UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2015**

[ ] **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 [X] 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 [X] 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 [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	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 [X]

As of November 6, 2015, there were 38,978,689 shares of Pacific Ethanol, Inc. common stock, $0.001 par value per share, and 3,540,132 shares of Pacific Ethanol, Inc. non-voting common stock, $0.001 par value per share, outstanding.

PART I
FINANCIAL INFORMATION

PART II
OTHER INFORMATION

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	September 30, 2015 (unaudited)	December 31, 2014 *
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 53,056	$ 62,084
Accounts receivable, net	51,379	34,612
Inventories	48,238	18,550
Income tax receivable	14,097	–
Prepaid inventory	11,100	11,595
Other current assets	5,084	12,710
Total current assets	182,954	139,551
Property and equipment, net	472,632	155,302
Other Assets:		
Intangible assets, net	2,566	2,786
Other assets	9,882	1,863
Total other assets	12,448	4,649
Total Assets	$ 668,034	$ 299,502

* Amounts derived from the audited financial statements for the year ended December 31, 2014.

See accompanying notes to consolidated financial statements.

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

	September 30, 2015 (unaudited)	December 31, 2014 *
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable – trade	$ 41,447	$ 13,122
Accrued liabilities	5,846	6,203
Current portion – capital leases	4,217	4,077
Current portion – long-term debt	17,003	–
Other current liabilities	7,120	2,045
Total current liabilities	75,633	25,447
Long-term debt, net of current portion	190,166	34,533
Capital leases, net of current portion	5,279	2,055
Warrant liabilities at fair value	501	1,986
Deferred tax liabilities	5,293	17,040
Other noncurrent liabilities	20,451	459
Total Liabilities	297,323	81,520
Commitments and Contingencies (Notes 6 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; no shares issued and outstanding as of September 30, 2015 and December 31, 2014; Series B: 1,580,790 shares authorized; 926,942 shares issued and outstanding as of September 30, 2015 and December 31, 2014; liquidation preference of $18,075 as of September 30, 2015	1	1
Common stock, $0.001 par value; 300,000,000 shares authorized; 38,985,661 and 24,499,534 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	39	25
Non-voting common stock, $0.001 par value; 3,553,000 shares authorized; 3,540,132 and no shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	4	–
Additional paid-in capital	901,978	725,813
Accumulated deficit	(531,311)	(512,332)
Total Pacific Ethanol, Inc. Stockholders' Equity	370,711	213,507
Noncontrolling interests	–	4,475
Total Stockholders' Equity	370,711	217,982
Total Liabilities and Stockholders' Equity	$ 668,034	$ 299,502

* Amounts derived from the audited financial statements for the year ended December 31, 2014.

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,	
	2015	2014	2015	2014
Net sales	$ 380,622	$ 275,573	$ 814,419	$ 851,260
Cost of goods sold	388,002	257,587	816,532	761,153
Gross profit (loss)	(7,380)	17,986	(2,113)	90,107
Selling, general and administrative expenses	7,446	4,392	16,344	12,377
Income (loss) from operations	(14,826)	13,594	(18,457)	77,730
Fair value adjustments and warrant inducements	1,202	(4,378)	1,413	(39,737)
Interest expense, net	(5,167)	(1,133)	(7,187)	(8,370)
Loss on extinguishments of debt	–	–	–	(2,363)
Other income (expense), net	203	(172)	16	(734)
Income (loss) before provision for income taxes	(18,588)	7,911	(24,215)	26,526
Provision (benefit) for income taxes	(3,925)	3,163	(6,095)	13,629
Consolidated net income (loss)	(14,663)	4,748	(18,120)	12,897
Net (income) loss attributed to noncontrolling interests	–	(723)	87	(4,126)
Net income (loss) attributed to Pacific Ethanol	$ (14,663)	$ 4,025	$ (18,033)	$ 8,771
Preferred stock dividends	$ (319)	$ (319)	$ (946)	$ (946)
Income (loss) available to common stockholders	$ (14,982)	$ 3,706	$ (18,979)	$ 7,825
Net income (loss) per share, basic	$ (0.36)	$ 0.16	$ (0.63)	$ 0.40
Net income (loss) per share, diluted	$ (0.36)	$ 0.15	$ (0.63)	$ 0.35
Weighted-average shares outstanding, basic	41,861	22,986	30,170	19,713
Weighted-average shares outstanding, diluted	41,861	24,307	30,170	22,073

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Operating Activities:		
Consolidated net income (loss)	$ (18,120)	$ 12,897
Adjustments to reconcile consolidated net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization of intangibles	15,103	9,775
Deferred income taxes	(120)	191
Loss on extinguishments of debt	–	2,363
Fair value adjustments	(1,413)	37,465
Amortization of debt discount	383	1,815
Amortization of deferred financing fees	178	1,139
Inventory valuation	–	722
Non-cash compensation	1,465	1,311
Derivative instruments	1,552	700
Bad debt expense (recoveries)	(357)	(40)
Changes in operating assets and liabilities, net of effects from acquisition of Aventine:		
Accounts receivable	(5,980)	4,862
Inventories	(205)	2,401
Other current assets	(1,399)	962
Prepaid inventory	495	1,734
Accounts payable and accrued expenses	(9,020)	(2,047)
Net cash provided by (used in) operating activities	(17,438)	76,250
Investing Activities:		
Net cash from Aventine acquisition	18,756	–
Additions to property and equipment	(17,680)	(9,996)
Purchase of cash collateralized letters of credit	(4,574)	–
Purchases of PE Op Co. ownership	–	(6,000)
Net cash used in investing activities	(3,498)	(15,996)
Financing Activities:		
Proceeds from equity offering	–	26,073
Proceeds from exercise of warrants	368	42,656
Principal payments on senior notes	–	(13,984)
Principal payment on related party note	–	(750)
Parent purchases of Plant Owners' debt	–	(17,038)
Net proceeds from (payments on) Kinergy's line of credit	29,718	(5,570)
Principal payments on Plant borrowings	(13,833)	(35,378)
Payments on capital leases	(3,399)	(3,772)
Debt issuance costs	–	(440)
Preferred stock dividends paid	(946)	(946)
Net cash provided by (used in) financing activities	11,908	(9,149)
Net increase (decrease) in cash and cash equivalents	(9,028)	51,105
Cash and cash equivalents at beginning of period	62,084	5,151
Cash and cash equivalents at end of period	$ 53,056	$ 56,256
Supplemental Information:		
Interest paid	$ 6,043	$ 5,606
Income taxes paid	$ –	$ 10,470
Noncash financing and investing activities:		
Reclass of warrant liability to equity upon warrant exercises	$ 72	$ 40,884
Reclass of noncontrolling interests to APIC upon acquisitions of ownership positions in PE Op Co.	$ 560	$ 80
Accrued payment for ownership positions in PE Op Co.	$ 3,828	$ –
Assets acquired in acquisition of Aventine:		
Cash and cash equivalents	18,756	–
Accounts receivables	10,430	–
Inventories	29,483	–
Other current assets	10,480	–
Property and equipment	312,781	–
Net deferred tax assets	10,021	–
Other assets	750	–
Liabilities assumed in acquisition of Aventine:		

Accounts payable and accrued expenses		27,233		–
Term debt		142,744		–
Line of credit		13,721		–
Pension plan liabilities		8,518		–
Other noncurrent liabilities		25,913		–
Net assets acquired in acquisition of Aventine	$	174,572	$	–
Common stock issued in acquisition of Aventine	$	174,572	$	–
Preferred stock dividends paid in common stock	$	–	$	1,463

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 (collectively, the "Company"), 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."). The Company's acquisition of Aventine Renewable Energy Holdings, Inc. (now, Pacific Ethanol Central, LLC, a Delaware limited liability company, "Aventine") was consummated on July 1, 2015, and as a result, the Company's consolidated financial statements include the results of Aventine only as of and for the three months ended September 30, 2015 and the same three month period within the nine months ended September 30, 2015.

The Company is a leading producer and marketer of low-carbon renewable fuels in the United States. The Company's four ethanol plants in the Western United States (together with their respective holding companies, the "Pacific Ethanol West Plants") are located in close proximity to both feed and ethanol customers and thus enjoy unique advantages in efficiency, logistics and product pricing. These plants produce among the lowest-carbon ethanol produced in the United States due to low energy use in production.

With the addition of four Midwestern ethanol plants in July 2015 as a result of the Company's acquisition of Aventine, the Company now has a combined ethanol production capacity of 515 million gallons per year, markets, on an annualized basis, over 800 million gallons of ethanol and produces, on an annualized basis, over 1 million tons of co-products such as wet and dry distillers grains, wet and dry corn gluten feed, condensed distillers solubles, corn gluten meal, corn germ, distillers yeast and CO_2. The Company's four ethanol plants in the Midwest (together with their respective holding companies, the "Pacific Ethanol Central Plants") are located in the heart of the Corn Belt, benefit from low-cost and abundant feedstock production and allow for access to many additional domestic markets; and the Company's ability to load unit trains from these facilities in the Midwest allows for greater access to international markets.

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 co-products to dairy operators, animal feed distributors and 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 $35,541,000 and $28,475,000 at September 30, 2015 and December 31, 2014, respectively, were used as collateral under Kinergy's operating line of credit. The allowance for doubtful accounts was $21,700 and $6,000 as of September 30, 2015 and December 31, 2014, respectively. The Company recorded bad debt recoveries of $360,000 and $357,000 for the three and nine months ended September 30, 2015, respectively, and bad debt recoveries of $6,000 and $40,000 for the three and nine months ended September 30, 2014, respectively. The Company does not have any off-balance sheet credit exposure related to its customers.

Employment-related Benefits – Employment-related benefits associated with pensions and postretirement health care are expensed based on actuarial analysis. The recognition of expense is affected by estimates made by management, such as discount rates used to value certain liabilities, investment rates of return on plan assets, increases in future wage amounts and future health care costs. Discount rates are determined based on a spot yield curve that includes bonds with maturities that match expected benefit payments under the plan.

Provision for Income Taxes – For the three and nine months ended September 30, 2015, the Company recognized a tax benefit for losses incurred to the extent they are able to be carried back to prior taxable years, however, losses from the Pacific Ethanol Central Plants are not eligible to be carried back to prior taxable years and as such, were not recognized as an income tax benefit. In addition, for the three and nine months ended September 30, 2015, the Company recognized $1.5 million in tax benefit related to adjustments to its tax asset valuation allowance from a prior period. This adjustment is considered to be immaterial. For the three and nine months ended September 30, 2014, expenses related to warrant fair value adjustments are not tax deductible and as such, those expenses were excluded from a tax benefit, resulting in a higher effective tax rate.

The resulting effective tax rates for the three months ended September 30, 2015 and 2014 were 21.1% and 40.0% of pre-tax income, respectively. The resulting effective tax rates for the nine months ended September 30, 2015 and 2014 were 25.2% and 51.4% of pre-tax income, respectively.

Recent 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 was originally effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, but has been further deferred one year. The Company's adoption begins with the first fiscal quarter of fiscal year 2018. 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 2015, the FASB issued new guidance on presentation of debt issuance costs. Historically, entities have presented debt issuance costs as an asset. Under the new guidance, effective for fiscal years beginning after December 31, 2015, debt issuance costs will be reclassified as a deduction to the carrying amount of the related debt balance. The guidance does not change any of the Company's other debt recognition or disclosure. The Company will adopt the guidance beginning March 31, 2016.

In July 2015, the FASB issued new guidance on simplifying the measurement of inventory. Under the new guidance, entities are required to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. This guidance is effective prospectively for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company has adopted the guidance with no material impact on its results of operations or financial condition.

In September 2015, the FASB issued new guidance on simplifying the accounting for measurement-period adjustments. Under the new guidance, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The guidance also requires acquirers to present separately on the face of the statement of operations or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The guidance is effective for fiscal years beginning after December 31, 2015, applied prospectively. Early adoption is permitted. The Company will consider early adoption in future periods related to its current measurement period for its acquisition of Aventine.

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, 2014. 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, 2014. 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 assets acquired and liabilities assumed from the acquisition of Aventine, warrants and conversion features, pension and postretirement benefit plan obligations, 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.

2. PACIFIC ETHANOL WEST PLANTS.

As of September 30, 2015, the Company owned 100% of its four Pacific Ethanol West Plants located in the Western United States through its holding company, PE Op Co., namely, Pacific Ethanol Madera LLC, Pacific Ethanol Columbia, LLC, Pacific Ethanol Stockton LLC and Pacific Ethanol Magic Valley, LLC, and their holding company, Pacific Ethanol Holding Co. LLC (together with the Pacific Ethanol West Plants, the "Plant Owners").

Prior to December 2013, PE Op Co. was consolidated as a variable interest entity because the Company, through its contractual arrangements with PE Op Co., had the power to direct the activities that most significantly impacted PE Op Co.'s economic performance. Since December 2013, as a result of owning 91% of PE Op Co., the Company continued to consolidate PE Op Co.'s financial results under the voting rights model.

In May 2015, the Company purchased the remaining 4% ownership interest in PE Op Co. that it did not own, giving it 100% ownership of PE Op Co.

For the prior periods in which the Company did not wholly-own PE Op Co., it adjusted its consolidated net income (loss) for the income (loss) attributed to PE Op Co.'s other owners. The remaining amount after this adjustment resulted in net income (loss) attributed to Pacific Ethanol.

Noncontrolling interest decreased from $4,475,000 at December 31, 2014 to $0 at September 30, 2015 due to the Company's purchase of the remaining 4% ownership interest in PE Op Co. for $3,828,000, resulting in a reduction of noncontrolling interest of $4,388,000, and loss attributed to noncontrolling interest of $87,000 for the nine months ended September 30, 2015.

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. do not have recourse to Pacific Ethanol, Inc. Since its acquisition, the Company has not provided any additional support to PE Op Co. beyond the terms of its contractual arrangements.

3. ACQUISITION OF AVENTINE.

On December 30, 2014, the Company entered into a definitive merger agreement with Aventine, a Midwest ethanol producer, under which the Company agreed to acquire Aventine through a stock-for-stock merger. The merger agreement was amended effective March 31, 2015 to address certain conditions to closing and other matters. The acquisition closed on July 1, 2015 and the Company issued an aggregate of 17.8 million shares of common stock and non-voting common stock for 100% of the outstanding shares of common stock of Aventine. The common stock and non-voting common stock issued as consideration had an aggregate fair value of $174.6 million, based on the closing market price of the Company's common stock on the acquisition date.

The Company believes the Aventine acquisition will result in a number of synergies and strategic advantages. The Company believes the acquisition will spread commodity and basis price risks across diverse markets and products, assisting in its efforts to optimize margin management; improve its hedging opportunities with a greater correlation to the liquid physical and paper markets in Chicago; and increase its flexibility and alternatives in feedstock procurement for its Midwestern and Western production facilities. The acquisition also expands the Company's marketing reach into new markets and extends its mix of co-products. The Company believes the acquisition will enable it to have deeper market insight and engagement in major ethanol and feed markets outside the Western United States, thereby improving pricing opportunities; allows the Company to establish access to markets in 48 states for ethanol sales and access many markets with ethanol and co-product sales reaching domestic and international customers; and enable it to use its more diverse mix of co-products to generate strong co-product returns. In addition, the acquisition also increases the Company's combined annual ethanol production capacity to 515 million gallons per year and annualized ethanol marketing volume to over 800 million gallons, including Aventine's historical volumes.

The Company has recognized the following allocation of the purchase price at fair values. The following fair value allocation for all assets and liabilities is provisional and incomplete as the Company is in the process of completing its valuation of the assets acquired and liabilities assumed, most significantly its valuation of property and equipment, deferred taxes and environmental remediation. The fair values of property and equipment and deferred taxes are based on the Company's draft valuations, and represent its best estimates at the time of the filing of this report. The Company expects to conclude its valuations during the fourth quarter of 2015. The Company has included in the following allocation its estimated fair values for certain operating lease agreements and open commitments. The fair-value determination of long-term debt is based on the interest rate environment at the acquisition date.

Based upon these fair value estimates, the purchase price consideration allocation is as follows (in thousands):

Cash and cash equivalents	$	18,756
Accounts receivable		10,430
Inventory		29,483
Other current assets		10,480
Total current assets		69,149
Property and equipment		312,781
Net deferred tax assets		10,021
Other assets		750
Total assets acquired	$	392,701
Accounts payable and accrued liabilities	$	27,233
Long-term debt - revolvers		13,721
Long-term debt - term debt		142,744
Pension plan liabilities		8,518
Other non-current liabilities		25,913
Total liabilities assumed	$	218,129
Net assets acquired	$	174,572
Estimated goodwill	$	–
Total purchase price	$	174,572

The contractual amount due on the accounts receivable acquired was $10.8 million, of which $0.4 million is expected to be uncollectible. Any changes to the initial estimates of the fair value of the acquired assets and assumed liabilities will be recorded as adjustments to those assets and liabilities and residual amounts will be allocated to goodwill if the net assets acquired are less than the purchase price. If the net assets acquired exceed the purchase price, the residual amount will result in a bargain purchase gain. As discussed in Note 9, the Company recognized $3.7 million, included in other noncurrent liabilities above, as a litigation contingency related to certain legal cases for amounts that were probable and estimable as of the acquisition date. Subsequent to the acquisition date, the Company paid approximately $0.4 million of this amount.

The following table presents unaudited pro forma financial information assuming the acquisition occurred on January 1, 2014 (in thousands, except per share).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net sales – pro forma	$ 380,622	$ 429,373	$ 1,107,919	$ 1,267,853
Cost of goods sold – pro forma	$ 379,302	$ 400,260	$ 1,102,278	$ 1,137,410
Selling, general and administrative expenses – pro forma	$ 7,346	$ 8,892	$ 29,144	$ 24,568
Net income (loss) – pro forma	$ (6,182)	$ (117)	$ (34,226)	$ 4,400
Diluted net income (loss) per share – pro forma	$ (0.15)	$ (0.00)	$ (0.71)	$ 0.11
Diluted weighted-average shares – pro forma	41,861	42,062	47,945	39,828

The effects of the initial step-up of inventories and open contracts in the aggregate of $8.7 million recorded during the three months ended September 30, 2015 were excluded in the above amounts, and instead recorded for the nine months ended September 30, 2014, as if the acquisition had occurred on January 1, 2014. For the three months ended September 30, 2015, Aventine contributed $143.6 million in net revenues and $16.6 million in pre-tax loss. For the three and nine months ended September 30, 2015, the Company recorded approximately $0.1 million and $1.4 million, respectively, in costs associated with the Aventine acquisition. These costs are reflected in selling, general and administrative expenses on the Company's consolidated statements of operations, but were excluded from the amounts above.

4. INVENTORIES.

Inventories consisted primarily of bulk ethanol, corn, co-products 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, 2015	December 31, 2014
Finished goods	$ 31,554	$ 11,118
Raw materials	8,213	2,695
Work in progress	7,055	3,274
Other	1,416	1,463
Total	$ 48,238	$ 18,550

5. 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, 2015 and 2014, 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 exchange-traded 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 classification and amounts of the Company's derivatives not designated as hedging instruments are as follows (in thousands):

	As of September 30, 2015			
	Assets		Liabilities	
Type of Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity contracts	Other current assets	$ 1,012	Other current liabilities	$ 2,026
		$ 1,012		$ 2,026

	As of December 31, 2014			
	Assets		Liabilities	
Type of Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Commodity contracts	Other current assets	$ 1,586	Other current liabilities	$ 1,149
		$ 1,586		$ 1,149

The classification and amounts of the Company's recognized gains (losses) for its derivatives not designated as hedging instruments are as follows (in thousands):

		Realized Gains	
		Three Months Ended September 30,	
Type of Instrument	Statements of Operations Location	2015	2014
Commodity contracts	Cost of goods sold	$ (251)	$ (1,619)
		$ (251)	$ (1,619)

		Unrealized Gains (Losses)	
		Three Months Ended September 30,	
Type of Instrument	Statements of Operations Location	2015	2014
Commodity contracts	Cost of goods sold	$ (824)	$ 402
		$ (824)	$ 402

		Realized Gains	
		Nine Months Ended September 30,	
Type of Instrument	Statements of Operations Location	2015	2014
Commodity contracts	Cost of goods sold	$ (101)	$ (1,070)
		$ (101)	$ (1,070)

		Unrealized Gains (Losses)	
		Three Months Ended September 30,	
Type of Instrument	Statements of Operations Location	2015	2014
Commodity contracts	Cost of goods sold	$ (1,451)	$ 370
		$ (1,451)	$ 370

6. DEBT.

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

	September 30, 2015		December 31, 2014	
Kinergy operating line of credit	$	47,137	$	17,530
Term debt		162,622		17,003
		209,759		34,533
Less unamortized discount		(2,590)		–
Less short-term portion		(17,003)		–
Long-term debt	$	190,166	$	34,533

Kinergy Operating Line of Credit – As of September 30, 2015, Kinergy had an outstanding balance of $47,137,000 and an available borrowing base under the credit facility of $4,576,000.

Effective, July 1, 2015, Kinergy amended its line of credit to:

- Extend the term and maturity date of the credit facility from December 31, 2016 to December 31, 2020;
- Increase the maximum credit under the credit facility from $30,000,000 to $75,000,000, with an “accordion” feature to further increase the maximum credit under the credit facility to up to $100,000,000 in minimum increments of $5,000,000 each, upon Kinergy’s request, but subject to the consent of the agent and the lenders in their sole discretion.
- Increase the inventory loan limit under the credit facility from $12,500,000 to $40,000,000 and increase the letter of credit limit under the credit facility from $5,000,000 to $20,000,000;
- Reduce the applicable margin to 1.75% to 2.75% depending on the quarterly average amounts available for borrowing and reduce the unused line fee under the credit facility to an annual rate equal to 0.25% to 0.375% depending on the average daily principal balance during the immediately preceding month; and
- Delete the financial covenant concerning Kinergy’s earnings before interest, taxes, depreciation and amortization (“EBITDA”) but retained financial covenants concerning its fixed-charge coverage ratios.

Pacific Ethanol West Plants’ Term Debt and Operating Lines of Credit – As of September 30, 2015, the Pacific Ethanol West Plants’ term debt had an outstanding balance of $17,003,000. As of September 30, 2015, the Pacific Ethanol West Plants had no outstanding balances on their revolving credit facilities, with an aggregate of $19,473,000 of borrowing availability. The outstanding balance matures in June 2016 and has been classified as current.

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 Pacific Ethanol West Plants. The creditors under the term loans and revolving credit facilities for the Pacific Ethanol West Plants do not have recourse to Pacific Ethanol, Inc. or any of its other direct or indirect subsidiaries.

Pacific Ethanol Central Plants’ Term Debt – As of September 30, 2015, the Pacific Ethanol Central Plants’ term debt had an outstanding balance of $145,619,000. On July 1, 2015, upon effectiveness of the Aventine acquisition, Aventine became a wholly-owned subsidiary of the Company and, on a consolidated basis, the combined company became obligated with respect to the Pacific Ethanol Central Plants’ term loan and revolving credit facilities. The creditors under the term loan for the Pacific Ethanol Central Plants have recourse solely against the Pacific Ethanol Central Plants and their subsidiaries but not against Pacific Ethanol, Inc. or its other direct or indirect subsidiaries. In connection with the Company’s allocation of purchase price, the debt was recorded at $142,744,000, net of a discount of $2,875,000.

The term loan facility matures on September 24, 2017. The term loan facility is secured through a first-priority lien on substantially all of the Pacific Ethanol Central Plants' assets and contains customary financial covenants, including the requirement that Aventine maintain a cash balance of at least $2.0 million. Interest on the term loan facility accrues and may be paid in cash at a rate of 10.5% per annum or may be paid in-kind at a rate of 15.0% per annum by adding such interest to the outstanding principal balance. If the Company were to elect to pay interest in-kind, the interest would be capitalized at the end of each quarter. The Company paid interest in cash for the three months ended September 30, 2015.

On July 1, 2015, the Company repaid in full $14.5 million, including approximately $0.7 million in termination fees, representing all amounts owed under Aventine's revolving credit facility.

At September 30, 2015, there were approximately $320.9 million of net assets of the Company's subsidiaries that were not available to be transferred to the parent company in the form of dividends, loans or advances due to restrictions contained in the credit facilities of these subsidiaries.

7. PENSION AND RETIREMENT BENEFIT PLANS

The Company, through its acquisition of Aventine, has assumed a defined benefit pension plan (the "Pension Plan") and a health care and life insurance plan (the "Postretirement Plan").

The Pension Plan is noncontributory, and covers unionized employees at the Company's Pekin, Illinois facility, who fulfill minimum age and service requirements. Benefits are based on a prescribed formula based upon the employee's years of service. The Pension Plan, part of a collective bargaining agreement, covers only Union employees hired after November 1, 2010. The Company uses a December 31 measurement date for its Pension Plan. The Company's funding policy is to make the minimum annual contributions that are required by applicable regulations. As of September 30, 2015, the Pension Plan's accumulated projected benefit obligation was $18.0 million, with a fair value of plan assets of $13.2 million. The underfunded amount of $4.8 million is recorded on the Company's consolidated balance sheet in other noncurrent liabilities. For the three months ended September 30, 2015, the Pension Plan's net periodic expense was $24,000, comprised of $169,000 in interest cost and $106,000 in service cost, partially offset by a $251,000 expected return on plan assets. The Company expects approximately $0.5 million to be paid out of the Pension Plan for the remainder of 2015.

The Postretirement Plan provides postretirement medical benefits and life insurance to certain "grandfathered" unionized employees. Employees hired after December 31, 2000 are not eligible to participate in the Postretirement Plan. The Postretirement Plan is contributory, with contributions required at the same rate as active employees. Benefit eligibility under the plan reduces at age 65 from a defined benefit to a defined collar cap based upon years of service. As of September 30, 2015, the Postretirement Plan's accumulated projected benefit obligation was $3.7 million and is recorded on the Company's consolidated balance sheet in other noncurrent liabilities. The Company's funding policy is to make the minimum annual contributions that are required by applicable regulations. For the three months ended September 30, 2015, the Postretirement Plan's net periodic expense was $49,000, comprised of $33,000 of interest cost and $16,000 of service cost. The Company expects approximately $0.1 million to be paid out of the Postretirement Plan for the remainder of 2015.

8. COMMON STOCK AND WARRANTS.

Warrant Exercises – There were no warrants exercised during the three months ended September 30, 2015. During the nine months ended September 30, 2015, certain holders exercised warrants and received an aggregate of 42,000 shares of the Company's common stock upon payment of an aggregate of $368,000 in cash. During the three months ended September 30, 2015, approximately 432,000 warrants expired unexercised. As of September 30, 2015, there were warrants outstanding to purchase 349,000 shares of the Company's common stock at an average exercise price of $7.02 per share.

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.

Grants of Stock – In August 2015, the Company granted an aggregate of 5,000 shares of restricted stock to certain of the Company's eligible employees that vest in equal amounts on each of April 1, 2016, 2017 and 2018, which had a grant date fair value of $7.03 per share. In July 2015, the Company granted an aggregate of 67,000 shares of restricted stock to certain of the Company's eligible employees that vest in equal amounts on each of April 1, 2016, 2017 and 2018, which had a grant date fair value of $9.83 per share. In June 2015, the Company granted an aggregate of approximately 41,000 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 2016 annual meeting of stockholders, or (ii) July 1, 2016, which had a grant date fair value of $10.87 per share. In March 2015, the Company granted an aggregate of 194,000 shares of restricted stock to the Company's executive officers and other eligible employees that vest in equal amounts on each of April 1, 2016, 2017 and 2018, which had a grant date fair value of $10.20 per share. As of September 30, 2015, there was $4.4 million of total unrecognized costs related to nonvested restricted stock. That cost is expected to be recognized over a weighted-average period of 2.5 years.

9. COMMITMENTS AND CONTINGENCIES.

Sales Commitments – At September 30, 2015, the Company had sales contracts with its major customers to sell certain quantities of ethanol and co-products. The Company had fixed-price sales contracts to sell $6,593,000 of ethanol and indexed-price contracts to sell 176,108,000 gallons of ethanol. At September 30, 2015, the Company had fixed-price sales contracts to sell $18,778,000 of co-products and indexed-price sales contracts to sell 13,000 tons of co-products. These sales contracts are scheduled to be completed throughout 2015.

Purchase Commitments – At September 30, 2015, the Company had fixed-price purchase contracts with its suppliers to purchase $7,749,000 of ethanol, $10,625,000 of corn and indexed-price contracts to purchase 23,892,000 gallons of ethanol. These contracts are scheduled to be satisfied throughout the remainder of 2015.

Litigation – 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.

Pacific Ethanol, Inc., through a subsidiary acquired in its acquisition of Aventine, became involved in a pending lawsuit with Western Sugar Cooperative ("Western Sugar") that pre-dated the Aventine acquisition.

On February 27, 2015, Western Sugar filed a complaint in the United States District Court for the District of Colorado (Case No. 1:15-cv-00415) naming Aventine Renewable Energy, Inc. ("ARE, Inc."), one of Aventine's subsidiaries, as defendant. Western Sugar amended its complaint on April 21, 2015. ARE, Inc. purchased surplus sugar through a United States Department of Agriculture program. Western Sugar was one of the entities that warehoused this sugar for ARE, Inc. The suit alleges that ARE, Inc. breached its contract with Western Sugar by failing to pay certain penalty rates for the storage of its sugar or alternatively failing to pay a premium rate for storage. Western Sugar alleges that the penalty rates apply because ARE, Inc. failed to take timely delivery or otherwise cause timely shipment of the sugar. Western Sugar claims "expectation damages" in the amount of approximately $8.6 million. ARE, Inc. filed answers to Western Sugar's complaint and amended complaint generally denying Western Sugar's allegations and asserting various defenses. The case is currently in its discovery phase.

The Company, through subsidiaries acquired in its acquisition of Aventine, became involved in various pending lawsuits with Aurora Cooperative Elevator Company ("Aurora Coop") that pre-dated the Aventine acquisition.

On July 26, 2015, the Company settled all outstanding litigation with Aurora Coop. The Company and Aurora Coop agreed to dismiss all lawsuits with prejudice with no admission of fault or liability by the parties, and to release the alleged option held by Aurora Coop to repurchase the land upon which the Company's 110 million gallon ethanol production facility in Aurora, Nebraska is located (the "Aurora West Facility"). In addition, the parties agreed to terminate the grain supply, marketing and various other agreements between them or their subsidiaries. Under the terms of the settlement, the Company and Aurora Coop will each bear its own costs and fees associated with the lawsuits and the settlement. The Company and Aurora Coop agreed to continue to work together to amend or replace certain real property easements currently in place to ensure continued mutual access by both parties to a system of rails, rail switches, roads, electrical improvements, and utilities already constructed near the Aurora West Facility.

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. On August 29, 2013, the case was 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 suit alleged 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 sought 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 attorneys' fees. The Company answered the complaint, counterclaimed that the patent claims at issue, as well as the claims in several related patents, are invalid and unenforceable and that the Company is not infringing. Pacific Ethanol, Inc. does not itself use any corn oil separation technology and may seek a dismissal on those grounds.

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 were similar to those filed against Pacific Ethanol, Inc. in May 2013. These two cases were transferred to the multi-district litigation division in United States District Court for the Southern District of Indiana, where the case against Pacific Ethanol, Inc. was pending. Although PE Stockton and PE Magic Valley do separate and market corn oil, Pacific Ethanol, Inc., PE Stockton and PE Magic Valley strongly disagree that either of the subsidiaries use corn oil separation technology that infringes the patent owned by GS CleanTech. In a January 16, 2015 decision, the District Court for the Southern District of Indiana ruled in favor of a stipulated motion for partial summary judgment for Pacific Ethanol, Inc., PE Stockton and PE Magic Valley finding that all of the GS Cleantech patents in the suit were invalid and, therefore, not infringed. GS Cleantech has said it will appeal this decision when the remaining claim in the suit has been decided. The only remaining claim alleges that GS Cleantech inequitably conducted itself before the United States Patent Office when obtaining the patents at issue.

A trial in the District Court for the Southern District of Indiana was conducted last month on that single issue as well as whether GS Cleantech's behavior during prosecution of the patents renders this an exceptional case. The Company is awaiting the court's decision. If the Defendants, including Pacific Ethanol, Inc., PE Stockton and PE Magic Valley, succeed in proving inequitable conduct, and that GS Cleantech's behavior makes this an "exceptional case" such a finding would allow the Court to award to Pacific Ethanol, Inc., PE Stockton and PE Magic Valley the attorneys' fees expended to date for defense in this case. It is unknown whether GS Cleantech would appeal such a ruling. The Company did not record a provision for these matters as of June 30, 2015 as Company management intends to vigorously defend these allegations and believes a material adverse ruling against Pacific Ethanol, Inc., PE Stockton and/or PE Magic Valley is not probable. The Company believes that any liability Pacific Ethanol, Inc., PE Stockton and/or PE Magic Valley may incur would not have a material adverse effect on the Company's financial condition or its results of operations.

The Company has evaluated the above cases as well as other pending cases. The Company currently has recognized $3.3 million as a litigation contingency liability with respect to these cases for amounts that are probable and estimable.

10. 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, due to no anti-dilution protection features, were valued using the Black-Scholes Valuation Model.

Significant assumptions used and related fair values for the warrants as of September 30, 2015 were as follows:

Original Issuance	Exercise Price	Volatility	Risk Free Interest Rate	Term (years)	Market Discount	Warrants Outstanding	Fair Value
07/3/2012	$ 6.09	50.0%	0.64%	1.76	25.3%	211,000	$ 355,000
12/13/2011	$ 8.43	46.7%	0.33%	1.21	20.0%	138,000	146,000
							$ 501,000

Significant assumptions used and related fair values for the warrants as of December 31, 2014 were as follows:

Original Issuance	Exercise Price	Volatility	Risk Free Interest Rate	Term (years)	Market Discount	Warrants Outstanding	Fair Value
09/26/2012	$ 8.85	51.0%	0.19%	0.74	37.0%	473,000	$ 748,000
07/3/2012	$ 6.09	56.1%	0.89%	2.51	32.8%	211,000	811,000
12/13/2011	$ 8.43	54.3%	0.67%	1.95	28.7%	138,000	427,000
							$ 1,986,000

The estimated fair value of the warrants is affected by the above underlying inputs. Observable inputs include the values of exercise price, stock price, term and risk-free interest rate. As separate inputs, an increase (decrease) in either the term or risk free interest rate will result in an increase (decrease) in the estimated fair value of the warrant.

Unobservable inputs include volatility and market discount. An increase (decrease) in volatility will result in an increase (decrease) in the estimated warrant value and an increase (decrease) in the market discount will result in a decrease (increase) in the estimated warrant fair value.

The volatility utilized was a blended average of the Company’s historical volatility and implied volatilities derived from a selected peer group. The implied volatility component has remained relatively constant over time given that implied volatility is a forward-looking assumption based on observable trades in public option markets. Should the Company’s historical volatility increase (decrease) on a go-forward basis, the resulting value of the warrants would increase (decrease).

The market discount, or a discount for lack of marketability, is quantified using a Black-Scholes option pricing model, with a primary model input of assumed holding period restriction. As the assumed holding period increases (decreases), the market discount increases (decreases), conversely impacting the value of the warrant fair value.

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, 2015 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Commodity contracts(1)	$ 1,012	$ –	$ –	$ 1,012
Total Assets	$ 1,012	$ –	$ –	$ 1,012
Liabilities:				
Warrants(2)	$ –	$ –	$ 501	$ 501
Commodity contracts(3)	2,026	–	–	2,026
Total Liabilities	$ 2,026	$ –	$ 501	$ 2,527

(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.

The following table summarizes fair value measurements by level at December 31, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Commodity contracts(1)	$ 1,586	$ –	$ –	$ 1,586
Total Assets	$ 1,586	$ –	$ –	$ 1,586
Liabilities:				
Warrants(2)	$ –	$ –	$ 1,986	$ 1,986
Commodity contracts(3)	1,149	–	–	1,149
Total Liabilities	$ 1,149	$ –	$ 1,986	$ 3,135

(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):

Balance, December 31, 2014	$ 1,986
Exercises of warrants	(72)
Expiration of warrants	(527)
Adjustments to fair value for the period	(886)
Balance, September 30, 2015	$ 501

11. EARNINGS PER SHARE.

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

	Three Months Ended September 30, 2015		
	Income Numerator	Shares Denominator	Per-Share Amount
Net loss attributed to Pacific Ethanol	$ (14,663)		
Less: Preferred stock dividends	(319)		
Basic and diluted loss per share:			
Loss available to common stockholders	$ (14,982)	41,861	$ (0.36)

	Three Months Ended September 30, 2014		
	Income Numerator	Shares Denominator	Per-Share Amount
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	$ 0.16
Add: Warrants	–	1,321	
Diluted income per share:			
Income available to common stockholders	$ 3,706	24,307	$ 0.15

	Nine Months Ended September 30, 2015		
	Loss Numerator	Shares Denominator	Per-Share Amount
Net loss attributed to Pacific Ethanol	$ (18,033)		
Less: Preferred stock dividends	(946)		
Basic and diluted loss per share:			
Loss available to common stockholders	$ (18,979)	30,170	$ (0.63)

	Nine Months Ended September 30, 2014		
	Income Numerator	Shares Denominator	Per-Share Amount
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	$ 0.40
Add: Warrants	–	2,360	
Diluted income per share:			
Income available to common stockholders	$ 7,825	22,073	$ 0.35

There were an aggregate of 897,000 and 786,000 potentially dilutive weighted-average shares from the Company's warrants and shares of Series B Cumulative Convertible Preferred Stock outstanding for the three and nine months ended September 30, 2015, respectively. These convertible securities were not considered in calculating diluted net income (loss) per share for the three and nine months ended September 30, 2015, as their effect would have been anti-dilutive.

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 such as 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;
- 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.

Recent Development

On July 1, 2015, we consummated our acquisition of Aventine Renewable Energy Holdings, Inc., now known as Pacific Ethanol Central, LLC, or Aventine, under the terms of an Agreement and Plan of Merger dated as of December 30, 2014 by and among Pacific Ethanol, Inc., AVR Merger Sub, Inc., one of our wholly-owned subsidiaries, and Aventine. Under the terms of the acquisition, Aventine became one of our wholly-owned subsidiaries.

In connection with the acquisition, each issued and outstanding share of Aventine common stock as of July 1, 2015, the effective date of the acquisition, was automatically cancelled and converted into the right to receive consideration equal to (i) 1.25 shares of our non-voting common stock, plus cash in lieu of fractional shares, for each issued and outstanding share of Aventine's common stock, (ii) 1.25 shares of our voting common stock plus cash in lieu of fractional shares, for each issued and outstanding share of Aventine's common stock, or (iii) a combination of non-voting common stock and voting common stock at the ratios provided above, in each case at the election or deemed election of each Aventine stockholder.

We issued approximately 14.2 million shares of our voting common stock and approximately 3.6 million shares of our non-voting common stock to the Aventine stockholders in connection with the acquisition.

We believe the Aventine acquisition will result in a number of synergies and strategic advantages. We believe the acquisition will spread commodity and basis price risks across diverse markets and products, assisting in our efforts to optimize margin management; improve our hedging opportunities with a greater correlation to the liquid physical and paper markets in Chicago; and increase our flexibility and alternatives in feedstock procurement for our Midwest and Western production facilities. The acquisition also expands our marketing reach into new markets and extends our mix of co-products. We believe the acquisition will enable us to have deeper market insight and engagement in major ethanol and feed markets outside the Western United States, thereby improving pricing opportunities; allow us to establish access to markets in 48 states for ethanol sales and access many markets with ethanol and co-product sales reaching domestic and international customers; and enable us to use our more diverse mix of co-products to generate strong co-product returns. In addition, the acquisition also increases our combined ethanol production capacity to 515 million gallons per year and our annualized ethanol marketing volume to over 800 million gallons, including Aventine's historical volumes.

Overview

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

We own and operate eight strategically-located ethanol production facilities, four in the Western states of California, Oregon and Idaho, and four in the Midwestern states of Illinois and Nebraska. Our ethanol plants have a combined ethanol production capacity of 515 million gallons per year. We are the sixth largest producer of ethanol in the United States based on annualized volumes, including Aventine's historical volumes.

We have extensive customer relationships throughout the United States and market and distribute ethanol and co-products domestically and internationally. Our ethanol customers are integrated oil companies and gasoline marketers who blend ethanol into gasoline.

Our customers collectively require ethanol volumes in excess of the supplies we produce, and depend on us to provide a reliable supply of product, and manage the logistics and timing of delivery with very little effort on their side. We secure ethanol supplies from a variety of sources, including our eight ethanol production facilities, other plants in California for which we market ethanol, and other suppliers in the Midwest, where a majority of ethanol manufacturers are located. In 2014, we obtained approximately 42% of our ethanol supplies from Midwest producers to supplement ethanol produced by our plants in the Western United States. 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 as well as in the Midwest from a variety of sources.

We also produce and market, on an annualized basis, over 1.0 million tons of ethanol co-products such as wet and dry distillers grains, wet and dry corn gluten feed, condensed distillers solubles, corn gluten meal, corn germ, corn oil, distillers yeast and CO_2. Customers for our distillers grains and other feed co-products include dairies and feedlots, in many cases located near our ethanol plants. These customers use our feed co-products for livestock as a substitute for corn and other sources of starch and protein. We sell our corn oil to poultry and biodiesel customers. We do not market co-products from other ethanol producers.

Our subsidiary, Kinergy Marketing LLC, or Kinergy, markets all the ethanol produced at our ethanol plants as well as for third parties, with an annualized marketing volume of over 800 million gallons of ethanol, including Aventine's historical volumes.

Our ethanol plants are comprised of the eight production facilities described immediately below. The Pacific Ethanol West facilities are near their respective fuel and feed customers, offering significant timing, transportation cost and logistical advantages. The Pacific Ethanol Central facilities are located in the heart of the Corn Belt, benefit from low-cost and abundant feedstock production and allow for access to many additional domestic markets; and our ability to load unit trains from these facilities in the Midwest allows for greater access to international markets.

	Facility Name	Facility Location	Estimated Annual Capacity (gallons)
Pacific Ethanol West	Magic Valley	Burley, ID	60,000,000
	Columbia	Boardman, OR	40,000,000
	Stockton	Stockton, CA	60,000,000
	Madera	Madera, CA	40,000,000
Pacific Ethanol Central	Aurora West	Aurora, NE	110,000,000
	Aurora East	Aurora, NE	45,000,000
	Pekin Wet	Pekin, IL	100,000,000
	Pekin Dry	Pekin, IL	60,000,000

Our mission is to be the leading producer and marketer of low-carbon renewable fuels in the United States. We intend to accomplish this goal in part by expanding our relationships with our current customers and establishing relationships with new customers. As we develop new customer relationships, we will seek new suppliers, including through the acquisition of additional production facilities.

Current Initiatives and Outlook

We experienced a compressed margin environment in the third quarter and throughout most of the first nine months of 2015. Overall crush and commodity margins, which reflect ethanol and co-product sales prices relative to production inputs such as corn and natural gas, remained low in 2015 compared to 2014 due to lower ethanol prices predominantly caused by higher industry-wide inventory levels. As 2015 has progressed, ethanol demand has increased and inventory levels have moderated. The ethanol stock-to-use ratio is now at its lowest level in a year, which is contributing to improved production margins in the fourth quarter of 2015. A better supply and demand balance now exists in part due to higher overall demand for gasoline as low oil prices have led to higher consumption of transportation fuels. In addition, exports continue to grow as global markets react to the economic, environmental and octane benefits of ethanol.

We remain confident in the long-term demand for renewable fuels and our ability to execute and create value. 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.

We expect our acquisition of Aventine to result in significant synergies in multiple areas of our business. Our goal is to achieve at least $12.0 million annualized in synergistic benefits. We believe our larger, more diversified platform yields significant benefits, including enhanced purchasing power, increased revenues, new product sales and an overall strengthened position as a low-cost producer and marketer of ethanol and high-value co-products.

On July 26, 2015, we settled all outstanding litigation with Aurora Cooperative Elevator Company, or Aurora Coop. Pacific Ethanol and Aurora Coop agreed to dismiss all lawsuits with prejudice with no admission of fault or liability by the parties, and to release the alleged option held by Aurora Coop to repurchase the land upon which Pacific Ethanol's 110 million gallon ethanol production facility in Aurora, Nebraska is located. See "Legal Proceedings".

In July, we began producing and selling corn oil at our Boardman, Oregon facility which completes our two-year initiative to add this high-value co-product. We now produce and sell corn oil at all of our dry mill ethanol plants, further diversifying our revenue and providing immediate incremental operating income. Production and sale of corn oil adds approximately $0.05 per gallon of incremental operating income.

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. Currently, we receive a $0.04 to $0.07 per gallon premium over Midwest ethanol on each California production gallon sold into the California market. We expect this premium to increase as the compliance curve steepens beginning in 2016.

We have undertaken a number of plant improvement initiatives. We are working on cogeneration technology at our Stockton, California plant, and are examining the feasibility of implementing the technology at our Madera, California facility. We are commercially producing cellulosic ethanol at our Stockton plant and we are working with our technology provider and the U.S. Environmental Protection Agency to qualify this ethanol for special premiums over conventional ethanol.

Our goals for the remainder of 2015 include further integrating and optimizing our Pacific Ethanol Central plants to maximize the synergies from our acquisition of Aventine; continuing to reinvest in our ethanol production business through initiatives focused on further improving operating efficiencies and yields, diversifying our feedstock, creating new revenue streams and furthering our advanced biofuels initiatives; and leveraging our state-of-the-art, strategically-located ethanol plants to expand market share, all of which are directed at expanding our share of the renewable fuels market and delivering long-term, 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 and conversion features carried at fair value; pension and postretirement benefit plan obligations; impairment of long-lived and intangible assets; and allowance for doubtful accounts. These significant accounting principles, other than with respect to our pension and postretirement benefit plan obligations, 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, 2014. In addition, the accounting for our acquisition of assets acquired and liabilities assumed in the acquisition of Aventine involves significant estimates of their fair values.

Pension and Postretirement Benefit Plan Obligations

Liabilities associated with pension and postretirement benefit plans are primarily based on actuarial analysis. The recognition of obligations and associated expense are affected by estimates made by management, such as discount rates, investment rates of return on plan assets, increases in future wage amounts and future health care costs. Discount rates are determined based on a spot yield curve that includes bonds with maturities that match expected benefit payments under the plan.

Results of Operations

Our acquisition of Aventine was consummated on July 1, 2015, and as a result, our results of operations include Aventine's results of operations only as of and for the three months ended September 30, 2015 and the same three month period within the nine months ended September 30, 2015. The three and nine months ended September 30, 2014 exclude Aventine's results of operations for those periods.

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 September 30		Percentage	Nine Months Ended September 30		Percentage
	2015	2014	Variance	2015	2014	Variance
West production gallons sold (in millions)	47.0	46.8	2.2%	139.1	133.1	6.7%
Central production gallons sold (in millions)	62.6	–	NM	62.6	–	NM
Third party gallons sold (in millions)	102.0	86.9	8.8%	286.3	245.5	16.2%
Total gallons sold (in millions)	211.6	133.7	33.3%	488.0	378.6	28.9%
Average sales price per gallon	$ 1.67	$ 2.32	(28.0)%	$ 1.69	$ 2.59	(34.7)%
Corn cost per bushel – CBOT equivalent	$ 3.83	$ 3.88	1.3%	$ 3.81	$ 4.40	(13.4)%
Average basis (1)	$ 0.37	$ 1.27	(70.9)%	$ 0.62	$ 1.22	(49.2)%
Delivered cost of corn	$ 4.20	$ 5.15	(18.4)%	$ 4.43	$ 5.62	(21.2)%
Co-product revenues as % of delivered cost of corn(2)	38.0%	30.8%	23.4%	35.8%	33.9%	5.6%
Average CBOT ethanol price per gallon	$ 1.51	$ 2.02	(25.2)%	$ 1.53	$ 2.16	(29.2)%
Average CBOT corn price per bushel	$ 3.83	$ 3.60	6.4%	$ 3.78	$ 4.31	(12.3)%

(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 our yield based on sales of co-products, including WDG and corn oil, generated from ethanol we produced.

The disparity between our average ethanol sales price per gallon and the Chicago Board of Trade, or 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.

Net Sales, Cost of Goods Sold and Gross Profit (Loss)

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

	Three Months Ended September 30,		Variance in		Nine Months Ended September 30,		Variance in	
	2015	**2014**	**Dollars**	**Percent**	**2015**	**2014**	**Dollars**	**Percent**
Net sales	$ 380,622	$ 275,573	$ 105,049	38.1%	$ 814,419	$ 851,260	$ (36,841)	(4.3)%
Cost of goods sold	388,002	257,587	130,415	50.6%	816,532	761,153	55,379	7.3%
Gross profit	$ (7,380)	$ 17,986	$ (25,366)	NM	$ (2,113)	$ 90,107	$ (92,220)	NM
Percentage of net sales	*(1.9)%*	*6.5%*			*(0.3)%*	*10.6%*		

Net Sales

The increase in our net sales for the three months ended September 30, 2015 as compared to the same period in 2014 was primarily due to increased gallons sold from new volumes from our Pacific Ethanol Central Plants resulting from our acquisition of Aventine, partially offset by our lower average sales price. The decrease in our net sales for the nine months ended September 30, 2015 as compared to 2014 was primarily due to our lower average sales price, partially offset by an increase in gallons sold due to new volumes from our Pacific Ethanol Central plants resulting from our acquisition of Aventine.

Three Months ended September 30, 2015

Net sales of ethanol increased by $65.7 million, or 26%, to $315.6 million for the three months ended September 30, 2015 as compared to $249.9 million for the three months ended September 30, 2014. Our total volume of ethanol gallons sold increased by 77.9 million gallons, or 33%, to 211.6 million gallons for the three months ended September 30, 2015 as compared to 133.7 million gallons for the same period in 2014. Total gallons sold as a producer or merchant increased 62.8 million gallons and 16.2 million gallons, respectively, for the three months ended September 30, 2015 as compared to the same period in 2014. At our average sales price per gallon of $1.67 for the three months ended September 30, 2015, we generated $134.8 million in additional net sales from the 79.0 million additional gallons of ethanol sold as a producer or merchant for the period as compared to the same period in 2014. In addition, we sold 1.1 million fewer gallons as an agent during the period. The 1.1 million fewer gallons of ethanol sold as an agent had an immaterial impact on our net sales for the three months ended September 30, 2015. The decline of $0.65, or 28%, in our average sales price per gallon for the three months ended September 30, 2015 as compared to the same period in 2014 reduced our net sales by $69.1 million.

Net sales of co-products increased by $39.3 million, or 153%, to $65.0 million for the three months ended September 30, 2015 as compared to $25.7 million for the same period in 2014. Our total volume of co-products sold increased by 285,000 tons to 670,000 tons for the three months ended September 30, 2015 from 385,000 tons for the same period in 2014. Our average sales price per ton of co-products increased by $28.68, or 45%, to $93.02 for the three months ended September 30, 2015 as compared to $64.34 per ton of co-product for the three months ended September 30, 2014. At our average sales price per ton of $93.02 for the three months ended September 30, 2015, we generated $11.0 million in additional net sales from the 285,000 additional tons of co-products sold in the third quarter of 2015 as compared to the same period in 2014. The increase of $28.68 in our average sales price per ton for the three months ended September 30, 2015 as compared to the same period in 2014 increased our net sales by $28.3 million.

We increased both production and third party gallons sold, as well as our volume of co-products sold, for the three months ended September 30, 2015 as compared to the same period in 2014 primarily due to new volumes from our Pacific Ethanol Central plants resulting from our acquisition of Aventine.

<u>Nine Months ended September 30, 2015</u>

Net sales of ethanol declined by $65.5 million, or 9%, to $698.8 million for the nine months ended September 30, 2015 as compared to $764.3 million for the nine months ended September 30, 2014. Our total volume of ethanol gallons sold increased by 109.4 million gallons, or 29%, to 488.0 million gallons for the nine months ended September 30, 2015 as compared to 378.6 million gallons for the same period in 2014. Total gallons sold as a producer or merchant increased 68.6 million gallons and 47.1 million gallons, respectively, for the nine months ended September 30, 2015 as compared to the same period in 2014. At our average sales price per gallon of $1.69 for the nine months ended September 30, 2015, we generated $197.1 million in additional net sales from the 115.7 million additional gallons of ethanol sold as a producer or merchant for the period as compared to the same period in 2014. In addition, we sold 6.3 million fewer gallons as an agent during the period. The 6.3 million fewer gallons of ethanol sold as an agent had an immaterial impact on our net sales for the nine months ended September 30, 2015. The decline of $0.90, or 35%, in our average sales price per gallon for the nine months ended September 30, 2015 as compared to the same period in 2014 reduced our net sales by $262.6 million.

Net sales of co-products increased $28.6 million, or 33%, to $115.6 million for the nine months ended September 30, 2015 as compared to $87.0 million for the same period in 2014. Our total volume of co-products sold increased by 297,300 tons to 1,398,100 tons for the nine months ended September 30, 2015 from 1,100,800 tons for the same period in 2014. Our average sales price per ton of co-products increased by $2.39, or 3%, to $79.84 for the nine months ended September 30, 2015 as compared to $77.45 per ton of co-product for the nine months ended September 30, 2014. At our average sales price per ton of $79.84 for the nine months ended September 30, 2015, we generated $26.0 million in additional net sales from the 297,300 additional tons of co-products sold in the first nine months of 2015 as compared to the same period in 2014. The increase of $2.39 in our average sales price per ton for the nine months ended September 30, 2015 as compared to the same period in 2014 increased our net sales by $2.6 million.

We increased both production and third party gallons sold, as well as our volume of co-products sold, for the nine months ended September 30, 2015 as compared to the same period in 2014 primarily due to new volumes from our Pacific Ethanol Central plants resulting from our acquisition of Aventine as well as a result of the restart of production at our Madera plant in the second quarter of 2014.

Cost of Goods Sold and Gross Profit (Loss)

<u>Three Months ended September 30, 2015</u>

Our gross profit declined to a gross loss of $7.4 million for the three months ended September 30, 2015 from a gross profit of $18.0 million for the same period in 2014. Our gross margin declined to negative 1.9% for the three months ended September 30, 2015 from a gross margin of 6.5% for the same period in 2014. Our gross profit and gross margin declined primarily due to significantly lower crush and commodity margins realized at our plants, predominantly related to lower ethanol sales prices relative to corn costs caused by industry-wide excess ethanol supply relative to demand. In addition, we realized approximately $8.7 million in purchase accounting adjustments in our costs of goods sold for the three months ended September 30, 2015 related to our acquisition of Aventine.

Of the $25.4 million decline in gross profit for the three months ended September 30, 2015 as compared to the same period in 2014, gross loss of $28.6 million related to our total production gallons sold and gross profit of $3.2 million related to our merchant sales. Our production gallons sold increased by 62.8 million gallons in the three months ended September 30, 2015 as compared to the same period in 2014. Of the $28.6 million in gross loss resulting from our total production gallons sold, $21.8 million is attributable to our lower gross margins in the third quarter of 2015 and $6.8 million is attributable to the 62.8 million gallon increase in production gallons sold in the third quarter of 2015 as compared to the same period in 2014. Of the $3.2 million in higher gross profit resulting from our merchant sales, $2.2 million is attributable to our higher gross margins for these sales in the third quarter of 2015 and $1.0 million is attributable to the 16.2 million gallon increase in merchant gallons sold in the third quarter of 2015 as compared to the same period in 2014.

Nine Months ended September 30, 2015

Our gross profit declined to a gross loss of $2.1 million for the nine months ended September 30, 2015 from a gross profit of $90.1 million for the same period in 2014. Our gross margin declined to negative 0.3% for the nine months ended September 30, 2015 from a gross margin of 10.6% for the same period in 2014. Our gross profit and gross margin declined primarily due to significantly lower crush and commodity margins realized at our plants, predominantly related to lower ethanol sales prices relative to corn costs caused by industry-wide excess ethanol supply relative to demand. In addition, we realized approximately $8.7 million in purchase accounting adjustments in our costs of goods sold for the nine months ended September 30, 2015 related to our acquisition of Aventine.

Of the $92.2 million decline in gross profit for the nine months ended September 30, 2015 as compared to the same period in 2014, gross loss of $93.5 million related to our total production gallons sold and gross profit of $1.3 million related to our merchant sales. Our production gallons sold increased by 68.6 million gallons in the nine months ended September 30, 2015 as compared to the same period in 2014. Of the $93.5 million in lower gross profit resulting from our total production gallons sold, $90.3 million is attributable to our lower gross margins in the first nine months of 2015 and $3.2 million is attributable to the 68.6 million gallon increase in production gallons sold in the first nine months of 2015 as compared to the same period in 2014. Of the $1.3 million in higher gross profit resulting from our merchant sales, $1.7 million is attributable to the 47.1 million gallon increase in merchant gallons sold in the first nine months of 2015 as compared to the same period in 2014, partially offset by $0.4 million in lower gross profit related to our lower gross margins for these sales in the first nine months of 2015 as compared to the same period in 2014.

Selling, General and Administrative Expenses

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

	Three Months Ended September 30,		Variance in		Nine Months Ended September 30,		Variance in	
	2015	2014	Dollars	Percent	2015	2014	Dollars	Percent
Selling, general and administrative expenses	$ 7,446	$ 4,392	$ 3,054	69.5%	$ 16,344	$ 12,377	$ 3,967	32.1%
Percentage of net sales	*2.0%*	*1.6%*			*2.0%*	*1.5%*		

Our SG&A expenses increased $3.1 million to $7.5 million for the three months ended September 30, 2015 as compared to $4.4 million for the same period in 2014, and increased as a percentage of net sales for the three months ended September 30, 2015 as compared to the same period in 2014. The increase in SG&A expenses is primarily due to additional SG&A expenses of $3.0 million associated with our new Pacific Ethanol Central operations resulting from our acquisition of Aventine.

Our SG&A expenses increased $4.0 million to $16.4 million for the nine months ended September 30, 2015 as compared to $12.4 million for the same period in 2014. The increase in SG&A expenses is due to additional SG&A expenses of $3.0 million associated with our new Pacific Ethanol Central operations resulting from our acquisition of Aventine and an increase in professional fees of $1.0 million due to costs largely associated with our acquisition of Aventine, which were partially offset by a reduction in compensation costs of $0.5 million due to a decline in incentive compensation compared to the prior year.

At current operating levels, including our Pacific Ethanol Central operations, we are targeting our SG&A expenses at approximately $7.0 million for the fourth quarter of 2015.

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 September 30,		Variance in		Nine Months Ended September 30,		Variance in	
	2015	**2014**	**Dollars**	**Percent**	**2015**	**2014**	**Dollars**	**Percent**
Fair value adjustments and warrant inducements	$ 1,202	$ (4,378)	$ 5,580	NM	$ 1,413	$ (39,737)	$ 41,150	NM
Percentage of net sales	*0.3%*	*(1.6)%*			*0.2%*	*(4.7)%*		

We issued 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 fair value adjustments and warrant inducements, we recorded income of $1.2 million and expense of $4.4 million for the three months ended September 30, 2015 and 2014, respectively, and we recorded income of $1.4 million and expense of $39.7 million for the nine months ended September 30, 2015 and 2014, respectively.

These changes in fair value are primarily due to 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 September 30, 2014, the market price of our common stock had increased to $13.96 per share, and our outstanding warrants were in-the-money and had significant intrinsic value.

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 on a quarter over quarter basis.

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 and recorded an equivalent expense for the three and nine months ended September 30, 2014, respectively.

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 September 30,		Variance in		Nine Months Ended September 30,		Variance in	
	2015	**2014**	**Dollars**	**Percent**	**2015**	**2014**	**Dollars**	**Percent**
Interest expense, net	$ 5,167	$ 1,133	$ 4,034	356.0%	$ 7,187	$ 8,370	$ (1,183)	(14.1)%
Percentage of net sales	*1.4%*	*0.4%*			*0.9%*	*1.0%*		

Interest expense, net increased $4.0 million to $5.2 million for the three months ended September 30, 2015 from $1.1 million for the same period in 2014. The increase in interest expense, net is primarily related to our increased term debt outstanding due to Aventine's $145.6 million in term debt. Interest expense, net declined by $1.2 million to $7.2 million for the nine months ended September 30, 2015 from $8.4 million for the same period in 2014. The decrease in interest expense, net 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 indebtedness associated with our Pacific Ethanol West plants and our senior unsecured notes.

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 September 30,		Variance in		Nine Months Ended September 30,		Variance in	
	2015	**2014**	**Dollars**	**Percent**	**2015**	**2014**	**Dollars**	**Percent**
Loss on extinguishments of debt	$ –	$ –	$ –	–	$ –	$ 2,363	$ (2,363)	(100)%
Percentage of net sales	*–%*	*–%*			*–%*	*0.3%*		

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. 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 plant level to $17.0 million as of September 30, 2014.

Other Income (Expense), net

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

	Three Months Ended September 30,		Variance in		Nine Months Ended September 30,		Variance in	
	2015	2014	Dollars	Percent	2015	2014	Dollars	Percent
Other income (expense), net	$ 203	$ (172)	$ 375	NM	$ 16	$ (734)	$ 750	NM
Percentage of net sales	*0.1%*	*(0.1)%*			*0.0%*	*(0.1)%*		

Other income (expense), net increased by $0.4 million to income of $0.2 million for the three months ended September 30, 2015 from an expense of $0.2 million for the same period in 2014. Other income (expense), net increased by $0.8 million to income of $0.1 million for the nine months ended September 30, 2015 from an expense of $0.7 million for the same period in 2014. These increases in other income (expense), net are primarily due to a payment received from a one-time settlement of a claim.

Provision (Benefit) for Income Taxes

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

	Three Months Ended September 30,		Variance in		Nine Months Ended September 30,		Variance in	
	2015	2014	Dollars	Percent	2015	2014	Dollars	Percent
Provision (benefit) for income taxes	$ (3,925)	$ 3,163	$ (7,088)	NM	$ (6,095)	$ 13,629	$ (19,724)	NM
Percentage of net sales	*(1.0)%*	*1.1%*			*(0.7)%*	*1.6%*		

For the three and nine months ended September 30, 2015, we recorded a benefit for income taxes of $2.4 million and $4.6 million, respectively, at an estimated effective tax rate. In addition, for the three and nine months ended September 30, 2015, we recognized $1.5 million in tax benefit related to adjustments to our tax asset valuation allowance from a prior period. For the three and nine months ended September 30, 2014, we generated income subject to income tax, partially as a result of the non-tax deductible nature of our fair value adjustments for the period. As a result, we recorded a gross provision for income taxes of $13.6 million for the nine months ended September 30, 2014.

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 September 30,		Variance in		Nine Months Ended September 30,		Variance in	
	2015	2014	Dollars	Percent	2015	2014	Dollars	Percent
Net (income) loss attributed to noncontrolling interests	$ –	$ (723)	$ 723	100.0%	$ 87	$ (4,126)	$ 4,213	NM
Percentage of net sales	*–%*	*(0.3)%*			*0.0%*	*(0.5)%*		

Net (income) loss attributed to noncontrolling interests relates to our consolidated treatment of PE Op Co., which indirectly owns our plants located in the Western United States. For the three and nine months ended September 30, 2015 and 2014, we consolidated the entire income statement of PE Op Co. However, because we owned less than 100% of PE Op Co. for portions of the three and nine months ended September 30, 2015 and 2014, respectively, we reduced our consolidated net income (loss) for the noncontrolling interests, which were the ownership interests that we did not own. The decreases in net income attributed to noncontrolling interests for the periods are primarily due to lower operating income from lower commodity margins, much of which was generated at the plant level. Going forward, given our 100% ownership of PE Op Co., no amounts will be recorded for noncontrolling interests.

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 September 30,		Variance in		Nine Months Ended September 30,		Variance in	
	2015	**2014**	**Dollars**	**Percent**	**2015**	**2014**	**Dollars**	**Percent**
Net income (loss) attributed to Pacific Ethanol	$ (14,663)	$ 4,025	$ (18,688)	NM	$ (18,033)	$ 8,771	$ (26,804)	NM
Percentage of net sales	*(3.9)%*	*1.5%*			*(2.2)%*	*1.0%*		

Net income attributed to Pacific Ethanol decreased substantially during the three and nine months ended September 30, 2015 as compared to the same periods in 2014, primarily due to significantly lower crush and commodity margins in 2015 resulting predominantly from lower ethanol sales prices.

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

The following table presents our preferred stock dividends in dollars for our Series B Cumulative Convertible Preferred Stock, or Series B Preferred Stock, these preferred stock dividends 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 September 30,		Variance in		Nine Months Ended September 30,		Variance in	
	2015	**2014**	**Dollars**	**Percent**	**2015**	**2014**	**Dollars**	**Percent**
Preferred stock dividends	$ 319	$ 319	$ –	–%	$ 946	$ 946	$ –	–%
Percentage of net sales	*0.1%*	*0.1%*			*0.1%*	*0.1%*		
Income (loss) available to common stockholders	$ (14,982)	$ 3,706	$ (18,688)	NM	$ (18,979)	$ 7,825	$ (26,804)	NM
Percentage of net sales	*(3.9)%*	*1.3%*			*(2.3)%*	*0.9%*		

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 paid cash dividends on our Series B Preferred Stock in the aggregate amount of $0.3 million for the three months ended September 30, 2015 and 2014, and $0.9 million for the nine months ended September 30, 2015 and 2014.

Liquidity and Capital Resources

During the nine months ended September 30, 2015, we funded our operations primarily from cash on hand, including cash held by Aventine as of the closing of our acquisition of Aventine, and advances from Kinergy's revolving credit facility. These funds were also used to make capital expenditures, payoff Aventine's revolving credit facility, make payments on our capital leases and pay dividends in respect of our Series B Preferred Stock.

Our current available capital resources consist of cash on hand and amounts available for borrowing under Kinergy's credit facility and our Pacific Ethanol West plants' credit facilities. We expect that our future available capital resources will consist primarily of our remaining cash balances, amounts available for borrowing, if any, under our credit facilities, cash generated from operations and proceeds from warrant exercises.

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 capital 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. The information below as of September 30, 2015 includes amounts consolidated from our acquisition of Aventine. The information below as of July 1, 2015 is the corresponding Aventine amounts outstanding as of July 1, 2015, the effective date of the acquisition (dollars in thousands).

	Pacific Ethanol, Inc.		Aventine
	September 30, 2015	December 31, 2014	July 1, 2015
Cash and cash equivalents	$ 53,056	$ 62,084	$ 18,756
Current assets	$ 182,954	$ 139,551	$ 69,149
Property and equipment, net	$ 472,632	$ 155,302	$ 312,781
Current liabilities	$ 75,633	$ 25,447	$ 27,233
Notes payable, noncurrent portion	$ 190,166	$ 34,533	$ 156,465
Working capital	$ 107,321	$ 114,104	$ 41,916
Working capital ratio	2.42	5.48	2.54

Change in Working Capital and Cash Flows

Working capital decreased to $107.3 million at September 30, 2015 from $114.1 million at December 31, 2014 as a result of an increase of $50.2 million in current liabilities, partially offset by an increase of $43.4 million in current assets.

Current assets increased primarily due to an increase of $16.8 million in accounts receivable and $29.7 million in inventory related to our new Pacific Ethanol Central operations, an increase of $14.1 million in income tax receivables resulting from losses generated in 2015, partially offset by a decrease in cash and cash equivalents of $9.0 million predominantly due to $17.4 million in cash used in our operations, $11.9 million in cash provided by our financing activities, as discussed below, and $3.5 million of cash used in our investing activities, also as discussed below. Current liabilities increased primarily due to an increase in accounts payable and accrued liabilities of $28.0 million resulting from our new Pacific Ethanol Central operations and $17.0 million in current portion of long-term debt related to the term loans associated with our Pacific Ethanol West plants that mature in June 2016.

Cash provided by our operating activities declined by $93.7 million, to net cash used in our operating activities of $17.4 million, primarily due to lower earnings predominantly from lower crush margins resulting from lower ethanol prices. Adjustments to reconcile net loss for the nine months ended September 30, 2015 to net cash used in our operating activities include depreciation and amortization of $15.1 million, an increase in accounts receivable of $6.0 million predominantly due to higher sales volumes and a decrease in accounts payable and accrued liabilities of $9.0 million due to timing of payments.

Cash used in our investing activities declined by $12.5 million in the first nine months of 2015 as compared to the same period in 2014 predominantly as a result of net cash of $18.8 million acquired in connection with our acquisition of Aventine upon closing the transaction, partially offset by $7.7 million in additional expenditures for the period for additions to property and equipment associated with our plant improvement initiatives and purchases of temporary cash collateralized letters of credit in the amount of $4.6 million related to our new Pacific Ethanol Central operations. In addition, we used $6.0 million in the first nine months of 2014 to acquire the remaining 4% ownership interest in PE Op Co., the owner of the Pacific Ethanol West plants. This expenditure did not recur in the same period in 2015.

Cash provided by our financing activities of $11.9 million in the first nine months of 2015 resulted from proceeds from Kinergy's revolving line of credit of $29.7 million, proceeds from exercises of our warrants in the aggregate amount of $0.4 million, which were partially offset by principal and other payments on Aventine's revolving line of credit of $13.8 million, payments on capital leases of $3.4 million and preferred stock dividends of $0.9 million.

Kinergy Operating Line of Credit

Kinergy maintains an operating line of credit for an aggregate amount of up to $75.0 million. The credit facility expires on December 31, 2020. 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 from 1.75% to 2.75%. The credit facility's monthly unused line fee is 0.25% to 0.375% of the amount by which the maximum credit under the facility exceeds the average daily principal balance during the immediately preceding month. Payments that may be made by Kinergy to Pacific Ethanol as reimbursement for management and other services provided by Pacific Ethanol to Kinergy are limited under the terms of the credit facility to $1.5 million per fiscal quarter.

The credit facility also includes the accounts receivable and any inventory of Pacific Ag. Products, LLC, or PAP, one of our indirect wholly-owned subsidiaries, as additional collateral.

For all monthly periods in which excess availability falls below a specified level, Kinergy and PAP must collectively maintain a fixed-charge coverage ratio (calculated as a twelve-month rolling earnings before interest, taxes, depreciation and amortization (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's 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,	
	2015	2014	2014	2013
Fixed-Charge Coverage Ratio Requirement	2.00	2.00	2.00	2.00
Actual	12.24	18.60	17.66	8.64
Excess	10.24	16.60	15.66	6.64

Pacific Ethanol has guaranteed all of Kinergy's obligations under the credit facility. As of September 30, 2015, Kinergy had an outstanding balance of $47.1 million and an available borrowing base of $4.6 million under the credit facility.

Pacific Ethanol West Term Debt and Operating Line of Credit

Our indebtedness associated with our Pacific Ethanol West plants as of September 30, 2015 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 our 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 our election, plus 10.0%. At September 30, 2015, the average interest rate was approximately 13.25%. Repayments of principal are based on available free cash flow of the Pacific Ethanol West plants, until maturity, when all principal amounts are due.

As of September 30, 2015, we had no outstanding principal balances on our revolving credit facility for the Pacific Ethanol West plants and an aggregate borrowing availability of $19.5 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 Pacific Ethanol West plants. The creditors under the term loans and revolving credit facilities for the Pacific Ethanol West plants do not have recourse to Pacific Ethanol, Inc.

Pacific Ethanol Central Term Debt

On July 1, 2015, upon effectiveness of the Aventine acquisition, Aventine became one of our wholly-owned subsidiaries and, on a consolidated basis, the combined company became obligated with respect to Aventine's term loan and revolving credit facilities. Aventine's creditors under Aventine's term loan and revolving credit facilities have recourse solely against Aventine and its subsidiaries and not against Pacific Ethanol, Inc. or its other direct or indirect subsidiaries. As of July 1, 2015, Aventine's revolving line of credit had an outstanding balance of approximately $13.8 million. On July 1, 2015, we repaid, on behalf of Aventine, approximately $14.5 million, including approximately $0.7 million in termination fees, representing all amounts owed under the revolving line of credit.

As of September 30, 2015, Pacific Ethanol Central's term loan facility had an outstanding balance of approximately $145.6 million. Interest on the term loan facility accrues and may be paid in cash at a rate of 10.5% per annum or may be paid in-kind at a rate of 15.0% per annum by adding such interest to the outstanding principal balance. If we elect to pay interest in-kind, the interest is capitalized at the end of each quarter. The term loan facility matures on September 24, 2017. The term loan facility is secured through a first-priority lien on substantially all of Aventine's assets and contains customary financial covenants, including the requirement that Aventine maintain a cash balance of at least $2.0 million.

Contractual Obligations

As a result of our acquisition of Aventine, there have been material changes to the amounts presented in the table under the "Contractual Obligations" section in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation" of our Annual Report on Form 10-K for 2014. The following table outlines the additional payments due under our significant contractual obligations related to Aventine (in thousands):

	Q4 2015	2016	2017	2018	2019	Thereafter	Total
Debt principal	$ –	$ –	$ 145,619	$ –	$ –	$ –	$ 145,619
Debt interest	3,822	15,290	11,468	–	–	–	30,580
Operating leases	4,431	12,616	8,497	5,158	3,341	215	34,258
Capital leases	886	3,545	2,659	–	–	–	7,090
Grain purchase obligations	10,625	–	–	–	–	–	10,625
Total commitments	$ 19,764	$ 31,451	$ 168,243	$ 5,158	$ 3,341	$ 215	$ 228,172

The above table outlines our obligations as of September 30, 2015 and does not reflect the changes in our obligations that occurred after that date.

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, 2015 and 2014.

Impact of New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or 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 was originally effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, but has been further deferred one year. Our adoption begins with the first fiscal quarter of fiscal year 2018. We are currently evaluating the impact of the adoption of this accounting standard update on our consolidated results of operations and financial position.

In April 2015, the FASB issued new guidance on presentation of debt issuance costs. Historically, entities have presented debt issuance costs as an asset. Under the new guidance, effective for fiscal years beginning after December 31, 2015, debt issuance costs will be reclassified as a deduction to the carrying amount of the related debt balance. The guidance does not change any of our other debt recognition or disclosure. We will adopt the guidance beginning March 31, 2016.

In July 2015, the FASB issued new guidance on simplifying the measurement of inventory. Under the new guidance, entities are required to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. This guidance is effective prospectively for fiscal years beginning after December 15, 2016. Early adoption is permitted. We have adopted the guidance with no material impact on our results of operations or financial condition.

In September 2015, the FASB issued new guidance on simplifying the accounting for measurement-period adjustments. Under the new guidance, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The guidance also requires acquirers to present separately on the face of the statement of operations or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The guidance is effective for fiscal years beginning after December 31, 2015, applied prospectively. Early adoption is permitted. We will consider early adoption in future periods related to our current measurement period for our acquisition of Aventine.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to various market risks, including changes in commodity prices and interest rates as discussed below. Market risk is the potential loss arising from adverse changes in market rates and prices. In the ordinary course of business, we may enter into various types of transactions involving financial instruments to manage and reduce the impact of changes in commodity prices and interest rates. We do not expect to have any exposure to foreign currency risk as we conduct all of our transactions in U.S. dollars.

Commodity Risk

We produce ethanol and ethanol co-products. Our business is sensitive to changes in the prices of each of ethanol and corn. In the ordinary course of business, we may enter into various types of transactions involving financial instruments to manage and reduce the impact of changes in ethanol and corn prices. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

We are subject to market risk with respect to ethanol pricing. Ethanol prices are sensitive to global and domestic ethanol supply, crude-oil supply and demand; crude-oil refining capacity; carbon intensity; government regulation; and consumer demand for alternative fuels. Our ethanol sales are priced using contracts that are either based on a fixed price or an indexed price tied to a specific market, such as CBOT or the Oil Price Information Service. Under these fixed-priced arrangements, we are exposed to risk of a decrease in the market price of ethanol between the time the price is fixed and the time the ethanol is sold.

We satisfy our physical corn needs, the principal raw material used to produce ethanol and ethanol co-products, based on supply-guaranteed contracts with our vendors. Generally, we determine the purchase price of our corn at the time we begin to grind that day’s needs. Sometimes, we may also enter into contracts with our vendors to fix a portion of the purchase price of our corn requirements. As such, we are also subject to market risk with respect to the price of corn. The price of corn is subject to wide fluctuations due to unpredictable factors such as weather conditions, farmer planting decisions, governmental policies with respect to agriculture and international trade and global supply and demand. Under the fixed-price arrangements, we assume the risk of a decrease in the market price of corn between the time this price is fixed and the time the corn is utilized.

Ethanol co-products are sensitive to various demand factors such as numbers of livestock on feed, prices for feed alternatives, and supply factors, primarily production of ethanol co-products by ethanol plants and other sources.

As noted above, we may attempt to reduce the market risk associated with fluctuations in the price of ethanol or corn by employing a variety of risk management and hedging strategies. Strategies include the use of derivative financial instruments such as futures and options executed on the CBOT and/or the New York Mercantile Exchange, as well as the daily management of physical corn.

These derivatives are not designated for special hedge accounting treatment, and as such, the changes in the fair values of these contracts are recorded on the balance sheet and recognized immediately in cost of goods sold. We recognized losses of $1.5 million and gains of $0.4 million related to settled non-designated hedges as the change in the fair values of these contracts for the nine months ended September 30, 2015 and 2014, respectively.

At September 30, 2015, we prepared a sensitivity analysis to estimate our exposure to ethanol and corn. Market risk related to these factors was estimated as the potential change in pre-tax income resulting from a hypothetical 10% adverse change in the prices of our expected ethanol and corn volumes. The results of this analysis as of September 30, 2015, which may differ materially from actual results, are as follows (in millions):

Commodity	Nine Months Ended September 30, 2015 Volume	Unit of Measure	Approximate Adverse Change to Pre-Tax Income
Ethanol	488.0	Gallons	$ 34.4
Corn	72.0	Bushels	$ 31.5

Interest Rate Risk

We are exposed to market risk from changes in interest rates. Exposure to interest rate risk results primarily from our indebtedness that bears interest at variable rates. At September 30, 2015, all of our long-term debt of $192.8 million was variable-rate in nature. Based on a 100 basis point (1.00%) increase in the interest rate on our long-term debt, pre-tax income for the nine months ended September 30, 2015 would be negatively impacted by approximately $1.9 million.

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, 2015 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.

We have evaluated pending cases and have recognized $3.3 million as a litigation contingency with respect to these cases for amounts that are probable and estimable.

Western Sugar Cooperative

Pacific Ethanol, Inc., through a subsidiary acquired in its acquisition of Aventine, became involved in a pending lawsuit with Western Sugar Cooperative ("Western Sugar") that pre-dated the Aventine acquisition.

On February 27, 2015, Western Sugar filed a complaint in the United States District Court for the District of Colorado (Case No. 1:15-cv-00415) naming Aventine Renewable Energy, Inc. ("ARE, Inc."), one of Aventine's subsidiaries, as defendant. Western Sugar amended its complaint on April 21, 2015. ARE, Inc. purchased surplus sugar through a United States Department of Agriculture program. Western Sugar was one of the entities that warehoused this sugar for ARE, Inc. The suit alleges that ARE, Inc. breached its contract with Western Sugar by failing to pay certain penalty rates for the storage of its sugar or alternatively failing to pay a premium rate for storage. Western Sugar alleges that the penalty rates apply because ARE, Inc. failed to take timely delivery or otherwise cause timely shipment of the sugar. Western Sugar claims "expectation damages" in the amount of approximately $8.6 million. ARE, Inc. filed answers to Western Sugar's complaint and amended complaint generally denying Western Sugar's allegations and asserting various defenses. The case is currently in its discovery phase. We are evaluating Western Sugar's claims and may accrue a litigation reserve for this matter.

Aurora Cooperative Elevator Company

Pacific Ethanol, Inc., through subsidiaries acquired in its acquisition of Aventine, became involved in various pending lawsuits with Aurora Coop that pre-dated the Aventine acquisition.

On July 26, 2015, we settled all outstanding litigation with Aurora Coop. Pacific Ethanol and Aurora Coop agreed to dismiss all lawsuits with prejudice with no admission of fault or liability by the parties, and to release the alleged option held by Aurora Coop to repurchase the land upon which Pacific Ethanol's 110 million gallon ethanol production facility in Aurora, Nebraska is located (the "Aurora West Facility"). In addition, the parties agreed to terminate the grain supply, marketing and various other agreements between them or their subsidiaries. Under the terms of the settlement, Pacific Ethanol and Aurora Coop will each bear its own costs and fees associated with the lawsuits and the settlement. Pacific Ethanol and Aurora Coop agreed to continue to work together to amend or replace certain real property easements currently in place to ensure continued mutual access by both parties to a system of rails, rail switches, roads, electrical improvements, and utilities already constructed near the Aurora West Facility.

Below is a description of the settled litigation matters involving Aurora Coop.

On May 29, 2012, Aventine filed suit against Aurora Coop seeking declaratory relief. The suit alleged Aurora Coop had improperly threatened to invoke a purported option to acquire the land upon which the Aurora West Facility is located. On June 21, 2012, Aurora Coop filed claims against Aventine which were removed to the United States District Court for the District of Nebraska (Case No. 4:12-cv-0230), naming Aventine and Aventine Renewable Energy – Aurora West, LLC ("AWLLC"), one of Aventine's subsidiaries, as defendants. The suit alleged that Aventine failed to complete construction and operate the Aurora West Facility by a contractual deadline, thereby allowing Aurora Coop to exercise an option to repurchase 74 acres of land upon which the Aurora West Facility is located, together with the Aurora West Facility and all related improvements, for a purchase price of $16,500 per acre. Aurora Coop asserted that its contractual right to exercise this option arose on July 1, 2012 due to Aventine's alleged failure to complete construction of the Aurora West Facility as of that date. Aurora Coop also sought a judicial order imposing a constructive trust and requiring Aventine to account for and pay to Aurora Coop the greater of the profits which Aventine received or may have received in the exercise of reasonable care in the operation of the Aurora West Facility after July 1, 2012 to compensate Aurora Coop for damages it allegedly suffered as a result of Aventine's purported delay in conveying title to the Aurora West Facility and the land upon which it is located. Aventine answered the suit, arguing that the contract only required Aventine to diligently pursue construction, that construction was complete, and that there was no contractual ethanol production requirement. On July 26, 2015, we settled this matter with Aurora Coop, as described above.

On February 4, 2014, Aurora Coop filed suit in the United States District Court for the District of Nebraska (Case No. 4:14-cv-3032), naming Aventine and AWLLC as defendants. The suit was for declaratory judgment concerning Aurora Coop's rights as to certain disputed rail access matters. Aventine counterclaimed seeking damages for denial of rail access, including access over rail equipment for which it shared the costs of construction. On July 26, 2015, we settled this matter with Aurora Coop, as described above.

On November 8, 2013, Nebraska Energy, L.L.C. ("NELLC"), one of Aventine's subsidiaries, filed suit in the United States District Court for the District of Nebraska (Case No. 4:13-cv-03190), naming Aurora Coop as defendant. NELLC and Aurora Coop entered into a grain supply agreement that required NELLC to purchase all grain from Aurora Coop under an actual cost-plus fixed-fee price formula. The suit alleged breach of contract for failure to permit an audit of transactions between the parties and an unspecified amount of damages resulting from Aurora Coop's failure to properly charge NELLC under the price formula. Aurora Coop counterclaimed for breach of certain grain supply and marketing agreements between the parties. On July 26, 2015, we settled this matter with Aurora Coop, as described above.

On September 20, 2012, Aurora Coop filed suit in the United States District Court for the District of Nebraska (Case No. 4:12-cv-03200), naming Aventine, ARE, Inc. and AWLLC as defendants. The suit alleged that Aurora Coop acquired grain on the Aventine parties' behalf for which the Aventine parties had not paid and of which none of the Aventine parties had accepted delivery. The suit sought approximately $1,800,000 in damages. The Aventine parties denied that the grain belonged to any of them and counterclaimed for amounts Aurora Coop owed to Aventine, which Aurora Coop had set off against amounts allegedly owed by the Aventine parties. The dispute was referred to the National Grain and Feed Association (NGFA Case No. 2651) for arbitration in which the Aventine parties prevailed. Thereafter, Aurora Coop sought to recast its claims in the federal suit to include breach of contract damages and other remedies. On July 26, 2015, we settled this matter with Aurora Coop, as described above.

On September 11, 2014, AWLLC filed suit with the Nebraska Public Service Commission naming Aurora Coop as defendant. The suit was for declaratory judgment on and an unspecified amount of damages as to Aurora Coop's denial of rail access and AWLLC's costs related to the construction of various infrastructures to work around that denial of access. Aventine claimed that Aurora Coop's actions in locking out access violated public policy and state law. On July 26, 2015, we settled this matter with Aurora Coop, as described above.

ITEM 1A. RISK FACTORS.

Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below in addition to the other information contained in this report and in our other filings with the Securities and Exchange Commission, including our subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on Pacific Ethanol, our business, financial condition, results of operations and/or liquidity could be seriously harmed. In that event, the market price for our common stock will likely decline, and you may lose all or part of your investment.

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 the nine months ended September 30, 2015, we incurred consolidated net losses of approximately $18.1 million and incurred negative operating cash flows of $17.4 million. 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, distillers grains 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, distillers grains 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, distillers grains 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, distillers grains 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, distillers grains 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, distillers grains or other ethanol co-products.

Over the past several years, the spread between ethanol and corn prices has fluctuated significantly. 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, distillers grains and other ethanol co-products could decline below the marginal cost of production, which may force us to suspend production of ethanol, distillers grains and ethanol co-products at some or all of our 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. According to the Renewable Fuels Association, domestic ethanol production capacity increased from an annualized rate of 1.5 billion gallons per year in January 1999 to 14.5 billion gallons in 2014. In addition, if ethanol production margins improve, we anticipate that owners of idle ethanol production facilities, many of which may be idled due to poor production margins, will restart operations, thereby resulting in 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 or other factors such as increased automobile fuel efficiency. 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 $1.50 to $3.52 per gallon during 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 our plants and other considerations related to production efficiencies, our 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 our plants 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 us to halt production at one or more plants which could have a material adverse effect on our business, results of operations and financial condition.

We 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, we may enter into contracts to fix the price of a portion of our ethanol production or purchase a portion of our 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 our plants could negatively impact sales volumes and could cause us to incur substantial losses.

Operations at our 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. Our insurance may not be adequate to fully cover the potential operational hazards described above or we may not be able to renew this insurance on commercially reasonable terms or at all.

Moreover, our 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.

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 increased prices 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.

If we fail to integrate successfully the businesses of Pacific Ethanol and Aventine in the expected timeframe our results of operations will be adversely affected.

The success of the Aventine acquisition will depend, in large part, on our ability to realize the anticipated benefits from combining the businesses of Pacific Ethanol and Aventine. To realize these anticipated benefits, we must successfully integrate the businesses of Pacific Ethanol and Aventine. This integration will be complex and time-consuming.

The failure to integrate successfully and to manage successfully the challenges presented by the integration process may result in our failure to achieve some or all of the anticipated benefits of the acquisition.

Potential difficulties that may be encountered in the integration process include the following:

- complexities associated with managing the larger, more complex, combined business;
- integrating personnel;
- potential unknown liabilities and unforeseen expenses, delays or regulatory conditions associated with the acquisition; and
- performance shortfalls as a result of the diversion of management's attention caused by integrating Pacific Ethanol's and Aventine's operations.

Our future results will suffer if we do not effectively manage our expanded operations.

Our business following the Aventine acquisition is significantly larger than the individual businesses of Pacific Ethanol and Aventine prior to the acquisition. Our future success depends, in part, upon our ability to manage our expanded business, which will pose substantial challenges for our management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. We cannot assure you that we will be successful or that we will realize the expected operating efficiencies, annual net operating synergies, revenue enhancements and other benefits currently anticipated to result from the acquisition.

Our level of indebtedness, including Aventine's indebtedness, may make it more difficult for us to pay or refinance our debts and we may need to divert our cash flow from operations to debt service payments. Our indebtedness could limit our ability to pursue other strategic opportunities and could increase our vulnerability to adverse economic and industry conditions.

As a result of the Aventine acquisition, on a consolidated basis, we are responsible for Aventine's outstanding debt. Our total consolidated indebtedness immediately prior to the acquisition was approximately \$25.6 million. Our total consolidated indebtedness immediately after the acquisition was approximately \$171.2 million. Our debt service obligations with respect to this increased indebtedness could have an adverse impact on our earnings and cash flows for as long as the indebtedness is outstanding.

Our increased indebtedness could also have important consequences to holders of our common stock. For example, it could:

- make it more difficult to pay or refinance our debts as they become due during adverse economic and industry conditions because any decrease in revenues could cause us to not have sufficient cash flows from operations to make our scheduled debt payments;

- limit our flexibility to pursue other strategic opportunities or react to changes in our business and the industry in which we operate and, consequently, place us at a competitive disadvantage to our competitors who have less debt; or

- require a substantial portion of our cash flows from operations to be used for debt service payments, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, acquisitions, dividend payments and other general corporate purposes.

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· limit our flexibility to pursue other strategic opportunities or react to changes in our business and the industry in which we operate and, consequently, place us at a competitive disadvantage to our competitors who have less debt; or

· require a substantial portion of our cash flows from operations to be used for debt service payments, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, acquisitions, dividend payments and other general corporate purposes.

Based upon current levels of operations, we expect to generate sufficient cash on a consolidated basis to make all principal and interest payments when such payments become due under our existing credit facilities, indentures and other instruments governing our outstanding indebtedness, including Aventine's outstanding debt, but there can be no assurance that we will be able to repay or refinance such borrowings and obligations.

If Kinergy 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 Kinergy's credit facility to help finance its operations. Kinergy must satisfy monthly financial covenants under its credit facility, including fixed-charge coverage ratio covenants. Kinergy 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 Kinergy's credit facility, or a significant reduction in Kinergy's borrowing capacity under the facility, would result in Kinergy'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 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 Environmental Protection Agency, or EPA, has implemented the national Renewable Fuel Standard, or national RFS, pursuant to the Energy Policy Act of 2005 and the Energy Independence and Security Act of 2007. The national 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 national RFS program for volumes of renewable fuels (such as ethanol) required to be blended with gasoline. 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 January 21, 2015, the *Leave Ethanol Volumes at Existing Levels (LEVEL) Act* (H.R. 434) was introduced in the House. The bill would amend the national RFS by decreasing the required volume of renewable fuels in 2015-2022 to 7.5 billion gallons per year. On February 4, 2015, the *RFS Elimination Act* (H.R. 703) was introduced in the House of Representatives. The bill would fully repeal the national RFS. Also introduced on February 4, 2015, was the *RFS Reform Act* (H.R. 704), which prohibits corn-based ethanol from meeting the national RFS requirements, caps the amount of ethanol that can be blended into conventional gasoline at 10%, and requires the EPA to set requirements for cellulosic biofuels at actual production levels. On January 6, 2015, a bill (H.R. 21) was introduced in the House of Representatives to, among other things, vacate any waivers issued under the Clean Air Act to allow the sale of mid-level ethanol blends for use in motor vehicles. A mid-level ethanol blend is an ethanol-gasoline blend containing 10-20% of ethanol by volume that is intended to be used in any conventional gasoline-powered motor vehicle or nonroad vehicle or engine. On February 26, 2015, the *Corn Ethanol Mandate Elimination Act of 2015* (S. 577) was introduced in the Senate. The bill would eliminate corn ethanol as qualifying as a renewable fuel under the national RFS. *The American Energy Renaissance Act of 2015* (S. 791 and H.R. 1487), which was introduced in the Senate on March 18, 2015 and the House on March 19, 2015, would phase out the national RFS over a five-year period. The *Renewable Fuel Standard Repeal Act* (S. 1584), which would fully repeal the national RFS, was introduced in the Senate on June 16, 2015. All of these bills were assigned to a congressional committee, which will consider them before possibly sending any of them on to the House of Representatives or the Senate as a whole. Our operations could be adversely impacted if any legislation is enacted that reduces or eliminates the national RFS volume requirements or that reduces or eliminates corn ethanol as qualifying as a renewable fuel under the national RFS.

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 national RFS for 2014. The EPA proposed to reduce the Renewable Volume Obligations, or RVO, for 2014 for key categories of biofuel covered by the national RFS below the 2014 volumes specified in 2007 by the Energy Independence and Security Act of 2007 and below the RVO for 2013. However, the EPA withdrew its proposal on December 9, 2014, and announced that it would not finalize the RVO for 2014 until 2015. In addition, the EPA announced that it would propose the RVO for 2015 and 2016 simultaneously in 2015. On May 29, 2015, the EPA published its proposed rule for RFS blending requirements for 2014-2016. Because 2014 has passed, the EPA proposes to base the 2014 blending requirement on the market's actual use of renewable fuel. For 2015, the EPA is proposing to reduce the portion of the national RFS mandate for which corn ethanol qualifies from the statutory level of 15.0 billion gallons to 13.4 billion gallons. For 2016, the EPA is proposing to reduce this portion of the national RFS from the statutory level of 15.0 billion gallons to 14.0 billion gallons. We believe that the EPA's decision to propose cuts to the Congressionally established volumes is based on the EPA's perception that the nation's refueling infrastructure is currently unable to distribute the statutorily-required volumes to consumers. The EPA held a public hearing on its proposal on June 25, 2015, and accepted written comments from the public through July 27, 2015. A final rule for the 2014-2016 national RFS requirements is expected to be published by the EPA no later than November 30, 2015. Our results of operations, cash flows and financial condition could be adversely impacted if the EPA finalizes RVO levels that are below the levels specified in the national RFS.

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 Kinergy'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 our cost structures. Any increase in domestic or foreign competition could cause us to reduce our prices and take other steps to compete effectively, which could adversely affect our business, financial condition and results of operations.

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.

Our success will depend on relationships with third parties and pre-existing customers of Pacific Ethanol and Aventine, which relationships may be affected by customer preferences or public attitudes about the Aventine acquisition. Any adverse changes in these relationships could adversely affect our business, financial condition and results of operations.

Our success will depend on our ability to maintain and renew business relationships, including relationships with preexisting customers of both Pacific Ethanol and Aventine, and to establish new business relationships. There can be no assurance that we will be able to maintain preexisting customer contracts and other business relationships, or enter into or maintain new customer contracts and other business relationships, on acceptable terms, if at all. The failure to maintain important business relationships could have a material adverse effect on our business, financial condition and results of operations.

Our ability to utilize net operating loss carryforwards and certain other tax attributes may be limited as a result of the Aventine acquisition.

Federal and state income tax laws impose restrictions on the utilization of net operating loss, or NOL, and tax credit carryforwards in the event that an "ownership change" occurs for tax purposes, as defined by Section 382 of the Internal Revenue Code. In general, an ownership change occurs when stockholders owning 5% or more of a "loss corporation" (a corporation entitled to use NOL or other loss carryovers) have increased their ownership of stock in such corporation by more than 50 percentage points during any three-year period. The annual base limitation under Section 382 of the Code is calculated by multiplying the loss corporation's value at the time of the ownership change by the greater of the long-term tax-exempt rate determined by the Internal Revenue Service in the month of the ownership change or the two preceding months.

As of December 31, 2014, Pacific Ethanol and Aventine had $28.3 million and $63.5 million, respectively, of NOLs that are currently limited in their annual use. As a result of the Aventine acquisition, it is possible that either or both Pacific Ethanol and Aventine will be deemed to have undergone an "ownership change" for purposes of Section 382 of the Code. Accordingly, our ability to utilize these NOL carryforwards may be substantially limited. These limitations could in turn result in increased future tax obligations, which could have a material adverse effect on our business, financial condition and results of operations.

***The high concentration of our sales within the ethanol production and marketing 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 production and marketing of ethanol and its co-products for the foreseeable future. We may be unable to shift our business focus away from the production and marketing 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.

We depend in part on one third-party supplier for a significant portion of the ethanol we sell. If this supplier 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.

We depend in part, and expect to continue to depend for the foreseeable future, on one third-party supplier for a significant portion of the total amount of ethanol that we sell. During 2014, 2013 and 2012, one supplier provided in excess of 10% of the total volume of ethanol we sold, accounting for an aggregate of approximately $134.6 million, $145.2 million and $109.9 million in net sales, representing 12%, 16% and 13% of our net sales, respectively, for those periods. This third-party supplier is located in the Midwest. The delivery of ethanol from this supplier is therefore subject to delays resulting from inclement weather and other conditions. If this supplier 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 our 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 our 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 or retain key personnel, including as a result of the Aventine acquisition, our ability to operate effectively may be impaired, which could have a material adverse effect on our business, financial condition and results of operations.

Our ability to operate our business and implement strategies depends, in part, on the efforts of our executive officers and other key personnel. 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. In addition, the success of the Aventine acquisition will depend in part on our ability to retain key personnel. It is possible that these personnel might decide not to remain with us now that the acquisition is completed. If these key personnel terminate their employment, our business activities might be adversely affected and management's attention might be diverted from integrating the businesses of Pacific Ethanol and Aventine to recruiting suitable replacement personnel. We may be unable to locate suitable replacements for any such key personnel or offer employment to potential replacement personnel on reasonable terms. If we are unable to attract or retain key personnel, our ability to operate effectively may be impaired, which could have a material adverse effect on our business, financial condition 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 2014, 2013 and 2012, four customers accounted for an aggregate of approximately $659 million, $521 million and $410 million in net sales, representing 59%, 58% and 51% of our net sales, respectively, for those periods. 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

Resales of shares of our common stock issued upon closing the Aventine acquisition, or a perception that a substantial number of such shares will be resold into the market, may cause the market price of our common stock and the value of your investment to decline significantly.

We issued an aggregate of approximately 17.8 million shares of our common stock and non-voting common stock upon the closing the Aventine acquisition. The sale of these new shares of common stock (including shares of common stock issuable upon conversion of shares of non-voting common stock issued in the acquisition) by former Aventine stockholders, or the perception that these sales could occur, could have the effect of depressing the market price for shares of our common stock, causing the value of your investment to decline significantly.

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;
- 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 timely and cost-effectively produce, sell and deliver ethanol;
- 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;
- the possibility that the anticipated benefits from our acquisition of Aventine cannot be fully realized in a timely manner or at all, or that integrating the acquired operations will be more difficult, disruptive or costly than anticipated;
- 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 the 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.

The Aventine acquisition may not be accretive, and may be dilutive, to our earnings per share, which may negatively affect the market price of our common stock.

Although the Aventine acquisition is expected to be accretive to earnings per share, the acquisition may not be accretive, and may be dilutive, to our earnings per share. The expectation that the acquisition will be accretive is based on preliminary estimates that may materially change. All of the risk factors applicable to the ethanol industry and our business as a marketer and producer of ethanol are also applicable to Aventine's business. In addition, future events and conditions could decrease or delay any accretion, result in dilution or cause greater dilution than may be expected, including:

- adverse changes in market conditions;
- commodity prices for corn, ethanol, gasoline and crude oil;
- production levels;
- operating results;
- competitive conditions;
- laws and regulations affecting the ethanol business;
- capital expenditure obligations; and
- general economic conditions.

Any dilution of, or decrease or delay of any accretion to, our earnings per share could cause the price of our common stock to decline.

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.

The conversion or exercise of our outstanding derivative securities 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 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. We have issued common stock in respect of our derivative securities in the past and may do so in the future. If the prices at which our derivative securities are converted or exercised, 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.

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 each of the three months ended September 30, 2015 and 2014, we declared and paid in cash an aggregate of $0.3 million 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.

Exhibit Number	Description
3.1	Certificate of Incorporation (*)
3.2	Certificate of Designations, Powers, Preferences and Rights of the Series A Cumulative Redeemable Convertible Preferred Stock (*)
3.3	Certificate of Designations, Powers, Preferences and Rights of the Series B Cumulative Convertible Preferred Stock (*)
3.4	Certificate of Amendment to Certificate of Incorporation dated June 3, 2010 (*)
3.5	Certificate of Amendment to Certificate of Incorporation effective June 8, 2011 (*)
3.6	Certificate of Amendment to Certificate of Incorporation effective May 14, 2013 (*)
3.7	Certificate of Amendment to Certificate of Incorporation effective July 1, 2015 (*)
10.1	Amendment No. 3 to Amended and Restated Loan and Security Agreement dated July 1, 2015 by and among Kinergy Marketing LLC, Pacific Ag. Products, LLC and Wells Fargo Capital Finance, LLC (1)
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.

(1) Previously filed as an exhibit to the Registrant’s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 6, 2015.

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 6, 2015

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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Exhibit 3.1

State of Delaware
Secretary of State
Division of Corporations
Delivered 06:27 PM 02/28/2005
Filed 06:27 PM 02/28/2005
SRV 050169353 - 3877538 FILE

CERTIFICATE OF INCORPORATION
OF
PACIFIC ETHANOL, INC.,
A DELAWARE CORPORATION

FIRST: The name of the corporation is:

PACIFIC ETHANOL, INC.

SECOND: The address of the corporation's registered office in the State of Delaware is 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.

THIRD: The nature of the business or purposes to be conducted or promoted by the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The corporation is authorized to issue one class of capital stock to be designated "Common Stock" and another class of capital stock to be designated "Preferred Stock." The total number of shares of Common Stock that the corporation is authorized to issue is one hundred million (100,000,000), with a par value of $.001 per share. The total number of shares of Preferred Stock that the corporation is authorized to issue is ten million (10,000,000) with a par value of $.001 per share.

Except as otherwise provided by law, the shares of stock of the corporation, regardless of class, may be issued by the corporation from time to time in such amounts, for such consideration and for such corporate purposes as the board of directors may from time to time determine. A description of the different classes and series of the corporation's capital stock and a statement of the designations and the relative rights, preferences and limitations of the shares of each class and series of capital stock are as follows:

COMMON STOCK. Except as otherwise provided by the General Corporation Law of the State of Delaware or in this Article FOURTH (or in any certificate of designation establishing a series of Preferred Stock), the holders of Common Stock shall exclusively possess all voting power of the corporation. Each share of Common Stock shall be equal in all respects to every other share of Common Stock. Each holder of record of issued and outstanding Common Stock shall be entitled to one (1) vote on all matters for each share so held. Subject to the rights and preferences, if any, of the holders of Preferred Stock, each issued and outstanding share of Common Stock shall entitle the record holder thereof to receive dividends and distributions out of funds legally available therefor, when, as and if declared by the board of directors, in such amounts and at such times, if any, as the board of directors shall determine, ratably in proportion to the number of shares of Common Stock held by each such record holder. Upon any voluntary or involuntary liquidation, dissolution or winding up of the corporation, after there shall have been paid to or set aside for the holders of any class of capital stock having preference over the Common Stock in such circumstances the full preferential amounts to which they are respectively entitled, the holders of the Common Stock, and of any class or series of capital stock entitled to participate in whole or in part therewith as to the distribution of assets, shall be entitled, after payment or provision for the payment of all debts and liabilities of the corporation, to receive the remaining assets of the corporation available for distribution, in cash or in kind, ratably in proportion to the number of shares of Common Stock held by each such holder.

PREFERRED STOCK. The board of directors is authorized by resolution or resolutions, from time to time adopted, to provide for the issuance of Preferred Stock in one or more series and to fix and state the voting powers, designations, preferences and relative participating, optional or other special rights of the shares of each series and the qualifications, limitations and restrictions thereof, including, but not limited to, determination of one or more of the following:

(i) the distinctive designations of each such series and the number of shares which shall constitute such series, which number may be increased (except where otherwise provided by the board of directors in creating such series) or decreased (but not below the number of shares thereof then outstanding) from time to time by the board of directors;

(ii) the annual rate or amount of dividends payable on shares of such series, whether such dividends shall be cumulative or non-cumulative, the conditions upon which and the dates when such dividends shall be payable, the date from which dividends on cumulative series shall accrue and be cumulative on all shares of such series issued prior to the payment date for the first dividend of such series, the relative rights of priority, if any, of payment of dividends on the shares of that series, and the participating or other special rights, if any, with respect to such dividends;

(iii) whether such series will have any voting rights in addition to those prescribed by law and, if so, the terms and conditions of the exercise of such voting rights;

(iv) whether the shares of such series will be redeemable or callable and, if so, the prices at which, and the terms and conditions on which, such shares may be redeemed or called, which prices may vary under different conditions and at different redemption or call dates;

(v) the amount or amounts payable upon the shares of such series in the event of voluntary or involuntary liquidation, dissolution or winding up of the corporation, and the relative rights of priority, if any, of payment of shares of such series;

(vi) whether the shares of such series shall be entitled to the benefit of a sinking or retirement fund to be applied to the purchase or redemption of such shares, and if so entitled, the amount of such fund and the manner of its application, including the price or prices at which such shares may be redeemed or purchased through the application of such fund;

(vii) whether the shares of such series shall be convertible into, or exchangeable for, shares of any other class or classes or of any other series of the same or any other class or classes of capital stock of the corporation, and if so convertible or exchangeable, the conversion price or prices, or the rate or rates of exchange, and the adjustments thereof, if any, at which such conversion or exchange may be made, and any other terms of such conversion or exchange;

(viii) whether the shares of such series that are redeemed or converted shall have the status of authorized but unissued shares of Preferred Stock and whether such shares may be reissued as shares of the same or any other series of stock;

(ix) the conditions and restrictions, if any, on the payment of dividends or on the making of other distributions on, or the purchase, redemption or other acquisition by the corporation, or any subsidiary thereof, of, the Common Stock or any other class (or other series of the same class) ranking junior to the shares of such series as to dividends or upon liquidation, dissolution or winding up of the corporation; and

(x) the conditions and restrictions, if any, on the creation of indebtedness of the corporation, or any subsidiary thereof, or on the issue of any additional stock ranking on parity with or prior to the shares of such series as to dividends or upon liquidation, dissolution or winding up of the corporation.

All shares within each series of Preferred Stock shall be alike in every particular, except with respect to the dates from which dividends, if any, shall commence to accrue.

FIFTH: The number of directors which constitute the whole Board of Directors shall be fixed exclusively by one or more resolutions adopted from time to time by the Board of Directors in accordance with the Bylaws of the corporation. Except as otherwise required by the General Corporation Law of the State of Delaware, (i) newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled 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; (ii) any director elected in accordance with the preceding clause (i) 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; and (iii) no decreased in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director. The manner by which a director of the corporation may be removed from office shall be as provided in the Bylaws of the corporation. Advance notice of new business and stockholder nominations for the election of directors shall be given in the manner and to the extent provided in the Bylaws of the corporation. Elections of directors need not be by written ballot unless the Bylaws of the corporation shall so provide.

SIXTH: The corporation may, to the fullest extent to which it is empowered to do so and under the circumstances permitted by the General Corporation Law of the State of Delaware or any other applicable laws, as they may from time to time be in effect, indemnify any person who was made or is threatened to be made party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or officer of the corporation, or is or was serving at the specific request of the corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise (including, without limitation, any employee benefit plan), against all expenses (including attorneys' fees), judgments, fines and amounts incurred by him or her in connection with such action, suit or proceeding, and may take such steps as may be deemed appropriate by the board of directors, including purchasing and maintain insurance, entering into contracts (including, without limitation, contracts of indemnification between the corporation and its directors and officers), creating a trust fund, granting security interests or using other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect such indemnification.

SEVENTH: To the fullest extent permitted by the General Corporation Law of the State of Delaware as the same exists or as it may hereafter by amended, a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director; provided, that in no event will the liability of any director of this corporation be eliminated or otherwise limited (i) for any breach of the director's duty of loyalty to the corporation or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) under Section 174 of the General Corporation Law of the State of Delaware; or (iv) for any transaction from which the director derived any improper personal benefit. If the General Corporation Law of the State of Delaware is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended.

Any repeal or modification of the foregoing paragraph, or the adoption of any provision of this certificate of incorporation inconsistent with the foregoing paragraph, shall not eliminate, reduce or otherwise adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification in respect of any matter occurring, or any cause of action, suit or proceeding that, but for the foregoing paragraph, would accrue or arise, prior to such repeal, modification or adoption of an inconsistent provision.

EIGHTH: The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by law, and all rights conferred upon the stockholders herein are granted pursuant to this reservation.

NINTH: The corporation is to have perpetual existence.

TENTH: Meetings of the stockholders of the corporation may be held within or without the State of Delaware, as the Bylaws may provide. The books of the corporation may be kept (subject to any provision contained in the Bylaws) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws of the corporation.

ELEVENTH: In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend or repeal the Bylaws of the Corporation unless and to the extent the General Corporation Law of the State of Delaware shall provide otherwise.

TWELFTH: The name and address of the sole incorporator of the corporation is:

Larry A. Cerutti
611 Anton Boulevard, 14th Floor
Costa Mesa, CA 92626

THIRTEENTH: The provisions of Section 203 of the General Corporation Law of the State of Delaware shall be applicable to this corporation.

I, THE UNDERSIGNED, being the sole incorporator hereinbefore named, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, do make this certificate, hereby declaring and certifying that this is my act and deed and the facts herein stated are true, and accordingly have hereunto set my hand this 28th day of February, 2005.

By: /S/ LARRY A. CERUTTI
Larry A. Cerutti, Sole Incorporator

Exhibit 3.2

CERTIFICATE OF DESIGNATIONS,
POWERS, PREFERENCES AND RIGHTS OF THE SERIES A
CUMULATIVE REDEEMABLE CONVERTIBLE PREFERRED STOCK

OF

PACIFIC ETHANOL, INC.

PURSUANT TO SECTION 151 OF THE
DELAWARE GENERAL CORPORATION LAW

Pacific Ethanol, Inc. (the "CORPORATION"), organized and existing under the laws of the State of Delaware, does, by its Chief Operating Officer and under its corporate seal, hereby certify that pursuant to the authority contained in Article Fourth of its Certificate of Incorporation and in accordance with the provisions of Section 151 of the Delaware General Corporation Law, its Board of Directors has adopted the following resolution creating the following classes and series of the Corporation's Preferred Stock and determining the voting powers, designations, powers, preferences and relative, participating, optional or other special rights, and the qualifications, limitations and restrictions thereof, of such classes and series:

RESOLVED, that, pursuant to authority conferred upon the Board of Directors by the Certificate of Incorporation of the Corporation (the "CERTIFICATE OF INCORPORATION"), there is hereby created the following series of Preferred Stock:

- 7,000,000 shares shall be designated Series A Cumulative Redeemable Convertible Preferred Stock, par value $0.001 per share (the "SERIES A PREFERRED STOCK").

The designations, powers, preferences, and rights and the qualifications, limitations and restrictions of the Series A Preferred Stock in addition to those set forth in the Certificate of Incorporation shall be as follows:

Section 1. DESIGNATION AND AMOUNT. 7,000,000 shares of the unissued preferred stock of the Corporation shall be designated as Series A Cumulative Redeemable Convertible Preferred Stock, par value $.001 per share. The Series A Preferred Stock shall be issued in accordance with the Purchase Agreement at a purchase price of $16.00 per share (the "SERIES A ISSUE PRICE").

Section 2. RANK. The Series A Preferred Stock shall rank: (i) subject to the requirements of Section 7, junior to any other class or series of capital stock of the Corporation hereafter created specifically ranking as to dividend rights, redemption rights, liquidation preference and other rights senior to the Series A Preferred Stock (the "SENIOR SECURITIES"); (ii) senior to all of the Corporation's common stock, par value $0.001 per share (the "COMMON STOCK"); (iii) senior to any class or series of capital stock of the Corporation hereafter created not specifically ranking as to dividend rights, redemption rights, liquidation preference and other rights senior to or on parity with any Series A Preferred Stock of whatever subdivision (collectively, with the Common Stock, the "JUNIOR SECURITIES"); and (iv) subject to the requirements of Section 7, on a parity with any class or series of capital stock of the Corporation hereafter created specifically ranking as to dividend rights, redemption rights, liquidation preference and other rights on a parity with the Series A Preferred Stock (the "PARITY SECURITIES").

Section 3. DIVIDENDS. (a) So long as shares of Series A Preferred Stock remain outstanding, the holders of each share of the Series A Preferred Stock shall be entitled, from and after the date of issuance of such share, to receive, and shall be paid quarterly in arrears (beginning on the last day of the calendar quarter following the date of the initial issuance of Series A Preferred Stock) in cash out of funds legally available therefor, cumulative dividends, of an amount equal to 5.00% of the Series A Issue Price per share (as adjusted for any stock dividends, stock splits, combinations, recapitalizations involving equity securities of the Corporation, reclassifications or other similar events involving a change with respect to the Series A Preferred Stock) per annum with respect to each share of the Series A Preferred Stock; PROVIDED, HOWEVER, that such dividend may, at the option of the Corporation, be paid to the holders of Series A Preferred Stock in shares of the Series A Preferred Stock valued at the Series A Issue Price (as adjusted for any stock dividends, stock splits, combinations, recapitalizations involving equity securities of the Corporation, reclassifications or other similar events involving a change with respect to the Series A Preferred Stock). The holders of shares of Series A Preferred Stock shall be entitled to receive such dividends immediately after the payment of any dividends to Senior Securities required by the Corporation's Certificate of Incorporation, as amended or amended and restated and in effect, including for this purpose any certificate(s) of designation (the "CHARTER"), prior and in preference to any dividends paid to Junior Securities but in parity with any distribution to the holders of Parity Securities.

(b) In case the Corporation shall at any time or from time to time declare, order, pay or make a dividend or other distribution (including, without limitation, any distribution of stock or other securities or property or rights or warrants to subscribe for securities of the Corporation or any of its subsidiaries by way of a dividend, distribution or spin-off) on its Common Stock, other than (i) a distribution made in compliance with the provisions of Section 4 or (ii) a dividend or distribution made in Common Stock, the holders of the Series A Preferred Stock shall be entitled to receive from the Corporation with respect to each share of Series A Preferred Stock held, any dividend or distribution that would be received by a holder of the number of shares (including fractional shares) of Common Stock into which such Series A Preferred Stock is convertible on the record date for such dividend or distribution, with fractional shares of Common Stock deemed to be entitled to the corresponding fraction of any dividend or distribution that would be received by a whole share. Any such dividend or distribution shall be declared, ordered, paid and made at the same time such dividend or distribution is declared, ordered, paid and made on the Common Stock. No dividend or distribution shall be declared, ordered, paid or made on the Common Stock unless the dividend or distribution on the Series A Preferred Stock provided for by this paragraph shall be declared, ordered, paid or made at the same time.

Section 4. LIQUIDATION PREFERENCE.

(a) In the event of any liquidation, dissolution or winding up of the Corporation, either voluntary or involuntary, the holders of Series A Preferred Stock shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders, whether from capital, surplus or earnings, immediately after any distributions to Senior Securities required by the Charter, and prior and in preference to any distribution to Junior Securities but in parity with any distribution to the holders of Parity Securities, an amount per share equal to the sum of the Series A Issue Price (as adjusted for any stock splits, combinations, recapitalizations involving equity securities of the Corporation, reclassifications of other similar events involving a change with respect to the Series A Preferred Stock) and any accrued but unpaid dividends on the Series A Preferred Stock. If upon the occurrence of such event, and after the payment in full of the preferential amounts with respect to the Senior Securities, the assets and funds available to be distributed among the holders of the Series A Preferred Stock and the holders of any Parity Securities shall be insufficient to permit the payment to such holders of the full preferential amounts due to the holders of the Series A Preferred Stock and holders of the Parity Securities, respectively, then the entire assets and funds of the Corporation legally available for distribution shall be distributed among the holders of the Series A Preferred Stock and the Parity Securities, pro rata, based on the amount each such holder would receive if such full preferential amounts were paid unless otherwise provided in the Charter.

(b) Upon the completion of the distributions required by Section 4(a), if assets remain in the Corporation, they shall be distributed to the holders of Junior Securities other than Common Stock with respect to any liquidation preference payable to such holders.

(c) Upon the completion of the distributions required by Section 4(a) and Section 4(b), if assets remain in the Corporation, they shall be distributed pro rata, on an as-converted to Common Stock basis, to the holders of Common Stock and Series A Preferred Stock.

(d) A sale, lease, conveyance or disposition of all or substantially all of the capital stock or assets of the Corporation or a merger, consolidation, share exchange, reorganization or other transaction or series of related transactions (whether involving the Corporation or a subsidiary thereof) in which the Corporation's stockholders immediately prior to such transaction do not retain a majority of the voting power in the surviving entity (a "TRANSACTION"), shall be deemed to be a liquidation, dissolution or winding up within the meaning of this Section 4, unless (i) the holders of 66 2/3% of the then outstanding shares of the Series A Preferred Stock, vote affirmatively or consent in writing that such transaction shall not be treated as a liquidation, dissolution or winding up within the meaning of this Section 4 or (ii) such Transaction shall have resulted in the conversion of the Series A Preferred Stock in accordance with Section 5(b); PROVIDED, HOWEVER, that each holder of Series A Preferred Stock shall have the right to elect the conversion benefits of the provisions of Section 5(a) or other applicable conversion provisions in lieu of receiving payment in liquidation, dissolution or winding up of the Corporation pursuant to this Section; and PROVIDED, FURTHER, that shares of the surviving entity held by holders of the capital stock of the Corporation acquired by means of other than the Transaction shall not be used in determining if the shareholders of the Corporation own a majority of the voting power of the surviving entity, but shall be used for determining the total outstanding voting power of such entity.

(e) Prior to the closing of a Transaction described in Section 4(d) which would constitute a liquidation, dissolution or winding up within the meaning of this Section 4, the Corporation shall, at its sole option, either (i) make all distributions of cash or other property that it is required to make to the holders of Series A Preferred Stock pursuant to the first sentence of Section 4(a), (ii) set aside sufficient funds or other property from which the distributions required to be made to such holders can be made, or (iii) establish an escrow or other similar arrangement with a third party pursuant to which the proceeds payable to the Corporation from the Transaction will be used to make the liquidating payments to such holders immediately after the consummation of the Transaction. In the event that the Corporation is unable to fully comply with any of the foregoing alternatives, the Corporation shall either: (x) cause such closing to be postponed until the Corporation complies with one of the foregoing alternatives, or (y) cancel such Transaction, in which event the rights of the holders of Series A Preferred Stock shall be the same as existing immediately prior to such proposed Transaction.

Section 5. CONVERSION OF SERIES A PREFERRED STOCK. The Corporation and the record holders of the Series A Preferred Stock shall have conversion rights as follows:

(a) RIGHT TO CONVERT. Each record holder of Series A Preferred Stock shall be entitled to convert whole shares of Series A Preferred Stock for the Common Stock issuable upon conversion of the Series A Preferred Stock, at any time at the option of the holder thereof, subject to adjustment as provided in Section 5(d) hereof, as follows: Each share of Series A Preferred Stock shall be convertible into such number of fully paid and nonassessable shares of Common Stock as is obtained by (I) multiplying the number of shares of Series A Preferred Stock so to be converted by the Series A Issue Price and (II) dividing the result thereof by the Conversion Price. The Conversion Price shall initially be $8.00 per share of Series A Preferred Stock, subject to adjustment as provided in Section 5(d). Accrued but unpaid dividends will be paid in cash upon any such conversion.

(b) FORCED CONVERSION. (i) In the event of a Transaction which will result in an Internal Rate of Return to holders of Series A Preferred Stock of 25.00% or more, each share of outstanding Series A Preferred Stock shall, concurrently with the closing of such Transaction, be converted into fully-paid and non-assessable shares of Common Stock. Any such conversion shall be made into the number of shares of Common Stock determined pursuant to Section 5(a) using the Conversion Price, as last adjusted. Accrued but unpaid dividends will be paid in cash on any such conversion.

(ii) Notwithstanding anything to the contrary herein, no shares of outstanding Series A Preferred Stock shall be converted into Common Stock pursuant to this Section 5(b) unless at the time of such proposed conversion the Corporation shall have on file with the Securities and Exchange Commission an effective registration statement with respect to the shares of Common Stock issued or issuable to the holders on conversion of the Series A Preferred Stock then issued or issuable to such holders and such shares of Common Stock are eligible for trading on NASDAQ (or approved by and listed on a stock exchange approved by the holders of 66 2/3% of the then outstanding shares of Series A Preferred Stock).

(c) MECHANICS OF CONVERSION. In order to convert Series A Preferred Stock into full shares of Common Stock if (i) such conversion is pursuant to Section 5(a), the holder shall (A) fax a copy of a fully executed notice of conversion ("NOTICE OF CONVERSION") to the Corporation at the office of the Corporation or to the Corporation's designated transfer agent (the "TRANSFER AGENT") for the Series A Preferred Stock stating that the holder elects to convert, which notice shall specify the date of conversion, the number of shares of Series A Preferred Stock to be converted, the Conversion Price (together with a copy of the front page of each certificate to be converted) and (B) surrender to a common courier for either overnight or two (2) day delivery to the office of the Corporation or its transfer agent, the original certificates representing the Series A Preferred Stock (the "PREFERRED STOCK CERTIFICATES") being converted, duly endorsed for transfer, and (ii) such conversion is pursuant to Section 5(b), the Corporation shall fax a copy of a Notice of Conversion to the holders of Series A Preferred Stock stating that the shares of Series A Preferred Stock shall be converted into Common Stock, which notice shall describe the Transaction and the calculation of the Internal Rate of Return and specify the date of such conversion, the number of shares of Series A Preferred Stock that are being converted, the Conversion Price and a calculation of the number of shares of Common Stock issuable upon such conversion (together with a copy of the front page of each certificate to be converted); PROVIDED, HOWEVER, that the Corporation's failure to deliver a Notice of Conversion to each holder shall not affect the conversion of such shares of Series A Preferred Stock on the date of the closing of the Transaction and the cancellation of the certificates representing such shares of Series A Preferred Stock. In the event of a conversion pursuant to Section 5(b), the outstanding shares of Series A Preferred Stock shall be converted automatically without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the Corporation or its transfer agent and the Corporation shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon such conversion unless either the Preferred Stock Certificates are delivered to the Corporation or the Transfer Agent as provided above, or the holder notifies the Corporation or its Transfer Agent that such certificates have been lost, stolen or destroyed (subject to the requirements of Section 5(c)(i) below).

(i) LOST OR STOLEN CERTIFICATES. Upon receipt by the Corporation of evidence of the loss, theft, destruction or mutilation of any Preferred Stock Certificates representing shares of Series A Preferred Stock, and (in the case of loss, theft or destruction) of indemnity or security reasonably satisfactory to the Corporation, and upon surrender and cancellation of the Preferred Stock Certificates, if mutilated, the Corporation shall execute and deliver new Preferred Stock Certificates of like tenor and date; provided that the Corporation shall pay all costs of delivery (including insurance against loss and theft until delivered in an amount satisfactory to the holders of Series A Preferred Stock). However, the Corporation shall not be obligated to reissue such lost or stolen Preferred Stock Certificates if the holder contemporaneously requests the Corporation to convert such Series A Preferred Stock into Common Stock or if such shares of Series A Preferred Stock have been otherwise converted into Common Stock.

(ii) DELIVERY OF COMMON STOCK UPON CONVERSION. The Corporation no later than 6:00 p.m. (Pacific time) on the third (3rd) business day after receipt by the Corporation or its transfer agent of all necessary documentation duly executed and in proper form required for conversion, including the original Preferred Stock Certificates to be converted (or after provision for security or indemnification in the case of lost, stolen or destroyed certificates, if required), shall issue and surrender to a common courier for either overnight or (if delivery is outside the United States) two (2) day delivery to the holder as shown on the stock records of the Corporation a certificate for the number of shares of Common Stock to which the holder shall be entitled as aforesaid.

(iii) DATE OF CONVERSION. The date on which a voluntary conversion pursuant to Section 5(a) occurs (the "DATE OF VOLUNTARY CONVERSION") shall be deemed to be the date the applicable Notice of Conversion is faxed to the Corporation or the Transfer Agent, as the case may be, provided that the copy of the Notice of Conversion is faxed to the Corporation on or prior to 6:00 p.m. (Pacific time) on the Date of Conversion. A forced conversion pursuant to Section 5(b) shall occur on the date on which such forced conversion is deemed to occur pursuant to Section 5(b) (the "DATE OF FORCED CONVERSION", and together with the Date of Voluntary Conversion, the "DATE OF CONVERSION"). The original Preferred Stock Certificates representing the shares of Series A Preferred Stock to be converted shall be surrendered by depositing such certificates with a common courier for either overnight or two (2) day delivery, as soon as practicable following the Date of Voluntary Conversion or as soon as practicable following the date such holder receives notice of the Date of Forced Conversion. The person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Date of Conversion.

(iv) NO FRACTIONAL SHARES ON CONVERSION. No fractional shares of Common Stock shall be issued upon conversion of the Series A Preferred Stock. In lieu of any fractional share to which the holder would otherwise be entitled, the Corporation shall (after aggregating all shares into which shares of Series A Preferred held by each holder could be converted) pay cash equal to such fraction multiplied by the market price per share of Common Stock (as determined in a reasonable manner by the Board) at the close of business on the Date of Conversion.

(d) ADJUSTMENT OF CONVERSION PRICE.

(i) ADJUSTMENTS OF CONVERSION PRICE UPON ISSUANCE OF COMMON STOCK. If at any time after the first filing of this Certificate of Designations, the Corporation shall issue or sell, or is, in accordance with Section 5(d)(i)(A) through (G) below, deemed to have issued or sold, any shares of Common Stock for a consideration per share less than the Conversion Price in effect immediately prior to the time of such issue or sale or deemed issue or sale, then, forthwith upon such issue or sale or deemed issue or sale, the Conversion Price shall be reduced to the price determined by dividing (x) an amount equal to the sum of (a) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the then existing Conversion Price and (b) the consideration, if any, received by the Corporation upon such issue or sale, by (y) the total number of shares of Common Stock outstanding immediately after such issue or sale. For purposes of determining the number of shares of Common Stock outstanding as provided in clauses (x) and (y) above, the number of shares of Common Stock issuable upon conversion of all outstanding shares of Series A Preferred Stock, exercise of all outstanding Options (as defined below) and conversion of all outstanding Convertible Securities (as defined below) shall be deemed to be outstanding.

For purposes of this Section 5(d)(i), the following subparagraphs (A) to (G) of this Section 5(d)i) shall also be applicable:

(A) ISSUANCE OF RIGHTS OR OPTIONS. In case at any time the Corporation shall in any manner grant (whether directly or by assumption in a merger or otherwise) any warrants or other rights to subscribe for or to purchase, or any options for the purchase of, Common Stock or any stock or security convertible into or exchangeable for Common Stock (such warrants, rights or options being called "OPTIONS" and such convertible or exchangeable stock or securities being called "CONVERTIBLE SECURITIES") whether or not such Options or the right to convert or exchange any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon the exercise of such Options or upon the conversion or exchange of such Convertible Securities (determined by dividing (i) the total amount, if any, received or receivable by the Corporation as consideration for the granting of such Options, plus the minimum aggregate amount of additional consideration payable to the Corporation upon the exercise of all such Options, plus, in the case of such Options which relate to Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the issue or sale of such Convertible Securities and upon the conversion or exchange thereof (in all cases excluding the effect of a net issue election), by (ii) the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such Options) shall be less than the Conversion Price in effect immediately prior to the time of the granting of such Options, then the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities issuable upon the exercise of such Options shall be deemed to have been issued for such price per share as of the date of granting of such Options and thereafter shall be deemed to be outstanding. Except as otherwise provided in Section 5(d)(i)(C), no adjustment of the Conversion Price shall be made upon the actual issue of such Common Stock or of such Convertible Securities upon exercise of such Options or upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities.

(B) ISSUANCE OF CONVERTIBLE SECURITIES. In case the Corporation shall in any manner issue (whether directly or by assumption in a merger or otherwise) or sell any Convertible Securities, whether or not the rights to exchange or convert any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon such conversion or exchange (determined by dividing (i) the total amount received or receivable by the Corporation as consideration for the issue or sale of such Convertible Securities, plus the aggregate amount of additional consideration, if any, payable to the Corporation upon the conversion or exchange thereof, by (ii) the total maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities) shall be less than the Conversion Price in effect immediately prior to the time of such issue or sale, then the total maximum number of shares of Common Stock issuable upon conversion or exchange of all such Convertible Securities shall be deemed to have been issued for such price per share as of the date of the issue or sale of such Convertible Securities and thereafter shall be deemed to be outstanding; PROVIDED that (a) except as otherwise provided in Section 5(d)(i)(C), no adjustment of the Conversion Price shall be made upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities and (b) if any such issue or sale of such Convertible Securities is made upon exercise of any Options to purchase any such Convertible Securities for which adjustments of the Conversion Price have been or are to be made pursuant to other provisions of this Section 5(d)(i), no further adjustment of the Conversion Price shall be made by reason of such issue or sale.

(C) CHANGE IN OPTION PRICE OR CONVERSION RATE. Upon the happening of any of the following events, namely, if (1) the purchase price or exercise price provided for in any Option referred to in Section 5(d)(i)(A), (2) the number of shares into which the Option is exercisable, (3) the additional consideration, if any, payable upon the conversion or exchange of any Convertible Securities referred to in Section 5(d)(i)(A) or (B), or (4) the rate at which Convertible Securities referred to in Section 5(d)(i)(A) or (B) are convertible into or exchangeable for Common Stock shall change at any time (including, but not limited to, changes under or by reason of provisions designed to protect against dilution), the Conversion Price in effect at the time of such event shall forthwith be readjusted to the Conversion Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold.

(D) STOCK DIVIDENDS. In case the Corporation shall declare a dividend or make any other distribution upon any stock of the Corporation (other than Common Stock or Series A Preferred Stock) payable in Common Stock, then any Common Stock issuable in payment of such dividend or distribution shall be deemed to have been issued or sold for $.001 per share, unless the holders of at least 66 2/3% of the then outstanding Series A Preferred Stock shall have consented to such dividend or distribution.

(E) CONSIDERATION FOR STOCK. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Corporation therefor, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Corporation in connection therewith. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Corporation shall be deemed to be the fair value of such consideration as determined in good faith by the Board, without deduction of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Corporation in connection therewith. In case any Options shall be issued in connection with the issue and sale of other securities of the Corporation, together comprising one integral transaction in which no specific consideration is allocated to such Options by the parties thereto, such Options shall be deemed to have been issued for such consideration as determined in good faith by the Board.

(F) RECORD DATE. In case the Corporation shall take a record of the holders of its Common Stock for the purpose of entitling them (i) to receive a dividend or other distribution payable in Common Stock, Options or Convertible Securities or (ii) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(G) TREASURY SHARES. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Corporation, and the disposition of any such shares shall be considered an issue or sale of Common Stock for the purpose of this Section 5(d)(i).

(ii) CERTAIN ISSUES OF COMMON STOCK EXCEPTED. Anything herein to the contrary notwithstanding, the Corporation shall not be required to make any adjustment of the Conversion Price in the case of the issuance or sale from and after the date of filing of this Certificate of Designations of Anti-Dilution Excluded Securities (as defined below).

(iii) ADJUSTMENTS FOR SUBDIVISIONS, COMMON STOCK DIVIDENDS, COMBINATIONS OR CONSOLIDATIONS OF COMMON STOCK. If the outstanding shares of Common Stock shall be subdivided or increased, by stock split, stock dividend or otherwise, into a greater number of shares of Common Stock, the Conversion Price shall concurrently with the effectiveness of such subdivision or payment of such stock dividend, be proportionately decreased. If the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, the Conversion Price shall, concurrently with the effectiveness of such combination or consolidation, be proportionately increased.

(iv) ADJUSTMENTS FOR RECLASSIFICATION, EXCHANGE AND SUBSTITUTION. If the Common Stock issuable upon conversion of the Series A Preferred Stock shall be changed into the same or a different number of shares of any other class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for above), the Conversion Price shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted such that the Series A Preferred Stock shall be convertible into, in lieu of the number of shares of Common Stock which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of stock equivalent to the number of shares of Common Stock that would have been subject to receipt by the holders upon conversion of the Series A Preferred Stock immediately before that change.

(v) ADJUSTMENTS FOR MERGER, SALE, LEASE OR CONVEYANCE. In case of any share exchange, reorganization, consolidation with or merger of the Corporation with or into another corporation, or in case of any sale, lease, conveyance or disposition to another Corporation of the assets of the Corporation as an entirety or substantially as an entirety, which is not treated as a liquidation, dissolution or winding up pursuant to Section 4(d) above, the Series A Preferred Stock shall after the date of such share exchange, reorganization, consolidation, merger, sale, lease, conveyance or disposition be convertible into the number of shares of stock or other securities or property (including cash) to which the Common Stock issuable (at the time of such consolidation, merger, sale, lease, conveyance or disposition) upon conversion of the Series A Preferred Stock would have been entitled upon such share exchange, reorganization, consolidation, merger, sale, lease, conveyance or disposition; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of the holders of the Series A Preferred Stock shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to any shares of stock or other securities or property thereafter deliverable on the conversion of the shares of Series A Preferred Stock.

(vi) FRACTIONAL SHARES. If any adjustment under this Section 5(d) would create a fractional share of Common Stock or a right to acquire a fractional share of Common Stock, such fractional share shall be rounded to the nearest whole number of shares with one-half share being rounded up.

(vii) NOTICE OF ADJUSTMENT. Concurrent with any adjustment pursuant to this Section 5(d), the Corporation shall provide prompt notice to the holders of Series A Preferred Stock notifying such holders of any such adjustment.

Section 6. VOTING RIGHTS. Except to the extent otherwise expressly provided by law and in Section 7, the Series A Preferred Stock shall vote together with all other classes and series of voting stock of the Corporation as a single class on all actions to be taken by the stockholders of the Corporation. Each share of Series A Preferred Stock shall entitle the holder thereof to the number of votes equal to the number of shares of Common Stock into which each share of Series A Preferred Stock is convertible (determined without regard to Section 5(c)(iv)) on all matters to be voted on by the stockholders of the Corporation; provided however that, solely for purposes of this Section 6, the number of votes for each share of Series A Preferred Stock shall not exceed the number of shares of Common Stock into which each share of Series A Preferred Stock would be convertible if the applicable Conversion Price were $8.99 (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares).

Section 7. PROTECTIVE PROVISIONS. The Corporation shall not, without first obtaining the written consent of the holders of at least a majority of the then outstanding shares of Series A Preferred Stock voting as a separate class:

(i) increase or decrease the total number of authorized shares of Series A Preferred Stock or the authorized shares of Common Stock reserved for issuance upon conversion of the Series A Preferred Stock (except as otherwise required by the Charter or this Certificate of Designations);

(ii) increase or decrease the number of authorized shares of Preferred Stock or Common Stock (except as otherwise required by the Charter or this Certificate of Designations);

(iii) alter, amend, repeal, substitute or waive any provision of the Charter or the Corporation's bylaws, so as to affect adversely the voting powers, preferences or other rights, including, without limitation, the liquidation preferences, dividend rights, conversion rights, redemption rights or any reduction in the stated value of the Series A Preferred Stock, whether by merger, consolidation or otherwise;

(iv) authorize, create, issue or sell any Senior Securities or any Parity Securities or securities that are convertible into Senior Securities or Parity Securities with respect to voting, dividend, liquidation or redemption rights, including subordinated debt;

(v) authorize, create, issue or sell any Junior Securities other than Common Stock or securities that are convertible into Junior Securities other than Common Stock with respect to voting, dividend, liquidation or redemption rights, including subordinated debt;

(vi) authorize, create, issue or sell any Series A Preferred Stock other than the Series A Preferred Stock authorized, created, issued and sold pursuant to the Purchase Agreement and Series A Preferred Stock issued in accordance with Section 3(a) and Series A Preferred Stock issued in replacement or exchange therefore;

(vii) engage in a Transaction which would result in an Internal Rate of Return to holders of Series A Preferred Stock of less than 25.00%;

(viii) declare or pay any dividends or distributions on the capital stock of the Corporation in a cumulative amount in excess of the dividends and distributions paid on the Series A Preferred Stock in accordance with this Certificate of Designations;

(ix) authorize or effect the voluntary liquidation, dissolution, recapitalization, reorganization or winding up of the business of the Corporation;

(x) purchase, redeem or otherwise acquire any capital stock of the Corporation other than Series A Preferred Stock, or any warrants or other rights to subscribe for or to purchase, or any options for the purchase of, capital stock of the Corporation or securities convertible into or exchangeable for capital stock of the Corporation;

(xi) change the number of members of the Board to be more than nine members or less than seven members;

(xii) effect any material change in the industry focus of the Corporation and its subsidiaries, considered on a consolidated basis;

(xiii) authorize or engage in, or permit any subsidiary of the Corporation to authorize or engage in, any transaction or series of transactions with a current or former officer, director or member of the Corporation or any of its subsidiaries with value in excess of $100,000, excluding compensation or the grant of Options approved by the Board; or

(xiv) authorize or engage in, or permit any subsidiary of the Corporation to authorize or engage in, any transaction with any entity or person that is affiliated with any current or former director, officer or member of the Corporation or any of its subsidiaries, excluding any director nominated by the initial holder of the Series A Preferred Stock in accordance with the Registration Rights Agreement.

Section 8. STATUS OF CONVERTED STOCK. In the event any shares of Series A Preferred Stock shall be converted pursuant to Section 5 hereof, the shares so converted shall be canceled, shall return to the status of authorized but unissued Preferred Stock of no designated series, and shall not be issuable by the Corporation as Series A Preferred Stock.

Section 9. PREEMPTIVE RIGHTS. (a) The Corporation shall not issue, sell or exchange, agree to issue, sell or exchange, or reserve or set aside for issuance, sale or exchange, (i) any shares of the capital stock of the Corporation, (ii) any option, warrant or other right to subscribe for, purchase or otherwise acquire any capital stock of the Corporation, or (iii) any securities convertible into capital stock of the Corporation (collectively, the "Offered Securities"), unless in each such case the Corporation shall have first complied with this Section 9. The Corporation shall deliver to each holder of the Series A Preferred Stock a written notice of any proposed or intended issuance, sale or exchange of Offered Securities (the "Offer"), which Offer shall (i) identify and describe the Offered Securities, (ii) describe the price and other terms upon which they are to be issued, sold or exchanged, and the number or amount of the Offered Securities to be issued, sold or exchanged, (iii) identify the persons or entities (if known) to which or with which the Offered Securities are to be offered, issued, sold or exchanged, and (iv) offer to issue and sell to or exchange with such holder of the Series A Preferred Stock (A) a pro rata portion of the Offered Securities determined by dividing (x) the aggregate number of shares of Common Stock then held by such holder of the Series A Preferred Stock (giving effect to the conversion of all shares of convertible preferred stock then held by such holder) by (y) the total number of shares of Common Stock then held by all holders of the Series A Preferred Stock (giving effect to the conversion of all outstanding shares of convertible preferred stock then held by such holders) (such pro rata portion of the Offered Securities, the "Basic Amount"), and (B) any additional portion of the Offered Securities attributable to the Basic Amounts of other holders of the Series A Preferred Stock as such holder shall indicate it will purchase or acquire should the other holders subscribe for less than their Basic Amounts (the "Undersubscription Amount"). In the case of a public offering of Common Stock of the Corporation for a purchase price of at least $12.00 and a total gross offering price of at least $50,000,000.00, the rights of the holders of the Series A Preferred Stock shall be limited to 50% of the Offered Securities.

(b) To accept an Offer, in whole or in part, a holder of the Series A Preferred Stock must deliver a written notice to the Corporation prior to the end of the 30-day period of the Offer, setting forth the portion of the holder's Basic Amount that such holder elects to purchase and, if such holder shall elect to purchase all of its Basic Amount, the Undersubscription Amount (if any) that such holder elects to purchase (the "Notice of Acceptance"). If the Basic Amounts subscribed for by all holders of the Series A Preferred Stock are less than the total of all of the Basic Amounts available for purchase, then each holder who has set forth an Undersubscription Amount in its Notice of Acceptance shall be entitled to purchase, in addition to the Basic Amounts subscribed for, the Undersubscription Amount it has subscribed for; provided, however, that if the Undersubscription Amounts subscribed for exceeds the difference between the total of all of the Basic Amounts available for purchase and the Basic Amounts subscribed for (the "Available Undersubscription Amount") each holder of Series A Preferred Stock who has subscribed for any Undersubscription Amount shall be entitled to purchase only that portion of the Available Undersubscription Amount as the Undersubscription Amounts subscribed for by such holder bears to the total Undersubscription Amounts subscribed for by all holders of the Series A Preferred Stock, subject to rounding by the Board to the extent it deems reasonably necessary.

(c) The Corporation shall have 90 days from the expiration of the period set forth in Section 9(b) to issue, sell or exchange all or any part of such Offered Securities as to which a Notice of Acceptance has not been given by the holders of the Series A Preferred Stock (the "Refused Securities"), but only to the offerees or purchasers described in the Offer (if so described therein) and only upon terms and conditions (including, without limitation, unit prices and interest rates) which are not more favorable, in the aggregate, to the acquiring person or persons or less favorable to the Corporation than those set forth in the Offer.

(d) In the event the Corporation shall propose to sell less than all the Refused Securities (any such sale to be in the manner and on the terms specified in Section 9(c)), then each holder of the Series A Preferred Stock may, at its sole option and in its sole discretion, reduce the number or amount of the Offered Securities specified in its Notice of Acceptance to an amount that shall be not less than the number or amount of the Offered Securities that the holder of the Series a Preferred Stock elected to purchase pursuant to Section 9(b) multiplied by a fraction, (i) the numerator of which shall be the number or amount of Offered Securities the Corporation actually proposes to issue, sell or exchange (including Offered Securities to be issued or sold to Purchasers pursuant to Section 9(b) prior to such reduction) and (ii) the denominator of which shall be the original amount of the Offered Securities. In the event that any holder of the Series A Preferred Stock so elects to reduce the number or amount of Offered Securities specified in its Notice of Acceptance, the Corporation may not issue, sell or exchange more than the reduced number or amount of the Offered Securities unless and until such securities have again been offered to the Purchasers in accordance with Section 9(a).

(e) Upon the closing of the issuance, sale or exchange of all or less than all of the Refused Securities, the holders of the Series A Preferred Stock shall acquire from the Corporation, and the Corporation shall issue to the holders of the Series A Preferred Stock, the number or amount of Offered Securities specified in the Notices of Acceptance, as reduced pursuant to Section 9(d) if the holders have so elected, upon the terms and conditions specified in the Offer. The purchase by the holders of the Series A Preferred Stock of any Offered Securities is subject in all cases to the preparation, execution and delivery by the Corporation and the holders of a purchase agreement relating to such Offered Securities satisfactory in form and substance to the holders of the Series A Preferred Stock and their respective counsel.

(f) Any Offered Securities not acquired by the holders of the Series A Preferred Stock or other persons in accordance with Section 9(c) may not be issued, sold or exchanged until they are again offered to the holders of the Series A Preferred Stock under the procedures specified in this Section 9.

(g) The rights of the holders of the Series A Preferred Stock under this Section 9 shall not apply to Preemptive Rights Excluded Securities.

(h) The failure of any holder of Series A Preferred Stock to exercise its rights under this Section 9 shall not be deemed to be a waiver of its rights hereunder in connection with any subsequent issuance, sale or exchange, agreement to issue, sell or exchange, or reservation or setting aside for issuance, sale or exchange of Offered Securities.

Section 10. RESERVATION OF STOCK. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of shares of Series A Preferred Stock issued or issuable to the holders, such number of shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series A Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of Series A Preferred Stock, in addition to such other remedies as shall be available to the holder of Series A Preferred Stock, the Corporation shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number as shall be sufficient for such purposes, including, without limitation, using best efforts to obtain stockholder approval of any necessary amendment to the Charter.

Section 11. REDEMPTION RIGHTS. The holders of the Series A Preferred Stock shall have redemption rights as follows:

(a) Upon the occurrence of a Redemption Event, the Series A Preferred Stock shall be subject to redemption, at the option of the holders of 66 2/3% of the then outstanding shares of Series A Preferred Stock, on the date specified by the holders of Series A Preferred Stock exercising such option (the "SERIES A REDEMPTION DATE"). The number of shares of the Series A Preferred Stock to be so redeemed shall be obtained by multiplying the number of shares of Series A Preferred Stock then outstanding by a fraction, the numerator of which is the Restricted Cash Amount and the denominator of which is $80,000,000.00. The redemption price for shares of Series A Preferred Stock subject to such redemption shall be equal to the Series A Issue Price (as adjusted for any stock splits, combinations, recapitalizations involving a change with respect to the Series A Preferred Stock) per share plus any accrued but unpaid dividends plus an amount sufficient to yield an Internal Rate of Return of 5.00%, payable in immediately available funds. If less than all of the shares of the outstanding Series A Preferred Stock are to be redeemed pursuant to this Section 11(a), such shares shall be redeemed pro rata from the holders
thereof in proportion to the number of shares held by such holders (with adjustments to avoid redemption of fractional shares).

(b) The funds legally available to the Corporation for the payment of the redemption price of any Junior Securities shall be used first to pay the redemption price of Series A Preferred Stock on the dates established for redemption pursuant to Section 11(a) and no such funds shall be used (or will be required to be used) to pay the redemption price of any Junior Securities unless the Corporation has paid, or reserved funds sufficient to pay, the entire redemption price of Series A Preferred Stock. If the funds legally available to the Corporation for the payment of the redemption price of the Series A Preferred Stock are not sufficient to redeem all of the shares of the Series A Preferred Stock required to be redeemed on any date, such funds shall be used to redeem the number of shares of Series A Preferred Stock which may be redeemed from such amount on a pro rata basis. If additional funds become available for the redemption of additional shares of Series A Preferred Stock required to be so redeemed, the Corporation shall immediately use such funds to redeem shares of Series A Preferred Stock until such time as all of the shares of Series A Preferred Stock required to be redeemed pursuant to this Section 11 have been redeemed.

(c) If, on the dates established for redemption pursuant to Section 11(a), all of the shares of Series A Preferred Stock to be redeemed on each such date are not redeemed in full, all rights in respect of such shares of Series A Preferred Stock that have not been redeemed, including the right to receive the applicable redemption price, plus accrued and unpaid dividends, shall continue to be outstanding as evidenced by the certificates representing such shares. The exercise by the holders of the option to redeem any shares of Series A Preferred Stock which were not redeemed on the dates established for redemption pursuant to Section 11(a), may be rescinded by such holders at any time following the date established for such redemption by written notice to the Corporation. All shares of Series A Preferred Stock redeemed pursuant to Section 11(a) shall be retired and shall be restored to the status of authorized and unissued shares of Preferred Stock, without designation as to series or class and may thereafter be reissued, subject to compliance with the terms hereof, as shares of any series of Preferred Stock other than shares of Series A Preferred Stock.

(d) (i) If the Corporation is unable to make any such payment of the redemption price after redemption was required to be paid pursuant to Section 11(a) a default in the payment of the redemption price for the purpose of this section shall be deemed to have occurred, and having so occurred, such default shall be deemed to exist thereafter until, but only until, all amounts payable pursuant to this section have been paid. If and whenever a default in the payment of the redemption price shall occur, and in addition to any other remedies available at law, a special meeting of shareholders of the Corporation shall be held for the purpose of electing directors upon the written request of the holders of at least 10% of the total number of shares of Series A Preferred Stock then outstanding. Such meeting shall be called by the secretary of the Corporation upon such written request and shall be held at the earliest practicable date upon like notice as that required for the annual meeting of shareholders of the Corporation and at the place for the holding of such annual meeting. If notice of such special meeting shall not be mailed by the secretary within thirty days after personal service of such written request upon the secretary of the Corporation or within thirty days of mailing the same in the United States of America by registered mail addressed to the secretary at the principal office of the Corporation, then the holders of at least 10% of the total number of shares of Series A Preferred Stock then outstanding may designate in writing one of their number to call such meeting and the person so designated may call such meeting upon like notice as that required for the annual meeting of shareholders and to be held at the place for the holding of such annual meeting. Any holder of Series A Preferred Stock so designated shall have access to the stock books of the Corporation for the purpose of causing a meeting of shareholders to be called pursuant to the foregoing provisions of this subdivision.

(ii) At any such special meeting, or at the next annual meeting of shareholders of the Corporation for the election of directors and at each other meeting, annual or special, for the election of directors held thereafter (unless at the time of any such meeting such default in the payment of the redemption price shall no longer exist), the holders of the outstanding shares of Series A Preferred Stock, voting separately as a class, shall have the right to elect the smallest number of directors which shall constitute at least a majority of the total number of directors of the Corporation, or two directors, whichever shall be greater, and the holders of the outstanding shares of Common Stock, voting as a class, shall have the right to elect all other members of the Board, anything herein or in the bylaws of the Corporation to the contrary notwithstanding. The terms of office, as directors, of all persons who may be directors of the Corporation at any time when such special right to elect directors shall become vested in the holders of the Series A Preferred Stock shall terminate upon the election of any new directors to succeed them as aforesaid.

(iii) At any meeting, annual or special, of the Corporation, at which the holders of Series A Preferred Stock shall have the special right to elect directors as aforesaid, the presence in person or by proxy of the holders of a majority of the total number of shares of Series A Preferred Stock then outstanding shall be required to constitute a quorum of such class for the election of directors, and the presence in person or by proxy of the holders of a majority of the total number of shares of Common Stock then outstanding shall be required to constitute a quorum of such class for the election of directors; provided, however, that the absence of a quorum of the holders of shares of any such class shall not prevent the election at any such meeting or adjournment thereof of directors by the other class, if necessary quorum of the holders of such other class shall be present at such meeting or any adjournment thereof; and provided further, that in the absence of a quorum of holders of shares of any class, a majority of the holders of the shares of such class who are present in person or by proxy shall have power to adjourn the election of the directors to be elected by such class from time to time, without notice other than announcement at the meeting, until the requisite quorum of holders of such class shall be present in person or by proxy, but no such adjournment shall be made to a date beyond the date for the mailing of the notice of the next annual meeting of shareholders of the Corporation or special meeting in lieu thereof.

(iv) So long as a default in the payment of the redemption price shall exist, any vacancy in the office of a director elected by the holders of the Series A Preferred Stock may be filled at any meeting of shareholders, annual or special, for the election of directors held thereafter, and a special meeting of shareholders, or of the holders of shares of the Series A Preferred Stock, may be called for the purpose of filling any such vacancy. So long as a default in the payment of the redemption price shall exist, any vacancy in the office of a director elected by the holders of the Common Stock may be filled by majority vote of the remaining directors elected by the holders of the Common Stock.

(v) If and when the default in the payment of the redemption price which permitted the election of directors by the holders of the Series A Preferred Stock shall cease to exist, the holders of the Series A Preferred Stock shall be divested of any special right with respect to the election of directors, and the voting power of the holders of the Series A Preferred Stock and of the holders of the Common Stock shall revert to the status existing before the first dividend payment date on which dividends on the Series A Preferred Stock were not pain in full, subject to revesting in the event of each and every subsequent like default in preferred dividends. Upon the termination of any such special right, the terms of office of all persons who may have been elected directors by vote of the holders of the Series A Preferred Stock pursuant to such special right shall forthwith terminate, and the resulting vacancies shall be filled by the majority of the remaining directors.

Section 12. DEFINITIONS. As used in this Certificate, the following capitalized terms have the following meanings.

"ANTI-DILUTION EXCLUDED SECURITIES" mean any of the following securities: (1) securities issued to employees, officers or directors of the Corporation or options to purchase Common Stock granted by the Corporation to employees, officers or directors of the Corporation pursuant to any option plan, agreement or other arrangement duly adopted by the Corporation and the grant of which is approved by the compensation committee of the Board; (2) the Series A Preferred Stock and any Common Stock issued upon conversion of the Series A Preferred Stock; (3) for the avoidance of doubt, securities issued on the conversion of any Convertible Securities or the exercise of any Options, in each case, outstanding on the date of the first filing of this Certificate of Designations; and (4) for the avoidance of doubt, securities issued in connection with a stock split, stock dividend, combination, reorganization, recapitalization or other similar event for which adjustment is made in accordance with Section 5(d)(iii) or (iv).

"DEPOSIT AGREEMENT" means that certain Deposit Agreement, dated on or about the date hereof, between the Corporation and a bank or trust company, entered into pursuant to the Purchase Agreement.

"INTERNAL RATE OF RETURN" means the discount rate that makes the net present value of all cash payments equal zero. In determining the Internal Rate of Return, the initial investment of the holders of the Series A Preferred Stock shall include all transaction costs and expenses incurred by the initial holder of the Series A Preferred Stock in connection with the transactions contemplated by the Purchase Agreement and all additional costs and expenses of the holders of Series A Preferred Stock in respect of the investment incurred through the date of the determination shall be treated as cash expenditures when made. For purposes of determining the Internal Rate of Return, any dividends, distributions or payments other than in cash shall be deemed to have no value. In determining the Internal Rate of Return in respect of a Transaction, the final payment for purposes of such determination shall be the cash, if any, distributable or payable to holders of the Series A Preferred Stock upon the closing of the Transaction assuming that the holders had converted all of the outstanding Series A Preferred Stock to Common Stock immediately prior to the closing of the Transaction.

"PURCHASE AGREEMENT" means that certain Purchase Agreement, dated November 14, 2005, between the Corporation and Cascade Investment, L.L.C.

"PREEMPTIVE RIGHTS EXCLUDED SECURITIES" mean any of the following securities: (1) securities issued to employees, officers or directors of the Corporation or options to purchase Common Stock granted by the Corporation to employees, officers or directors of the Corporation pursuant to any option plan, agreement or other arrangement duly adopted by the Corporation and the grant of which is approved by the compensation committee of the Board; (2) the Series A Preferred Stock and any Common Stock issued on conversion of the Series A Preferred Stock; (3) for the avoidance of doubt, securities issued on the conversion of any Convertible Securities or the exercise of any Options, in each case, outstanding on the date of the first filing of this Certificate of Designations; (4) for the avoidance of doubt, securities issued in connection with a stock split, stock dividend, combination, reorganization, recapitalization or other similar event for which adjustment is made in accordance with Section 5(d)(iii), (iv) or (v); and (5) the issuance of securities of the Corporation issued for consideration other than cash pursuant to a merger, consolidation, acquisition or similar business combination by the Corporation approved by the Board.

"REDEMPTION EVENT" means (i) the Corporation withdraws or utilizes funds from the Restricted Cash Account in violation of the terms of the Deposit Agreement, (ii) the Corporation publicly disclosed an intent not to build or acquire additional ethanol production facilities for an indefinite period or for a period of at least two years from the time of the announcement, (iii) fails to withdraw funds from the Restricted Cash Account for a period of two years, or (iv) amounts remain in the Restricted Cash Account after December 31, 2009.

"REGISTRATION RIGHTS AGREEMENT" means that certain Registration Rights and Stockholder's Agreement, dated on or about the date hereof, between the Corporation and Cascade Investment, L.L.C.

"RESTRICTED CASH ACCOUNT" means the account established and maintained pursuant to the Deposit Agreement.

"RESTRICTED CASH AMOUNT" means the total amount of money in the Restricted Cash Account on the Series A Redemption Date prior to any disbursement thereof on such date and after giving effect to the sale or other liquidation of all investments held in such account together with, if the Corporation shall have withdrawn or utilized moneys from the Restricted Cash Account in violation of the terms of the Deposit Agreement, the amount of any moneys so withdrawn or utilized.

SIGNATURE ON FOLLOWING PAGE.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be duly executed on its behalf by its Chief Operating Officer this 12th day of April, 2006.

PACIFIC ETHANOL, INC.

By: /s/ Ryan W. Turner
Name: Ryan W. Turner
Title: Chief Operating Officer

Exhibit 3.3

**CERTIFICATE OF DESIGNATIONS,
POWERS, PREFERENCES AND RIGHTS OF THE SERIES B
CUMULATIVE CONVERTIBLE PREFERRED STOCK**

OF

PACIFIC ETHANOL, INC.

**Pursuant to Section 151 of the
Delaware General Corporation Law**

Pacific Ethanol, Inc. (the **"Corporation"**), organized and existing under the laws of the State of Delaware, does, by its Chief Financial Officer and under its corporate seal, hereby certify that pursuant to the authority contained in Article Fourth of its Certificate of Incorporation and in accordance with the provisions of Section 151 of the Delaware General Corporation Law, its Board of Directors has adopted the following resolution creating the following classes and series of the Corporation's Preferred Stock and determining the voting powers, designations, powers, preferences and relative, participating, optional or other special rights, and the qualifications, limitations and restrictions thereof, of such classes and series:

RESOLVED, that, pursuant to authority conferred upon the Board of Directors by the Certificate of Incorporation of the Corporation (the **"Certificate of Incorporation"**), there is hereby created the following series of Preferred Stock:

- 3,000,000 shares shall be designated Series B Cumulative Convertible Preferred Stock, par value $0.001 per share (the **"Series B Preferred Stock"**).

The designations, powers, preferences, and rights and the qualifications, limitations and restrictions of the Series B Preferred Stock in addition to those set forth in the Certificate of Incorporation shall be as follows:

Section 1. Designation and Amount. 3,000,000 shares of the unissued preferred stock of the Corporation shall be designated as Series B Cumulative Convertible Preferred Stock, par value $.001 per share. The Series B Preferred Stock shall be issued in accordance with the Purchase Agreement at a purchase price of $19.50 per share (the **"Series B Issue Price"**).

Section 2. Rank. The Series B Preferred Stock shall rank: (i) subject to the requirements of Section 7, junior to any other class or series of capital stock of the Corporation hereafter created specifically ranking as to dividend rights, redemption rights, liquidation preference and other rights senior to the Series B Preferred Stock (the **"Senior Securities"**); (ii) senior to all of the Corporation's common stock, par value $0.001 per share (the **"Common Stock"**); (iii) senior to any class or series of capital stock of the Corporation hereafter created not specifically ranking as to dividend rights, redemption rights, liquidation preference and other rights senior to or on parity with any Series B Preferred Stock of whatever subdivision (collectively, with the Common Stock, the **"Junior Securities"**); and (iv) *pari passu* with respect to dividend and liquidation rights with the Corporation's Series A Cumulative Redeemable Convertible Preferred Stock (the **"Series A Preferred Stock"**) and, subject to the requirements of Section 7, *pari passu* with respect to any class or series of capital stock of the Corporation hereafter created specifically ranking on a parity with the Series B Preferred Stock (collectively, the **"Parity Securities"**).

Section 3. Dividends.

(a) So long as shares of Series B Preferred Stock remain outstanding, the holders of each share of the Series B Preferred Stock shall be entitled, from and after the date of issuance of such share, to receive, and shall be paid quarterly in arrears (beginning on the last day of the calendar quarter following the date of the initial issuance of Series B Preferred Stock) in cash out of funds legally available therefor, on a *pari passu* basis with the Holders of Series A Preferred Stock, prior and in preference to any distribution of any of the assets of the Corporation to the holders of the Common Stock, cumulative dividends, of an amount equal to 7.00% of the Series B Issue Price per share (as adjusted for any stock dividends, stock splits, combinations, recapitalizations involving equity securities of the Corporation, reclassifications or other similar events involving a change with respect to the Series B Preferred Stock) per annum with respect to each share of the Series B Preferred Stock; provided, however, that such dividend may, at the option of the Corporation, be paid to the holders of Series B Preferred Stock in shares of the Series B Preferred Stock valued at the Series B Issue Price (as adjusted for any stock dividends, stock splits, combinations, recapitalizations involving equity securities of the Corporation, reclassifications or other similar events involving a change with respect to the Series B Preferred Stock). The holders of shares of Series B Preferred Stock shall be entitled to receive such dividends immediately after the payment of any dividends to Senior Securities required by the Corporation's Certificate of Incorporation, as amended or amended and restated and in effect, including for this purpose any certificate(s) of designation (the **"Charter"**), prior and in preference to any dividends paid to Junior Securities but in parity with any distribution to the holders of Series A Preferred Stock and all other Parity Securities.

(b) In case the Corporation shall at any time or from time to time declare, order, pay or make a dividend or other distribution (including, without limitation, any distribution of stock or other securities or property or rights or warrants to subscribe for securities of the Corporation or any of its subsidiaries by way of a dividend, distribution or spin-off) on its Common Stock, other than (i) a distribution made in compliance with the provisions of Section 4 or (ii) a dividend or distribution made in Common Stock, the holders of the Series B Preferred Stock shall be entitled to receive from the Corporation with respect to each share of Series B Preferred Stock held, any dividend or distribution that would be received by a holder of the number of shares (including fractional shares) of Common Stock into which such Series B Preferred Stock is convertible on the record date for such dividend or distribution, with fractional shares of Common Stock deemed to be entitled to the corresponding fraction of any dividend or distribution that would be received by a whole share. Any such dividend or distribution shall be declared, ordered, paid and made at the same time such dividend or distribution is declared, ordered, paid and made on the Common Stock. No dividend or distribution shall be declared, ordered, paid or made on the Common Stock unless the dividend or distribution on the Series B Preferred Stock provided for by this paragraph shall be declared, ordered, paid or made at the same time.

Section 4. Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding up of the Corporation, either voluntary or involuntary, the holders of Series B Preferred Stock shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders, whether from capital, surplus or earnings, immediately after any distributions to Senior Securities required by the Charter, and prior and in preference to any distribution to Junior Securities but *pari passu* with any distribution to the holders of Series A Preferred Stock or other Parity Securities, an amount per share equal to the sum of the Series B Issue Price (as adjusted for any stock splits, combinations, recapitalizations involving equity securities of the Corporation, reclassifications of other similar events involving a change with respect to the Series B Preferred Stock) and any accrued but unpaid dividends on the Series B Preferred Stock. If upon the occurrence of such event, and after the payment in full of the preferential amounts with respect to the Senior Securities, the assets and funds available to be distributed among the holders of the Series B Preferred Stock, the Series A Preferred Stock and any other Parity Securities shall be insufficient to permit the payment to such holders of the full preferential amounts due to such holders, respectively, then the entire assets and funds of the Corporation legally available for distribution shall be distributed among the holders of the Series B Preferred Stock, Series A Preferred Stock and any other Parity Securities, pro rata, based on the amount each such holder would receive if such full preferential amounts were paid unless otherwise provided in the Charter.

(b) Upon the completion of the distributions required by Section 4(a), if assets remain in the Corporation, they shall be distributed to the holders of Junior Securities other than Common Stock with respect to any liquidation preference payable to such holders.

(c) Upon the completion of the distributions required by Section 4(a) and Section 4(b), if assets remain in the Corporation, they shall be distributed pro rata, on an as-converted to Common Stock basis, to the holders of Common Stock, Series A Preferred Stock and Series B Preferred Stock.

(d) A sale, lease, conveyance or disposition of all or substantially all of the capital stock or assets of the Corporation or a merger, consolidation, share exchange, reorganization or other transaction or series of related transactions (whether involving the Corporation or a subsidiary thereof) in which the Corporation's stockholders immediately prior to such transaction do not retain a majority of the voting power in the surviving entity (a **"Transaction"**), shall be deemed to be a liquidation, dissolution or winding up within the meaning of this Section 4, unless (i) the holders of 66 2/3% of the then outstanding shares of the Series B Preferred Stock vote affirmatively or consent in writing that such transaction shall not be treated as a liquidation, dissolution or winding up within the meaning of this Section 4 or (ii) such Transaction shall have resulted in the conversion of the Series B Preferred Stock in accordance with Section 5(b); provided, however, that each holder of Series B Preferred Stock shall have the right to elect the conversion benefits of the provisions of Section 5(a) or other applicable conversion provisions in lieu of receiving payment in liquidation, dissolution or winding up of the Corporation pursuant to this Section; and provided, further, that shares of the surviving entity held by holders of the capital stock of the Corporation acquired by means of other than the Transaction shall not be used in determining if the shareholders of the Corporation own a majority of the voting power of the surviving entity, but shall be used for determining the total outstanding voting power of such entity.

(e) Prior to the closing of a Transaction described in Section 4(d) which would constitute a liquidation, dissolution or winding up within the meaning of this Section 4, the Corporation shall, at its sole option, either (i) make all distributions of cash or other property that it is required to make to the holders of Series B Preferred Stock pursuant to the first sentence of Section 4(a), (ii) set aside sufficient funds or other property from which the distributions required to be made to such holders can be made, or (iii) establish an escrow or other similar arrangement with a third party pursuant to which the proceeds payable to the Corporation from the Transaction will be used to make the liquidating payments to such holders immediately after the consummation of the Transaction. In the event that the Corporation is unable to fully comply with any of the foregoing alternatives, the Corporation shall either: (x) cause such closing to be postponed until the Corporation complies with one of the foregoing alternatives, or (y) cancel such Transaction, in which event the rights of the holders of Series B Preferred Stock shall be the same as existing immediately prior to such proposed Transaction.

Section 5. Conversion of Series B Preferred Stock. The Corporation and the record holders of the Series B Preferred Stock shall have conversion rights as follows:

(a) Right to Convert. Each record holder of Series B Preferred Stock shall be entitled to convert whole shares of Series B Preferred Stock for the Common Stock issuable upon conversion of the Series B Preferred Stock, at any time at the option of the holder thereof, subject to adjustment and limitations on conversion prior to obtaining stockholder approval as provided in Section 5(d) hereof, as follows: Each share of Series B Preferred Stock shall be convertible into such number of fully paid and nonassessable shares of Common Stock as is obtained by (I) multiplying the number of shares of Series B Preferred Stock so to be converted by the Series B Issue Price and (II) dividing the result thereof by the Conversion Price. The Conversion Price shall initially be $6.50 per share of Series B Preferred Stock, subject to adjustment as provided in Section 5(d). Accrued but unpaid dividends will be paid in cash upon any such conversion.

(b) Forced Conversion. (i) In the event of a Transaction which will result in an Internal Rate of Return to holders of Series B Preferred Stock of 25.00% or more, each share of outstanding Series B Preferred Stock shall, concurrently with the closing of such Transaction, be converted into fully-paid and non-assessable shares of Common Stock. Any such conversion shall be made into the number of shares of Common Stock determined pursuant to Section 5(a) using the Conversion Price, as last adjusted. Accrued but unpaid dividends will be paid in cash on any such conversion.

(ii) Notwithstanding anything to the contrary herein, no shares of outstanding Series B Preferred Stock shall be converted into Common Stock pursuant to this Section 5(b) unless at the time of such proposed conversion the Corporation shall have on file with the Securities and Exchange Commission an effective registration statement with respect to the shares of Common Stock issued or issuable to the holders on conversion of the Series B Preferred Stock then issued or issuable to such holders and such shares of Common Stock are eligible for trading on NASDAQ (or approved by and listed on a stock exchange approved by the holders of 66 2/3% of the then outstanding shares of Series B Preferred Stock).

(c) Mechanics of Conversion. In order to convert Series B Preferred Stock into full shares of Common Stock if (i) such conversion is pursuant to Section 5(a), the holder shall (A) fax a copy of a fully executed notice of conversion (**"Notice of Conversion"**) to the Corporation at the office of the Corporation or to the Corporation's designated transfer agent (the **"Transfer Agent"**) for the Series B Preferred Stock stating that the holder elects to convert, which notice shall specify the date of conversion, the number of shares of Series B Preferred Stock to be converted, the Conversion Price (together with a copy of the front page of each certificate to be converted) and (B) surrender to a common courier for either overnight or two (2) day delivery to the office of the Corporation or its transfer agent, the original certificates representing the Series B Preferred Stock (the **"Preferred Stock Certificates"**) being converted, duly endorsed for transfer, and (ii) such conversion is pursuant to Section 5(b), the Corporation shall fax a copy of a Notice of Conversion to the holders of Series B Preferred Stock stating that the shares of Series B Preferred Stock shall be converted into Common Stock, which notice shall describe the Transaction and the calculation of the Internal Rate of Return and specify the date of such conversion, the number of shares of Series B Preferred Stock that are being converted, the Conversion Price and a calculation of the number of shares of Common Stock issuable upon such conversion (together with a copy of the front page of each certificate to be converted); provided, however, that the Corporation's failure to deliver a Notice of Conversion to each holder shall not affect the conversion of such shares of Series B Preferred Stock on the date of the closing of the Transaction and the cancellation of the certificates representing such shares of Series B Preferred Stock. In the event of a conversion pursuant to Section 5(b), the outstanding shares of Series B Preferred Stock shall be converted automatically without any further action by the holders of such shares and whether or not the certificates representing such shares are surrendered to the Corporation or its transfer agent and the Corporation shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon such conversion unless either the Preferred Stock Certificates are delivered to the Corporation or the Transfer Agent as provided above, or the holder notifies the Corporation or its Transfer Agent that such certificates have been lost, stolen or destroyed (subject to the requirements of Section 5(c)(i) below).

(i) Lost or Stolen Certificates. Upon receipt by the Corporation of evidence of the loss, theft, destruction or mutilation of any Preferred Stock Certificates representing shares of Series B Preferred Stock, and (in the case of loss, theft or destruction) of indemnity or security reasonably satisfactory to the Corporation, and upon surrender and cancellation of the Preferred Stock Certificates, if mutilated, the Corporation shall execute and deliver new Preferred Stock Certificates of like tenor and date; provided that the Corporation shall pay all costs of delivery (including insurance against loss and theft until delivered in an amount satisfactory to the holders of Series B Preferred Stock). However, the Corporation shall not be obligated to reissue such lost or stolen Preferred Stock Certificates if the holder contemporaneously requests the Corporation to convert such Series B Preferred Stock into Common Stock or if such shares of Series B Preferred Stock have been otherwise converted into Common Stock.

(ii) Delivery of Common Stock Upon Conversion. The Corporation no later than 6:00 p.m. (Pacific time) on the third (3rd) business day after receipt by the Corporation or its transfer agent of all necessary documentation duly executed and in proper form required for conversion, including the original Preferred Stock Certificates to be converted (or after provision for security or indemnification in the case of lost, stolen or destroyed certificates, if required), shall issue and surrender to a common courier for either overnight or (if delivery is outside the United States) two (2) day delivery to the holder as shown on the stock records of the Corporation a certificate for the number of shares of Common Stock to which the holder shall be entitled as aforesaid.

(iii) Date of Conversion. The date on which a voluntary conversion pursuant to Section 5(a) occurs (the **"Date of Voluntary Conversion"**) shall be deemed to be the date the applicable Notice of Conversion is faxed to the Corporation or the Transfer Agent, as the case may be, provided that the copy of the Notice of Conversion is faxed to the Corporation on or prior to 6:00 p.m. (Pacific time) on the Date of Conversion. A forced conversion pursuant to Section 5(b) shall occur on the date on which such forced conversion is deemed to occur pursuant to Section 5(b) (the **"Date of Forced Conversion"**, and together with the Date of Voluntary Conversion, the **"Date of Conversion"**). The original Preferred Stock Certificates representing the shares of Series B Preferred Stock to be converted shall be surrendered by depositing such certificates with a common courier for either overnight or two (2) day delivery, as soon as practicable following the Date of Voluntary Conversion or as soon as practicable following the date such holder receives notice of the Date of Forced Conversion. The person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on the Date of Conversion.

(iv) No Fractional Shares on Conversion. No fractional shares of Common Stock shall be issued upon conversion of the Series B Preferred Stock. In lieu of any fractional share to which the holder would otherwise be entitled, the Corporation shall (after aggregating all shares into which shares of Series B Preferred held by each holder could be converted) pay cash equal to such fraction multiplied by the Market Price per share of Common Stock on the Date of Conversion.

(d) Adjustment of Conversion Price.

(i) Adjustments of Conversion Price Upon Issuance of Common Stock. If at any time after the first filing of this Certificate of Designations, the Corporation shall issue or sell, or is, in accordance with Section 5(d)(i)(A) through (G) below, deemed to have issued or sold, any shares of Common Stock for a consideration per share less than the Conversion Price in effect immediately prior to the time of such issue or sale or deemed issue or sale, then, forthwith upon such issue or sale or deemed issue or sale, the Conversion Price shall be reduced to the price determined by dividing (x) an amount equal to the sum of (a) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the then existing Conversion Price and (b) the consideration, if any, received by the Corporation upon such issue or sale, by (y) the total number of shares of Common Stock outstanding immediately after such issue or sale. For purposes of determining the number of shares of Common Stock outstanding as provided in clauses (x) and (y) above, the number of shares of Common Stock issuable upon conversion of all outstanding shares of Series A Preferred Stock and Series B Preferred Stock, exercise of all outstanding Options (as defined below) and conversion of all outstanding Convertible Securities (as defined below) shall be deemed to be outstanding. Notwithstanding any other provision in this subsection to the contrary, if an adjustment to the Conversion Price pursuant to this Section 5(d) would require the Corporation, (I) to issue any shares of Common Stock upon conversion of the Series B Preferred Stock in excess of 19.99% of the total number of shares of Common Stock outstanding immediately prior to the closing (the **"Closing"**) of the transactions contemplated by the Purchase Agreement (when aggregated with all shares of Common Stock issued or issuable to such holders upon conversion of the Series B Preferred Stock or upon the payment of a dividend on the Series B Preferred Stock) at a price less than the greater of the Market Price per share immediately prior to the Closing or the Corporation's book value per share at December 31, 2007 as reflected in the Corporation's Form 8-K filed with the Securities and Exchange Commission immediately after the Closing (the **"Conversion Limitation"**), or (II) to otherwise obtain stockholder approval of the transactions contemplated by the Purchase Agreement pursuant to NASDAQ Marketplace Rule 4350(i), and such stockholder approval has not been obtained, (1) the Conversion Price shall not be reduced below the maximum extent that would not require shareholder approval under NASDAQ Marketplace Rule 4350(i), and (2) the Corporation shall use its commercially best efforts to obtain such stockholder approval as soon as reasonably practicable, including by calling a special meeting of the stockholders to vote on such Conversion Price adjustment. In no event shall the Corporation be obligated to issue any shares of Common Stock upon conversion of the Series B Preferred Stock in excess of the Conversion Limitation until stockholder approval has been obtained. Once stockholder approval of the transactions contemplated by the Purchase Agreement has been obtained, the Conversion Limitation shall be of no further force or effect.

For purposes of this Section 5(d)(i), the following subparagraphs (A) to (G) of this Section 5(d)(i) shall also be applicable:

(A) Issuance of Rights or Options. In case at any time the Corporation shall in any manner grant (whether directly or by assumption in a merger or otherwise) any warrants or other rights to subscribe for or to purchase, or any options for the purchase of, Common Stock or any stock or security convertible into or exchangeable for Common Stock (such warrants, rights or options being called **"Options"** and such convertible or exchangeable stock or securities being called **"Convertible Securities"**) whether or not such Options or the right to convert or exchange any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon the exercise of such Options or upon the conversion or exchange of such Convertible Securities (determined by dividing (i) the total amount, if any, received or receivable by the Corporation as consideration for the granting of such Options, plus the minimum aggregate amount of additional consideration payable to the Corporation upon the exercise of all such Options, plus, in the case of such Options which relate to Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable upon the issue or sale of such Convertible Securities and upon the conversion or exchange thereof (in all cases excluding the effect of a net issue election), by (ii) the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such Options) shall be less than the Conversion Price in effect immediately prior to the time of the granting of such Options, then the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities issuable upon the exercise of such Options shall be deemed to have been issued for such price per share as of the date of granting of such Options and thereafter shall be deemed to be outstanding. Except as otherwise provided in Section 5(d)(i)(C), no adjustment of the Conversion Price shall be made upon the actual issue of such Common Stock or of such Convertible Securities upon exercise of such Options or upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities.

(B) Issuance of Convertible Securities. In case the Corporation shall in any manner issue (whether directly or by assumption in a merger or otherwise) or sell any Convertible Securities, whether or not the rights to exchange or convert any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon such conversion or exchange (determined by dividing (i) the total amount received or receivable by the Corporation as consideration for the issue or sale of such Convertible Securities, plus the aggregate amount of additional consideration, if any, payable to the Corporation upon the conversion or exchange thereof, by (ii) the total maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities) shall be less than the Conversion Price in effect immediately prior to the time of such issue or sale, then the total maximum number of shares of Common Stock issuable upon conversion or exchange of all such Convertible Securities shall be deemed to have been issued for such price per share as of the date of the issue or sale of such Convertible Securities and thereafter shall be deemed to be outstanding; provided that (a) except as otherwise provided in Section 5(d)(i)(C), no adjustment of the Conversion Price shall be made upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities and (b) if any such issue or sale of such Convertible Securities is made upon exercise of any Options to purchase any such Convertible Securities for which adjustments of the Conversion Price have been or are to be made pursuant to other provisions of this Section 5(d)(i), no further adjustment of the Conversion Price shall be made by reason of such issue or sale.

(C) Change in Option Price or Conversion Rate. Upon the happening of any of the following events, namely, if (1) the purchase price or exercise price provided for in any Option referred to in Section 5(d)(i)(A), (2) the number of shares into which the Option is exercisable, (3) the additional consideration, if any, payable upon the conversion or exchange of any Convertible Securities referred to in Section 5(d)(i)(A) or (B), or (4) the rate at which Convertible Securities referred to in Section 5(d)(i)(A) or (B) are convertible into or exchangeable for Common Stock shall change at any time (including, but not limited to, changes under or by reason of provisions designed to protect against dilution), the Conversion Price in effect at the time of such event shall forthwith be readjusted to the Conversion Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold.

(D) Stock Dividends. In case the Corporation shall declare a dividend or make any other distribution upon any stock of the Corporation (other than Common Stock, Series A Preferred Stock or Series B Preferred Stock) payable in Common Stock, then any Common Stock issuable in payment of such dividend or distribution shall be deemed to have been issued or sold for $.001 per share, unless the holders of at least 66 2/3% of the then outstanding Series B Preferred Stock shall have consented to such dividend or distribution.

(E) Consideration for Stock. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Corporation therefor, without deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Corporation in connection therewith. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Corporation shall be deemed to be the fair value of such consideration as determined in good faith by the Board, without deduction of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Corporation in connection therewith. In case any Options shall be issued in connection with the issue and sale of other securities of the Corporation, together comprising one integral transaction in which no specific consideration is allocated to such Options by the parties thereto, such Options shall be deemed to have been issued for such consideration as determined in good faith by the Board.

(F) Record Date. In case the Corporation shall take a record of the holders of its Common Stock for the purpose of entitling them (i) to receive a dividend or other distribution payable in Common Stock, Options or Convertible Securities or (ii) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(G) Treasury Shares. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Corporation, and the disposition of any such shares shall be considered an issue or sale of Common Stock for the purpose of this Section 5(d)(i).

(ii) Certain Issues Excepted. Anything herein to the contrary notwithstanding, the Corporation shall not be required to make any adjustment of the Conversion Price in the case of the issuance or sale from and after the date of filing of this Certificate of Designations of Anti-Dilution Excluded Securities (as defined below).

(iii) Adjustments for Subdivisions, Common Stock Dividends, Combinations or Consolidations of Common Stock. If the outstanding shares of Common Stock shall be subdivided or increased, by stock split, stock dividend or otherwise, into a greater number of shares of Common Stock, the Conversion Price shall concurrently with the effectiveness of such subdivision or payment of such stock dividend, be proportionately decreased. If the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, the Conversion Price shall, concurrently with the effectiveness of such combination or consolidation, be proportionately increased.

(iv) Adjustments for Reclassification, Exchange and Substitution. If the Common Stock issuable upon conversion of the Series B Preferred Stock shall be changed into the same or a different number of shares of any other class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for above), the Conversion Price shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted such that the Series B Preferred Stock shall be convertible into, in lieu of the number of shares of Common Stock which the holders would otherwise have been entitled to receive, a number of shares of such other class or classes of stock equivalent to the number of shares of Common Stock that would have been subject to receipt by the holders upon conversion of the Series B Preferred Stock immediately before that change.

(v) Adjustments for Merger, Sale, Lease or Conveyance. In case of any share exchange, reorganization, consolidation with or merger of the Corporation with or into another corporation, or in case of any sale, lease, conveyance or disposition to another Corporation of the assets of the Corporation as an entirety or substantially as an entirety, which is not treated as a liquidation, dissolution or winding up pursuant to Section 4(d) above, the Series B Preferred Stock shall after the date of such share exchange, reorganization, consolidation, merger, sale, lease, conveyance or disposition be convertible into the number of shares of stock or other securities or property (including cash) to which the Common Stock issuable (at the time of such consolidation, merger, sale, lease, conveyance or disposition) upon conversion of the Series B Preferred Stock would have been entitled upon such share exchange, reorganization, consolidation, merger, sale, lease, conveyance or disposition; and in any such case, if necessary, the provisions set forth herein with respect to the rights and interests thereafter of the holders of the Series B Preferred Stock shall be appropriately adjusted so as to be applicable, as nearly as may reasonably be, to any shares of stock or other securities or property thereafter deliverable on the conversion of the shares of Series B Preferred Stock.

(vi) Fractional Shares. If any adjustment under this Section 5(d) would create a fractional share of Common Stock or a right to acquire a fractional share of Common Stock, such fractional share shall be rounded to the nearest whole number of shares with one-half share being rounded up.

(vii) Notice of Adjustment. Concurrent with any adjustment pursuant to this Section 5(d), the Corporation shall provide prompt notice to the holders of Series B Preferred Stock notifying such holders of any such adjustment.

Section 6. Voting Rights. Except to the extent otherwise expressly provided by law and in Section 7, the Series B Preferred Stock shall vote together with all other classes and series of voting stock of the Corporation as a single class on all actions to be taken by the stockholders of the Corporation. Each share of Series B Preferred Stock shall entitle the holder thereof to the number of votes equal to the number of shares of Common Stock into which each share of Series B Preferred Stock is convertible (determined without regard to Section 5(c)(iv)) on all matters to be voted on by the stockholders of the Corporation; provided, however, that solely for purposes of this Section 6, the number of votes for each share of Series B Preferred Stock shall not exceed the number of shares of Common Stock into which each share of Series B Preferred Stock would be convertible if the applicable Conversion Price were $6.50 (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares).

Section 7. Protective Provisions. The Corporation shall not, without first obtaining the written consent of the holders of at least a majority of the then outstanding shares of Series B Preferred Stock voting as a separate class:

(i) increase or decrease the total number of authorized shares of Series B Preferred Stock or the authorized shares of Common Stock reserved for issuance upon conversion of the Series B Preferred Stock (except as otherwise required by the Charter or this Certificate of Designations);

(ii) increase or decrease the number of authorized shares of Preferred Stock or Common Stock (except any increase or decrease in the number of authorized shares of Series A Preferred Stock and the shares of Common Stock into which they are convertible, and as otherwise required by the Charter and this Certificate of Designations);

(iii) alter, amend, repeal, substitute or waive any provision of the Charter or the Corporation's bylaws, so as to affect adversely the voting powers, preferences or other rights, including, without limitation, the liquidation preferences, dividend rights, conversion rights, redemption rights or any reduction in the stated value of the Series B Preferred Stock, whether by merger, consolidation or otherwise;

(iv) authorize, create, issue or sell any Senior Securities or any Parity Securities (other than additional shares of Series A Preferred Stock that may be issued as a dividend on the Series A Preferred Stock pursuant to Section 3(a) of the Certificate of Designations, Powers, Preferences and Rights of the Series A Preferred Stock (the **"Series A Preferred Certificate of Designations"**)) or securities that are convertible into Senior Securities or Parity Securities with respect to voting, dividend, liquidation or redemption rights, including subordinated debt;

(v) authorize, create, issue or sell any Junior Securities other than Common Stock or securities that are convertible into Junior Securities other than Common Stock with respect to voting, dividend, liquidation or redemption rights, including subordinated debt;

(vi) authorize, create, issue or sell any Series B Preferred Stock other than the Series B Preferred Stock authorized, created, issued and sold pursuant to the Purchase Agreement and Series B Preferred Stock issued in replacement or exchange therefore;

(vii) engage in a Transaction which would result in an Internal Rate of Return to holders of Series B Preferred Stock of less than 25.00%;

(viii) declare or pay any dividends or distributions on the capital stock of the Corporation in a cumulative amount in excess of the dividends and distributions paid on the Series A Preferred Stock and the Series B Preferred Stock in accordance with their respective Certificates of Designations;

(ix) authorize or effect the voluntary liquidation, dissolution, recapitalization, reorganization or winding up of the business of the Corporation;

(x) purchase, redeem or otherwise acquire any capital stock of the Corporation other than Series A Preferred Stock or Series B Preferred Stock, or any warrants or other rights to subscribe for or to purchase, or any options for the purchase of, capital stock of the Corporation or securities convertible into or exchangeable for capital stock of the Corporation; or

(xi) unless the Corporation has obtained stockholder approval of the transactions contemplated by the Purchase Agreement pursuant to NASDAQ Marketplace Rule 4350(i), issue or sell, or engage in any transaction wherein the Corporation shall have been deemed to have issued or sold, any shares of Common Stock or securities convertible into Common Stock for a consideration per share that, as a result of the provisions of Section 5(d)(i), would result in the issuance of Common Stock upon conversion of the Series B Preferred Stock in excess of the Conversion Limitation.

Section 8. Status of Converted Stock. In the event any shares of Series B Preferred Stock shall be converted pursuant to Section 5 hereof, the shares so converted shall be canceled, shall return to the status of authorized but unissued Preferred Stock of no designated series, and shall not be issuable by the Corporation as Series B Preferred Stock.

Section 9. Preemptive Rights.

(a) So long as at least 50% of the shares of Series B Preferred Stock remain outstanding, the Corporation shall not issue, sell or exchange, agree to issue, sell or exchange, or reserve or set aside for issuance, sale or exchange, (i) any shares of the capital stock of the Corporation (excluding any shares of Series A Preferred Stock and any shares of Common Stock issuable upon conversion of Series A Preferred Stock), (ii) any option, warrant or other right to subscribe for, purchase or otherwise acquire any capital stock of the Corporation, or (iii) any securities convertible into capital stock of the Corporation (collectively, but not including any Series A Preemptive Rights Securities (as defined below), the **"Offered Securities"**), unless in each such case the Corporation shall have first complied with this Section 9; provided, however, that (x) the preemptive rights of any holder of Series B Preferred Stock shall not include rights with respect to any securities of the Corporation as to which any holder of Series A Preferred Stock has exercised its rights (the **"Series A Preemptive Rights Securities"**) and (y) the preemptive rights of the holder of Series B Preferred Stock shall not arise or be exercisable until after all holders of Series A Preferred Stock have exercised their preemptive rights, in whole or in part, or declined to exercise such rights. The Corporation shall deliver to each holder of the Series B Preferred Stock a written notice of any proposed, intended or potential (i.e., in the event the holders of the Series A Preemptive Rights Securities elect not to exercise any or all of their preemptive rights with respect to the Series A Preemptive Rights Securities) issuance, sale or exchange of Offered Securities (the **"Offer"**), which Offer shall (i) identify and describe the Offered Securities, (ii) describe the price and other terms upon which they are to be issued, sold or exchanged, and the number or amount of the Offered Securities to be issued, sold or exchanged, (iii) identify the persons or entities (if known) to which or with which the Offered Securities are to be offered, issued, sold or exchanged, and (iv) offer to issue and sell to or exchange with such holder of the Series B Preferred Stock (A) a pro rata portion of the Offered Securities determined by dividing (x) the aggregate number of shares of Common Stock then held by such holder of the Series B Preferred Stock (giving effect to the conversion of all shares of convertible preferred stock then held by such holder) by (y) the total number of shares of Common Stock then held by all holders of the Series B Preferred Stock (giving effect to the conversion of all outstanding shares of convertible preferred stock then held by such holders) (such pro rata portion of the Offered Securities, the **"Basic Amount"**), and (B) any additional portion of the Offered Securities attributable to the Basic Amounts of other holders of the Series B Preferred Stock as such holder shall indicate it will purchase or acquire should the other holders subscribe for less than their Basic Amounts (the **"Undersubscription Amount"**).

(b) To accept an Offer, in whole or in part, a holder of the Series B Preferred Stock must deliver a written notice to the Corporation prior to the end of the 30-day period of the Offer, setting forth the portion of the holder's Basic Amount that such holder elects to purchase and, if such holder shall elect to purchase all of its Basic Amount, the Undersubscription Amount (if any) that such holder elects to purchase (the **"Notice of Acceptance"**). If the Basic Amounts subscribed for by all holders of the Series B Preferred Stock are less than the total of all of the Basic Amounts available for purchase, then each holder who has set forth an Undersubscription Amount in its Notice of Acceptance shall be entitled to purchase, in addition to the Basic Amounts subscribed for, the Undersubscription Amount it has subscribed for; provided, however, that if the Undersubscription Amounts subscribed for exceeds the difference between the total of all of the Basic Amounts available for purchase and the Basic Amounts subscribed for (the **"Available Undersubscription Amount"**) each holder of Series B Preferred Stock who has subscribed for any Undersubscription Amount shall be entitled to purchase only that portion of the Available Undersubscription Amount as the Undersubscription Amounts subscribed for by such holder bears to the total Undersubscription Amounts subscribed for by all holders of the Series B Preferred Stock, subject to rounding by the Board to the extent it deems reasonably necessary.

(c) The Corporation shall have 90 days from the expiration of the period set forth in Section 9(b) to issue, sell or exchange all or any part of such Offered Securities as to which a Notice of Acceptance has not been given by the holders of the Series B Preferred Stock (the **"Refused Securities"**), but only to the offerees or purchasers described in the Offer (if so described therein) and only upon terms and conditions (including, without limitation, unit prices and interest rates) which are not more favorable, in the aggregate, to the acquiring person or persons or less favorable to the Corporation than those set forth in the Offer.

(d) In the event the Corporation shall propose to sell less than all the Refused Securities (any such sale to be in the manner and on the terms specified in Section 9(c)), then each holder of the Series B Preferred Stock may, at its sole option and in its sole discretion, reduce the number or amount of the Offered Securities specified in its Notice of Acceptance to an amount that shall be not less than the number or amount of the Offered Securities that the holder of the Series B Preferred Stock elected to purchase pursuant to Section 9(b) multiplied by a fraction, (i) the numerator of which shall be the number or amount of Offered Securities the Corporation actually proposes to issue, sell or exchange (including Offered Securities to be issued or sold to Purchasers pursuant to Section 9(b) prior to such reduction), plus the number or amount of the Series A Preemptive Rights Securities, if any, and (ii) the denominator of which shall be the original amount of the Offered Securities plus the number or amount of the Series A Preemptive Rights Securities, if any. In the event that any holder of the Series B Preferred Stock so elects to reduce the number or amount of Offered Securities specified in its Notice of Acceptance, the Corporation may not issue, sell or exchange more than the reduced number or amount of the Offered Securities unless and until such securities have again been offered to the Purchasers in accordance with Section 9(a).

(e) Upon the closing of the issuance, sale or exchange of all or less than all of the Refused Securities, the holders of the Series B Preferred Stock shall acquire from the Corporation, and the Corporation shall issue to the holders of the Series B Preferred Stock, the number or amount of Offered Securities specified in the Notices of Acceptance, as reduced pursuant to Section 9(d) if the holders have so elected, upon the terms and conditions specified in the Offer. The purchase by the holders of the Series B Preferred Stock of any Offered Securities is subject in all cases to the preparation, execution and delivery by the Corporation and the holders of a purchase agreement relating to such Offered Securities satisfactory in form and substance to the holders of the Series B Preferred Stock and their respective counsel.

(f) Any Offered Securities not acquired by the holders of the Series B Preferred Stock or other persons in accordance with Section 9(c) may not be issued, sold or exchanged until they are again offered to the holders of the Series B Preferred Stock under the procedures specified in this Section 9.

(g) The rights of the holders of the Series B Preferred Stock under this Section 9 shall not apply to Preemptive Rights Excluded Securities.

(h) The failure of any holder of Series B Preferred Stock to exercise its rights under this Section 9 shall not be deemed to be a waiver of its rights hereunder in connection with any subsequent issuance, sale or exchange, agreement to issue, sell or exchange, or reservation or setting aside for issuance, sale or exchange of Offered Securities.

Section 10. Reservation of Stock. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, for the purpose of effecting the conversion of shares of Series B Preferred Stock issued or issuable to the holders, such number of shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series B Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of Series B Preferred Stock, in addition to such other remedies as shall be available to the holder of Series B Preferred Stock, the Corporation shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number as shall be sufficient for such purposes, including, without limitation, using best efforts to obtain stockholder approval of any necessary amendment to the Charter.

Section 11. Definitions. As used in this Certificate, the following capitalized terms have the following meanings.

"Anti-Dilution Excluded Securities" mean any of the following securities: (1) securities issued to employees, officers or directors of the Corporation or options to purchase Common Stock granted by the Corporation to employees, officers or directors of the Corporation pursuant to any option plan, agreement or other arrangement duly adopted by the Corporation and the grant of which is approved by the compensation committee of the Board; (2) any Series A Preferred Stock issued as a dividend on shares of Series A Preferred Stock, (3) any Common Stock issued upon conversion of the Series A Preferred Stock; (4) the Series B Preferred Stock and any Common Stock issued upon conversion of the Series B Preferred Stock; (5) for the avoidance of doubt, securities issued on the conversion of any Convertible Securities or the exercise of any Options, in each case, outstanding on the date of the first filing of this Certificate of Designations; and (6) for the avoidance of doubt, securities issued in connection with a stock split, stock dividend, combination, reorganization, recapitalization or other similar event for which adjustment is made in accordance with Section 5(d)(iii) or (iv).

"Internal Rate of Return" means the discount rate that makes the net present value of all cash payments equal zero. In determining the Internal Rate of Return, the initial investment of the holders of the Series B Preferred Stock shall include all transaction costs and expenses incurred by the initial holder of the Series B Preferred Stock in connection with the transactions contemplated by the Purchase Agreement and all additional costs and expenses of the holders of Series B Preferred Stock in respect of the investment incurred through the date of the determination shall be treated as cash expenditures when made. For purposes of determining the Internal Rate of Return, any dividends, distributions or payments other than in cash shall be deemed to have no value. In determining the Internal Rate of Return in respect of a Transaction, the final payment for purposes of such determination shall be the cash, if any, distributable or payable to holders of the Series B Preferred Stock upon the closing of the Transaction assuming that the holders had converted all of the outstanding Series B Preferred Stock to Common Stock immediately prior to the closing of the Transaction.

"Market Price" shall be the closing sale price (on the applicable Trading Market) per share of Common Stock on any specified date, or, if such date does not fall on a Trading Day, then the closing sale price per share of Common Stock on the first Trading Day preceding such date which shall also constitute the "market price" for purposes of the Series A Preferred Certificate of Designations.

"Purchase Agreement" means that certain Securities Purchase Agreement, dated March 18, 2008, between the Corporation and Lyles United, LLC.

"Preemptive Rights Excluded Securities" mean any of the following securities: (1) securities issued to employees, officers or directors of the Corporation or options to purchase Common Stock granted by the Corporation to employees, officers or directors of the Corporation pursuant to any option plan, agreement or other arrangement duly adopted by the Corporation and the grant of which is approved by the compensation committee of the Board; (2) any Series A Preferred Stock issued as a dividend on shares of Series A Preferred Stock and any Common Stock issued on conversion of any shares of Series A Preferred Stock or as a dividend to any holder of Series A Preferred Stock; (3) the Series B Preferred Stock and any Common Stock issued on conversion of the Series B Preferred Stock or issued as a dividend on the Series B Preferred Stock; (4) for the avoidance of doubt, securities issued on the conversion of any Convertible Securities or the exercise of any Options, in each case, outstanding on the date of the first filing of this Certificate of Designations; (5) for the avoidance of doubt, securities issued in connection with a stock split, stock dividend, combination, reorganization, recapitalization or other similar event for which adjustment is made in accordance with Section 5(d)(iii), (iv) or (v); and (6) the issuance of securities of the Corporation issued for consideration other than cash pursuant to a merger, consolidation, acquisition or similar business combination by the Corporation approved by the Board.

“Trading Day” means any day on which the Common Stock is listed or quoted and traded on the applicable Trading Market.

“Trading Market” means the NASDAQ Global Market or, if the Common Stock is not then traded on the NASDAQ Global Market, any national securities exchange, market or trading or quotation facility on which the Common Stock is then listed or quoted.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be duly executed on its behalf by its Chief Financial Officer this 26th day of March, 2008.

PACIFIC ETHANOL, INC.

By: /s/ JOSEPH W. HANSEN
Name: Joseph W. Hansen
Title: Chief Financial Officer

Exhibit 3.4

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
PACIFIC ETHANOL, INC.
a Delaware corporation

PACIFIC ETHANOL, INC. a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

1. The name of the Corporation is PACIFIC ETHANOL, INC.

2. That the Corporation's Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on February 28, 2005 (the "Original Certificate"). The following were subsequently filed: (i) Certificate of Designations, Powers, Preferences, Rights of the Series A Cumulative Redeemable Convertible Preferred Stock filed with the Secretary of State of Delaware on April 12, 2006, and (ii) Certificate of Designations, Powers, Preferences, Rights of the Series B Cumulative Convertible Preferred Stock filed with the Secretary of State of Delaware on April 2, 2008 (collectively, the Original Certificate with the subsequently filed certificates shall be referred to as the "Certificate of Incorporation").

3. The Certificate of Incorporation of the Corporation is hereby amended by striking out the first paragraph of the FOURTH Article thereof and by substituting in lieu of said paragraph the following new paragraph:

The corporation is authorized to issue one class of capital stock to be designated "common stock" and another class of capital stock to be designated "Preferred Stock." The total number of shares of common stock that the corporation is authorized to issue is three hundred million (300,000,000), with a par value of $.001 per share. The total number of shares of Preferred Stock that the corporation is authorized to issue is ten million (10,000,000), with a par value of $.001 per share.

4. The amendment of the Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said Corporation has caused this Certificate to be signed this 3rd day of June, 2010.

/s/ NEIL M. KOEHLER
Neil M. Koehler, President

Exhibit 3.5

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
PACIFIC ETHANOL, INC.
a Delaware corporation

PACIFIC ETHANOL, INC. a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

1. The name of the Corporation is PACIFIC ETHANOL, INC.

2. That the Corporation's Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on February 25, 2005 (the "Original Certificate"). The following were subsequently filed: (i) Certificate of Designations, Powers, Preferences and Rights of the Series A Cumulative Redeemable Convertible Preferred Stock filed with the Secretary of State of Delaware on April 12, 2006; (ii) Certificate of Designations, Powers, Preferences and Rights of the Series B Cumulative Convertible Preferred Stock filed with the Secretary of State of Delaware on April 2, 2008; and (iii) Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on June 3, 2010 (collectively, the Original Certificate together with the subsequently filed certificates shall be referred to as the "Certificate of Incorporation").

3. The Certificate of Incorporation of the Corporation is hereby amended by adding the following at the end of Article FOURTH:

"Reverse Stock Split. On the effective date of the amendment adding this paragraph to Article FOURTH pursuant to the General Corporation Law of the State of Delaware (the "Effective Date"), each share of common stock, par value $0.001 per share (the "Old Common Stock"), issued and outstanding immediately before the Effective Date, shall be and hereby is, reclassified as and changed into one-seventh (1/7) of a share of common stock, par value $0.001 per share (the "New Common Stock"). The Corporation shall, through its transfer agent, provide certificates representing New Common Stock to holders of Old Common Stock in exchange for certificates representing Old Common Stock. From and after the Effective Date, certificates representing shares of Old Common Stock are hereby canceled and shall represent only the right of holders thereof to receive New Common Stock. The Corporation shall not issue fractional shares of New Common Stock. The reverse stock split shall not increase or decrease the amount of stated capital or paid-in surplus of the Corporation, provided that any fractional share that would otherwise be issuable as a result of the reverse stock split shall be rounded up to the nearest whole share of New Common Stock. From and after the Effective Date, the term "New Common Stock" as used in this Article FOURTH shall mean common stock as provided in the Certificate of Incorporation."

4. The amendment of the Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

5. The Effective Date of this Amendment will be Wednesday, June 8, 2011 at 12:01 a.m. Eastern Time.

IN WITNESS WHEREOF, said Corporation has caused this Certificate to be signed this 6th day of June, 2011.

/s/ Christopher W. Wright
Christopher W. Wright,
Vice President, General Counsel & Secretary

Exhibit 3.6

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
PACIFIC ETHANOL, INC.
a Delaware corporation

PACIFIC ETHANOL, INC. a corporation organized and existing under the laws of the State of Delaware (the “Corporation”), hereby certifies as follows:

1. The name of the Corporation is PACIFIC ETHANOL, INC.

2. That the Corporation’s Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on February 28, 2005 (the “Original Certificate”). The following were subsequently filed: (i) Certificate of Designations, Powers, Preferences and Rights of the Series A Cumulative Redeemable Convertible Preferred Stock filed with the Secretary of State of Delaware on April 12, 2006; (ii) Certificate of Designations, Powers, Preferences and Rights of the Series B Cumulative Convertible Preferred Stock filed with the Secretary of State of Delaware on March 26, 2008; (iii) Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on June 3, 2010; and (iv) Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on June 6, 2011 (collectively, the Original Certificate together with the subsequently filed certificates shall be referred to as the “Certificate of Incorporation”).

3. The Certificate of Incorporation of the Corporation is hereby amended by adding the following at the end of Article FOURTH:

> “Reverse Stock Split. On the effective date of the amendment adding this paragraph to Article FOURTH pursuant to the General Corporation Law of the State of Delaware (the “Effective Date”), each share of common stock, par value $0.001 per share (the “Old Common Stock”), issued and outstanding immediately before the Effective Date, shall be and hereby is, reclassified as and changed into one-fifteenth (1/15) of a share of common stock, par value $0.001 per share (the “New Common Stock”). The Corporation shall, through its transfer agent, provide certificates representing New Common Stock to holders of Old Common Stock in exchange for certificates representing Old Common Stock. From and after the Effective Date, certificates representing shares of Old Common Stock are hereby canceled and shall represent only the right of holders thereof to receive New Common Stock. The Corporation shall not issue fractional shares of New Common Stock. The reverse stock split shall not increase or decrease the amount of stated capital or paid-in surplus of the Corporation, provided that any fractional share that would otherwise be issuable as a result of the reverse stock split shall be rounded up to the nearest whole share of New Common Stock. From and after the Effective Date, the term “New Common Stock” as used in this Article FOURTH shall mean common stock as provided in the Certificate of Incorporation.”

4. The amendment of the Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

5. The Effective Date of this Amendment will be May 14, 2013 at 12:01 a.m. Eastern Time.

IN WITNESS WHEREOF, said Corporation has caused this Certificate to be signed this 10th day of May, 2013.

/s/ CHRISTOPHER W. WRIGHT
Christopher W. Wright
Vice President, General Counsel & Secretary

Exhibit 3.7

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
PACIFIC ETHANOL, INC.
a Delaware corporation

PACIFIC ETHANOL, INC. a corporation organized and existing under the laws of the State of Delaware (the "**Corporation**"), hereby certifies as follows:

1. The name of the Corporation is PACIFIC ETHANOL, INC.

2. That the Corporation's Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on February 28, 2005 (the "**Original Certificate**"). The following were subsequently filed: (i) Certificate of Designations, Powers, Preferences and Rights of the Series A Cumulative Redeemable Convertible Preferred Stock filed with the Secretary of State of Delaware on April 12, 2006; (ii) Certificate of Designations, Powers, Preferences and Rights of the Series B Cumulative Convertible Preferred Stock filed with the Secretary of State of Delaware on March 26, 2008; (iii) Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on June 3, 2010; (iv) Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on June 6, 2011; and (v) Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of Delaware on May 10, 2013 (the Original Certificate, together with the subsequently filed certificates, shall be collectively referred to as the "**Certificate of Incorporation**").

3. The Certificate of Incorporation of the Corporation is hereby amended by striking out Article FOURTH thereof and by substituting in lieu of said Article the following new Article FOURTH:

"FOURTH: The total number of shares of all classes of stock that the corporation shall have authority to issue is 313,553,000 shares, consisting of (A) three hundred million (300,000,000) shares of Common Stock, with the par value of $0.001 per share ("**Common Stock**"), (B) three million five hundred fifty three thousand (3,553,000) shares of Non-Voting Common Stock, with the par value of $0.001 per share ("**Non-Voting Common Stock**") and (C) ten million (10,000,000) shares of Preferred Stock, with the par value of $0.001 per share ("**Preferred Stock**"), each having the rights set forth in this Article FOURTH.

4.1 <u>Common Stock</u>. Except as otherwise provided by the General Corporation Law of the State of Delaware or in this Article FOURTH (or in any certificate of designation establishing a series of Preferred Stock), the holders of Common Stock shall exclusively possess all voting power of the corporation. Each share of Common Stock shall be equal in all respects to every other share of Common Stock. Each holder of record of issued and outstanding Common Stock shall be entitled to one (1) vote on all matters for each share so held. Subject to the rights and preferences, if any, of the holders of Preferred Stock, each issued and outstanding share of Common Stock shall entitle the record holder thereof to receive dividends and distributions out of funds legally available therefor, when, as and if declared by the board of directors of this corporation (the "**Board of Directors**"), in such amounts and at such times, if any, as the board of directors shall determine, ratably in proportion to the number of shares of Common Stock held by each such record holder. Upon any voluntary or involuntary liquidation, dissolution or winding up of the corporation, after there shall have been paid to or set aside for the holders of any class of capital stock having preference over the Common Stock in such circumstances the full preferential amounts to which they are respectively entitled, the holders of the Common Stock, and of any class or series of capital stock entitled to participate in whole or in part therewith as to the distribution of assets, shall be entitled, after payment or provision for the payment of all debts and liabilities of the corporation, to receive the remaining assets of the corporation available for distribution, in cash or in kind, ratably in proportion to the number of shares of Common Stock (or any class or series of capital stock entitled to participate in whole or in part therewith) held by each such holder.

4.2 Non-Voting Common Stock. Each share of Non-Voting Common Stock shall rank equally in all respects and shall be subject to the following provisions of this Certificate of Incorporation.

4.2.1 Rank. Non-Voting Common Stock shall, with respect to rights on liquidation, winding up and dissolution, rank equally with the Common Stock.

4.2.2 Dividends. Holders of Non-Voting Common Stock shall receive dividends and distributions on parity in all respects with holders of Common Stock; provided, however, that if holders of shares of Common Stock become entitled to receive a distribution or dividend of shares of Common Stock, holders of Non-Voting Common Stock shall receive, in lieu of the shares of Common Stock that they are entitled to receive, an equal number of shares of Non-Voting Common Stock. Dividends or distributions payable pursuant to the preceding sentence shall be payable on the same date that such dividends or distributions are payable to the holders of record of Common Stock.

4.2.3 Liquidation Preference. Holders of Non-Voting Common Stock shall be entitled to receive, in all respects, the same preference as holders of Common Stock in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the corporation.

4.2.4 Voting Rights.

(A) Except as set forth in Section 4.2.4(B) and Section 4.2.4(C) below, holders of shares of Non-Voting Common Stock shall not be entitled to vote (in their capacity as holders of Non-Voting Common Stock) on any matter submitted to a vote of the stockholders of the corporation, but shall be entitled to prior written notice of, and to attend and observe, all special and annual meetings of the stockholders of the corporation.

(B) So long as any shares of Non-Voting Common Stock are outstanding, the corporation shall not, without the affirmative vote at a meeting called for that purpose by holders of at least a majority of the then outstanding shares of Non-Voting Common Stock, voting as a single and separate class, amend, alter or repeal any provision of this Article FOURTH or any other provision of the Certificate of Incorporation (by any means, including by merger, consolidation, reclassification, or otherwise) so as to, or in a manner that would, disproportionately and adversely affect the preferences, rights, privileges or powers of the Non-Voting Common Stock relative to the preferences, rights, privileges or powers of the Common Stock.

(C) The consent or votes required by Section 4.2.4(B) hereof shall be in addition to any approval of stockholders of the corporation which may be required by applicable law or pursuant to any provision of this Certificate of Incorporation.

4.2.5 Conversion.

(A) Optional Conversion; Conversion Upon Transfer.

(i) Holders of Non-Voting Common Stock shall have the right, at any time and from time to time, at the option of such holder, to convert any share of Non-Voting Common Stock held by such holder into one fully paid and non-assessable share of Common Stock, subject to the provisions contained in Section 4.2.5(A)(iii) and subject to the adjustments as described in Section 4.2.5(C) hereof.

(ii) Notwithstanding anything contained in Section 4.2.5(A)(i), at any time when a share of Non-Voting Common Stock is not or ceases to be owned by an Initial Holder or an Affiliate of an Initial Holder, such share of Non-Voting Common Stock, without any further action or deed on the part of the corporation or any other Person, shall automatically convert into one (1) fully paid and non-assessable share of Common Stock subject to adjustments as described in Section 4.2.5(C) hereof.

(iii) Notwithstanding anything to the contrary contained in this Article FOURTH, no Non-Voting Common Stock shall be convertible to Common Stock to the extent (but only to the extent) that after giving effect to such conversion pursuant to this Section 4.2.5, the holder (together with any of its Affiliates) of the Common Stock received from such conversion would beneficially own in excess of 9.99% (the "**Maximum Percentage**") of the Common Stock of the corporation. To the extent the above limitation applies, the determination of whether the Non-Voting Common Stock shall be convertible (vis-à-vis other convertible, exercisable or exchangeable securities owned by the holder or any of its Affiliates) and of which such securities shall be convertible, exercisable or exchangeable (as the case may be, as among all such securities owned by the holder) shall, subject to such Maximum Percentage limitation, be determined on the basis of the first submission to the corporation for conversion, exercise or exchange (as the case may be). No prior inability to convert the Non-Voting Common Stock pursuant to this Section 4.25(A)(iii) shall have any effect on the applicability of the provisions of this Section 4.25(A)(iii) with respect to any subsequent determination of exercisability. For the purposes of this Section 4.25(A)(iii), beneficial ownership and all determinations and calculations (including, without limitation, with respect to calculations of percentage ownership) shall be determined in accordance with Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder. To the extent permitted by applicable law, the provisions of this Section 4.25(A)(iii) shall be implemented in a manner otherwise than in strict conformity with the terms of this Section 4.25(A)(iii) to correct this Section 4.25(A)(iii) (or any portion hereof) which may be defective or inconsistent with the intended Maximum Percentage beneficial ownership limitation herein contained or to make changes or supplements necessary or desirable to properly give effect to such Maximum Percentage limitation. For purposes of determining Maximum Percentage, in determining the number of outstanding shares of Common Stock, the holder of Non-Voting Common Stock may rely on the number of outstanding shares of Common Stock as reflected in (1) the corporation's most recent Form 10-K, Form 10-Q, Current Report on Form 8-K or other public filing with the Securities and Exchange Commission, as the case may be, (2) a more recent public announcement by the corporation or (3) any other notice by the corporation or the corporation's transfer agent setting forth the number of shares of Common Stock outstanding. For any reason at any time, upon the written or oral request of the holder of Non-Voting Common Stock, the corporation shall within one (1) Business Day confirm orally and in writing to such holder the number of shares of Common Stock then outstanding, including by virtue of any prior conversion or exercise of convertible or exercisable securities into Common Stock. By written notice to the corporation, any holder of Non-Voting Common Stock may increase or decrease the Maximum Percentage to any other percentage not in excess of 9.99% specified in such notice; provided that (i) any such increase will not be effective until the sixty-first (61^{st}) day after such notice is delivered to the corporation, and (ii) any such increase or decrease will apply only to the holder sending such notice and not to any other holder of Non-Voting Common Stock.

(B) Mechanics of Conversion.

(i) In order to exercise its conversion right pursuant to Section 4.2.5(A)(i), a holder of Non-Voting Common Stock shall (i) surrender the certificate or certificates representing shares of Non-Voting Common Stock at the office of the corporation (or any transfer agent of the corporation previously designated by the corporation to the holders of Non-Voting Common Stock for this purpose) with a written notice of election to convert, completed and signed, specifying the number of shares to be converted.

(ii) Each conversion shall be deemed to have been effected immediately prior to the close of business on (x) in the case of conversion pursuant to Section 4.2.5(A)(i) hereof, the sixty-first (61^{st}) day following the day on which the certificates for shares of Non-Voting Common Stock shall have been surrendered and such notice received by the corporation pursuant to Section 4.2.5(B)(i), and (y) in the case of conversion pursuant to Section 4.2.5(A)(ii) hereof, the date the Non-Voting Common Stock is not or ceases to be owned by an Initial Holder or an Affiliate of an Initial Holder (in either case, the "**Conversion Date**"). On the Conversion Date: (a) the Person in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder of record of the shares of Common Stock represented thereby at such time, and (b) the shares of Non-Voting Common Stock so converted shall no longer be deemed to be outstanding, and all rights of a holder with respect to such shares shall immediately terminate except the right to receive the Common Stock pursuant to this Section 4.2.5. All shares of Common Stock delivered upon conversion of the Non-Voting Common Stock shall, upon delivery, be duly and validly authorized and issued, fully paid and nonassessable.

(iii) Holders of shares of Non-Voting Common Stock at the close of business on the record date for any payment of a dividend in which shares of Non-Voting Common Stock are to participate pursuant to Section 4.2.2 hereof shall be entitled to receive the dividend payable on such shares on the corresponding dividend payment date notwithstanding the conversion thereof following such dividend payment record date and prior to such dividend payment date.

(iv) The corporation shall at all times reserve and keep available, free from preemptive rights, out of its authorized but unissued Common Stock, solely for the purpose of effecting conversions of the Non-Voting Common Stock, the aggregate number of shares of Common Stock issuable upon conversion of the Non-Voting Common Stock (as if all shares of Non-Voting Common Stock are so convertible). To the extent that shares of Common Stock are listed or traded on a securities exchange, the corporation shall procure, at its sole expense, the listing of all shares of Common Stock issuable upon conversion of the Non-Voting Common Stock, subject to issuance or notice of issuance, on such stock exchange, and shall take all action as may be necessary to ensure that all shares of Common Stock issuable upon conversion of Non-Voting Common Stock shall be issued without violation of any applicable law or regulation or of any requirement of such securities exchange.

(v) Issuance of certificates for shares of Common Stock upon conversion of the Non-Voting Common Stock shall be made without charge to the holder of shares of Non-Voting Common Stock or any of its transferees for any issue or transfer tax (other than taxes in respect of any transfer of Non-Voting Common Stock occurring contemporaneously therewith) or other incidental expense in respect of the issuance of such certificates, all of which taxes and expenses shall be paid by the corporation; provided, however, that the corporation shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance or delivery of shares of Common Stock in a name other than that of the transferee of the Non-Voting Common Stock pursuant to Section 4.2.5(A)(ii) hereof, and no such issuance or delivery need be made unless and until the Person requesting such issuance or delivery has paid to the corporation the amount of any such tax or has established, to the reasonable satisfaction of the corporation, that such tax has been, or will timely be, paid.

(vii) Each share of Common Stock issued as a result of conversion of Non-Voting Common Stock shall be accompanied by any rights associated generally with each other share of Common Stock outstanding as of the applicable Conversion Date.

(C) Adjustments to Non-Voting Common Stock. From and after the date hereof, Non-Voting Common Stock shall be adjusted from time to time as follows:

(i) Stock Splits, Subdivisions, Reclassifications or Combinations. If the corporation shall (a) subdivide or reclassify the outstanding shares of Common Stock into a greater number of shares, or (b) combine or reclassify the outstanding Common Stock into a smaller number of shares, the Non-Voting Common Stock shall be equally and ratably subdivided, combined or reclassified on the same basis as that of Common Stock.

(ii) Other Distributions. In case the corporation shall fix a record date for the making of a dividend or distribution to all holders of shares of its Common Stock of (a) shares of any class or of any Person other than shares of the corporation's Common Stock, (b) evidence of indebtedness of the corporation or any Subsidiary, (c) assets (excluding dividends or distributions covered by Section 4.2.5(C)(i)), or (d) rights or warrants in respect of any of the foregoing, in each such case all holders of Non-Voting Common stock shall receive such dividend or distribution equally and ratably in all respects with holders of Common Stock.

(iii) Certain Repurchases of Common Stock. In the event that the corporation effects a Pro Rata Repurchase (as defined below) of Common Stock, the corporation shall, simultaneously with the Offer related to such Pro Rata Repurchase of Common Stock, offer, in writing and in compliance with applicable laws, to all holders of Non-Voting Common Stock to purchase, on an equal, share-for-share basis, a percentage of all shares of Non-Voting Common Stock equal to the percentage of all shares of Common Stock that the corporation has offered to purchase under the related Offer, which offer to the holders of Non-Voting Common Stock shall be open for the same period, offer the same form and value of consideration, and otherwise be on the same terms and conditions, as such Offer to the holders of Common Stock in all respects.

As used in this Section 4.2.5(C)(iii): "**Pro Rata Repurchase**" means any purchase of shares of Common Stock by the corporation or any Subsidiary thereof pursuant to any Offer. "**Offer**" means any tender offer or exchange offer subject to Section 13(e) of the Exchange Act, or pursuant to any other offer available to substantially all holders of Common Stock, whether for cash, shares of capital stock of the corporation, other securities of the corporation, evidences of indebtedness of the corporation or any other Person or any other property (including, without limitation, shares of capital stock, other securities or evidences of indebtedness of a Subsidiary of the corporation), or any combination thereof, effected while the Non-Voting Common Stock is outstanding.

(iv) Business Combinations. In case of any Business Combination or reclassification of Common Stock (other than a reclassification of Common Stock covered by Section 4.2.5(C)(i)), lawful provision shall be made as part of the terms of such Business Combination or reclassification whereby the holder of each share of Non-Voting Common Stock then outstanding shall have the right thereafter, to convert such share only into the kind and amount of securities, cash and other property receivable upon the Business Combination or reclassification by holders of Common Stock; provided, that, if the holders of at least a majority of the outstanding shares of Non-Voting Common Stock so elect, any such security receivable upon such Business Combination or reclassification by holders of Common Stock shall not have voting rights greater than those contained in Section 4.2.4 hereof.

(v) Adjustment for Unspecified Actions. If the corporation takes any action affecting the Common Stock, other than an action described in this Section 4.2.5(C), which would materially adversely affect the conversion rights of the holders of shares of Non-Voting Common Stock, the provisions of this Certificate of Incorporation shall be adjusted, to the extent permitted by law, in such manner, if any, and at such time, as the Board of Directors of the corporation may determine in good faith to be equitable in the circumstances.

(vi) Notices. In the event that the corporation shall give notice or make a public announcement to the holders of Common Stock of any action of the type described in this Section 4.2.5(C) or in Sections 4.2.2 or 4.2.4 hereof, the corporation shall, at the time of such notice or announcement, and in the case of any action which would require the fixing of a record date, at least ten (10) days prior to such record date, give notice to the holders of shares of Non-Voting Common Stock, by mail, first class postage prepaid, which notice shall specify the record date, if any, with respect to any such action and the approximate date on which such action is to take place. Such notice shall also set forth the facts with respect thereto as shall be reasonably necessary to indicate the effect on the Non-Voting Common Stock and the number, kind or class of shares or other securities or property which shall be deliverable upon conversion of the Non-Voting Common Stock.

4.2.6 Certain Other Provisions.

(A) The provisions of this Section 4.2 shall not be in effect at any time that there are no shares of Non-Voting Common Stock outstanding.

(B) No provision in this Section 4.2 shall be construed to limit or impair the right of each holder of Non-Voting Common Stock to participate equally and ratably in dividends and distributions pursuant to Section 4.2.2 hereof, the operation of any of the provisions of Section 4.2.5 hereof or the rights, preferences and privileges of a holder of Non-Voting Common Stock pursuant to Sections 4.2.1 and 4.2.3 hereof.

(C) If any Non-Voting Common Stock certificate shall be mutilated, lost, stolen or destroyed, the corporation shall issue, in exchange and in substitution for and upon cancellation of the mutilated certificate, or in lieu of and substitution for the certificate lost, stolen or destroyed, a new Non-Voting Common Stock certificate of like tenor and representing an equivalent amount of Non-Voting Common Stock, upon receipt of evidence of such loss, theft or destruction of such certificate and, if requested by the corporation, an indemnity on customary terms for such situations reasonably satisfactory to the corporation.

(D) The corporation shall not, by amendment of this Certificate of Incorporation or through reorganization, consolidation, merger, dissolution, sale of assets, or otherwise, avoid or seek to avoid the observance or performance of any of the terms of this Section 4.2, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate in order to protect the rights of the holders of Non-Voting Common Stock against dilution or impairment. At all times, the corporation shall take all such actions as may be necessary or appropriate in order that the corporation may validly and legally issue shares of Common Stock as herein contemplated upon conversion of the shares of Non-Voting Common Stock.

(E) The headings and various subdivisions used within this Section 4.2 are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

4.2.7 Definitions. Unless the context otherwise requires, when used in this Section 4.2, the following terms shall have the meaning indicated.

"**Affiliate**" means with respect to any Person, any other Person directly, or indirectly through one or more intermediaries, controlling, controlled by or under common control with such Person. For purposes of this definition, the term "control" (and correlative terms "controlling," "controlled by" and "under common control with") means possession of the power, whether by contract, equity ownership or otherwise, to direct the policies or management of a Person.

“**Business Day**” means any day other than Saturday, Sunday or other day on which commercial banks in the City of New York are authorized or required by law to remain closed.

“**Business Combination**” means (i) any reorganization, consolidation, merger, share exchange or similar business combination transaction involving the corporation or (ii) the sale, assignment, conveyance, transfer, lease or other disposition by the corporation of all or substantially all of its assets.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

“**Initial Holder”** means any Person who received shares of Non-Voting Common Stock upon the closing of that certain Agreement and Plan of Merger by and among Pacific Ethanol, Inc., Aventine Merger Sub, Inc. and Aventine Renewable Energy Holdings, Inc. dated December 30, 2014, as amended on March 31, 2015.

“**Person**” means an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act).

“**Subsidiary**” of a Person means (i) a corporation, a majority of whose stock with voting power, under ordinary circumstances, to elect directors is at the time of determination, directly or indirectly, owned by such Person or by one or more Subsidiaries of such Person, or (ii) any other entity (other than a corporation) in which such Person or one or more Subsidiaries of such Person, directly or indirectly, at the date of determination thereof has at least a majority ownership interest.

4.3 Preferred Stock. The Board of Directors is authorized by resolution or resolutions, from time to time adopted, to provide for the issuance of Preferred Stock in one or more series and to fix and state the voting powers, designations, preferences and relative participating, optional or other special rights of the shares of each series and the qualifications, limitations and restrictions thereof, including, but not limited to, determination of one or more of the following:

(i) the distinctive designations of each such series and the number of shares which shall constitute such series, which number may be increased (except where otherwise provided by the Board of Directors in creating such series) or decreased (but not below the number of shares thereof then outstanding) from time to time by the Board of Directors;

(ii) the annual rate or amount of dividends payable on shares of such series, whether such dividends shall be cumulative or non-cumulative, the conditions upon which and the dates when such dividends shall be payable, the date from which dividends on cumulative series shall accrue and be cumulative on all shares of such series issued prior to the payment date for the first dividend of such series, the relative rights of priority, if any, of payment of dividends on the shares of that series, and the participating or other special rights, if any, with respect to such dividends;

(iii) whether such series will have any voting rights in addition to those prescribed by law and, if so, the terms and conditions of the exercise of such voting rights;

(iv) whether the shares of such series will be redeemable or callable and, if so, the prices at which, and the terms and conditions on which, such shares may be redeemed or called, which prices may vary under different conditions and at different redemption or call dates;

(v) the amount or amounts payable upon the shares of such series in the event of voluntary or involuntary liquidation, dissolution or winding up of the corporation, and the relative rights of priority, if any, of payment of shares of such series;

(vi) whether the shares of such series shall be entitled to the benefit of a sinking or retirement fund to be applied to the purchase or redemption of such shares, and if so entitled, the amount of such fund and the manner of its application, including the price or prices at which such shares may be redeemed or purchased through the application of such fund;

(vii) whether the shares of such series shall be convertible into, or exchangeable for, shares of any other class or classes or of any other series of the same or any other class or classes of capital stock of the corporation, and if so convertible or exchangeable, the conversion price or prices, or the rate or rates of exchange, and the adjustments thereof, if any, at which such conversion or exchange may be made, and any other terms of such conversion or exchange;

(viii) whether the shares of such series that are redeemed or converted shall have the status of authorized but unissued shares of Preferred Stock and whether such shares may be reissued as shares of the same or any other series of stock;

(ix) the conditions and restrictions, if any, on the payment of dividends or on the making of other distributions on, or the purchase, redemption or other acquisition by the corporation, or any subsidiary thereof, of, the Common Stock or any other class (or other series of the same class) ranking junior to the shares of such series as to dividends or upon liquidation, dissolution or winding up of the corporation; and

(x) the conditions and restrictions, if any, on the creation of indebtedness of the corporation, or any subsidiary thereof, or on the issue of any additional stock ranking on parity with or prior to the shares of such series as to dividends or upon liquidation, dissolution or winding up of the corporation.

All shares within each series of Preferred Stock shall be alike in every particular, except with respect to the dates from which dividends, if any, shall commence to accrue.

4.4 Reverse Stock Split on June 8, 2011. On June 8, 2011 (the "**First Split Date**"), each share of common stock, par value $0.001 per share (the "**Oldest Common Stock**"), issued and outstanding immediately before the First Split Date, was reclassified as and changed into one-seventh (1/7) of a share of common stock, par value $0.001 per share (the "**Newer Common Stock**"). The corporation, through its transfer agent, provided certificates representing Newer Common Stock to holders of Oldest Common Stock in exchange for certificates representing Oldest Common Stock. From and after the First Split Date, certificates representing shares of Oldest Common Stock were cancelled and as of the First Split Date represent only the right of holders thereof to receive Newer Common Stock. The corporation did not issue fractional shares of Newer Common Stock. The reverse stock split did not increase or decrease the amount of stated capital or paid-in surplus of the corporation, and any fractional share that would otherwise be issuable as a result of the reverse stock split was rounded up to the nearest whole share of Newer Common Stock. From the First Split Date until the Second Split Date (as defined below), the term "Newer Common Stock" as used in this Article FOURTH shall mean Common Stock as provided in the Certificate of Incorporation. From and after the Second Split Date, the term "Newer Common Stock" as used in this Article FOURTH shall mean Older Common Stock as provided in the Certificate of Incorporation.

4.5 Reverse Stock Split on May 14, 2013. On May 14, 2013 (the "**Second Split Date**"), each share of common stock, par value $0.001 per share (the "**Older Common Stock**"), issued and outstanding immediately before the Second Split Date, was reclassified as and changed into one-fifteenth (1/15) of a share of common stock, par value $0.001 per share (the "**Newest Common Stock**"). The corporation, through its transfer agent, provided certificates representing Newest Common Stock to holders of Older Common Stock in exchange for certificates representing Older Common Stock. From and after the Second Split Date, certificates representing shares of Older Common Stock were cancelled and now represent only the right of holders thereof to receive Newest Common Stock. The corporation did not issue fractional shares of Newest Common Stock. The reverse stock split did not increase or decrease the amount of stated capital or paid-in surplus of the corporation, and any fractional share that would otherwise be issuable as a result of the reverse stock split was rounded up to the nearest whole share of Newest Common Stock. From and after the Second Split Date, the term "Newest Common Stock" as used in this Article FOURTH shall mean common stock as provided in the Certificate of Incorporation."

4. The amendment of the Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

5. The Effective Date of this Amendment will be July 1, 2015.

IN WITNESS WHEREOF, said Corporation has caused this Certificate to be signed as of the 1st day of July, 2015.

/s/ CHRISTOPHER W. WRIGHT
Christopher W. Wright
Vice President, General Counsel & 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.

Dated: November 6, 2015

By: /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.

Dated: November 6, 2015

By: /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, 2015 (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 6, 2015

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

Dated: November 6, 2015

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.