or for any other causes beyond Purchaser's control.

9. Notices. All notices and other communications under this Agreement shall be provided as set forth in Section 10 of the Master Agreement.

10. General. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party. This Agreement is intended for the benefit of Creditor and Purchaser and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other person (except for the provision in sub-paragraph (b) of Section 3 above that is expressly stated to be for the benefit of, and enforceable by, PEI). The representations and warranties contained herein shall survive the closing of the transaction contemplated herein and the assignment of the Subject Claim. This Agreement may be executed in two or more counterparts, by facsimile or electronic transmission, all of which when taken together shall be considered one original.

11. Amendments and Waivers. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by both Creditor and Purchaser, or, in the case of a waiver, by the party against whom enforcement of any such waiver is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either Creditor or Purchaser to exercise any right hereunder in any manner impair the exercise of any such right.

12. Entire Agreement. This Agreement and the Master Agreement, together with the exhibits hereto and thereto, contain the entire agreement and understanding between Creditor and Purchaser, and supersede all prior and contemporaneous agreements, term sheets, letters, discussions, communications and understandings, both oral and written, between Creditor and Purchaser concerning the sale and assignment of the Subject Claim, which Creditor and Purchaser acknowledge have been merged herein and therein. (To avoid any unintended ambiguity, the parties expressly acknowledge and agree that this Agreement, although later in point in time than the Master Agreement, does not supersede the Master Agreement.) No party, representative, attorney or agent has relied upon any collateral contract, agreement, assurance, promise, understanding or representation not expressly set forth hereinabove. The parties hereby expressly waive all rights and remedies, at law and in equity, directly or indirectly arising out of or relating to, or which may arise as a result of, any person or entity's reliance on any such assurance.

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

PURCHASER:

SOCIUS CG II, LTD.,
a Bermuda exempted company

By: /s/ JSD

Its: _____

CREDITOR:

LYLES UNITED, LLC,
a Delaware limited liability company

By: /s/ W. M. Lyles IV

Its: V.P.

ACKNOWLEDGMENT BY PEI

PEI hereby acknowledges and agrees as follows as of the Action Commencement Date (as defined in the foregoing Agreement) and as of the Payment Date (as defined in the foregoing Agreement):

- (1) The recitals in Recital Paragraphs A, B, C and D on the first page of the foregoing Agreement are true and correct;
- (2) The sale and assignment of the Subject Claim only covers and includes \$4,000,000 in principal amount of the outstanding balance under the Note, Creditor reserves and preserves all of its other claims and interests under or in connection with the Note, and Creditor's sale and assignment of the Subject Claim does not and shall not in any way prejudice or have any adverse effect on such other claims and interests of Creditor under or in connection with the Note;
- (3) The execution, delivery and performance of the foregoing Agreement by Creditor and Purchaser does not and will not (a) conflict with, violate or cause a breach or default under the Note, any of the Credit Enhancement Documents, or any other agreement or document related to the debt comprising the Subject Claim, or (b) require any waiver, consent or other action of PEI or any affiliate of PEI;
- (4) The Note is valid, outstanding and enforceable in accordance with its terms, and is not subject to any defense or offset, and shall not become subject to any defense or offset (other than reduction of the Indebtedness by the amount of the Subject Claim when and as provided in sub-paragraph (b) of Paragraph 3 of the foregoing Agreement) by virtue of the consummation of the sale and assignment under the foregoing Agreement; and Creditor has, and shall continue to have after the consummation of the sale and assignment under the foregoing Agreement, a valid, enforceable and perfected security interest in and liens upon the property of PEI or any of its affiliates in which Creditor has been granted a security interest pursuant to any of the Credit Enhancement Documents to secure all outstanding obligations under the Note or any of the Credit Enhancement Documents;
- (5) Neither PEI's and Purchaser's settlement of the Subject Claim pursuant to the Action, nor the consummation of such settlement by the issuance of shares of common stock of PEI to Purchaser in satisfaction of the Subject Claim, nor any subsequent sale of those shares by Purchaser, will in any case cause PEI to undergo an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended.
- (6) Creditor is relying on the foregoing acknowledgments and agreements by PEI in entering into the foregoing Agreement and in selling and assigning the Subject Claim, and Purchaser is relying on the foregoing acknowledgments and agreements by PEI in entering into the foregoing Agreement and in purchasing and taking assignment of the Subject Claim.

PACIFIC ETHANOL, INC.,
a Delaware corporation

By: /s/ Neil M. Koehler

Its: Chief Executive Officer

