
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2014**

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

For the transition period from _____ to _____

Commission File Number: **000-21467**



Pacific Ethanol, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

41-2170618

(I.R.S. Employer
Identification No.)

400 Capitol Mall, Suite 2060, Sacramento, California

(Address of principal executive offices)

95814

(zip code)

(916) 403-2123

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 11, 2014, there were 24,484,605 shares of Pacific Ethanol, Inc. common stock, \$0.001 par value per share, outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	September 30, 2014 (unaudited)	December 31, 2013 *
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 56,256	\$ 5,151
Accounts receivable, net	30,474	35,296
Inventories	20,263	23,386
Prepaid inventory	10,581	12,315
Other current assets	2,197	3,229
Total current assets	<u>119,771</u>	<u>79,377</u>
Property and equipment, net	<u>155,771</u>	<u>155,194</u>
Other Assets:		
Intangible assets, net	2,904	3,260
Other assets	1,686	3,218
Total other assets	<u>4,590</u>	<u>6,478</u>
Total Assets	<u>\$ 280,132</u>	<u>\$ 241,049</u>

* Amounts derived from the audited financial statements for the year ended December 31, 2013.

See accompanying notes to consolidated financial statements.

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

	September 30, 2014 (unaudited)	December 31, 2013 *
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities:		
Accounts payable – trade	\$ 12,338	\$ 11,071
Accrued liabilities	8,346	5,851
Current portion – capital leases	4,961	4,830
Current portion – long-term debt (including \$750 to related party)	–	750
Other current liabilities	806	5,714
Total current liabilities	26,451	28,216
Long-term debt, net of current portion	30,475	98,408
Accrued preferred dividends	2,194	3,657
Warrant liabilities at fair value	4,793	8,215
Capital lease liabilities, net of current portion	2,277	6,041
Other liabilities	1,759	1,611
Total Liabilities	67,949	146,148
Commitments and Contingencies (Notes 4, 5 and 8)		
Stockholders' Equity:		
Pacific Ethanol, Inc. Stockholders' Equity:		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; Series A: 1,684,375 shares authorized; 0 shares issued and outstanding as of September 30, 2014 and December 31, 2013; Series B: 1,580,790 shares authorized; 926,942 shares issued and outstanding as of September 30, 2014 and December 31, 2013; liquidation preference of \$20,270 as of September 30, 2014	1	1
Common stock, \$0.001 par value; 300,000,000 shares authorized; 24,328,872 and 16,126,287 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	24	16
Additional paid-in capital	732,801	621,557
Accumulated deficit	(524,531)	(532,356)
Total Pacific Ethanol, Inc. Stockholders' Equity	208,295	89,218
Noncontrolling interests	3,888	5,683
Total Stockholders' Equity	212,183	94,901
Total Liabilities and Stockholders' Equity	\$ 280,132	\$ 241,049

* Amounts derived from the audited financial statements for the year ended December 31, 2013.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net sales	\$ 275,573	\$ 233,880	\$ 851,260	\$ 693,147
Cost of goods sold	257,587	230,357	761,153	681,813
Gross profit	17,986	3,523	90,107	11,334
Selling, general and administrative expenses	4,392	2,511	12,377	9,649
Income from operations	13,594	1,012	77,730	1,685
Fair value adjustments and warrant inducements	(4,378)	762	(39,737)	1,507
Interest expense, net	(1,133)	(4,530)	(8,370)	(11,983)
Loss on extinguishments of debt	-	(2,573)	(2,363)	(1,795)
Other expense, net	(172)	(106)	(734)	(321)
Income (loss) before provision for income taxes	7,911	(5,435)	26,526	(10,907)
Provision for income taxes	3,163	-	13,629	-
Consolidated net income (loss)	4,748	(5,435)	12,897	(10,907)
Net (income) loss attributed to noncontrolling interests	(723)	464	(4,126)	1,533
Net income (loss) attributed to Pacific Ethanol	\$ 4,025	\$ (4,971)	\$ 8,771	\$ (9,374)
Preferred stock dividends	\$ (319)	\$ (319)	\$ (946)	\$ (946)
Income (loss) available to common stockholders	\$ 3,706	\$ (5,290)	\$ 7,825	\$ (10,320)
Net income (loss) per share, basic	\$ 0.16	\$ (0.40)	\$ 0.40	\$ (0.91)
Net income (loss) per share, diluted	\$ 0.15	\$ (0.40)	\$ 0.35	\$ (0.91)
Weighted-average shares outstanding, basic	22,986	13,177	19,713	11,380
Weighted-average shares outstanding, diluted	24,307	13,177	22,073	11,380

See accompanying notes to consolidated financial statements.

PACIFIC ETHANOL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2014	2013
Operating Activities:		
Consolidated net income (loss)	\$ 12,897	\$ (10,907)
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of intangibles	9,775	8,979
Deferred income taxes	191	–
Interest expense added to Plant Owners' debt	–	4,745
Loss on extinguishments of debt	2,363	1,795
Fair value adjustments on convertible debt and warrants	37,465	(2,293)
Amortization of debt discount	1,815	875
Amortization of deferred financing fees	1,139	1,621
Inventory valuation	722	8
Non-cash compensation	1,311	1,310
Derivative instruments	700	1,652
Bad debt expense (recovery)	(40)	231
Changes in operating assets and liabilities:		
Accounts receivable	4,862	(1,282)
Inventories	2,401	2,507
Prepaid expenses and other assets	962	(1,696)
Prepaid inventory	1,734	(5,810)
Accounts payable and accrued expenses	(2,047)	3,138
Net cash provided by operating activities	<u>76,250</u>	<u>4,873</u>
Investing Activities:		
Additions to property and equipment	(9,996)	(1,936)
Purchases of New PE Holdco ownership interests	(6,000)	(1,836)
Net cash used in investing activities	<u>(15,996)</u>	<u>(3,772)</u>
Financing Activities:		
Proceeds from equity offering	26,073	–
Proceeds from exercise of warrants	42,656	2,064
Proceeds from senior unsecured notes	–	22,192
Proceeds from series A and B convertible notes	–	14,000
Proceeds from Plant Owners' borrowings	–	5,000
Principal payments on senior notes	(13,984)	(5,303)
Principal payment on related party note	(750)	–
Parent purchases of Plant Owners' debt	(17,038)	(25,273)
Net payments on Kinery's line of credit	(5,570)	(599)
Principal payments on Plant Owners' borrowings	(35,378)	(8,622)
Principal payments on capital leases	(3,772)	(465)
Debt issuance costs	(440)	(1,560)
Preferred stock dividends paid	(946)	(946)
Net cash (used in) provided by financing activities	<u>(9,149)</u>	<u>488</u>
Net increase in cash and cash equivalents	51,105	1,589
Cash and cash equivalents at beginning of period	5,151	7,586
Cash and cash equivalents at end of period	<u>\$ 56,256</u>	<u>\$ 9,175</u>

See accompanying notes to consolidated financial statements.

PACIFIC ETHANOL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(unaudited, in thousands)

	Nine Months Ended September 30,	
	2014	2013
Supplemental Information:		
Interest paid	\$ 5,606	\$ 4,594
Income taxes paid	\$ 10,470	\$ —
Noncash financing and investing activities:		
Reclass of warrant liability to equity upon warrant exercises	\$ 40,884	\$ 260
Preferred stock dividends paid in common stock	\$ 1,463	\$ 2,195
Reclass of noncontrolling interests to APIC upon acquisitions of ownership positions in PE Op Co.	\$ 80	\$ 9,087
Corn oil separation capital leases	\$ —	\$ 12,122
Original discount on senior and convertible debt	\$ —	\$ 8,558
Debt extinguished with issuance of common stock	\$ —	\$ 11,475

See accompanying notes to consolidated financial statements.

PACIFIC ETHANOL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION AND BASIS OF PRESENTATION.

Organization and Business – The consolidated financial statements include, for all periods presented, the accounts of Pacific Ethanol, Inc., a Delaware corporation (“Pacific Ethanol”), and its direct and indirect subsidiaries, including its wholly-owned subsidiaries, Kinergy Marketing LLC, an Oregon limited liability company (“Kinergy”), Pacific Ag. Products, LLC, a California limited liability company (“PAP”) and PE Op Co., a Delaware corporation (“PE Op Co.,” formerly, New PE Holdco LLC, a Delaware limited liability company), which owns the Plant Owners (as defined below) (collectively, the “Company”).

The Company is the leading producer and marketer of low-carbon renewable fuels in the Western United States. The Company also sells ethanol co-products, including wet distillers grain (“WDG”), a nutritious animal feed, and corn oil. Serving integrated oil companies and gasoline marketers who blend ethanol into gasoline, the Company provides transportation, storage and delivery of ethanol through third-party service providers in the Western United States, primarily in California, Arizona, Nevada, Utah, Oregon, Colorado, Idaho and Washington. The Company had a 96% and an 85% ownership interest in PE Op Co., the owner of four ethanol production facilities, as of September 30, 2014 and 2013, respectively. The facilities are near their respective fuel and feed customers, offering significant timing, transportation cost and logistical advantages. The Company sells ethanol produced by the Pacific Ethanol Plants (as defined below) and unrelated third parties to gasoline refining and distribution companies, sells its WDG to dairy operators and animal feed distributors and sells its corn oil to poultry and biodiesel customers.

The Company manages the production and operation of the following four ethanol production facilities: Pacific Ethanol Madera LLC, Pacific Ethanol Columbia, LLC, Pacific Ethanol Stockton LLC and Pacific Ethanol Magic Valley, LLC (collectively, the “Pacific Ethanol Plants”) and their holding company, Pacific Ethanol Holding Co. LLC (“PEHC,” and together with the Pacific Ethanol Plants, the “Plant Owners”). PEHC is a wholly-owned subsidiary of PE Op Co. These four facilities have an aggregate annual ethanol production capacity of up to 200 million gallons. As of September 30, 2014, all four facilities were operating. On April 30, 2014, the Company’s previously idled facility in Madera, California commenced producing ethanol. As market conditions change, the Company may increase, decrease or idle production at one or more operational facilities or resume operations at any idled facility.

Reverse Stock Split – On May 14, 2013, the Company effected a one-for-fifteen reverse stock split. All share and per share information has been restated to retroactively show the effect of this stock split.

Liquidity – During the three and nine months ended September 30, 2014, the Company funded its operations primarily from cash on hand, cash provided by operations, proceeds from an equity offering and warrant exercises and borrowings under its credit facilities.

The Company’s current available capital resources consist of cash on hand and amounts available for borrowing under Kinergy’s credit facility. In addition, the Plant Owners have credit facilities for use in the operations of the Pacific Ethanol Plants. The Company expects that its future available capital resources will consist primarily of its remaining cash balances, cash flow from operations, if any, amounts available for borrowing, if any, under Kinergy’s credit facility, cash generated from Kinergy’s ethanol marketing business, fees paid under the asset management agreement relating to the Company’s operation of the Pacific Ethanol Plants, cash proceeds from warrant exercises and distributions, if any, in respect of the Company’s ownership interest in PE Op Co.

The Company believes that current and future available capital resources, revenues generated from operations, and other existing sources of liquidity, including its credit facilities, will be adequate to meet its anticipated working capital and capital expenditure requirements for at least the next twelve months.

Accounts Receivable and Allowance for Doubtful Accounts – Trade accounts receivable are presented at face value, net of the allowance for doubtful accounts. The Company sells ethanol to gasoline refining and distribution companies, sells WDG to dairy operators and animal feed distributors and sells corn oil to poultry and biodiesel customers generally without requiring collateral.

The Company maintains an allowance for doubtful accounts for balances that appear to have specific collection issues. The collection process is based on the age of the invoice and requires attempted contacts with the customer at specified intervals. If, after a specified number of days, the Company has been unsuccessful in its collection efforts, a bad debt allowance is recorded for the balance in question. Delinquent accounts receivable are charged against the allowance for doubtful accounts once uncollectibility has been determined. The factors considered in reaching this determination are the apparent financial condition of the customer and the Company's success in contacting and negotiating with the customer. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of ability to make payments, additional allowances may be required.

Of the accounts receivable balance, approximately \$21,653,000 and \$27,487,000 at September 30, 2014 and December 31, 2013, respectively, were used as collateral under Kinergy's operating line of credit. The allowance for doubtful accounts was not material as of September 30, 2014 or December 31, 2013. The Company does not have any off-balance sheet credit exposure related to its customers.

Provision for Income Taxes – For the three and nine months ended September 30, 2014, the Company generated income subject to income tax. The Company's fair value adjustments and warrant inducements are not tax deductible and thus resulted in larger taxable income as compared to reported income (loss) before provision for income taxes for the three and nine months ended September 30, 2014. The Company applied its net operating loss carryforwards to a portion of its taxable income for these periods. Further, the Company increased by \$1.8 million and reduced by \$5.7 million its valuation allowance against its net tax assets, resulting in a net provision for income taxes of \$3.2 million and \$13.6 million for the three and nine months ended September 30, 2014, respectively.

Conversion of New PE Holdco LLC – On April 1, 2014, New PE Holdco LLC was converted from a Delaware limited liability company to a Delaware C-corporation and changed its name to PE Op Co.

Basis of Presentation—Interim Financial Statements – The accompanying unaudited consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Results for interim periods should not be considered indicative of results for a full year. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The accounting policies used in preparing these consolidated financial statements are the same as those described in Note 1 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the results for interim periods have been included. All significant intercompany accounts and transactions have been eliminated in consolidation.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are required as part of determining the fair value of warrants and conversion features, allowance for doubtful accounts, estimated lives of property and equipment and intangibles, long-lived asset impairments, valuation allowances on deferred income taxes and the potential outcome of future tax consequences of events recognized in the Company's financial statements or tax returns. Actual results and outcomes may materially differ from management's estimates and assumptions.

Recently Issued Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board (“FASB”) issued new guidance on the recognition of revenue. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company's adoption begins with the first fiscal quarter of fiscal year 2017. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this accounting standard update on its consolidated results of operations and financial position.

In April 2014, the FASB issued new guidance on the definition of a discontinued operation that requires entities to provide additional disclosures about disposal transactions that do not meet the discontinued operations criteria. The new guidance narrows the focus of discontinued operations to those components that 1) are disposed of or classified as held-for-sale and 2) represent a strategic shift that has or will have a major impact on the entity's operations or financial results. The guidance is effective prospectively for all disposals or components initially classified as held-for-sale in periods beginning on or after December 15, 2014. Early adoption is permitted. Upon adoption, the Company does not believe this guidance will have a material impact on its consolidated results of operations or financial position.

In August 2014, the FASB issued new guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about its ability to continue as a going concern. The guidance is effective for annual periods ending after December 15, 2016 and interim periods thereafter. Early adoption is permitted. Upon adoption, the Company does not believe this guidance will have a material impact on its consolidated results of operations or financial position.

2. PACIFIC ETHANOL PLANTS.

Consolidation of PE Op Co. – The Company concluded that since PE Op Co.'s inception, through the point the Company became a 91% owner, PE Op Co. was a variable interest entity because the other owners of PE Op Co., due to the Company's involvement through its contractual arrangements, at all times lacked the power to direct the activities that most significantly impacted its economic performance. However, since the Company's acquisition in December 2013 that brought its ownership interest in PE Op Co. to 91%, the Company has obtained and maintained sufficient control both by way of agreements as well as based on structural control of PE Op Co., such that PE Op Co. is no longer considered a variable interest entity, and as such the Company consolidates PE Op Co. under the voting rights model. Noncontrolling interests decreased from \$5,683,000 at December 31, 2013 to \$3,888,000 at September 30, 2014 due to the Company's purchase of an additional 5% interest in PE Op Co., which reduced noncontrolling interests by \$5,921,000, which was partially offset by net income attributed to noncontrolling interests of \$4,126,000 for the nine months ended September 30, 2014.

The Company's acquisition of its ownership interest in PE Op Co. does not impact the Company's rights or obligations under any of its contractual arrangements. Further, creditors of PE Op Co. or its subsidiaries do not have recourse to the Company. Since its acquisition, the Company has not provided any additional support to PE Op Co. beyond the terms of its contractual arrangements.

3. INVENTORIES.

Inventories consisted primarily of bulk ethanol and unleaded fuel, and are valued at the lower-of-cost-or-market, with cost determined on a first-in, first-out basis. Inventory balances consisted of the following (in thousands):

	September 30, 2014	December 31, 2013
Finished goods	\$ 12,396	\$ 10,287
Raw materials	3,386	9,418
Work in progress	3,114	2,766
Other	1,367	915
Total	<u>\$ 20,263</u>	<u>\$ 23,386</u>

4. DERIVATIVES.

The business and activities of the Company expose it to a variety of market risks, including risks related to changes in commodity prices and interest rates. The Company monitors and manages these financial exposures as an integral part of its risk management program. This program recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effects that market volatility could have on operating results.

Commodity Risk – Cash Flow Hedges – The Company uses derivative instruments to protect cash flows from fluctuations caused by volatility in commodity prices for periods of up to twelve months in order to protect gross profit margins from potentially adverse effects of market and price volatility on ethanol sale and purchase commitments where the prices are set at a future date and/or if the contracts specify a floating or index-based price for ethanol. In addition, the Company hedges anticipated sales of ethanol to minimize its exposure to the potentially adverse effects of price volatility. These derivatives may be designated and documented as cash flow hedges and effectiveness is evaluated by assessing the probability of the anticipated transactions and regressing commodity futures prices against the Company's purchase and sales prices. Ineffectiveness, which is defined as the degree to which the derivative does not offset the underlying exposure, is recognized immediately in cost of goods sold. For the three and nine months ended September 30, 2014 and 2013, the Company did not designate any of its derivatives as cash flow hedges.

Commodity Risk – Non-Designated Hedges – The Company uses derivative instruments to lock in prices for certain amounts of corn and ethanol by entering into forward contracts for those commodities. These derivatives are not designated for special hedge accounting treatment. The changes in fair value of these contracts are recorded on the balance sheet and recognized immediately in cost of goods sold. The Company recognized losses of \$1,217,000 and gains of \$1,168,000 as the change in the fair value of these contracts for the three months ended September 30, 2014 and 2013, respectively. The Company recognized losses of \$700,000 and gains of \$1,652,000 as the change in the fair value of these contracts for the nine months ended September 30, 2014 and 2013, respectively.

Non-Designated Derivative Instruments – The classification and amounts of the Company’s recognized gains (losses) for its derivatives not designated as hedging instruments are as follows (in thousands):

Type of Instrument	Statements of Operations Location	Realized Losses	
		Three Months Ended September 30,	
		2014	2013
Commodity contracts	Cost of goods sold	\$ (1,619)	\$ (1,612)
		<u>\$ (1,619)</u>	<u>\$ (1,612)</u>

Type of Instrument	Statements of Operations Location	Unrealized Gains	
		Three Months Ended September 30,	
		2014	2013
Commodity contracts	Cost of goods sold	\$ 402	\$ 444
		<u>\$ 402</u>	<u>\$ 444</u>

Type of Instrument	Statements of Operations Location	Realized Losses	
		Nine Months Ended September 30,	
		2014	2013
Commodity contracts	Cost of goods sold	\$ (1,070)	\$ (1,714)
		<u>\$ (1,070)</u>	<u>\$ (1,714)</u>

Type of Instrument	Statements of Operations Location	Unrealized Gains	
		Nine Months Ended September 30,	
		2014	2013
Commodity contracts	Cost of goods sold	\$ 370	\$ 62
		<u>\$ 370</u>	<u>\$ 62</u>

5. DEBT.

Long-term borrowings are summarized as follows (in thousands):

	September 30, 2014	December 31, 2013
Kinergy operating line of credit	\$ 13,472	\$ 19,042
Plant Owners’ third-party term debt	17,003	31,678
Plant Owners’ lines of credit	–	35,378
Senior unsecured notes	–	13,984
Note payable to related party	–	750
	<u>30,475</u>	<u>100,832</u>
Less: Unamortized discount on senior unsecured notes convertible notes	–	(1,674)
	<u>30,475</u>	<u>99,158</u>
Less short-term portion	–	(750)
Long-term debt	<u>\$ 30,475</u>	<u>\$ 98,408</u>

Kinergy Operating Line of Credit – For the three and nine months ended September 30, 2014, Kinergy repaid net \$7,899,000 and \$5,570,000 on its working capital line of credit, respectively. As of September 30, 2014, Kinergy had an available borrowing base under the credit facility of \$14,828,000.

Senior Unsecured Notes – For the nine months ended September 30, 2014, the Company paid in cash \$13,984,000 on its senior unsecured notes. These notes were fully retired at June 30, 2014.

Plant Owners' Term Debt and Operating Lines of Credit – The Plant Owners' debt as of September 30, 2014 consisted of a \$32,487,000 tranche A-1 term loan and a \$26,279,000 tranche A-2 term loan. Pacific Ethanol, Inc., holds a combined \$41,763,000 of these term loans, which are eliminated in consolidation. The term debt requires monthly interest payments at a floating rate equal to the three-month LIBOR or the Prime Rate of interest, at the Plant Owners' election, plus 10.0%. The revolving credit facilities require monthly interest payments at a floating rate equal to the three-month LIBOR or the Prime Rate of interest, at the Plant Owners' election, plus 10.0% and 5.5% for the \$19,500,000 and \$15,000,000 facilities, respectively. At September 30, 2014, the average interest rate was approximately 11.0%. Repayments of principal are based on available free cash flow of the Plant Owners, until maturity, when all principal amounts are due.

For the three and nine months ended September 30, 2014, the Company paid in cash \$0 and \$35,378,000, respectively, on its revolving credit facilities. As of September 30, 2014, the Company had no outstanding principal balances on these revolving credit facilities and an aggregate borrowing availability of \$34,500,000.

Debt Modifications – On April 1, 2014, the Company entered into amendments to its credit facilities and term loan arrangements to achieve the following changes:

- Adjust the terms of the credit agreements to take into account a restart of the Company's Madera, California facility;
- Reduce the Company's revolving credit facility from \$35,000,000 to \$20,000,000 while increasing the maximum amount of the term loan outstanding to \$65,766,000, allowing the Company to immediately borrow an additional \$7,000,000. The additional \$7,000,000 in borrowings was subject to an original issue discount of 6.25%, representing loan fees payable to the lenders, resulting in net proceeds from the additional borrowings of approximately \$6,600,000. The Company used the net proceeds of the additional loan to restart operations at the Company's Madera, California facility. The Company has since repaid the additional loan in full;
- Increase to \$24,000,000 from \$14,000,000 the level of permitted indebtedness, including capital lease liabilities that may be incurred for yield enhancing equipment or processing and separation equipment for corn oil and corn syrup at the Company's ethanol production facilities; and
- Maintain the Company's new revolving credit facility at \$15,000,000 but allow the Company to terminate in whole or permanently reduce in part in \$1,000,000 increments the lenders' aggregate commitment.

Parent Purchase of Debt – On June 6, 2014, the Company purchased \$14,675,000 of term debt for \$17,038,000 in cash, reducing its consolidated plant term debt by \$14,675,000, and recorded a \$2,363,000 loss on extinguishment of debt for the amount paid in excess of the principal balance.

Note Payable to Related Party – The Company repaid in cash its note payable to its Chief Executive Officer totaling \$750,000 on March 31, 2014.

6. COMMON STOCK AND WARRANTS.

Warrant Exercises – During the three and nine months ended September 30, 2014, certain holders exercised warrants and received an aggregate of 3,095,000 and 5,942,000 shares of the Company's common stock upon payment of an aggregate of \$24,417,000 and \$42,575,000 in cash, respectively. During the three and nine months ended September 30, 2014, the Company paid an aggregate of \$1,471,000 and \$2,271,000, respectively, in cash to certain warrant holders as an inducement to exercise their warrants and recorded an expense of \$1,471,000 and \$2,271,000, respectively. During the nine months ended September 30, 2014, certain warrant holders exercised warrants on a cashless basis and received 291,000 shares of the Company's common stock.

During the nine months ended September 30, 2013, certain holders exercised warrants and received an aggregate of 267,700 shares of the Company's common stock upon payment of an aggregate of \$2,064,000 in cash. During the nine months ended September 30, 2013, the Company paid an aggregate of \$786,000 in cash to certain warrant holders as an inducement to exercise their warrants and recorded an expense of \$786,000. During the nine months ended September 30, 2013, certain warrant holders exercised warrants on a cashless basis and received 11,000 shares of the Company's common stock.

Equity Offering – In April 2014, the Company issued 1,750,000 shares of its common stock in a public offering for net proceeds of \$26,073,000.

Grants of Stock – In June 2014, the Company granted an aggregate of 24,267 shares of restricted stock to non-employee members of the Company's Board of Directors that vest on the earlier of (i) the date of the Company's 2015 annual meeting of stockholders, or (ii) July 31, 2015, which had a grant date fair value of \$15.21 per share. In June 2014, the Company granted an aggregate of 129,514 shares of restricted stock to the Company's executive officers and other eligible employees that vest in equal amounts on each of April 1, 2015, 2016 and 2017, which had a grant date fair value of \$15.21 per share.

7. COMMITMENTS AND CONTINGENCIES.

Sales Commitments – At September 30, 2014, the Company had entered into sales contracts with its major customers to sell certain quantities of ethanol, WDG, syrup and corn oil. The Company had open ethanol indexed-price contracts for 134,896,000 gallons of ethanol as of September 30, 2014. The Company had open WDG, syrup and corn oil fixed-price sales contracts valued at \$814,000 and open indexed-price sales contracts for 164,000 tons of WDG and syrup as of September 30, 2014. These sales contracts are expected to be completed over the next twelve months.

Purchase Commitments – At September 30, 2014, the Company had fixed-price purchase contracts with its suppliers to purchase \$11,462,000 of ethanol and index-price purchase contracts for 19,318,000 gallons of ethanol. These contracts are expected to be satisfied over the next twelve months.

Litigation – General – The Company is subject to various claims and contingencies in the ordinary course of its business, including those related to litigation, business transactions, employee-related matters, and others. When the Company is aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, the Company will record a liability for the loss. If the loss is not probable or the amount of the loss cannot be reasonably estimated, the Company discloses the claim if the likelihood of a potential loss is reasonably possible and the amount involved could be material. While there can be no assurances, the Company does not expect that any of its pending legal proceedings will have a material financial impact on the Company's operating results.

On May 24, 2013, GS CleanTech Corporation (“GS CleanTech”), filed a suit in the United States District Court for the Eastern District of California, Sacramento Division (Case No.: 2:13-CV-01042-JAM-AC), naming Pacific Ethanol, Inc. as a defendant. The suit alleges infringement of a patent assigned to GS CleanTech by virtue of certain corn oil separation technology in use at one or more of the ethanol production facilities in which the Company has an interest, including Pacific Ethanol Stockton LLC (“PE Stockton”), located in Stockton, California. The complaint seeks preliminary and permanent injunctions against the Company, prohibiting future infringement on the patent owned by GS CleanTech and damages in an unspecified amount adequate to compensate GS CleanTech for the alleged patent infringement, but in any event no less than a reasonable royalty for the use made of the inventions of the patent, plus attorney’s fees.

On March 17 and March 18, 2014, GS CleanTech filed suit naming as defendants two Company subsidiaries: PE Stockton and Pacific Ethanol Magic Valley, LLC (“PE Magic Valley”). The claims are similar to those filed against Pacific Ethanol, Inc. in May 2013.

The three cases (against the Company, PE Stockton and PE Magic Valley) were subsequently transferred to the United States District Court for the Southern District of Indiana and made part of the pre-existing multi-district litigation involving GS CleanTech and multiple defendants (the “Pre-existing Cases”). The three Pacific Ethanol cases, along with several other lawsuits brought by GS CleanTech containing substantially the same allegations of infringement, have thus been attached to the Pre-existing Cases as “Tag-along Cases.”

The Company, PE Stockton and PE Magic Valley have answered the complaints and counterclaimed that the patent claims at issue, as well as the claims in several related patents, are invalid and unenforceable and that the defendants are not infringing.

On October 23, 2014, the United States District Court for the Southern District of Indiana issued a sealed order holding all asserted GS CleanTech's corn oil separation patents invalid and not infringed. While the Court's order currently applies only to the Pre-existing Cases, the Company believes the ruling will also be dispositive of the Tag-along Cases, and intends to file a motion to dismiss the cases against the Company, PE Stockton and PE Magic Valley.

8. FAIR VALUE MEASUREMENTS.

The fair value hierarchy prioritizes the inputs used in valuation techniques into three levels as follows:

- Level 1 – Observable inputs – unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data; and
- Level 3 – Unobservable inputs – includes amounts derived from valuation models where one or more significant inputs are unobservable. For fair value measurements using significant unobservable inputs, a description of the inputs and the information used to develop the inputs is required along with a reconciliation of Level 3 values from the prior reporting period.

The Company recorded its warrants issued from 2010 through 2013 at fair value and designated them as Level 3 on their issuance dates.

Warrants – Except for the warrants issued September 26, 2012, the Company’s warrants were valued using a Monte Carlo Binomial Lattice-Based valuation methodology, adjusted for marketability restrictions. The warrants issued September 26, 2012, did not contain any anti-dilution protection features, and as a result, the warrants were valued using the Black-Scholes Valuation Model. Of the various inputs used, the volatility and the current price of the Company’s common stock most significantly impact the fair value adjustments of the warrants. As the price of the Company’s common stock increases or decreases, the valuation of the warrants will increase or decrease, respectively. As the estimated volatility of the Company’s common stock increases or decreases, the valuation of the warrants will increase or decrease, respectively. These changes may result in significantly higher or lower fair value measurements from period to period.

Significant assumptions used and related fair values for the Company’s warrants as of September 30, 2014 were as follows:

<u>Original Issuance</u>	<u>Exercise Price</u>	<u>Volatility</u>	<u>Risk-Free Interest Rate</u>	<u>Term (years)</u>	<u>Discount for marketability restrictions</u>	<u>Warrants Outstanding</u>	<u>Fair Value</u>
09/26/2012	\$8.85	51.2%	0.13%	0.99	35.6%	473,000	\$ 1,732,000
07/3/2012	\$6.09	52.3%	1.07%	2.76	31.7%	391,000	2,361,000
12/13/2011	\$8.43	52.0%	0.58%	2.21	29.2%	138,000	700,000
						<u>1,002,000</u>	<u>\$ 4,793,000</u>

Significant assumptions used and related fair values for the Company’s warrants as of December 31, 2013 were as follows:

<u>Original Issuance</u>	<u>Exercise Price</u>	<u>Volatility</u>	<u>Risk-Free Interest Rate</u>	<u>Term (years)</u>	<u>Discount for marketability restrictions</u>	<u>Warrants Outstanding</u>	<u>Fair Value</u>
03/28/2013	\$7.59	52.4%	0.13%	1.20	22.7%	788,000	\$ 495,000
06/21/2013	\$7.59	52.4%	0.13%	1.24	22.7%	1,051,000	660,000
01/11/2013	\$6.32	63.3%	1.27%	4.03	43.8%	1,709,000	2,892,000
09/26/2012	\$8.85	58.5%	0.38%	1.74	42.3%	1,771,000	702,000
07/3/2012	\$6.09	61.2%	1.27%	3.51	40.2%	1,812,000	3,008,000
07/3/2012	\$5.47	52.8%	0.01%	0.01	42.3%	804,000	3,000
12/13/2011	\$8.43	60.4%	0.78%	2.95	37.9%	306,000	455,000
						<u>8,241,000</u>	<u>\$ 8,215,000</u>

Other Derivative Instruments – The Company’s other derivative instruments consist of commodity positions. The fair values of the commodity positions are based on quoted prices on the commodity exchanges and are designated as Level 1 inputs.

The following table summarizes fair value measurements by level at September 30, 2014 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Commodity contracts ⁽¹⁾	\$ 1,130	\$ –	\$ –	\$ 1,130
Total Assets	<u>\$ 1,130</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 1,130</u>
Liabilities:				
Warrants ⁽²⁾	\$ –	\$ –	\$ 4,793	\$ 4,793
Commodity contracts ⁽³⁾	<u>659</u>	<u>–</u>	<u>–</u>	<u>659</u>
Total Liabilities	<u>\$ 659</u>	<u>\$ –</u>	<u>\$ 4,793</u>	<u>\$ 5,452</u>

(1) Included in other current assets in the consolidated balance sheets.

(2) Included in warrant liabilities at fair value in the consolidated balance sheets.

(3) Included in other current liabilities in the consolidated balance sheets.

The following table summarizes fair value measurements by level at December 31, 2013 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Commodity contracts ⁽¹⁾	\$ 961	\$ –	\$ –	\$ 961
Total Assets	<u>\$ 961</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 961</u>
Liabilities:				
Warrants ⁽²⁾	\$ –	\$ –	\$ 8,215	\$ 8,215
Commodity contracts ⁽³⁾	<u>859</u>	<u>–</u>	<u>–</u>	<u>859</u>
Total Liabilities	<u>\$ 859</u>	<u>\$ –</u>	<u>\$ 8,215</u>	<u>\$ 9,074</u>

(1) Included in other current assets in the consolidated balance sheets.

(2) Included in warrant liabilities at fair value in the consolidated balance sheets.

(3) Included in accrued liabilities in the consolidated balance sheets.

For fair value measurements using significant unobservable inputs (Level 3), a description of the inputs and the information used to develop the inputs is required along with a reconciliation of Level 3 values from the prior reporting period. The changes in the Company's fair value of its Level 3 inputs with respect to its warrants were as follows (in thousands):

Fair value of warrants, December 31, 2013	\$ 8,215
Adjustments to fair value for the period	37,465
Exercises of warrants	(40,884)
Expiration of warrants	(3)
Fair value of warrants, September 30, 2014	<u>\$ 4,793</u>

9. EARNINGS PER SHARE.

The following tables compute basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended September 30, 2014		
	Income Numerator	Shares Denominator	Per-Share Amount
	<u> </u>	<u> </u>	<u> </u>
Net income attributed to Pacific Ethanol	\$ 4,025		
Less: Preferred stock dividends	(319)		
Basic income per share:			
Income available to common stockholders	\$ 3,706	22,986	\$ <u>0.16</u>
Add: Warrants	—	1,321	
Diluted income per share:			
Income available to common stockholders	\$ <u>3,706</u>	<u>24,307</u>	\$ <u>0.15</u>

	Three Months Ended September 30, 2013		
	Loss Numerator	Shares Denominator	Per-Share Amount
	<u> </u>	<u> </u>	<u> </u>
Net loss attributed to Pacific Ethanol	\$ (4,971)		
Less: Preferred stock dividends	(319)		
Basic and diluted loss per share:			
Loss available to common stockholders	\$ <u>(5,290)</u>	<u>13,177</u>	\$ <u>(0.40)</u>

	Nine Months Ended September 30, 2014		
	Income Numerator	Shares Denominator	Per-Share Amount
	<u> </u>	<u> </u>	<u> </u>
Net income attributed to Pacific Ethanol	\$ 8,771		
Less: Preferred stock dividends	(946)		
Basic income per share:			
Income available to common stockholders	\$ 7,825	19,713	\$ <u>0.40</u>
Add: Warrants	—	2,360	
Diluted income per share:			
Income available to common stockholders	\$ <u>7,825</u>	<u>22,073</u>	\$ <u>0.35</u>

	Nine Months Ended September 30, 2013		
	Loss Numerator	Shares Denominator	Per-Share Amount
	<u> </u>	<u> </u>	<u> </u>
Net loss attributed to Pacific Ethanol	\$ (9,374)		
Less: Preferred stock dividends	(946)		
Basic and diluted loss per share:			
Loss available to common stockholders	\$ <u>(10,320)</u>	<u>11,380</u>	\$ <u>(0.91)</u>

There were an aggregate of 669,000 and 657,000 potentially dilutive weighted-average shares from the Company's outstanding convertible Series B Preferred Stock, warrants and options for the three and nine months ended September 30, 2014, respectively. These convertible securities were not considered in calculating diluted net loss per share for the three and nine months ended September 30, 2013, as their effect would have been anti-dilutive.

10. RELATED PARTY TRANSACTIONS.

Preferred Dividends – The Company recorded and paid preferred stock dividends of \$319,000 for each of the three months ended September 30, 2014 and 2013. The Company recorded and paid preferred stock dividends of \$946,000 for each of the nine months ended September 30, 2014 and 2013. For the years ended December 31, 2009, 2010 and 2011, the Company accrued but did not pay any preferred stock dividends. For the years ended December 31, 2012 and 2013, the Company paid its accrued dividends in cash.

Beginning in 2012, the Company entered into a series of agreements with the parties to whom unpaid dividends were owed under which the Company issued shares of its common stock in satisfaction of a portion of the accrued and unpaid dividends. In connection with each payment of accrued and unpaid dividends, the payees agreed to forebear for a period of time from exercising any rights they may have with the respect to accrued and unpaid dividends. The following table summarizes the details of the Company's agreements with the holders of its Series B Preferred Stock:

<u>Agreement Date</u>	<u>Amount of Dividends Paid</u>	<u>Shares of Common Stock Issued</u>	<u>Extended Forbearance Date</u>
August 12, 2012	\$ 732,000	157,000	January 1, 2014
December 26, 2012	732,000	144,500	June 30, 2014
March 27, 2013	732,000	139,000	September 30, 2014
July 26, 2013	731,000	175,000	December 31, 2014
September 17, 2013	731,000	197,000	March 31, 2015
May 23, 2014	1,463,000	120,000	November 30, 2015
Total	<u>\$ 5,121,000</u>	<u>932,500</u>	
Accrued and unpaid dividends	<u>\$ 2,194,000</u>		

The Company believes it has adequate liquidity to continue to pay quarterly dividends in cash for at least the next twelve months. The Company may continue to pay down the balance of accrued and unpaid dividends in respect of its Series B Preferred Stock by issuing additional shares of common stock. The Company does not believe that these contemplated dividend payments in cash and stock will materially impact its liquidity. If the Company fails to make ongoing quarterly cash dividend payments, it will be in default under the terms of its agreements with the holders of its Series B Preferred Stock and the holders' current forbearance through November 30, 2015 will be ineffective.

Note Payable to Related Party – The Company had a note payable to its Chief Executive Officer totaling \$750,000 which was due on March 31, 2014. On March 31, 2014, the Company paid in cash the outstanding balance of the note payable.

12. SUBSEQUENT EVENT.

Warrant Exercises – From October 1, 2014 through November 11, 2014, certain holders exercised warrants in cash for an aggregate of 155,000 shares of the Company’s common stock for aggregate cash payments to the Company of \$944,000.

A summary as of November 11, 2014 of outstanding warrants, which the Company recorded at fair value, with a weighted-average exercise price of \$8.00, is as follows:

<u>Issuance Date</u>	<u>Expiration Date</u>	<u>Exercise Price</u>	<u>Warrants Outstanding</u>
09/26/2012	09/26/2015	\$8.85	473,000
07/3/2012	07/03/2017	\$6.09	236,000
12/13/2011	12/13/2016	\$8.43	138,000
			<u>847,000</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes to consolidated financial statements included elsewhere in this report. This report and our consolidated financial statements and notes to consolidated financial statements contain forward-looking statements, which generally include the plans and objectives of management for future operations, including plans and objectives relating to our future economic performance and our current beliefs regarding revenues we might generate and profits we might earn if we are successful in implementing our business and growth strategies. The forward-looking statements and associated risks may include, relate to or be qualified by other important factors, including:

- fluctuations in the market price of ethanol and its co-products;
- fluctuations in the costs of key production input commodities, including corn and natural gas;
- the projected growth or contraction in the ethanol and co-product markets in which we operate;
- our strategies for expanding, maintaining or contracting our presence in these markets;
- our ability to successfully manage and operate our ethanol production facilities;
- anticipated trends in our financial condition and results of operations; and
- our ability to distinguish ourselves from our current and future competitors.

You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this report, or in the case of a document incorporated by reference, as of the date of that document. We do not undertake to update, revise or correct any forward-looking statements, except as required by law.

Any of the factors described immediately above, or referenced from time to time in our filings with the Securities and Exchange Commission or in the "Risk Factors" section below could cause our financial results, including our net income or loss or growth in net income or loss to differ materially from prior results, which in turn could, among other things, cause the price of our common stock to fluctuate substantially.

Overview

We are the leading producer and marketer of low-carbon renewable fuels in the Western United States.

We produce and market all the ethanol produced by four ethanol production facilities located in California, Idaho and Oregon, or the Pacific Ethanol Plants, market all the ethanol produced by two other ethanol producers in California and market ethanol purchased from other third-party suppliers throughout the United States. We market ethanol through our subsidiary Kinergy Marketing LLC, or Kinergy. We also market ethanol co-products, including wet distillers grains, or WDG, a nutritious animal feed, and corn oil, for the Pacific Ethanol Plants.

We have extensive customer relationships throughout the Western United States. Our ethanol customers are integrated oil companies and gasoline marketers who blend ethanol into gasoline. We arrange for transportation, storage and delivery of ethanol purchased by our customers through our agreements with third-party service providers in the Western United States, primarily in California, Arizona, Nevada, Utah, Oregon, Colorado, Idaho and Washington. Our WDG customers are dairies and feedlots located near the Pacific Ethanol Plants. Our corn oil is sold to poultry and biodiesel customers.

We have extensive supplier relationships throughout the Western and Midwestern United States. In some cases, we have marketing agreements with suppliers to market all of the output of their facilities.

We hold a 96% ownership interest in PE Op Co. (formerly, New PE Holdco LLC), the owner of each of the plant holding companies, or the Plant Owners, that collectively own the Pacific Ethanol Plants. We operate and maintain the Pacific Ethanol Plants under the terms of an asset management agreement with the Plant Owners, including supplying all goods and materials necessary to operate and maintain each Pacific Ethanol Plant. In operating the Pacific Ethanol Plants, we direct the production process to obtain optimal production yields, lower costs by leveraging our infrastructure, enter into risk management agreements such as insurance policies and manage commodity risk practices.

We market ethanol and its co-products, including WDG and corn oil, produced by the Pacific Ethanol Plants under the terms of separate marketing agreements with the Plant Owners. The marketing agreements provide us with the absolute discretion to solicit, negotiate, administer (including payment collection), enforce and execute ethanol and co-product sales agreements with any third party.

The Pacific Ethanol Plants are comprised of the four facilities described immediately below and have an aggregate annual production capacity of up to 200 million gallons. We commenced production at our Madera, California facility on April 30, 2014 and reached full capacity in the second quarter of 2014. The facilities are near their respective fuel and feed customers, offering significant timing, transportation cost and logistical advantages.

Facility Name	Facility Location	Estimated Annual Capacity (gallons)	Current Operating Status
Magic Valley	Burley, ID	60,000,000	Operating
Columbia	Boardman, OR	40,000,000	Operating
Stockton	Stockton, CA	60,000,000	Operating
Madera	Madera, CA	40,000,000	Operating

We earn fees as follows under our asset management and other agreements with PE Op Co. and the Plant Owners:

- ethanol marketing fees of approximately 1% of the net sales price, but not less than \$0.015 per gallon and not more than \$0.0225 per gallon;
- corn procurement and handling fees of \$0.045 per bushel;
- WDG, syrup and corn oil fees of 5% of the third-party purchase price, excluding freight, but not less than \$2.00 per ton and not more than \$3.50 per ton; and
- asset management fees of \$75,000 per month for each operating facility and \$40,000 per month for each idled facility.

We intend to advance our position as the leading producer and marketer of low-carbon renewable fuels in the Western United States, in part by expanding our relationships with customers and third-party ethanol producers to market higher volumes of ethanol and by expanding the market for ethanol by continuing to work with state governments to encourage the adoption of policies and standards that promote ethanol as a transportation fuel and fuel additive.

Current Initiatives and Outlook

The ethanol industry experienced margin compression in the latter part of the third quarter and early in the fourth quarter of 2014. The industry experienced a reduction in the overall crush margin, which reflects ethanol sales price relative to the price of corn, compared to that of recent quarters consistent with the seasonal drop in demand for transportation fuel. We believe these conditions reflect a seasonal pattern within our industry and are similar to industry patterns in the same period last year. Currently, short-term conditions appear to be rebalancing to a more favorable margin environment as the record 2013-2014 corn crop is harvested and exports of ethanol continue. In addition, we expect rail freight costs for grain to decline. We remain confident in the long-term demand for renewable fuels and our ability to execute and create value with our destination model. Even with the recent drop in fuel prices, ethanol continues to trade at a significant discount to the wholesale price of gasoline. We believe this underscores the value of ethanol as a high-octane, cleaner-burning and cheapest available liquid transportation fuel.

E15 is slowly gaining traction, which we believe will ultimately have a sustained positive impact on demand for ethanol. Net exports of ethanol continue to be a bright spot for the industry. According to the US Energy Information Administration, U.S. exports of ethanol rose 50% in the first nine months of 2014 over the same period last year and are on pace to reach up to 1.0 billion gallons in 2014. We also expect U.S. exports to further increase late this year as Brazil's ethanol production slows with the conclusion of its sugar cane harvest.

Ethanol prices in the Western United States have typically been \$0.20 per gallon higher than in the Midwest due to the freight costs of delivering ethanol from Midwest production facilities. From October 2013 through April 2014, however, ethanol prices in the Western United States have averaged \$0.40 per gallon higher than ethanol prices in the Midwest due to rail logistics challenges and weather conditions during the winter which constrained the flow of ethanol and co-products from the Midwest to the markets in which we operate. These premiums normalized somewhat in the second and third quarters of 2014 and remained at more normal levels through the filing of this report.

Growth in Chinese import demand for dry distillers grains with solubles, or DDGS, from the U.S. produced premium prices in the second half of 2013 and first half of 2014. Chinese demand slowed significantly in the third quarter of 2014 resulting in significant declines in domestic DDGS and WDG prices. With the moderation in DDGS and WDG prices, domestic consumption of these grains have increased resulting in improved price stability. Going forward we believe this will continue and that WDG prices will align with corn and other competing products.

From 2010 through 2013, we issued in various financing transactions warrants to purchase shares of our common stock. The warrants were initially recorded at their fair values, which are adjusted quarterly, generally resulting in non-cash expenses or income if the market price of our common stock increases or decreases, respectively, during the period. Due to the substantial increase in the market price of our common stock in the first quarter of 2014 and because the exercise prices of these warrants were, as of March 31, 2014 and September 30, 2014, well below the market price of our common stock, the fair values of the warrants and the related non-cash expenses were significantly higher in the first quarter and first nine months of 2014 than in the comparable prior periods in 2013, which resulted in unusually large non-cash expenses for those periods. These fair value adjustments will continue in future periods until all of our warrants are exercised or expire. These adjustments will generally reduce our net income or increase our net loss if the market price of our common stock increases from the prior quarter through the date of a warrant's exercise, if exercised during the quarter, or if our common stock increases on a quarter over quarter basis for warrants outstanding at the end of a quarter. Conversely, the adjustments will generally increase our net income or reduce our net loss if the market price of our common stock declines in these scenarios. Since September 30, 2014, we have processed warrant exercises for approximately 0.2 million shares of our common stock. We expect that these warrant exercises will reduce our GAAP earnings volatility in future quarters as the amount of warrants marked to fair value has declined significantly.

We began producing and selling corn oil at our Magic Valley and Stockton facilities in June 2013 and October 2013, respectively, allowing us to diversify our revenue and providing immediate incremental gross profit. We are currently producing corn oil in meaningful amounts at both facilities and plan to complete the implementation of corn oil production technology at the remaining two Pacific Ethanol Plants by early 2015. We have also implemented advanced grinding technologies at our Magic Valley and Stockton facilities and will evaluate when and to what extent these technologies should be implemented at the remaining two Pacific Ethanol Plants.

We continue to focus on increasing operating efficiencies and improving yields at the Pacific Ethanol Plants. To this end, we installed yield-enhancing fine grind technologies at our Stockton and Magic Valley facilities, allowing us to increase yields by increasing available starch for conversion. This technology also may allow us to produce cellulosic corn ethanol. Based on current production margins, each 1% improvement in production yields results in approximately \$3.0 million in additional annual gross profit when operating at our full production capacity of 200 million gallons.

We have approved a capital expenditure budget to reinvest up to \$16.0 million in the Pacific Ethanol Plants over the next six months to further improve efficiencies, diversify feedstock and implement our advanced biofuels initiatives. Our goal with these investments is to achieve a 6 to 7 cent per gallon improvement in annual operating earnings, which equals \$12.0 million to \$14.0 million in additional annual operating earnings. We have spent approximately \$2.0 million of our budget thus far and expect to spend most of the full budget by the second quarter of 2015.

The regulatory environment continues to support the long-term demand for renewable fuels. California's Low-Carbon Fuel Standard requires refiners to reduce the carbon intensity of their fuels by 10% between 2011 and 2020, which we believe is an aggressive requirement that will necessitate a significant amount of low-carbon fuel to displace gasoline in the California fuel supply. We continue to reduce energy use at the Pacific Ethanol Plants to lower the carbon intensity of our ethanol. We believe that we have a significant advantage in the marketplace because we produce among the lowest-carbon ethanol commercially produced in the United States which enables us to capture a premium for ethanol we produce and sell in the California market.

We also continue to diversify our feedstock by using a blend of corn, sorghum and beet sugar, which reduces feedstock costs and reduces the carbon output of ethanol we produce. Using beet sugar as feedstock, we were able to reduce our material costs by approximately \$0.9 million and \$4.0 million for the three and nine months ended September 30, 2014, respectively. We expect to continue to use beet sugar through the end of 2014 at levels approximating 15% of total feedstock at our Magic Valley and Columbia facilities. The United States Department of Agriculture anticipates a record 2013-2014 corn crop, but we are uncertain how the new crop will affect our ethanol production and intend to operate the Pacific Ethanol Plants with flexibility in anticipation of the new crop.

We entered into an arrangement to sell CO₂ generated from our Columbia plant through a liquefaction and dry ice processing facility under construction adjacent to our plant. We expect to commence CO₂ sales early next year.

We recently were awarded a \$3.0 million matching grant from the California Energy Commission to develop a sorghum feedstock program collaboratively with Chromatin, Inc., California State University, Fresno's Center for Irrigation Technology and the Kearney Agricultural Research and Extension Center. This undertaking also includes the California In-State Sorghum Program to support a lasting expansion in California's ability to produce low-carbon ethanol from in-state feedstock that meets both the renewable fuel and greenhouse gas reduction goals stipulated under the federal Renewable Fuel Standard and California's Low-Carbon Fuel Standard.

We continue to pursue production of advanced biofuels at the Pacific Ethanol Plants. To this end, we are in the project development phase with Sweetwater Energy to acquire cellulosic industrial sugars. We expect this project will take at least two years. We are also working with CellunatorsTM technology to enable the release of cellulosic sugars from corn kernel fibers which, when released through an appropriate enzyme for commercial production, will allow us to produce cellulosic ethanol for up to 2.0% of our overall production at a plant that uses the technology. We are also running a pilot program for anaerobic digestion at our Stockton facility to substitute biogas for natural gas for the production of advanced biofuels. In addition, our Magic Valley plant is well situated to add new facilities enabling ethanol production from wheat straw and we are evaluating the feasibility of a cellulosic project of this nature at this facility. Finally, we are analyzing various co-generation configurations, particularly at our California plants where energy prices are high and we receive a low-carbon premium for the ethanol we produce and sell into the California market.

Our goals for the remainder of 2014 include further improving operating efficiencies and improving yields at the Pacific Ethanol Plants and continuing to increase the value of our produced ethanol by further reducing its carbon intensity, all of which are directed at supporting sustained profitable growth.

Critical Accounting Policies

The preparation of our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, requires us to make judgments and estimates that may have a significant impact upon the portrayal of our financial condition and results of operations. We believe that of our significant accounting policies, the following require estimates and assumptions that require complex, subjective judgments by management that can materially impact the portrayal of our financial condition and results of operations: revenue recognition; warrants carried at fair value and conversion features; impairment of long-lived and intangible assets; and allowance for doubtful accounts. These significant accounting principles are more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” in our Annual Report on Form 10-K for the year ended December 31, 2013.

Results of Operations

The following selected financial information should be read in conjunction with our consolidated financial statements and notes to our consolidated financial statements included elsewhere in this report, and the other sections of “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in this report.

Certain performance metrics that we believe are important indicators of our results of operations include:

	Three Months Ended			Nine Months Ended		
	September 30		Percentage	September 30,		Percentage
	2014	2013	Variance	2014	2013	Variance
Production gallons sold (in millions)	46.8	37.1	26.1%	133.1	109.2	21.9%
Third party gallons sold (in millions)	86.9	67.8	28.2%	245.5	197.7	24.2%
Total gallons sold (in millions)	133.7	104.9	27.5%	378.6	306.9	23.4%
Average sales price per gallon	\$ 2.32	\$ 2.62	(11.5)%	\$ 2.59	\$ 2.67	(3.0)%
Corn cost per bushel – CBOT equivalent	\$ 3.88	\$ 5.02	(22.7)%	\$ 4.40	\$ 6.22	(29.3)%
Average basis ⁽¹⁾	\$ 1.27	\$ 2.42	(47.5)%	\$ 1.22	\$ 1.68	(27.4)%
Delivered cost of corn	\$ 5.15	\$ 7.44	(30.8)%	\$ 5.62	\$ 7.90	(28.9)%
Co-product revenues as % of delivered cost of corn ⁽²⁾	30.8%	29.2%	5.5%	33.9%	28.1%	20.6%
Average CBOT ethanol price per gallon	\$ 2.02	\$ 2.23	(9.4)%	\$ 2.16	\$ 2.39	(9.6)%
Average CBOT corn price per bushel	\$ 3.60	\$ 5.14	(30.0)%	\$ 4.31	\$ 6.14	(29.8)%

(1) Corn basis represents the difference between the immediate cash price of delivered corn and the future price of corn for Chicago delivery.

(2) Co-product revenues as a percentage of delivered cost of corn shows are yield based on sales of co-products, including WDG and corn oil, generated from ethanol we produced.

Net Sales, Cost of Goods Sold and Gross Profit

The following table presents our net sales, cost of goods sold and gross profit in dollars and gross profit as a percentage of net sales (in thousands, except percentages):

	Three Months Ended		Variance in		Nine Months Ended		Variance in	
	September 30,				September 30,			
	2014	2013	Dollars	Percent	2014	2013	Dollars	Percent
Net sales	\$ 275,573	\$ 233,880	\$ 41,693	17.8%	\$ 851,260	\$ 693,147	\$ 158,113	22.8%
Cost of goods sold	257,587	230,357	27,230	11.8%	761,153	681,813	79,340	11.6%
Gross profit	\$ 17,986	\$ 3,523	\$ 14,463	410.5%	\$ 90,107	\$ 11,334	\$ 78,773	695.0%
<i>Percentage of net sales</i>	6.5%	1.5%			10.6%	1.6%		

Net Sales

The increase in our net sales for the three and nine months ended September 30, 2014 as compared to the same periods in 2013 was primarily due to an increase in our total gallons sold, which was partially offset by a decline in our average sales price per gallon.

Our total volume of ethanol gallons sold increased by 28.8 million gallons, or 28%, to 133.7 million gallons and by 71.7 million gallons, or 23%, to 378.6 million gallons for the three and nine months ended September 30, 2014 as compared to 104.9 million gallons and 306.9 million gallons for the same periods in 2013, respectively. We increased both production and third party gallons sold for the three and nine months ended September 30, 2014 as compared to the same periods in 2013. The increases in our production gallons and third party gallons sold are primarily due to increased production rates at the Pacific Ethanol Plants and third party supplier plants, respectively, including as a result of the restart of production at our Madera plant. We and our third party suppliers increased production rates due to higher industry-wide corn crush margins resulting from lower corn costs and higher ethanol prices due to tighter ethanol supply relative to demand, especially in the Western United States due to weather conditions in the first quarter of 2014 and ongoing rail logistics challenges which constrained the flow of ethanol and co-products from the Midwest to the markets in which we operate. In addition, our third party sales increased due to expanding our customer base and sales within our various locations.

Our average sales price per gallon decreased 12% to \$2.32 for the three months ended September 30, 2014 compared to our average sales price per gallon of \$2.62 for the same period in 2013. The average Chicago Board of Trade, or CBOT, ethanol price per gallon declined 9% to \$2.02 for the three months ended September 30, 2014 compared to an average CBOT sales price per gallon of \$2.23 for the same period in 2013.

Our average sales price per gallon decreased 3% to \$2.59 for the nine months ended September 30, 2014 compared to our average sales price per gallon of \$2.67 for the same period in 2013. The average CBOT ethanol price per gallon declined 10% to \$2.16 for the nine months ended September 30, 2014 compared to an average CBOT sales price per gallon of \$2.39 for the same period in 2013.

This disparity between our ethanol sales price per gallon and the CBOT average reflects both the additional basis costs for West Coast delivery of ethanol as well as the premiums we receive by selling lower-carbon intensity ethanol in the Western United States. Ethanol prices in the Western United States were also higher than ethanol prices in the Midwest due to weather conditions in the first quarter of 2014 and ongoing rail logistics challenges which constrained the flow of ethanol and co-products from the Midwest to the markets in which we operate.

Cost of Goods Sold and Gross Profit

Our gross profit improved significantly to \$18.0 million for the three months ended September 30, 2014 from \$3.5 million for the same period in 2013. Our gross margin also improved significantly to 6.5% for the three months ended September 30, 2014 from 1.5% for the same period in 2013. Our gross profit improved to \$90.1 million for the nine months ended September 30, 2014 from \$11.3 million for the same period in 2013. Our gross margin improved to 10.6% for the nine months ended September 30, 2014 from 1.6% for the same period in 2013. Our gross profit and gross margins increased for these periods primarily due to significantly improved crush and commodity margins and higher production yields realized at the Pacific Ethanol Plants, predominantly related to lower corn costs and tighter ethanol supply relative to demand as well as higher ethanol prices in the Western United States due to weather conditions in the first quarter of 2014 and rail logistics challenges which constrained the flow of ethanol and co-products from the Midwest to the markets in which we operate. Crush and commodity margins reflect ethanol and co-product sales prices relative to ethanol production inputs such as corn and natural gas. Our ongoing plant efficiency and yield improvement initiatives also positively impacted our margins.

Selling, General and Administrative Expenses

The following table presents our selling, general and administrative expenses, or SG&A, in dollars and as a percentage of net sales (in thousands, except percentages):

	Three Months Ended		Variance in		Nine Months Ended		Variance in	
	September 30,				September 30,			
	2014	2013	Dollars	Percent	2014	2013	Dollars	Percent
Selling, general and administrative expenses	\$ 4,392	\$ 2,511	\$ 1,881	74.9%	\$ 12,377	\$ 9,649	\$ 2,728	28.3%
<i>Percentage of net sales</i>	<i>1.6%</i>	<i>1.1%</i>			<i>1.5%</i>	<i>1.4%</i>		

Our SG&A increased \$1.9 million to \$4.4 million for the three months ended September 30, 2014 as compared to \$2.5 million for the same period in 2013. The increase in SG&A is primarily due to an increase in compensation costs of \$0.7 million due to incentive compensation tied to our profitability and an increase in professional fees of \$0.7 million due to increased corporate and plant activity.

Our SG&A increased \$2.7 million to \$12.4 million for the nine months ended September 30, 2014 as compared to \$9.6 million for the same period in 2013. The increase in SG&A is primarily due to an increase in compensation costs of \$1.7 million due to incentive compensation tied to our profitability and an increase in professional fees of \$0.7 million due to increased corporate and plant activity.

At current levels of operation, we expect our SG&A run rate will be approximately \$4.0 million to \$4.5 million per quarter through the end of 2014.

Fair Value Adjustments and Warrant Inducements

The following table presents our fair value adjustments and warrant inducements in dollars and as a percentage of net sales (in thousands, except percentages):

	Three Months Ended		Variance in		Nine Months Ended		Variance in	
	September 30,		Dollars	Percent	September 30,		Dollars	Percent
	2014	2013			2014	2013		
Fair value adjustments and warrant inducements	\$ (4,378)	\$ 762	\$ (5,140)	NM	\$ (39,737)	\$ 1,507	\$ (41,244)	NM
<i>Percentage of net sales</i>	<i>(1.6%)</i>	<i>0.3%</i>			<i>(4.7%)</i>	<i>0.2%</i>		

We issued certain warrants in various financing transactions from 2010 through 2013. These warrants were initially recorded at fair value and are adjusted quarterly. As a result of quarterly adjustments to their fair values and warrant inducements, we recorded an expense of \$4.4 million and income of \$0.8 million for the three months ended September 30, 2014 and 2013, respectively, and we recorded an expense of \$39.7 million and income of \$1.5 million for the nine months ended September 30, 2014 and 2013, respectively.

These changes in fair value are primarily due to the increased number of warrants issued in the three months ended March 31, 2013 and the volatility in the market price of our common stock from period to period. The substantial change in fair value for the nine months ended September 30, 2014 occurred because the exercise prices of our warrants were, as of September 30, 2014, well below the market price of our common stock. At December 31, 2013, the market price of our common stock was \$5.09 per share and our outstanding warrants had a weighted-average exercise price of \$7.27 per share. At March 31, 2014, the market price of our common stock had increased to \$15.58 per share, and our outstanding warrants were in-the-money and had significant intrinsic value. At September 30, 2014, the market price of our common stock had declined slightly from the prior quarter to \$13.96.

These fair value adjustments will continue in future periods until all of our warrants are exercised or expire. These adjustments will generally reduce our net income or increase our net loss if the market price of our common stock increases from the prior quarter through the date of a warrant's exercise, if exercised during the quarter, or if our common stock increased on a quarter over quarter basis for warrants outstanding at the end of a quarter. Conversely, the adjustments will generally increase our net income or reduce our net loss if the market price of our common stock declines in these scenarios.

We paid an aggregate of \$1.5 million and \$2.3 million in cash to certain warrant holders as an inducement to exercise their warrants for the three and nine months ended September 30, 2014, respectively. We paid an aggregate of \$0.8 million in cash to certain warrant holders as an inducement to exercise their warrants for the nine months ended September 30, 2013.

Since September 30, 2014, we have processed warrant exercises for approximately 0.2 million shares of our common stock for approximately \$0.9 million in cash. As of November 11, 2014, there were remaining warrants outstanding with a weighted average exercise price of \$8.00 per share to purchase an aggregate of 0.8 million shares of our common stock.

Interest Expense, net

The following table presents our interest expense, net in dollars and as a percentage of net sales (in thousands, except percentages):

	Three Months Ended		Variance in		Nine Months Ended		Variance in	
	September 30,				September 30,			
	2014	2013	Dollars	Percent	2014	2013	Dollars	Percent
Interest expense, net	<u>\$ 1,133</u>	<u>\$ 4,530</u>	<u>\$ (3,397)</u>	<u>(75.0)%</u>	<u>\$ 8,370</u>	<u>\$ 11,983</u>	<u>\$ (3,613)</u>	<u>(30.2)%</u>
<i>Percentage of net sales</i>	<i>0.4%</i>	<i>1.9%</i>			<i>1.0%</i>	<i>1.7%</i>		

Interest expense, net declined by \$3.4 million to \$1.1 million for the three months ended September 30, 2014 from \$4.5 million for the same period in 2013. Interest expense, net declined by \$3.6 million to \$8.4 million for the nine months ended September 30, 2014 from \$12.0 million for the same period in 2013. The decrease in interest expense, net for these periods is primarily due to decreased average debt balances, partially offset by accelerations of debt discount and deferred financing fees of an aggregate of \$2.5 million for the nine months ended September 30, 2014, due to the early retirement of the Plant Owners' debt and our senior unsecured notes. At current debt balances, we expect our ongoing interest expense will be less than \$1.5 million quarterly.

Loss on Extinguishments of Debt

The following table presents our loss on extinguishments of debt in dollars and as a percentage of net sales (in thousands, except percentages):

	Three Months Ended		Variance in		Nine Months Ended		Variance in	
	September 30,				September 30,			
	2014	2013	Dollars	Percent	2014	2013	Dollars	Percent
Loss on extinguishments of debt	<u>\$ —</u>	<u>\$ 2,573</u>	<u>\$ (2,573)</u>	<u>(100.0)%</u>	<u>\$ 2,363</u>	<u>\$ 1,795</u>	<u>\$ 568</u>	<u>31.6%</u>
<i>Percentage of net sales</i>	<i>—%</i>	<i>1.1%</i>			<i>0.3%</i>	<i>0.3%</i>		

For the three months ended September 30, 2014 we did not record any gain or loss on extinguishments of debt. For the three months ended September 30, 2013, we recorded a loss of \$2.6 million related to conversions of our convertible notes into shares of our common stock at a discount to prevailing market prices, and as such, recorded a loss on extinguishments of debt. For the nine months ended September 30, 2014, we extinguished certain PE Op Co. debt by paying \$2.4 million in cash in excess of the amount of the debt, and as such, recorded a loss on extinguishments of debt. For the nine months ended September 30, 2013, we incurred a loss of \$3.6 million related to conversions of our convertible notes into shares of our common stock at a discount to prevailing market prices, which was partially offset by a gain on extinguishment of PE Op Co. debt as we paid \$1.8 million in cash less than the amount of the debt, which collectively resulted in a loss on extinguishments of debt of \$1.8 million for the period.

We retired a total of \$64.8 million in debt in the nine months ended September 30, 2014, eliminating all parent level debt and reducing our consolidated third-party debt at the Pacific Ethanol Plant level to \$17.0 million.

Other Expense, net

The following table presents our other expense, net in dollars and as a percentage of net sales (in thousands, except percentages):

	Three Months Ended		Variance in		Nine Months Ended		Variance in	
	September 30,				September 30,			
	2014	2013	Dollars	Percent	2014	2013	Dollars	Percent
Other expense, net %	\$ 172	\$ 106	\$ 66	62.3%	\$ 734	\$ 321	\$ 413	128.7%
Percentage of net sales	0.1%	0.0%			0.1%	0.0%		

Other expense, net increased by \$0.1 million to \$0.2 million for the three months ended September 30, 2014 from \$0.1 million for the same period in 2013. Other expense, net increased by \$0.4 million to \$0.7 million for the nine months ended September 30, 2014 from \$0.3 million for the same period in 2013. The increases in other expense, net for these periods is primarily due to disposals of retired assets.

Provision for Income Taxes

The following table presents our provision for income taxes in dollars and as a percentage of net sales (in thousands, except percentages):

	Three Months Ended		Variance in		Nine Months Ended		Variance in	
	September 30,				September 30,			
	2014	2013	Dollars	Percent	2014	2013	Dollars	Percent
Provision for income taxes	\$ 3,163	\$ —	\$ 3,163	NM	\$ 13,629	\$ —	\$ 13,629	NM
Percentage of net sales	1.1%	—%			1.6%	—%		

For the three and nine months ended September 30, 2014, we generated income subject to income tax. Our fair value adjustments and warrant inducements are not tax deductible and thus resulted in larger taxable income as compared to reported income (loss) before provision for income taxes for the three and nine months ended September 30, 2014. We applied our net operating loss carryforwards to a portion of our taxable income for these periods. Further, we increased by \$1.8 million and reduced by \$5.7 million our valuation allowance against our net tax assets, resulting in a net provision for income taxes of \$3.2 million and \$13.6 million for the three and nine months ended September 30, 2014, respectively. Our remaining net operating loss carryforwards may be limited on an annual basis for the remainder of the year.

Net (Income) Loss Attributed to Noncontrolling Interests

The following table presents the portion of our net (income) loss attributed to noncontrolling interests in dollars and as a percentage of net sales (in thousands, except percentages):

	Three Months Ended		Variance in		Nine Months Ended		Variance in	
	September 30,				September 30,			
	2014	2013	Dollars	Percent	2014	2013	Dollars	Percent
Net (income) loss attributed to noncontrolling interests	\$ (723)	\$ 464	\$ (1,187)	NM	\$ (4,126)	\$ 1,533	\$ (5,659)	NM
<i>Percentage of net sales</i>	<i>(0.3%)</i>	<i>0.2%</i>			<i>(0.5%)</i>	<i>0.2%</i>		

Net (income) loss attributed to noncontrolling interests relates to our consolidated treatment of PE Op Co. For the three and nine months ended September 30, 2014 and 2013, we consolidated the entire income statement of PE Op Co. However, because we owned less than 100% of PE Op Co. for the three and nine months ended September 30, 2014 and 2013, respectively, we reduced our consolidated net income (loss) for the noncontrolling interests, which were the ownership interests that we did not own. The increases in net income attributed to noncontrolling interests for the periods are primarily due to higher operating income from significantly improved commodity margins, much of which was generated at the Pacific Ethanol Plant level.

Net Income (Loss) Attributed to Pacific Ethanol

The following table presents our net income (loss) attributed to Pacific Ethanol in dollars and as a percentage of net sales (in thousands, except percentages):

	Three Months Ended		Variance in		Nine Months Ended		Variance in	
	September 30,				September 30,			
	2014	2013	Dollars	Percent	2014	2013	Dollars	Percent
Net income (loss) attributed to Pacific Ethanol	\$ 4,025	\$ (4,971)	\$ 8,996	NM	\$ 8,771	\$ (9,374)	\$ 18,145	NM
<i>Percentage of net sales</i>	<i>1.5%</i>	<i>(2.1%)</i>			<i>1.0%</i>	<i>(1.4%)</i>		

Net income (loss) attributed to Pacific Ethanol improved significantly during the three and nine months ended September 30, 2014 as compared to the same periods in 2013, primarily due to significantly improved crush and commodity margins and our increased ownership interest in PE Op Co., which were partially offset, for the nine months ended September 30, 2014, by our fair value adjustments during that period.

Preferred Stock Dividends and Income (Loss) Available to Common Stockholders

The following table presents our Series B Cumulative Convertible Preferred Stock, or Series B Preferred Stock, dividends in dollars and as a percentage of net sales, and our income (loss) available to common stockholders in dollars and as a percentage of net sales (in thousands, except percentages):

	Three Months Ended		Variance in		Nine Months Ended		Variance in	
	September 30,				September 30,			
	2014	2013	Dollars	Percent	2014	2013	Dollars	Percent
Preferred stock dividends	\$ 319	\$ 319	\$ —	—%	\$ 946	\$ 946	\$ —	—%
<i>Percentage of net sales</i>	<i>0.1%</i>	<i>0.1%</i>			<i>0.1%</i>	<i>0.1%</i>		
Income (loss) available to common stockholders	\$ 3,706	\$ (5,290)	\$ 8,996	NM	\$ 7,825	\$ (10,320)	\$ 18,145	NM
<i>Percentage of net sales</i>	<i>1.3%</i>	<i>(2.3%)</i>			<i>0.9%</i>	<i>(1.5%)</i>		

Shares of our Series B Preferred Stock are entitled to quarterly cumulative dividends payable in arrears in an amount equal to 7% per annum of the purchase price per share of the Series B Preferred Stock. We accrued and paid cash dividends on our Series B Preferred Stock in the aggregate amount of \$0.3 million for the three months ended September 30, 2014 and 2013, and \$0.9 million for the nine months ended September 30, 2014 and 2013.

Liquidity and Capital Resources

During the nine months ended September 30, 2014, we funded our operations primarily from cash on hand, cash flow from operations, proceeds from an equity offering, warrant exercises and borrowings under our credit facilities. Funds generated from these sources were also used to make debt payments, including prepayments, in the amount of \$64.8 million, eliminating all parent level debt and reducing our consolidated third-party debt at the Pacific Ethanol Plant level to \$17.0 million. In addition, since September 30, 2014, we processed warrant exercises for approximately 0.2 million shares of our common stock for approximately \$0.9 million in cash.

Our current available capital resources consist of cash on hand and amounts available for borrowing under Kinergy's credit facility. In addition, the Plant Owners have credit facilities for use in the operations of the Pacific Ethanol Plants. We expect that our future available capital resources will consist primarily of our remaining cash balances, amounts available for borrowing, if any, under Kinergy's credit facility, cash generated from Kinergy's ethanol marketing business, fees paid under our asset management agreement relating to our operation of the Pacific Ethanol Plants, proceeds from warrant exercises and dividends, if any, in respect of our ownership interest in PE Op Co.

We believe that current and future available capital resources, revenues generated from operations, and other existing sources of liquidity, including our credit facilities, will be adequate to meet our anticipated working capital and capital expenditure requirements for at least the next twelve months.

Quantitative Quarter-End Liquidity Status

We believe that the following amounts provide insight into our liquidity and capital resources. The following selected financial information should be read in conjunction with our consolidated financial statements and notes to consolidated financial statements included elsewhere in this report, and the other sections of "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this report (dollars in thousands):

	September 30, 2014	December 31, 2013	Variance
Cash and cash equivalents	\$ 56,256	\$ 5,151	992.1%
Current assets	\$ 119,771	\$ 79,377	50.9%
Current liabilities	\$ 26,451	\$ 28,216	(6.3%)
Notes payable, current portion	\$ —	\$ 750	(100.0%)
Notes payable, noncurrent portion	\$ 30,475	\$ 98,408	(69.0%)
Working capital	\$ 93,320	\$ 51,161	82.4%
Working capital ratio	4.53	2.81	61.2%

Change in Working Capital and Cash Flows

Working capital increased to \$93.3 million at September 30, 2014 from \$51.2 million at December 31, 2013 as a result of an increase in current assets of \$40.4 million, consisting predominately of an increase in cash and cash equivalents, and a decrease in current liabilities of \$1.8 million. Cash and cash equivalents increased as a result of higher production volumes and significantly improved margins primarily due to lower corn costs. Current assets increased primarily due to an increase in cash and cash equivalents of \$51.1 million, due to the reasons noted above, partially offset by a decrease in accounts receivable of \$4.8 million predominantly due to a lower sales price per gallon, a decrease in inventories of \$3.1 million and a decrease in prepaid inventories of \$1.7 million.

Cash and cash equivalents increased primarily as a result of operating cash flows of \$76.3 million resulting from higher production volumes and improved margins, as noted above, cash exercises of our warrants in the aggregate of \$42.7 million and an equity offering in April 2014 in which we raised net proceeds of \$26.1 million, all of which were partially offset by debt related payments in the aggregate of \$67.2 million as we prepaid significant portions of our outstanding indebtedness and payments of \$6.0 million to increase our ownership interest in our plants to 96%. Current liabilities decreased primarily due to decreases in other current liabilities of \$4.9 million, as our purchase liabilities under our beet sugar feedstock program have declined as we come to the conclusion of the program, partially offset by increases in trade accounts payable of \$1.3 million resulting from higher sales volumes, and an increase in accrued liabilities of \$2.5 million due to accruals of income taxes payable from profitable operations and a decrease in the current portion of our long-term debt of \$0.8 million from the final repayment of our related party note.

Cash provided by operating activities of \$76.3 million resulted largely from consolidated net income of \$12.9 million resulting from higher production volumes and improved margins, as noted above, non-cash fair value adjustments of \$37.5 million, related to our outstanding warrants and the substantial increase in the market price of our common stock since December 31, 2013 and depreciation and amortization of \$9.8 million.

Cash used in our investing activities of \$16.0 million resulted from additions to property and equipment of \$10.0 million attributable to our investments in plant enhancements and purchases of ownership interests in PE Op Co. of \$6.0 million.

Cash used in financing activities of \$9.1 million resulted from repayments of our senior unsecured notes and the Plant Owners' borrowings of \$66.4 million, net payments on our Kinerger line of credit of \$5.6 million, our related party note payable of \$0.8 million, principal payments on capital leases of \$3.8 million and cash payment of dividends in respect of our Series B Preferred Stock of \$0.9 million, all of which were partially offset by warrant exercises of \$42.7 million and proceeds from our equity offering in April 2014 of \$26.1 million.

Kinerger Operating Line of Credit

Kinerger maintains an operating line of credit for an aggregate amount of up to \$30.0 million, with an optional accordion feature for up to an additional \$10.0 million. The credit facility expires on December 31, 2015. Interest accrues under the credit facility at a rate equal to (i) the three-month London Interbank Offered Rate ("LIBOR"), plus (ii) a specified applicable margin ranging between 2.25% and 3.25%. The credit facility's monthly unused line fee is 0.50% of the amount by which the maximum credit under the facility exceeds the average daily principal balance. Payments that may be made by Kinerger to Pacific Ethanol as reimbursement for management and other services provided by Pacific Ethanol to Kinerger are limited under the terms of the credit facility to \$1.0 million per fiscal quarter in 2014 and \$1.1 million per fiscal quarter in 2015.

The credit facility also includes the accounts receivable of Pacific Ag. Products, LLC, or PAP, one of our indirect wholly-owned subsidiaries, as additional collateral. Payments that may be made by PAP to Pacific Ethanol as reimbursement for management and other services provided by Pacific Ethanol to PAP are limited under the terms of the credit facility to the extent that quarterly payments would result in PAP recording less than \$0.1 million of net income in the quarter.

Kinergy and PAP are collectively required to generate aggregate earnings before interest, taxes, depreciation and amortization, or EBITDA, of \$0.5 million, measured at the end of each calendar month, for each three calendar month period and EBITDA of \$1.3 million, measured at the end of each calendar month, for each six calendar month period. Further, for all monthly periods, Kinergy and PAP must collectively maintain a fixed-charge coverage ratio (calculated as a twelve-month rolling EBITDA divided by the sum of interest expense, capital expenditures, principal payments of indebtedness, indebtedness from capital leases and taxes paid during such twelve-month rolling period) of at least 2.0 and are prohibited from incurring any additional indebtedness (other than specific intercompany indebtedness) or making any capital expenditures in excess of \$0.1 million absent the lender's prior consent. Kinergy and PAP's obligations under the credit facility are secured by a first-priority security interest in all of their assets in favor of the lender.

The following table summarizes Kinergy's financial covenants and actual results for the periods presented (dollars in thousands):

	Three Months Ended September 30,		Years Ended December 31,	
	2014	2013	2013	2012
EBITDA Requirement – Three Months	\$ 500	\$ 450	\$ 450	\$ 450
Actual	\$ 1,217	\$ 879	\$ 3,252	\$ 1,165
Excess	\$ 717	\$ 429	\$ 2,802	\$ 715
EBITDA Requirement – Six Months	\$ 1,300	\$ 1,100	\$ 1,100	\$ 1,100
Actual	\$ 3,140	\$ 2,111	\$ 4,131	\$ 3,282
Excess	\$ 1,840	\$ 1,011	\$ 3,031	\$ 2,182
Fixed Charge Coverage Ratio Requirement	2.00	2.00	2.00	2.00
Actual	18.60	15.53	8.64	8.84
Excess	16.60	13.53	6.64	6.84

Pacific Ethanol has guaranteed all of Kinergy's obligations under the credit facility. As of September 30, 2014, Kinergy had an available borrowing base under the credit facility of \$14.8 million and an outstanding balance of \$13.5 million.

Plant Owners' Term Debt and Operating Lines of Credit

The Plant Owners' debt as of September 30, 2014 consisted of a \$32.5 million tranche A-1 term loan and a \$26.3 million tranche A-2 term loan. Pacific Ethanol, Inc. holds \$41.8 million of these term loans, which are eliminated in consolidation. The term debt requires monthly interest payments at a floating rate equal to the three-month LIBOR or the Prime Rate of interest, at the Plant Owners' election, plus 10.0%. The revolving credit facilities require monthly interest payments at a floating rate equal to the three-month LIBOR or the Prime Rate of interest, at the Plant Owners' election, plus 10.0% and 5.5% for the \$19.5 million and \$15.0 million facilities, respectively. At September 30, 2014, the average interest rate was approximately 11.0%. Repayments of principal are based on available free cash flow of the Plant Owners, until maturity, when all principal amounts are due.

As of September 30, 2014, the Plant Owners had no outstanding principal balances on their revolving credit facilities and an aggregate borrowing availability of \$34.5 million.

All of the term loans and revolving credit facilities represent permanent financing and are secured by a perfected, first-priority security interest in all of the assets, including inventories and all rights, title and interest in all tangible and intangible assets, of the Plant Owners. The Plant Owners' creditors do not have recourse to Pacific Ethanol, Inc.

Pacific Ethanol Debt

Senior Unsecured Notes

On January 11, 2013 we issued and sold \$22.2 million in aggregate principal amount of senior unsecured notes and warrants to purchase an aggregate of 1.7 million shares of our common stock for aggregate net proceeds of \$22.1 million. The warrants have an exercise price of \$6.32 per share and expire in January 2018. As of the filing of this report, we have fully repaid these notes.

Note Payable to Related Party

We repaid in cash a note payable to our Chief Executive Officer totaling \$0.8 million on March 31, 2014.

Effects of Inflation

The impact of inflation was not significant to our financial condition or results of operations for the three and nine months ended September 30, 2014 and 2013.

Impact of New Accounting Pronouncements

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of September 30, 2014 that our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

Inherent Limitations on the Effectiveness of Controls

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been or will be detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are subject to legal proceedings, claims and litigation arising in the ordinary course of business. While the amounts claimed may be substantial, the ultimate liability cannot presently be determined because of considerable uncertainties that exist. Therefore, it is possible that the outcome of those legal proceedings, claims and litigation could adversely affect our quarterly or annual operating results or cash flows when resolved in a future period. However, based on facts currently available, management believes such matters will not adversely affect in any material respect our financial position, results of operations or cash flows.

On May 24, 2013, GS CleanTech Corporation (“GS CleanTech”), filed a suit in the United States District Court for the Eastern District of California, Sacramento Division (Case No.: 2:13-CV-01042-JAM-AC), naming Pacific Ethanol, Inc. as a defendant. The suit alleges infringement of a patent assigned to GS CleanTech by virtue of certain corn oil separation technology in use at one or more of the ethanol production facilities in which we have an interest, including Pacific Ethanol Stockton LLC (“PE Stockton”), located in Stockton, California. The complaint seeks preliminary and permanent injunctions against us, prohibiting future infringement on the patent owned by GS CleanTech and damages in an unspecified amount adequate to compensate GS CleanTech for the alleged patent infringement, but in any event no less than a reasonable royalty for the use made of the inventions of the patent, plus attorney’s fees.

On March 17 and March 18, 2014, GS CleanTech filed suit naming as defendants two of our subsidiaries: PE Stockton and Pacific Ethanol Magic Valley, LLC (“PE Magic Valley”). The claims are similar to those filed against Pacific Ethanol, Inc. in May 2013. The three cases (against Pacific Ethanol, PE Stockton and PE Magic Valley) were subsequently transferred to the United States District Court for the Southern District of Indiana and made part of the pre-existing multi-district litigation involving GS CleanTech and multiple defendants (the “Pre-existing Cases”). The three Pacific Ethanol cases, along with several other lawsuits brought by GS CleanTech containing substantially the same allegations of infringement, have thus been attached to the Pre-existing Cases as “Tag-along Cases.”

Pacific Ethanol, PE Stockton and PE Magic Valley have answered the complaints and counterclaimed that the patent claims at issue, as well as the claims in several related patents, are invalid and unenforceable and that the defendants are not infringing.

On October 23, 2014, the United States District Court for the Southern District of Indiana issued a sealed order holding all asserted GS CleanTech’s corn oil separation patents invalid and not infringed. While the Court’s order currently applies only to the Pre-existing Cases, we believe the ruling will also be dispositive of the Tag-along Cases, and intend to file a motion to dismiss the cases against Pacific Ethanol, PE Stockton and PE Magic Valley.

ITEM 1A. RISK FACTORS.

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, financial condition, results of operations, cash flows, and the market price of our common stock.

Risks Related to our Business

We have incurred significant losses and negative operating cash flow in the past and we may incur losses and negative operating cash flow in the future, which may hamper our operations and impede us from expanding our business.

We have incurred significant losses and negative operating cash flow in the past. For 2013 and 2012, we incurred consolidated net losses of approximately \$1.2 million and \$43.4 million, respectively, and in 2012 incurred negative operating cash flow of \$20.8 million. We may incur losses and negative operating cash flow in the future. We expect to rely on cash on hand and cash, if any, generated from our operations and from future financing activities to fund all of the cash requirements of our business. Continued losses and negative operating cash flow may hamper our operations and impede us from expanding our business.

Our results of operations and our ability to operate at a profit is largely dependent on managing the costs of corn and natural gas and the prices of ethanol, WDG and other ethanol co-products, all of which are subject to significant volatility and uncertainty.

Our results of operations are highly impacted by commodity prices, including the cost of corn and natural gas that we must purchase, and the prices of ethanol, WDG and other ethanol co-products that we sell. Prices and supplies are subject to and determined by market and other forces over which we have no control, such as weather, domestic and global demand, supply shortages, export prices and various governmental policies in the United States and around the world.

As a result of price volatility of corn, natural gas, ethanol, WDG and other ethanol co-products, our results of operations may fluctuate substantially. In addition, increases in corn or natural gas prices or decreases in ethanol, WDG or other ethanol co-product prices may make it unprofitable to operate. In fact, some of our marketing activities will likely be unprofitable in a market of generally declining ethanol prices due to the nature of our business. For example, to satisfy customer demands, we maintain certain quantities of ethanol inventory for subsequent resale. Moreover, we procure much of our inventory outside the context of a marketing arrangement and therefore must buy ethanol at a price established at the time of purchase and sell ethanol at an index price established later at the time of sale that is generally reflective of movements in the market price of ethanol. As a result, our margins for ethanol sold in these transactions generally decline and may turn negative as the market price of ethanol declines.

No assurance can be given that corn or natural gas can be purchased at, or near, current or any particular prices or that ethanol, WDG or other ethanol co-products will sell at, or near, current or any particular prices. Consequently, our results of operations and financial position may be adversely affected by increases in the price of corn or natural gas or decreases in the price of ethanol, WDG or other ethanol co-products.

Over the past several years, the spread between ethanol and corn prices has fluctuated significantly. Corn crush margins, measured by the spread between ethanol and corn prices, continue to remain positive, although they have contracted significantly since their historic peak in March 2014. Fluctuations are likely to continue to occur. A sustained narrow spread, whether as a result of sustained high or increased corn prices or sustained low or decreased ethanol prices, would adversely affect our results of operations and financial position. Further, combined revenues from sales of ethanol, WDG and other ethanol co-products could decline below the marginal cost of production, which may force us to suspend production of ethanol, WDG and ethanol co-products at some or all of the Pacific Ethanol Plants.

Increased ethanol production may cause a decline in ethanol prices or prevent ethanol prices from rising, and may have other negative effects, adversely impacting our results of operations, cash flows and financial condition.

We believe that the most significant factor influencing the price of ethanol has been the substantial increase in ethanol production in recent years. Domestic ethanol production capacity has increased steadily from an annualized rate of 1.5 billion gallons per year in January 1999 to 14.9 billion gallons in 2013 according to the Renewable Fuel Association. In addition, due to significantly improved ethanol production margins, we anticipate that owners of idle ethanol production facilities, many of which were idled due to poor production margins, will restart operations, thereby resulting more abundant ethanol supplies and inventories. Any increase in the demand for ethanol may not be commensurate with increases in the supply of ethanol, thus leading to lower ethanol prices. Also, demand for ethanol could be impaired due to a number of factors, including regulatory developments and reduced United States gasoline consumption. Reduced gasoline consumption has occurred in the past and could occur in the future as a result of increased gasoline or oil prices. Any of these outcomes could have a material adverse effect on our results of operations, cash flows and financial condition.

The market price of ethanol is volatile and subject to large fluctuations, which may cause our profitability or losses to fluctuate significantly.

The market price of ethanol is volatile and subject to large fluctuations. The market price of ethanol is dependent upon many factors, including the supply of ethanol and the price of gasoline, which is in turn dependent upon the price of petroleum which is highly volatile and difficult to forecast. For example, ethanol prices, as reported by the CBOT, ranged from \$1.61 to \$2.74 per gallon during 2013 and corn prices, as reported by the CBOT, ranged from \$4.12 to \$7.41 per bushel during 2013. Recently, ethanol prices as reported by the CBOT, have declined from \$3.46 at March 31, 2014 to \$1.92 on November 10, 2014. Fluctuations in the market price of ethanol may cause our profitability or losses to fluctuate significantly.

Some of our marketing activities will likely be unprofitable in a market of generally declining ethanol prices due to the nature of our business.

Some of our marketing activities will likely be unprofitable in a market of generally declining ethanol prices due to the nature of our business. For example, to satisfy customer demands, we maintain certain quantities of ethanol inventory for subsequent resale. Moreover, we procure much of our inventory outside the context of a marketing arrangement and therefore must buy ethanol at a price established at the time of purchase and sell ethanol at an index price established later at the time of sale that is generally reflective of movements in the market price of ethanol. As a result, our margins for ethanol sold in these transactions generally decline and may turn negative as the market price of ethanol declines.

Disruptions in ethanol production infrastructure may adversely affect our business, results of operations and financial condition.

Our business depends on the continuing availability of rail, road, port, storage and distribution infrastructure. In particular, due to limited storage capacity at the Pacific Ethanol Plants and other considerations related to production efficiencies, the Pacific Ethanol Plants depend on just-in-time delivery of corn. The production of ethanol also requires a significant and uninterrupted supply of other raw materials and energy, primarily water, electricity and natural gas. The prices of electricity and natural gas have fluctuated significantly in the past and may fluctuate significantly in the future. Local water, electricity and gas utilities may not be able to reliably supply the water, electricity and natural gas that the Pacific Ethanol Plants will need or may not be able to supply those resources on acceptable terms. Any disruptions in the ethanol production infrastructure, whether caused by labor difficulties, earthquakes, storms, other natural disasters or human error or malfeasance or other reasons, could prevent timely deliveries of corn or other raw materials and energy and may require the Pacific Ethanol Plants to halt production which could have a material adverse effect on our business, results of operations and financial condition.

We and the Pacific Ethanol Plants may engage in hedging transactions and other risk mitigation strategies that could harm our results of operations.

In an attempt to partially offset the effects of volatility of ethanol prices and corn and natural gas costs, the Pacific Ethanol Plants may enter into contracts to fix the price of a portion of their ethanol production or purchase a portion of their corn or natural gas requirements on a forward basis. In addition, we may engage in other hedging transactions involving exchange-traded futures contracts for corn, natural gas and unleaded gasoline from time to time. The financial statement impact of these activities is dependent upon, among other things, the prices involved and our ability to sell sufficient products to use all of the corn and natural gas for which forward commitments have been made. Hedging arrangements also expose us to the risk of financial loss in situations where the other party to the hedging contract defaults on its contract or, in the case of exchange-traded contracts, where there is a change in the expected differential between the underlying price in the hedging agreement and the actual prices paid or received by us. As a result, our results of operations and financial condition may be adversely affected by fluctuations in the price of corn, natural gas, ethanol and unleaded gasoline.

Operational difficulties at the Pacific Ethanol Plants could negatively impact sales volumes and could cause us to incur substantial losses.

Operations at the Pacific Ethanol Plants are subject to labor disruptions, unscheduled downtimes and other operational hazards inherent in the ethanol production industry, including equipment failures, fires, explosions, abnormal pressures, blowouts, pipeline ruptures, transportation accidents and natural disasters. Some of these operational hazards may cause personal injury or loss of life, severe damage to or destruction of property and equipment or environmental damage, and may result in suspension of operations and the imposition of civil or criminal penalties. Insurance obtained by the Pacific Ethanol Plants may not be adequate to fully cover the potential operational hazards described above or the Pacific Ethanol Plants may not be able to renew this insurance on commercially reasonable terms or at all.

Moreover, the production facilities at the Pacific Ethanol Plants may not operate as planned or expected. All of these facilities are designed to operate at or above a specified production capacity. The operation of these facilities is and will be, however, subject to various uncertainties. As a result, these facilities may not produce ethanol and its co-products at expected levels. In the event any of these facilities do not run at their expected capacity levels, our business, results of operations and financial condition may be materially and adversely affected.

The United States ethanol industry is highly dependent upon certain federal and state legislation and regulation and any changes in legislation or regulation could have a material adverse effect on our results of operations, cash flows and financial condition.

The United States Environmental Protection Agency, or EPA, has implemented a Renewable Fuel Standard, or RFS, pursuant to the Energy Policy Act of 2005 and the Energy Independence and Security Act of 2007. The RFS program sets annual quotas for the quantity of renewable fuels (such as ethanol) that must be blended into motor fuels consumed in the United States. The domestic market for ethanol is significantly impacted by federal mandates under the RFS program for volumes of renewable fuels (such as ethanol) required to be blended with gasoline. The national RFS minimum requirement of 13.8 billion gallons of conventional biofuels (or ethanol derived from corn starch) to be consumed in the United States in 2013 approximated current domestic production levels of such ethanol. Future demand for ethanol will be largely dependent upon incentives to blend ethanol into motor fuels, including the relative price of gasoline versus ethanol, the relative octane value of ethanol, constraints in the ability of vehicles to use higher ethanol blends, the national RFS, and other applicable environmental requirements. Any significant increase in production capacity above the national RFS minimum requirements may have an adverse impact on ethanol prices.

Legislation aimed at reducing or eliminating the renewable fuel use required by the national RFS has been introduced in the United States Congress. On April 10, 2013 the Renewable Fuel Standard Elimination Act was introduced as H.R. 1461. The bill targets the repeal of the national RFS. Also introduced on April 10, 2013 was the RFS Reform Act of 2013, introduced as H.R. 1462, which would prohibit more than ten percent ethanol in gasoline and reduce the national RFS mandated volume of renewable fuel. On May 14, 2013, the Domestic Alternatives Fuels Act of 2013 was introduced in the United States House of Representatives as H.R. 1959 to allow ethanol produced from natural gas to be used to meet the national RFS mandate. These bills were assigned to a congressional committee, which will consider them before possibly sending any of them on to the House or Senate as a whole. Our operations could be adversely impacted if the Renewable Fuel Standard Elimination Act, the RFS Reform Act of 2013 or other legislation is enacted that reduces the national RFS volume requirements.

Under the provisions of the Clean Air Act, as amended by the Energy Independence and Security Act of 2007, the EPA has limited authority to waive or reduce the mandated national RFS requirements, which authority is subject to consultation with the Secretaries of Agriculture and Energy, and based on a determination that there is inadequate domestic renewable fuel supply or implementation of the applicable requirements would severely harm the economy or environment of a state, region or the United States. On November 15, 2013, the EPA released its Notice of Proposed Rulemaking for the 2014 Renewable Fuel Standard. The EPA proposes setting the 2014 Renewable Volume Obligations, or RVO, for key categories of biofuel covered by the national RFS below the 2014 volumes set in 2007 by the Energy Independence and Security Act of 2007 and below the 2013 volumes. The proposal seeks comment on a range of total renewable fuel volumes for 2014, which includes a proposed total RVO of 15.2 billion gallons for total renewable fuel blended into transportation fuels of which corn ethanol would be approximately 13.0 billion gallons, down from the original legislative target of 18.15 billion gallons for total renewable fuels of which corn ethanol would have been approximately 14.4 billion gallons and 0.8 billion gallons less of corn ethanol than what was required in 2013. Our operations could be adversely impacted if the EPA accepts the proposed RVOs.

Future demand for ethanol is uncertain and may be affected by changes to federal mandates, public perception, consumer acceptance and overall consumer demand for transportation fuel, any of which could negatively affect demand for ethanol and our results of operations.

Although many trade groups, academics and governmental agencies have supported ethanol as a fuel additive that promotes a cleaner environment, others have criticized ethanol production as consuming considerably more energy and emitting more greenhouse gases than other biofuels and potentially depleting water resources. Some studies have suggested that corn-based ethanol is less efficient than ethanol produced from other feedstock and that it negatively impacts consumers by causing prices to increase for dairy, meat and other food generated from livestock that consume corn. Additionally, ethanol critics contend that corn supplies are redirected from international food markets to domestic fuel markets. If negative views of corn-based ethanol production gain acceptance, support for existing measures promoting use and domestic production of corn-based ethanol could decline, leading to reduction or repeal of federal mandates, which would adversely affect the demand for ethanol. These views could also negatively impact public perception of the ethanol industry and acceptance of ethanol as an alternative fuel.

There are limited markets for ethanol beyond those established by federal mandates. Discretionary blending and E85 blending are important secondary markets. Discretionary blending is often determined by the price of ethanol versus the price of gasoline. In periods when discretionary blending is financially unattractive, the demand for ethanol may be reduced. Also, the demand for ethanol is affected by the overall demand for transportation fuel, which peaked in 2007 and has declined steadily since then. Demand for transportation fuel is affected by the number of miles traveled by consumers and the fuel economy of vehicles. Market acceptance of E15 may partially offset the effects of decreases in transportation fuel demand. A reduction in the demand for ethanol and ethanol co-products may depress the value of our products, erode our margins and reduce our ability to generate revenue or to operate profitably. Consumer acceptance of E15 and E85 fuels is needed before ethanol can achieve any significant growth in market share relative to other transportation fuels.

The ethanol production and marketing industry is extremely competitive. Many of our significant competitors have greater production and financial resources and one or more of these competitors could use their greater resources to gain market share at our expense. In addition, a number of Kinerger's suppliers may circumvent the marketing services we provide, causing our sales and profitability to decline.

The ethanol production and marketing industry is extremely competitive. Many of our significant competitors in the ethanol production and marketing industry, including Archer Daniels Midland Company and Valero Energy Corporation, have substantially greater production and/or financial resources. As a result, our competitors may be able to compete more aggressively and sustain that competition over a longer period of time. Successful competition will require a continued high level of investment in marketing and customer service and support. Our limited resources relative to many significant competitors may cause us to fail to anticipate or respond adequately to new developments and other competitive pressures. This failure could reduce our competitiveness and cause a decline in market share, sales and profitability. Even if sufficient funds are available, we may not be able to make the modifications and improvements necessary to compete successfully.

We also face increasing competition from international suppliers. Currently, international suppliers produce ethanol primarily from sugar cane and have cost structures that are generally substantially lower than the cost structures of the Pacific Ethanol Plants. Any increase in domestic or foreign competition could cause the Pacific Ethanol Plants to reduce their prices and take other steps to compete effectively, which could adversely affect their and our results of operations and financial condition.

In addition, some of our suppliers are potential competitors and, especially if the price of ethanol reaches historically high levels, they may seek to capture additional profits by circumventing our marketing services in favor of selling directly to our customers. If one or more of our major suppliers, or numerous smaller suppliers, circumvent our marketing services, our sales and profitability may decline.

If Kinerger fails to satisfy its financial covenants under its credit facility, it may experience a loss or reduction of that facility, which would have a material adverse effect on our financial condition and results of operations.

We are substantially dependent on Kinerger's credit facility to help finance its operations. Kinerger must satisfy monthly financial covenants under its credit facility, including covenants regarding its earnings before interest, taxes, depreciation and amortization (EBITDA) and fixed-charge coverage ratios. Kinerger will be in default under its credit facility if it fails to satisfy any financial covenant. A default may result in the loss or reduction of the credit facility. The loss of Kinerger's credit facility, or a significant reduction in Kinerger's borrowing capacity under the facility, would result in Kinerger's inability to finance a significant portion of its business and would have a material adverse effect on our financial condition and results of operations.

The high concentration of our sales within the ethanol marketing and production industry could result in a significant reduction in sales and negatively affect our profitability if demand for ethanol declines.

We expect to be completely focused on the marketing and production of ethanol and its co-products for the foreseeable future. We may be unable to shift our business focus away from the marketing and production of ethanol to other renewable fuels or competing products. Accordingly, an industry shift away from ethanol or the emergence of new competing products may reduce the demand for ethanol. A downturn in the demand for ethanol would likely materially and adversely affect our sales and profitability.

In addition to ethanol produced by the Pacific Ethanol Plants, we also depend on a small number of third-party suppliers for a significant portion of the ethanol we sell. If any of these suppliers does not continue to supply us with ethanol in adequate amounts, we may be unable to satisfy the demands of our customers and our sales, profitability and relationships with our customers will be adversely affected.

In addition to the ethanol produced by the Pacific Ethanol Plants, we also depend, and expect to continue to depend for the foreseeable future, on a small number of third-party suppliers for a significant portion of the total amount of ethanol that we sell. Our third-party suppliers are primarily located in the Midwestern United States. The delivery of ethanol from these suppliers is therefore subject to delays resulting from inclement weather and other conditions. If any of these suppliers is unable or declines for any reason to continue to supply us with ethanol in adequate amounts, we may be unable to replace that supplier and source other supplies of ethanol in a timely manner, or at all, to satisfy the demands of our customers. If this occurs, our sales, profitability and our relationships with our customers will be adversely affected.

We may be adversely affected by environmental, health and safety laws, regulations and liabilities.

We are subject to various federal, state and local environmental laws and regulations, including those relating to the discharge of materials into the air, water and ground, the generation, storage, handling, use, transportation and disposal of hazardous materials and wastes, and the health and safety of our employees. In addition, some of these laws and regulations require us to operate under permits that are subject to renewal or modification. These laws, regulations and permits can often require expensive pollution control equipment or operational changes to limit actual or potential impacts to the environment. A violation of these laws and regulations or permit conditions can result in substantial fines, natural resource damages, criminal sanctions, permit revocations and/or facility shutdowns. In addition, we have made, and expect to make, significant capital expenditures on an ongoing basis to comply with increasingly stringent environmental laws, regulations and permits.

We may be liable for the investigation and cleanup of environmental contamination at each of the Pacific Ethanol Plants and at off-site locations where we arrange for the disposal of hazardous substances or wastes. If these substances or wastes have been or are disposed of or released at sites that undergo investigation and/or remediation by regulatory agencies, we may be responsible under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or other environmental laws for all or part of the costs of investigation and/or remediation, and for damages to natural resources. We may also be subject to related claims by private parties alleging property damage and personal injury due to exposure to hazardous or other materials at or from those properties. Some of these matters may require us to expend significant amounts for investigation, cleanup or other costs.

In addition, new laws, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments could require us to make significant additional expenditures. Continued government and public emphasis on environmental issues can be expected to result in increased future investments for environmental controls at the Pacific Ethanol Plants. Present and future environmental laws and regulations, and interpretations of those laws and regulations, applicable to our operations, more vigorous enforcement policies and discovery of currently unknown conditions may require substantial expenditures that could have a material adverse effect on our results of operations and financial condition.

The hazards and risks associated with producing and transporting our products (including fires, natural disasters, explosions and abnormal pressures and blowouts) may also result in personal injury claims or damage to property and third parties. As protection against operating hazards, we maintain insurance coverage against some, but not all, potential losses. However, we could sustain losses for uninsurable or uninsured risks, or in amounts in excess of existing insurance coverage. Events that result in significant personal injury or damage to our property or third parties or other losses that are not fully covered by insurance could have a material adverse effect on our results of operations and financial condition.

If we are unable to attract and retain key personnel, our ability to operate effectively may be impaired.

Our ability to operate our business and implement strategies depends, in part, on the efforts of our executive officers and other key employees. Our future success will depend on, among other factors, our ability to retain our current key personnel and attract and retain qualified future key personnel, particularly executive management. Failure to attract or retain key personnel could have a material adverse effect on our business and results of operations.

We depend on a small number of customers for the majority of our sales. A reduction in business from any of these customers could cause a significant decline in our overall sales and profitability.

The majority of our sales are generated from a small number of customers. During 2013 and 2012, three customers accounted for an aggregate of approximately 52% and 49% of our net sales, respectively. We expect that we will continue to depend for the foreseeable future upon a small number of customers for a significant portion of our sales. Our agreements with these customers generally do not require them to purchase any specified amount of ethanol or dollar amount of sales or to make any purchases whatsoever. Therefore, in any future period, our sales generated from these customers, individually or in the aggregate, may not equal or exceed historical levels. If sales to any of these customers cease or decline, we may be unable to replace these sales with sales to either existing or new customers in a timely manner, or at all. A cessation or reduction of sales to one or more of these customers could cause a significant decline in our overall sales and profitability.

Our lack of long-term ethanol orders and commitments by our customers could lead to a rapid decline in our sales and profitability.

We cannot rely on long-term ethanol orders or commitments by our customers for protection from the negative financial effects of a decline in the demand for ethanol or a decline in the demand for our marketing services. The limited certainty of ethanol orders can make it difficult for us to forecast our sales and allocate our resources in a manner consistent with our actual sales. Moreover, our expense levels are based in part on our expectations of future sales and, if our expectations regarding future sales are inaccurate, we may be unable to reduce costs in a timely manner to adjust for sales shortfalls. Furthermore, because we depend on a small number of customers for a significant portion of our sales, the magnitude of the ramifications of these risks is greater than if our sales were less concentrated. As a result of our lack of long-term ethanol orders and commitments, we may experience a rapid decline in our sales and profitability.

There are limitations on our ability to receive distributions from our subsidiaries.

We conduct most of our operations through subsidiaries and are dependent upon dividends or other intercompany transfers of funds from our subsidiaries to generate free cash flow. Moreover, some of our subsidiaries are limited in their ability to pay dividends or make distributions to us by the terms of their financing arrangements.

Risks Related to Ownership of our Common Stock

The conversion or exercise of our outstanding derivative securities or the issuance of shares of our common stock in lieu of accrued and unpaid dividends on our Series B Preferred Stock could substantially dilute your investment, reduce your voting power, and, if the resulting shares of common stock are resold into the market, or if a perception exists that a substantial number of shares may be issued and then resold into the market, the market price of our common stock and the value of your investment could decline significantly.

Our Series B Preferred Stock, which is convertible into our common stock, and outstanding options to acquire our common stock issued to employees, directors and others, and warrants to purchase our common stock, allow the holders of these derivative securities an opportunity to profit from a rise in the market price of our common stock. In addition, we may elect to issue shares of our common stock in lieu of accrued and unpaid cash dividends on our Series B Preferred Stock. We have issued common stock in respect of our derivative securities and accrued and unpaid dividends on our Series B Preferred Stock in the past and expect to do so in the future. If the prices at which our derivative securities are converted or exercised, or at which shares of common stock in lieu of accrued and unpaid dividends on our Series B Preferred Stock are issued, are lower than the price at which you made your investment, immediate dilution of the value of your investment will occur. Our issuance of shares of common stock under these circumstances will also reduce your voting power. In addition, sales of a substantial number of shares of common stock resulting from any of these issuances, or even the perception that these sales could occur, could adversely affect the market price of our common stock. As a result, you could experience a significant decline in the value of your investment as a result of both the actual and potential issuance of shares of our common stock.

We may incur significant non-cash expenses in future periods due to adjustments to the fair values of our outstanding warrants. These non-cash expenses may materially and adversely affect our reported net income or losses and cause our stock price to decline.

From 2010 through 2013, we issued in various financing transactions warrants to purchase shares of our common stock. The warrants were initially recorded at their fair values, which are adjusted quarterly, generally resulting in non-cash expenses or income if the market price of our common stock increases or decreases, respectively, during the period. For example, due to the substantial increase in the market price of our common stock in the first quarter of 2014 and because the exercise prices of these warrants were, as of March 31, 2014, well below the market price of our common stock, the fair values of the warrants and the related non-cash expenses were significantly higher in the first quarter of 2014 than in prior quarterly periods, which resulted in an unusually large non-cash expense for the quarter. These fair value adjustments will continue in future periods until all of our warrants are exercised or expire. We may incur additional significant non-cash expenses in future periods due to adjustments to the fair values of our outstanding warrants resulting from increases in the market price of our common stock during those periods. These non-cash expenses may materially and adversely affect our reported net income or losses and cause our stock price to decline.

Our stock price is highly volatile, which could result in substantial losses for investors purchasing shares of our common stock and in litigation against us.

The market price of our common stock has fluctuated significantly in the past and may continue to fluctuate significantly in the future. The market price of our common stock may continue to fluctuate in response to one or more of the following factors, many of which are beyond our control:

- fluctuations in the market prices of ethanol and its co-products, including WDG and corn oil;
- the cost of key inputs to the production of ethanol, including corn and natural gas;
- the volume and timing of the receipt of orders for ethanol from major customers;
- competitive pricing pressures;
- our ability to produce, sell and deliver ethanol on a cost-effective and timely basis;
- the announcement, introduction and market acceptance of one or more alternatives to ethanol;
- losses resulting from adjustments to the fair values of our outstanding warrants to purchase our common stock;
- changes in market valuations of companies similar to us;
- stock market price and volume fluctuations generally;
- regulatory developments or increased enforcement;
- fluctuations in our quarterly or annual operating results;
- additions or departures of key personnel;
- our inability to obtain any necessary financing;
- our financing activities and future sales of our common stock or other securities; and
- our ability to maintain contracts that are critical to our operations.

Furthermore, we believe that the economic conditions in California and other Western states, as well as the United States as a whole, could have a negative impact on our results of operations. Demand for ethanol could also be adversely affected by a slow-down in overall demand for oxygenate and gasoline additive products. The levels of our ethanol production and purchases for resale will be based upon forecasted demand. Accordingly, any inaccuracy in forecasting anticipated revenues and expenses could adversely affect our business. The failure to receive anticipated orders or to complete delivery in any quarterly period could adversely affect our results of operations for that period. Quarterly results are not necessarily indicative of future performance for any particular period, and we may not experience revenue growth or profitability on a quarterly or an annual basis.

The price at which you purchase shares of our common stock may not be indicative of the price that will prevail in the trading market. You may be unable to sell your shares of common stock at or above your purchase price, which may result in substantial losses to you and which may include the complete loss of your investment. In the past, securities class action litigation has often been brought against a company following periods of high stock price volatility. We may be the target of similar litigation in the future. Securities litigation could result in substantial costs and divert management's attention and our resources away from our business.

Any of the risks described above could have a material adverse effect on our results of operations or the price of our common stock, or both.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Unregistered Sales of Equity Securities

None.

Dividends

Our current and future debt financing arrangements may limit or prevent cash distributions from our subsidiaries to us, depending upon the achievement of specified financial and other operating conditions and our ability to properly service our debt, thereby limiting or preventing us from paying cash dividends.

For the three and nine months ended September 30, 2014 and 2013, we declared and paid in cash an aggregate of \$0.3 million and \$0.9 million, respectively, in dividends on our Series B Preferred Stock. We have never declared or paid cash dividends on our common stock and do not currently intend to pay cash dividends on our common stock in the foreseeable future. We currently anticipate that we will retain any earnings for use in the continued development of our business. The holders of our outstanding Series B Preferred Stock are entitled to dividends of 7% per annum, payable quarterly. Accumulated and unpaid dividends in respect of our Series B Preferred Stock must be paid prior to the payment of any dividends in respect of our common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Bylaws of the Registrant (*)
31.1	Certifications Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)
31.2	Certifications Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)
101.INS	XBRL Instance Document (*)
101.SCH	XBRL Taxonomy Extension Schema (*)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (*)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (*)
101.LAB	XBRL Taxonomy Extension Label Linkbase (*)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (*)

(*) 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 thereunto duly authorized.

PACIFIC ETHANOL, INC.

Dated: November 12, 2014

By: /S/ BRYON T. MCGREGOR

Bryon T. McGregor
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBITS FILED WITH THIS REPORT

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AMENDED AND RESTATED BYLAWS

OF

PACIFIC ETHANOL, INC.
(a Delaware corporation)

Preamble

These amended and restated Bylaws (the “Bylaws”) are subject to, and governed by, the General Corporation Law of the State of Delaware (the “**Delaware General Corporation Law**”) and the Certificate of Incorporation (the “**Certificate of Incorporation**”), as it may be further amended from time to time, of Pacific Ethanol, Inc., a Delaware corporation (the “**Corporation**”). In the event of a direct conflict between the provisions of these Bylaws and the mandatory provisions of the Delaware General Corporation Law or the provisions of the Certificate of Incorporation, such provisions of the Delaware General Corporation Law or the Certificate of Incorporation of the Corporation, as the case may be, will be controlling. These Bylaws amend and restate the Corporation’s prior bylaws dated February 28, 2005.

Article I
Corporate Offices

Section 1.1 Registered Office. The registered office of the Corporation shall be at Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, State of Delaware. The name of the registered agent of the Corporation at such location is The Corporation Trust Company. The registered office of the Corporation may be changed from time to time by the Board of Directors of the Corporation (the “**Board of Directors**”) in the manner provided by law and need not be identical to the principal place of business of the Corporation.

Section 1.2 Other Offices. The Corporation may also maintain or establish an office or offices at such other place or places, within or without the State of Delaware, as the Board of Directors may from time to time determine by resolution.

Article II
Meetings of Stockholders

Section 2.1 Place of Meetings. Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the Board of Directors. The Board of Directors may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211(a)(2) of the Delaware General Corporation Law. In the absence of any such designation, meetings of stockholders shall be held at the principal office of the Corporation.

Section 2.2 Annual Meeting. The annual meeting of the stockholders shall be held each year at such place within or without the State of Delaware and on a date and at a time as may be designated from time to time by the Board of Directors, for the purpose of electing directors and for the transaction of any and all such other business as may properly be brought before the meeting. Any and all business of any nature or character whatsoever may be transacted, and action may be taken thereon, at any annual meeting, except as otherwise provided by law or by these Bylaws.

Section 2.3 Special Meetings. Special meetings of the stockholders for any purpose or purposes, unless otherwise prescribed by law shall be called pursuant to a resolution adopted by the Board of Directors and may not be called by any other person or persons. Each special meeting of stockholders shall be held at any place within or without the State of Delaware as determined by the Board of Directors. The secretary of the Corporation shall cause notice to be promptly given to the stockholders entitled to vote, in accordance with the provisions of Sections 2.4 and 2.5 of these Bylaws, that a special meeting will be held at the time designated by the Board of Directors. No business may be transacted at such special meeting other than the business specified in such notice to stockholders. Nothing contained in this Section 2.3 shall be construed as limiting, fixing or affecting the time when a meeting of stockholders called by action of the Board of Directors may be held.

Section 2.4 Notice of Meetings of Stockholders. All notices of meetings with stockholders shall be in writing and shall be sent or otherwise given in accordance with Section 2.5 or Section 9.1 of these Bylaws not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, date, and hour of the meeting, the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

Section 2.5 Manner of Giving Notice; Affidavit of Notice. Written notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Corporation or, if electronically transmitted, as provided in Article IX of these Bylaws. An affidavit of the secretary or an assistant secretary or of the transfer agent of the Corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

Section 2.6 Quorum. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business, except where otherwise provided by statute, the Certificate of Incorporation or these Bylaws. Any shares, the voting of which at such meeting has been enjoined, or which for any reason cannot be lawfully voted at such meeting, shall not be counted to determine a quorum at such meeting. Any meeting at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of enough stockholders to leave less than a quorum. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, all action taken by holders of a majority of the voting power represented at any meeting at which a quorum is present shall be valid and binding upon the corporation.

Section 2.7 Conduct of Meetings. The Board of Directors may adopt by resolution such rules and regulations for the conduct of a meeting of the stockholders as it shall deem appropriate. At every meeting of the stockholders, the Chairman of the Board of Directors, or in his or her absence or inability to act, the Chief Executive Officer, or, in his or her absence or inability to act, the person whom the Chief Executive Officer shall appoint, shall act as chairman of, and preside at, the meeting. The secretary or, in his or her absence or inability to act, the person whom the chairman of the meeting shall appoint secretary of the meeting, shall act as secretary of the meeting and keep the minutes thereof. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of the stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) the determination of when the polls shall open and close for any given matter to be voted on at the meeting; (iii) rules and procedures for maintaining order at the meeting and the safety of those present; (iv) limitations on attendance at or participation in the meeting to stockholders of record of the corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (v) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (vi) limitations on the time allotted to questions or comments by participants.

Section 2.8 Adjourned Meeting; Notice. Any meeting of the stockholders, annual or special, may be adjourned by the chairperson of such meeting from time to time to reconvene at the same or some other place, if any. When a meeting is adjourned to another time or place, unless these Bylaws otherwise require, notice need not be given of the adjourned meeting if the time, place if any thereof, and the means of remote communications if any by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 2.9 Voting. The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.12 of these Bylaws, subject to the provisions of Section 217 of the Delaware General Corporation Law (relating to voting rights of fiduciaries, pledgors and joint owners of stock) and Section 218 of the Delaware General Corporation Law (relating to voting trusts and other voting agreements).

Except as may be otherwise provided in the Certificate of Incorporation or these Bylaws, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder.

Section 2.10 Waiver of Notice. Whenever notice is required to be given under any provision of the Delaware General Corporation Law or of the Certificate of Incorporation or these Bylaws, a written waiver thereof, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the Certificate of Incorporation or these Bylaws.

Section 2.11 Stockholder Action by Written Consent Without a Meeting. Unless otherwise provided in the Certificate of Incorporation, any action required to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken and bearing the dates of signature of the stockholders who signed the consent or consents, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of holders to take the action were delivered to the Corporation as provided in Section 228 of the Delaware General Corporation Law. In the event that the action which is consented to is such as would have required the filing of a certificate under any provision of the Delaware General Corporation Law, if such action had been voted on by stockholders at a meeting thereof, the certificate filed under such provision shall state, in lieu of any statement required by such provision concerning any vote of stockholders, that written consent has been given in accordance with Section 228 of the Delaware General Corporation Law. Any action taken pursuant to such written consent or consents of the stockholders shall have the same force and effect as if taken by the stockholders at a meeting thereof.

Section 2.12 Record Date for Stockholder Notice; Voting; Giving Consents. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than ten (10) days after the date upon which the resolution fixing the record date for a written consent is adopted by the Board of Directors, nor more than sixty (60) days prior to any other action.

If the Board of Directors does not so fix a record date:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is delivered to the Corporation as provided in Section 213(b) of the Delaware General Corporation Law.

(iii) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 2.13 Proxies. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy authorized by an instrument in writing or by a transmission permitted by law filed in accordance with the procedure established for the meeting, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212 of the Delaware General Corporation Law.

Section 2.14 List of Stockholders Entitled to Vote. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. The Corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting; or (ii) during ordinary business hours, at the Corporation's principal executive office; or (iii) if not so specified, at the place where the meeting is to be held. In the event the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Such list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

Section 2.15 Advance Notice of Stockholder Nominations and Proposals.

(a) At a meeting of the stockholders, only such nominations of persons for the election of directors and such other business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, nominations or such other business must be: (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors or any committee thereof, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors or any committee thereof, or (iii) otherwise properly brought before an annual meeting by a stockholder who is a stockholder of record of the Corporation at the time such notice of meeting is delivered, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 2.15. In addition, any proposal of business (other than the nomination of persons for election to the Board of Directors) must be a proper matter for stockholder action. For business (including, but not limited to, director nominations) to be properly brought before an annual meeting by a stockholder, the stockholder or stockholders of record intending to propose the business (the “**Proposing Stockholder**”) must have given timely notice thereof pursuant to this Section 2.15(a) or Section 2.15(c), as applicable, in writing to the secretary of the Corporation even if such matter is already the subject of any notice to the stockholders or Public Disclosure from the Board of Directors. To be timely, a Proposing Stockholder’s notice must be delivered to or mailed and received at the principal executive offices of the Corporation: (x) not later than the close of business on the 90th day, nor earlier than the close of business on the 120th day in advance of the anniversary of the previous year’s annual meeting if such meeting is to be held on a day which is not more than thirty (30) days in advance of the anniversary of the previous year’s annual meeting or not later than seventy (70) days after the anniversary of the previous year’s annual meeting; and (y) with respect to any other annual meeting of stockholders, the close of business on the 10th day following the date of Public Disclosure of the date of such meeting. In no event shall the Public Disclosure of an adjournment or postponement of an annual meeting commence a new notice time period (or extend any notice time period). For purposes of this Section 2.15, the term “**Public Disclosure**” shall mean a disclosure made in a press release reported by Dow Jones News Services, The Associated Press or a comparable national news service or in a document filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”).

(b) For the nomination of any person or persons for election to the Board of Directors, a Proposing Stockholder's notice to the secretary of the Corporation shall set forth (i) the name, age, business address and residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each such nominee, (iii) the number of shares of capital stock of the Corporation which are owned of record and beneficially by each such nominee (if any), (iv) such other information concerning each such nominee as would be required to be disclosed in a proxy statement soliciting proxies for the election of such nominee as a director in an election contest (even if an election contest is not involved), or that is otherwise required to be disclosed, under Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder, (v) the consent of the nominee to being named in the proxy statement as a nominee and to serving as a director if elected, and (vi) as to the Proposing Stockholder: (A) the name and address of the Proposing Stockholder as they appear on the Corporation's books and of the beneficial owner, if any, on whose behalf the nomination is being made, (B) the class and number of shares of the Corporation which are owned by the Proposing Stockholder (beneficially and of record) and owned by the beneficial owner, if any, on whose behalf the nomination is being made, as of the date of the Proposing Stockholder's notice, and a representation that the Proposing Stockholder will notify the Corporation in writing of the class and number of such shares owned of record and beneficially as of the record date for the meeting promptly following the later of the record date or the date notice of the record date is first publicly disclosed, (C) a description of any agreement, arrangement or understanding with respect to such nomination between or among the Proposing Stockholder and any of its affiliates or associates, and any others (including their names) acting in concert with any of the foregoing, and a representation that the Proposing Stockholder will notify the Corporation in writing of any such agreement, arrangement or understanding in effect as of the record date for the meeting promptly following the later of the record date or the date notice of the record date is first publicly disclosed, (D) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, options, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of the Proposing Stockholder's notice by, or on behalf of, the Proposing Stockholder or any of its affiliates or associates, the effect or intent of which is to mitigate loss to, manage risk or benefit of share price changes for, or increase or decrease the voting power of the Proposing Stockholder or any of its affiliates or associates with respect to shares of stock of the Corporation, and a representation that the Proposing Stockholder will notify the Corporation in writing of any such agreement, arrangement or understanding in effect as of the record date for the meeting promptly following the later of the record date or the date notice of the record date is first publicly disclosed, (E) a representation that the Proposing Stockholder is a holder of record of shares of the Corporation entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, and (F) a representation whether the Proposing Stockholder intends to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve the nomination and/or otherwise to solicit proxies from stockholders in support of the nomination. The Corporation may require any proposed nominee to furnish such other information as it may reasonably require to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation or that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such nominee.

(c) For all business other than director nominations, a Proposing Stockholder's notice to the secretary of the Corporation shall set forth as to each matter the Proposing Stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) any other information relating to such stockholder and beneficial owner, if any, on whose behalf the proposal is being made, required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for the proposal and pursuant to and in accordance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder and (iii) the information required by Section 2.15(b)(vi) of these Bylaws.

(d) The foregoing notice requirements of Sections 2.14(b) and 2.14(c) shall be deemed satisfied by a stockholder with respect to business or a nomination if the stockholder has notified the Corporation of his, her or its intention to present a proposal or make a nomination at an annual meeting in compliance with the applicable rules and regulations promulgated under Section 14(a) of the Exchange Act and such stockholder's proposal or nomination has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such annual meeting.

(e) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (x) by or at the direction of the Board of Directors or (y) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time the notice provided for in this Section 2.15 is delivered to the secretary of the Corporation, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in this Section 2.15. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by this Section 2.15 shall be delivered to the secretary at the principal executive offices of the Corporation not later than the close of business on the 90th day prior to such special meeting and not earlier than the close of business on the later of the 120th day prior to such special meeting or the 10th day following the date of Public Disclosure of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. The foregoing notice requirements of this Section 2.15(e) shall be deemed satisfied by a stockholder with respect to a nomination if the stockholder has notified the Corporation of his, her or its intention to present a nomination at such special meeting in compliance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder and such stockholder's nomination has been included in a proxy statement that has been prepared by the Corporation to solicit proxies for such special meeting. In no event shall the Public Disclosure of an adjournment or postponement of a special meeting commence a new time period (or extend any notice time period).

(f) Notwithstanding anything in these Bylaws to the contrary: (i) no nominations shall be made or business shall be conducted at any annual meeting except in accordance with the procedures set forth in this Section 2.15, and (ii) except as otherwise required by law, if a Proposing Stockholder intending to propose business or make nominations at an annual meeting pursuant to this Section 2.15 does not provide the information required under this Section 2.15 to the Corporation promptly following the later of the record date or the date notice of the record date is first publicly disclosed, or the Proposing Stockholder (or a qualified representative of the Proposing Stockholder) does not appear at the meeting to present the proposed business or nominations, such business or nominations shall not be considered, notwithstanding that proxies in respect of such business or nominations may have been received by the Corporation. The requirements of this Section 2.15 shall apply to any business or nominations to be brought before an annual meeting by a stockholder whether such business or nominations are to be included in the Corporation's proxy statement pursuant to Rule 14a-8 of the Exchange Act or presented to stockholders by means of an independently financed proxy solicitation. The requirements of this Section 2.15 are included to provide the Corporation notice of a stockholder's intention to bring business or nominations before an annual meeting and shall in no event be construed as imposing upon any stockholder the requirement to seek approval from the Corporation as a condition precedent to bringing any such business or make such nominations before an annual meeting.

Article III
Board of Directors

Section 3.1 Powers. Subject to the provisions of the Delaware General Corporation Law and any limitations in the Certificate of Incorporation or these Bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors.

Section 3.2 Number of Directors. The authorized number of directors of the Corporation shall be seven (7) until changed by resolution of the Board of Directors. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

Section 3.3 Election, Qualification and Term Office of Directors. All elections of directors shall be by written ballot, unless otherwise provided in the Certificate of Incorporation. If authorized by the Board of Directors, such requirement of a written ballot shall be satisfied by a ballot submitted by electronic transmission, provided that any such electronic transmission must be either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the stockholder or proxy holder.

Notwithstanding the foregoing provisions of this Section 3.3, each director shall serve until his or her successor is duly elected and qualified or until his or her death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Section 3.4 Resignation and Vacancies. Any director may resign at any time upon notice given in writing or by electronic transmission to the secretary of the Corporation. When one or more directors so resigns and the resignation is effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this Section in the filling of other vacancies.

Any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal, newly created directorships or other causes shall, except as otherwise provided by the Delaware General Corporation Law or by the Certificate of Incorporation, be filled only by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors, or by a sole remaining director, and not by the stockholders. Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the Certificate of Incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified.

Section 3.5 Place of Meetings; Meetings by Telephone. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors, or any committee, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

Section 3.6 Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by resolution of the board.

Section 3.7 Special Meetings; Notice. Special meetings of the Board of Directors may be called by the chairman of the board or the chief executive officer or the president or the secretary or by any two directors. Notice of the time and place of special meetings shall be delivered either personally by hand, by courier or by telephone, sent by United States first-class mail, postage prepaid, sent by facsimile or sent by electronic mail, directed to each director at that director's address, telephone number, facsimile number or electronic mail address, as the case may be, as shown on the Corporation's records.

If the notice is (i) delivered personally by hand, by courier or by telephone, (ii) sent by facsimile or (iii) sent by electronic mail, it shall be delivered or sent at least twenty-four (24) hours before the time of the holding of the meeting. If the notice is sent by United States mail, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. Any oral notice may be communicated to the director. The notice need not specify the place or the meeting (if the meeting is to be held at the Corporation's principal executive office) nor the purpose of the meeting. It shall not be necessary that the same method of giving notice be employed in respect of all directors, but one permissible method may be employed in respect of any one or more, and any other permissible method or methods may be employed in respect of any other or others.

Section 3.8 Quorum. At all meetings of the Board of Directors, a majority of the authorized number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation. If a quorum is not present at any meeting of the Board of Directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

Section 3.9 Waiver of Notice. Whenever notice is required to be given under any provision of the Delaware General Corporation Law or of the Certificate of Incorporation or these Bylaws, a written waiver thereof, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the Certificate of Incorporation or these Bylaws.

Section 3.10 Board Action by Written Consent Without a Meeting. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 3.11 Fees and Compensation of Directors. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the Board of Directors, or a committee thereof, shall have the authority to fix the compensation of directors.

Section 3.12 Removal of Directors. Notwithstanding any other provisions of the Corporation's Certificate of Incorporation, or these Bylaws, any director, or the entire Board of Directors of the Corporation may be removed at any time, with or without cause. The removal shall be accomplished by the affirmative vote, at a special meeting of stockholders called for that purpose in the manner provided in these Bylaws, of the holders of at least a majority of the outstanding shares entitled to vote at an election for directors.

Article IV Committees of the Board of Directors

Section 4.1 Committees of Directors. The Board of Directors may, by resolution passed by a majority of the whole board, designate one or more committees, with each committee to consist of one or more of the directors of the Corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors or in the Bylaws of the Corporation, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) amend the Certificate of Incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the Board of Directors as provided in Section 151(a) of the Delaware General Corporation Law, fix any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the Corporation), (ii) approve or adopt, or recommend to the stockholders, any matter expressly required by the Delaware General Corporation Law to be submitted to stockholders for approval, (iii) adopt, amend or repeal any bylaw of the Corporation or (iv) declare any dividend.

The Board of Directors may at any time increase or decrease the number of members of a committee or terminate the existence of a committee. The Board of Directors may at any time and for any reason remove any individual committee member or fill any committee vacancy created by death, resignation, removal or increase in the number of members of a committee.

Section 4.2 Committee Minutes. Each committee shall keep regular minutes of its meetings and report the same to the Board of Directors when required.

Section 4.3 Meetings and Action of Committees. Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these Bylaws, Section 3.5 (place of meetings and meetings by telephone), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), and Section 3.10 (action without a meeting), with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the Board of Directors and its members; provided, however, that the time of regular meetings of committees and special meetings of committees may also be called by resolution of the Board of Directors and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board of Directors may adopt rules for the government of any committee not inconsistent with the provisions of these Bylaws.

Section 4.4 Advisory Committees. The Board of Directors may, by resolution passed by a majority of the whole board, designate one or more advisory committees, with each committee to consist of one or more of the directors of the Corporation or any other such persons as the board may appoint. The board may designate one or more persons as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. Members who are not board members shall not have the responsibilities or obligations of board members nor be deemed directors of the Corporation for any other purpose.

Article V Officers

Section 5.1 Officers. The officers of the Corporation shall be a chief executive officer, a secretary, and a chief financial officer. The Corporation may also have, at the discretion of the Board of Directors, a chairman of the board, a vice chairman of the board, a treasurer, one or more presidents, one or more vice presidents, one or more assistant vice presidents, assistant secretaries, assistant treasurers, and any such other officers as may be appointed in accordance with the provisions of these Bylaws. Any number of offices may be held by the same person.

Section 5.2 Appointment of Officers. The Board of Directors shall appoint the officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.3 or 5.5 of these Bylaws, subject to the rights, if any, of an officer under any contract of employment.

Section 5.3 Subordinate Officers. The Board of Directors may appoint, or empower the chief executive officer or, in the absence of a chief executive officer, one or more presidents, to appoint, such other officers and agents as the business of the Corporation may require, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws or as the Board of Directors may from time to time determine.

Section 5.4 Removal and Resignation of Officers. Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the Board of Directors at any regular or special meeting of the board or, except in the case of an officer chosen by the board, by any officer upon whom such power of removal may be conferred by the Board of Directors.

Any officer may resign at any time by giving written notice to the Board of Directors or secretary of the Corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the officer is a party.

Section 5.5 Vacancies in Offices. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors or as provided in Section 5.2 of these Bylaws.

Section 5.6 Chairman of the Board. The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the stockholders and meetings of the Board of Directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the Board of Directors or as may be prescribed by these Bylaws. If there is no chief executive officer or president, then the chairman of the board shall also be the chief executive officer of the Corporation and shall have the powers and duties prescribed in Section 5.7 of these Bylaws.

Section 5.7 Chief Executive Officer. Subject to such supervisory powers, if any, as may be given by the Board of Directors to the chairman of the board, if there be such an officer, the chief executive officer of the Corporation shall, subject to the control of the Board of Directors, have general supervision, direction, and control of the business and affairs of the Corporation and shall report directly to the Board of Directors. All other officers, officials, employees and agents shall report directly or indirectly to the chief executive officer. The chief executive officer shall see that all orders and resolutions of the Board of Directors are carried into effect. In the absence or nonexistence of a chairman of the board, he shall serve as the chairperson and preside at meetings of the stockholders and meetings of the Board of Directors. He shall have the general powers and duties of management usually vested in the chief executive officer of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws.

Section 5.8 President. The president may assume and perform the duties of the chief executive officer in the absence or disability of the chief executive officer or whenever the office of the chief executive officer is vacant. When acting as the chief executive officer, a president shall have all the powers of, and be subject to all the restrictions upon, the chief executive officer. The president of the Corporation shall exercise and perform such powers and duties as may from time to time be assigned to him by the Board of Directors, the chairman of the board, the chief executive officer or as may be prescribed by these Bylaws. The president shall have authority to execute in the name of the Corporation bonds, contracts, deeds, leases and other written instruments to be executed by the Corporation. In the absence or nonexistence of the chairman of the board and chief executive officer, he shall preside at all meetings of the stockholders and, in the absence or nonexistence of a Chairman of the Board of Directors and chief executive officer, at all meetings of the Board of Directors and shall perform such other duties as the Board of Directors may from time to time determine.

Section 5.9 Vice Presidents. In the absence or disability of the chief executive officer and any president, the vice presidents, if any, in order of their rank as fixed by the Board of Directors or, if not ranked, a vice president designated by the Board of Directors, shall perform all the duties of a president and when so acting shall have all the powers of, and be subject to all the restrictions upon, a president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Directors, these Bylaws, the chairman of the board, the chief executive officer or, in the absence of a chief executive officer, one or more of the presidents.

Section 5.10 Secretary. The secretary shall keep or cause to be kept, at the principal executive office of the Corporation or such other place as the Board of Directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at meetings of the Board of Directors or committees, the number of shares present or represented at meetings of stockholders, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the Corporation or at the office of the Corporation's transfer agent or registrar, as determined by resolution of the Board of Directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board of Directors required to be given by law or by these Bylaws. He or she shall keep the seal of the Corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by these Bylaws.

Section 5.11 Chief Financial Officer. The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositories as the Board of Directors may designate. The chief financial officer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, shall render to the chief executive officer or, in the absence of a chief executive officer, any president and directors, whenever they request it, an account of all his or her transactions as chief financial officer and of the financial condition of the Corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws. The chief financial officer may be the treasurer of the Corporation.

Section 5.12 Treasurer. The treasurer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the Corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The treasurer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositories as the Board of Directors may designate. The treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, shall render to the chief executive officer or, in the absence of a chief executive officer, any president and directors, whenever they request it, an account of all his or her transactions as treasurer and of the financial condition of the Corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these Bylaws.

Section 5.13 Assistant Secretary. The assistant secretary, or, if there is more than one, the assistant secretaries in the order determined by the stockholders or Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the Board of Directors or the stockholders may from time to time prescribe.

Section 5.14 Assistant Treasurer. The assistant treasurer, or, if there is more than one, the assistant treasurers, in the order determined by the stockholders or Board of Directors (or if there be no such determination, then in the order of their election), shall, in the absence of the treasurer or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the Board of Directors or the stockholders may from time to time prescribe.

Section 5.15 Authority and Duties of Officers. In addition to the foregoing authority and duties, all officers of the Corporation shall respectively have such authority and perform such duties in the management of the business of the Corporation as may be designated from time to time by the Board of Directors or the stockholders.

Article VI Indemnity

Section 6.1 Indemnification of Directors and Officers. The Corporation shall, to the fullest extent and in the manner permitted by the Delaware Corporation General Law as it presently exists or may hereafter be amended, indemnify and hold harmless each of its directors and officers who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal or administrative or investigative (a "proceeding") by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was a director, officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, non-profit entity or other enterprise, including service with respect to employee benefit plans, against all liability and loss suffered and expenses reasonably incurred by such person in connection with any such action, suit, or proceeding. The Corporation shall be required to indemnify a person in connection with a proceeding initiated by such person only if the proceeding was authorized by the Board of Directors.

Section 6.2 Indemnification of Others. The Corporation shall have the power, to the fullest extent and in the manner permitted by the Delaware General Corporation Law as it presently exists or may hereafter be amended, to indemnify and hold harmless, each of its employees and agents who was or is made or is threatened to be made a party or is otherwise involved in any proceeding by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was an employee or agent of the Corporation or is or was serving at the request of the Corporation as an employee or agent of another corporation, partnership, joint venture, trust, non-profit entity or other enterprise, including service with respect to employee benefit plans, against all liability and loss suffered and expenses reasonably incurred by such person in connection with any such action, suit, or proceeding.

Section 6.3 Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation or its subsidiaries as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of the Delaware General Corporation Law.

Section 6.4 Expenses. The Corporation shall pay the expenses incurred by any officer or director of the Corporation, and may pay the expenses incurred by any employee or agent of the Corporation, in defending any proceeding in advance of its final disposition; provided, however, that the payment of expenses incurred by a person in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the person to repay all amounts advanced if it should ultimately be determined that he is not entitled to be indemnified by the Corporation under this Article VI or otherwise. Such expenses incurred by other employees and agents described in Section 6.2 of this Article VI may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate.

Section 6.5 Other Indemnification. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VI shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. However, the Corporation's obligation, if any, to indemnify a person who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, non-profit entity or other enterprise shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture, trust, non-profit entity or other enterprise.

Section 6.6 Amendment or Repeal. Any repeal or modification of the foregoing provisions of this Article VI shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification.

Section 6.7 Merger or Consolidation. For purposes of this Article VI, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, non-profit entity or other enterprise, shall stand in the same position under this Article VI with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

Section 6.8 Severability. The invalidity or unenforceability of any provision of this Article VI shall not affect the validity or enforceability of the remaining provisions of this Article VI.

Article VII
Records and Reports

Section 7.1 Maintenance and Inspection of Records. The Corporation shall, either at its principal executive office or at such place or places as designated by the Board of Directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each shareholder, a copy of these Bylaws as amended to date, accounting books, and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the Corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the Corporation at its registered office in Delaware or at its principal executive office.

Section 7.2 Inspection by Directors. Any director shall have the right to examine the Corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his position as a director. The Court of Chancery of the State of Delaware is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court of Chancery may summarily order the Corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court of Chancery may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

Section 7.3 Representation of Shares of Other Corporations. The chairman of the board, the chief executive officer, the chief financial officer or any other person authorized by the Board of Directors or the chief executive officer, is authorized to vote, represent, and exercise on behalf of the Corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of the Corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

Article VIII
General Matters

Section 8.1 Checks. From time to time, the Board of Directors shall determine by resolution which person or persons may sign or endorse all checks, drafts, other orders for payment of money, notes or other evidences of indebtedness that are issued in the name of or payable to the Corporation, and only the persons so authorized shall sign or endorse those instruments.

Section 8.2 Execution of Corporate Contracts and Instruments. The Board of Directors, except as otherwise provided in these Bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the Corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board of Directors or within the agency power of an officer, agent or employee, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

Section 8.3 Stock Certificates; Partly Paid Shares. The shares of the Corporation shall be represented by certificates, provided that the Board of Directors of the Corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the Corporation by the chairman or vice-chairman of the Board of Directors, or a president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the Corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

The Corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, upon the books and records of the Corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the Corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

Section 8.4 Special Designation on Certificates. If the Corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the Corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the Delaware General Corporation Law, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the Corporation shall issue to represent such class or series of stock a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Section 8.5 Lost Certificates. Except as provided in this Section 8.5, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the Corporation and canceled at the same time. The Corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or his legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

Section 8.6 Construction; Definitions. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Delaware General Corporation Law shall govern the construction of these Bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term “person” includes both a corporation and a natural person.

Section 8.7 Dividends. The directors of the Corporation, subject to any restrictions contained in either the Delaware General Corporation Law or the Certificate of Incorporation, may declare and pay dividends upon the shares of its capital stock. Dividends may be paid in cash, in property, or in shares of the Corporation’s capital stock.

The directors of the Corporation may set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the Corporation, and meeting contingencies.

Section 8.8 Fiscal Year. The fiscal year of the Corporation shall end on December 31 of each year until changed by the Board of Directors.

Section 8.9 Seal. The Corporation may adopt a corporate seal, which shall be adopted and which may be altered by the Board of Directors. The Corporation may use the corporate seal by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

Section 8.10 Transfer of Stock. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction in its books.

Section 8.11 Stock Transfer Agreements. The Corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the Corporation to restrict the transfer of shares of stock of the Corporation of any one or more classes owned by such stockholders in any manner not prohibited by the Delaware General Corporation Law.

Section 8.12 Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

Section 8.13 Forum for Adjudication of Disputes. Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, or (iv) any action asserting a claim governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the corporation shall be deemed to have notice of and consented to the provisions of this Section 8.13.

Article IX
Notice by Electronic Transmission

Section 9.1 Notice by Electronic Transmission

Without limiting the manner by which notice otherwise may be given effectively to stockholders pursuant to the Delaware General Corporation Law, the Certificate of Incorporation or these Bylaws, any notice to stockholders given by the Corporation under any provision of the Delaware General Corporation Law, the Certificate of Incorporation or these Bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the Corporation. Any such consent shall be deemed revoked if: (i) the Corporation is unable to deliver by electronic transmission two consecutive notices given by the Corporation in accordance with such consent; and (ii) such inability becomes known to the secretary or an assistant secretary of the Corporation or to the transfer agent, or other person responsible for the giving of notice. However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

Any notice given pursuant to the preceding paragraph shall be deemed given: (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consent to receive notice; (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (iv) if by any other form of electronic transmission, when directed to the stockholder. An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the Corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein. Notice by a form of electronic transmission shall not apply to Sections 164, 296, 311, 312 or 324 of the Delaware General Corporation Law.

An "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

Article X
Amendments

These Bylaws may be amended, altered or repealed, and new Bylaws may be adopted, by the stockholders entitled to vote. However, the Corporation may, in its Certificate of Incorporation, confer the power to adopt, amend or repeal Bylaws upon the Board of Directors. The fact that such power has been so conferred upon the directors shall not divest the stockholders of the power, nor limit their power to adopt, amend, alter or repeal Bylaws.

CERTIFICATE OF SECRETARY

OF

PACIFIC ETHANOL, INC.

(a Delaware corporation)

I hereby certify that I am the duly elected and acting secretary of PACIFIC ETHANOL, INC., a Delaware corporation, and that the foregoing Bylaws, comprising 23 pages, including this page, constitute the Bylaws of the Corporation as duly adopted by the Board of Directors thereof by action taken at a meeting of the Board of Directors held on July 23, 2014.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand this 23rd day of July, 2014.

/s/ CHRISTOPHER W. WRIGHT
Christopher W. Wright, Secretary

EXHIBIT 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Neil M. Koehler, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pacific Ethanol, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2014

/S/ NEIL M. KOEHLER

Neil M. Koehler
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bryon T. McGregor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pacific Ethanol, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2014

/S/ BRYON T. MCGREGOR

Bryon T. McGregor
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

**CERTIFICATION OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Pacific Ethanol, Inc. (the "Company") for the period ended September 30, 2014 (the "Report"), the undersigned hereby certify in their capacities as Chief Executive Officer and Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended;
and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 12, 2014

By: /S/ NEIL M. KOEHLER
Neil M. Koehler
President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 12, 2014

By: /S/ BRYON T. MCGREGOR
Bryon T. McGregor
Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.