

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2019**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-21467**



**Pacific Ethanol, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**41-2170618**

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

**400 Capitol Mall, Suite 2060, Sacramento, California**

(Address of principal executive offices)

**95814**

(zip code)

**(916) 403-2123**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
Common Stock, \$0.001 par value	PEIX	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

As of November 11, 2019, there were 49,776,465 shares of Pacific Ethanol, Inc. common stock, \$0.001 par value per share, and 896 shares of Pacific Ethanol, Inc. non-voting common stock, \$0.001 par value per share, outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

<u>ASSETS</u>	<u>September 30, 2019</u> (unaudited)	<u>December 31, 2018</u> *
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 18,921	\$ 26,627
Accounts receivable, net (net of allowance for doubtful accounts of \$39 and \$12, respectively)	69,297	67,636
Inventories	62,509	57,820
Prepaid inventory	3,191	3,090
Derivative instruments	2,790	1,765
Other current assets	5,228	11,866
Total current assets	<u>161,936</u>	<u>168,804</u>
Property and equipment, net	<u>442,810</u>	<u>482,657</u>
<b>Other Assets:</b>		
Right of use operating lease assets, net	38,791	—
Intangible assets	2,678	2,678
Other assets	6,645	5,842
Total other assets	<u>48,114</u>	<u>8,520</u>
<b>Total Assets</b>	<u>\$ 652,860</u>	<u>\$ 659,981</u>

\* Amounts derived from the audited consolidated financial statements for the year ended December 31, 2018.

See accompanying notes to consolidated financial statements.

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

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>September 30, 2019</u> (unaudited)	<u>December 31, 2018</u> *
<b>Current Liabilities:</b>		
Accounts payable – trade	\$ 47,068	\$ 48,176
Accrued liabilities	18,614	23,421
Current portion – operating leases	6,925	—
Current portion – long-term debt	144,543	146,671
Derivative instruments	3,619	6,309
Other current liabilities	7,662	7,282
Total current liabilities	<u>228,431</u>	<u>231,859</u>
Long-term debt, net of current portion	98,673	84,767
Operating leases, net of current portion	30,323	—
Assessment financing	9,342	9,342
Other liabilities	13,576	14,648
<b>Total Liabilities</b>	<u>380,345</u>	<u>340,616</u>
Commitments and Contingencies (Note 7)		
<b>Stockholders' Equity:</b>		
Pacific Ethanol, Inc. Stockholders' Equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; Series A: 1,684 shares authorized; no shares issued and outstanding as of September 30, 2019 and December 31, 2018; Series B: 1,581 shares authorized; 927 shares issued and outstanding as of September 30, 2019 and December 31, 2018; liquidation preference of \$18,075 as of September 30, 2019	1	1
Common stock, \$0.001 par value; 300,000 shares authorized; 49,783 and 45,771 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	50	46
Non-voting common stock, \$0.001 par value; 3,553 shares authorized; 1 share issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	—	—
Additional paid-in capital	937,795	932,179
Accumulated other comprehensive loss	(2,459)	(2,459)
Accumulated deficit	(678,808)	(630,000)
Total Pacific Ethanol, Inc. Stockholders' Equity	<u>256,579</u>	<u>299,767</u>
Noncontrolling interests	15,936	19,598
Total Stockholders' Equity	<u>272,515</u>	<u>319,365</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 652,860</u>	<u>\$ 659,981</u>

\* Amounts derived from the audited consolidated financial statements for the year ended December 31, 2018.

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,	
	2019	2018	2019	2018
Net sales	\$ 365,160	\$ 370,407	\$ 1,067,264	\$ 1,180,956
Cost of goods sold	379,976	366,639	1,080,398	1,175,099
Gross profit (loss)	(14,816)	3,768	(13,134)	5,857
Selling, general and administrative expenses	8,687	8,970	23,630	27,183
Loss from operations	(23,503)	(5,202)	(36,764)	(21,326)
Interest expense, net	(5,163)	(4,193)	(15,014)	(12,875)
Other income (expense), net	(407)	91	254	233
Loss before benefit for income taxes	(29,073)	(9,304)	(51,524)	(33,968)
Benefit for income taxes	—	—	—	563
Consolidated net loss	(29,073)	(9,304)	(51,524)	(33,405)
Net loss attributed to noncontrolling interests	1,747	1,790	3,662	5,142
Net loss attributed to Pacific Ethanol, Inc.	\$ (27,326)	\$ (7,514)	\$ (47,862)	\$ (28,263)
Preferred stock dividends	\$ (319)	\$ (319)	\$ (946)	\$ (946)
Net loss available to common stockholders	\$ (27,645)	\$ (7,833)	\$ (48,808)	\$ (29,209)
Net loss per share, basic and diluted	\$ (0.58)	\$ (0.18)	\$ (1.04)	\$ (0.68)
Weighted-average shares outstanding, basic and diluted	47,777	43,299	47,030	43,171

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2019	2018
<b>Operating Activities:</b>		
Consolidated net loss	\$ (51,524)	\$ (33,405)
Adjustments to reconcile consolidated net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization of intangibles	35,944	30,635
Deferred income taxes	—	(563)
Amortization of debt discount	539	539
Amortization of deferred financing fees	566	754
Non-cash compensation	2,103	2,579
(Gain) loss on derivative instruments	(1,565)	4,362
Bad debt expense	27	44
Changes in operating assets and liabilities:		
Accounts receivable	(370)	12,656
Inventories	(4,689)	6,784
Prepaid expenses and other assets	5,836	(2,454)
Prepaid inventory	(101)	1,839
Operating leases	(7,646)	—
Accounts payable and accrued expenses	(6,323)	2,307
Net cash provided by (used in) operating activities	<u>(27,203)</u>	<u>26,077</u>
<b>Investing Activities:</b>		
Additions to property and equipment	(2,144)	(10,874)
Net cash used in investing activities	<u>(2,144)</u>	<u>(10,874)</u>
<b>Financing Activities:</b>		
Net proceeds from Kinergy's line of credit	22,629	9,880
Proceeds from issuance of common stock	3,670	—
Proceeds from CoGen contract amendment	8,036	—
Proceeds from assessment financing	—	728
Principal payments on borrowings	(11,748)	(17,500)
Payments on capital leases	—	(761)
Preferred stock dividends paid	(946)	(946)
Net cash provided by (used in) financing activities	<u>21,641</u>	<u>(8,599)</u>
Net change in cash and cash equivalents	(7,706)	6,604
Cash and cash equivalents at beginning of period	26,627	49,489
Cash and cash equivalents at end of period	<u>\$ 18,921</u>	<u>\$ 56,093</u>
<b>Supplemental Cash Flow Information:</b>		
Interest paid	\$ 13,877	\$ 11,299
Income tax refunds received	\$ —	\$ 743
<b>Noncash financing and investing activities:</b>		
Initial right of use assets and liabilities recorded under ASC 842	\$ 43,753	\$ —

See accompanying notes to consolidated financial statements.

**PACIFIC ETHANOL, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(unaudited, in thousands)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accum. Other Comprehensive Income (Loss)	Non- Controlling Interests	Total
	Shares	Amount	Shares	Amount					
<b>Balances, January 1, 2019</b>	<u>927</u>	<u>\$ 1</u>	<u>45,771</u>	<u>\$ 46</u>	<u>\$ 932,179</u>	<u>\$ (630,000)</u>	<u>\$ (2,459)</u>	<u>\$ 19,598</u>	<u>\$ 319,365</u>
Stock-based compensation expense – restricted stock issued to employees and directors, net of cancellations and tax	—	—	(24)	—	797	—	—	—	797
Issuances of common stock	—	—	3,137	3	3,667	—	—	—	3,670
Preferred stock dividends	—	—	—	—	—	(312)	—	—	(312)
Net loss	—	—	—	—	—	(12,890)	—	(1,271)	(14,161)
<b>Balances, March 31, 2019</b>	<u>927</u>	<u>\$ 1</u>	<u>48,884</u>	<u>\$ 49</u>	<u>\$ 936,643</u>	<u>\$ (643,202)</u>	<u>\$ (2,459)</u>	<u>\$ 18,327</u>	<u>\$ 309,359</u>
Stock-based compensation expense – restricted stock issued to employees and directors, net of cancellations and tax	—	—	954	1	565	—	—	—	566
Preferred stock dividends	—	—	—	—	—	(315)	—	—	(315)
Net loss	—	—	—	—	—	(7,646)	—	(644)	(8,290)
<b>Balances, June 30, 2019</b>	<u>927</u>	<u>\$ 1</u>	<u>49,838</u>	<u>\$ 50</u>	<u>\$ 937,208</u>	<u>\$ (651,163)</u>	<u>\$ (2,459)</u>	<u>\$ 17,683</u>	<u>\$ 301,320</u>
Stock-based compensation expense – restricted stock issued to employees and directors, net of cancellations and tax	—	—	(54)	—	587	—	—	—	587
Preferred stock dividends	—	—	—	—	—	(319)	—	—	(319)
Net loss	—	—	—	—	—	(27,326)	—	(1,747)	(29,073)
<b>Balances, September 30, 2019</b>	<u>927</u>	<u>\$ 1</u>	<u>49,784</u>	<u>\$ 50</u>	<u>\$ 937,795</u>	<u>\$ (678,808)</u>	<u>\$ (2,459)</u>	<u>\$ 15,936</u>	<u>\$ 272,515</u>
	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accum. Other Comprehensive Income (Loss)	Non- Controlling Interests	Total
	Shares	Amount	Shares	Amount					
<b>Balances, January 1, 2018</b>	<u>927</u>	<u>\$ 1</u>	<u>43,986</u>	<u>\$ 44</u>	<u>\$ 927,090</u>	<u>\$ (568,462)</u>	<u>\$ (2,234)</u>	<u>\$ 27,261</u>	<u>\$ 383,700</u>
Stock-based compensation expense – restricted stock issued to employees and directors, net of cancellations and tax	—	—	(31)	—	735	—	—	—	735
Preferred stock dividends	—	—	—	—	—	(312)	—	—	(312)
Net loss	—	—	—	—	—	(7,841)	—	(1,656)	(9,497)
<b>Balances, March 31, 2018</b>	<u>927</u>	<u>\$ 1</u>	<u>43,955</u>	<u>\$ 44</u>	<u>\$ 927,825</u>	<u>\$ (576,615)</u>	<u>\$ (2,234)</u>	<u>\$ 25,605</u>	<u>\$ 374,626</u>
Stock-based compensation expense – restricted stock issued to employees and directors, net of cancellations and tax	—	—	1,006	1	553	—	—	—	554
Preferred stock dividends	—	—	—	—	—	(315)	—	—	(315)
Net loss	—	—	—	—	—	(12,908)	—	(1,696)	(14,604)
<b>Balances, June 30, 2018</b>	<u>927</u>	<u>\$ 1</u>	<u>44,961</u>	<u>\$ 45</u>	<u>\$ 928,378</u>	<u>\$ (589,838)</u>	<u>\$ (2,234)</u>	<u>\$ 23,909</u>	<u>\$ 360,261</u>
Stock-based compensation expense – restricted stock issued to employees and directors, net of cancellations and tax	—	—	(14)	—	884	—	—	—	884
Preferred stock dividends	—	—	—	—	—	(319)	—	—	(319)
Net loss	—	—	—	—	—	(7,514)	—	(1,790)	(9,304)
<b>Balances, September 30, 2018</b>	<u>927</u>	<u>\$ 1</u>	<u>44,947</u>	<u>\$ 45</u>	<u>\$ 929,262</u>	<u>\$ (597,671)</u>	<u>\$ (2,234)</u>	<u>\$ 22,119</u>	<u>\$ 351,522</u>

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 subsidiaries, Kinergy Marketing LLC, an Oregon limited liability company (“Kinergy”), Pacific Ag. Products, LLC, a California limited liability company (“PAP”), PE Op Co., a Delaware corporation (“PE Op Co.”) and all nine of the Company’s ethanol production facilities.

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.

The Company’s five 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. In addition, the Company’s ability to load unit trains from these facilities in the Midwest allows for greater access to international markets.

The Company has a combined production capacity of 605 million gallons per year, markets, on an annualized basis, nearly 1.0 billion gallons of ethanol and specialty alcohols, and produces, on an annualized basis, nearly 3.0 million tons of co-products on a dry matter basis, such as wet and dry distillers grains, wet and dry corn gluten feed, condensed distillers solubles, corn gluten meal, corn germ, dried yeast and CO<sub>2</sub>.

As of September 30, 2019, all but one of the Company’s production facilities, specifically, the Company’s Aurora East facility, were operating. As market conditions change, the Company may increase, decrease or idle production at one or more operating facilities or resume operations at any idled facility.

*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, 2018. 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, 2018, with the exception of new lease accounting, as discussed further below. 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.



Liquidity – The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company and the ethanol industry as a whole experienced significant adverse conditions throughout most of 2018 and 2019 as a result of industry-wide record low ethanol prices due to reduced demand and high industry inventory levels. These factors resulted in prolonged negative operating margins, significantly lower cash flow from operations and substantial net losses. In response to the low-margin environment, the Company has pursued strategic initiatives focused on the potential sale of certain production assets, a reduction of its debt levels, a strengthening of its cash and liquidity position, and opportunities for strategic partnerships and capital raising activities, positioning the Company to optimize its business performance. The most significant challenges to the Company in meeting these objectives would be a sustained adverse margin environment and insufficient cash flows to make its scheduled debt payments.

In implementing these strategic initiatives, the Company, as of September 30, 2019, had the following available liquidity and capital resources to achieve its objectives:

- Cash of \$18.9 million and excess availability under Kinergy’s line of credit of \$2.2 million; and
- Nine ethanol production facilities with an aggregate of 605 million gallons of annual production capacity, of which plant assets representing 355 million gallons of capacity are either unencumbered, or their entire sales proceeds would be used to repay the Company’s senior secured notes. The Company has engaged a financial advisor to help market certain of these assets.

The Company will likely not have sufficient cash to make its short-term scheduled debt payments, and is working on extensions with its lenders. While the lenders are secured by certain plant assets, the Company believes it has other unencumbered assets that may be used to satisfy the lenders. The Company continues working on a comprehensive long-term solution with its lenders to increase liquidity and extend the maturity dates of its debt.

The Company believes that its strategic initiatives, if implemented timely and on suitable terms, will provide sufficient liquidity to meet its anticipated working capital, debt service and other liquidity needs through at least the next twelve months.

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

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

Of the accounts receivable balance, approximately \$61,743,000 and \$54,820,000 at September 30, 2019 and December 31, 2018, respectively, were used as collateral under Kinergy’s operating line of credit. The allowance for doubtful accounts was \$39,000 and \$12,000 as of September 30, 2019 and December 31, 2018, respectively. The Company recorded a bad debt expense of \$0 and a bad debt recovery of \$1,000 for the three months ended September 30, 2019 and 2018, respectively. The Company recorded a bad debt expense of \$27,000 and \$44,000 for the nine months ended September 30, 2019 and 2018, respectively.

Financial Instruments – The carrying values of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, derivative assets and derivative liabilities are reasonable estimates of their fair values because of the short maturity of these items. The Company believes the carrying value of its long-term debt approximates fair value because the interest rates on these instruments are variable, and are considered Level 2 fair value measurements.

Recent Accounting Pronouncements– In February 2016, the Financial Accounting Standards Board (“FASB”) issued new guidance on accounting for leases under Accounting Standards Codification 842 (“ASC 842”). Under the new guidance, lessees are required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted cash flow basis; and (2) a “right of use” asset, which is an asset that represents the lessee’s right to use the specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged, with some minor exceptions. Lease expense under the new guidance is substantially the same as prior to the adoption. See Note 5 for further information.

Estimates and Assumptions – The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 allowance for doubtful accounts, net realizable value of inventory, estimated lives of property and equipment, 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, and the valuation of assets acquired and liabilities assumed as a result of business combinations. Actual results and outcomes may materially differ from management’s estimates and assumptions.

## 2. SEGMENTS.

The Company reports its financial and operating performance in two segments: (1) ethanol production, which includes the production and sale of ethanol, specialty alcohols and co-products, with all of the Company’s production facilities aggregated, and (2) marketing and distribution, which includes marketing and merchant trading for Company-produced ethanol, specialty alcohols and co-products and third-party ethanol.

The following tables set forth certain financial data for the Company's operating segments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b><u>Net Sales</u></b>				
Production, recorded as gross:				
Ethanol/alcohol sales	\$ 212,897	\$ 216,788	\$ 586,680	\$ 670,304
Co-product sales	65,693	73,259	199,177	226,307
Intersegment sales	403	518	1,187	1,531
Total production sales	278,993	290,565	787,044	898,142
Marketing and distribution:				
Ethanol/alcohol sales, gross	\$ 86,124	\$ 79,877	\$ 280,032	\$ 282,940
Ethanol/alcohol sales, net	446	483	1,375	1,405
Intersegment sales	2,079	2,201	5,839	6,757
Total marketing and distribution sales	88,649	82,561	287,246	291,102
Intersegment eliminations	(2,482)	(2,719)	(7,026)	(8,288)
Net sales as reported	\$ 365,160	\$ 370,407	\$ 1,067,264	\$ 1,180,956
<b><u>Cost of goods sold:</u></b>				
Production	\$ 294,888	\$ 295,574	\$ 810,670	\$ 914,638
Marketing and distribution	87,976	73,784	277,545	268,917
Intersegment eliminations	(2,888)	(2,719)	(7,817)	(8,456)
Cost of goods sold as reported	\$ 379,976	\$ 366,639	\$ 1,080,398	\$ 1,175,099
<b><u>Income (loss) before benefit for income taxes:</u></b>				
Production	\$ (25,999)	\$ (15,571)	\$ (50,682)	\$ (45,355)
Marketing and distribution	(998)	7,416	4,991	18,095
Corporate activities	(2,076)	(1,149)	(5,833)	(6,708)
	\$ (29,073)	\$ (9,304)	\$ (51,524)	\$ (33,968)
<b><u>Depreciation and amortization:</u></b>				
Production	\$ 11,833	\$ 10,040	\$ 35,390	\$ 30,017
Corporate activities	195	177	554	618
	\$ 12,028	\$ 10,217	\$ 35,944	\$ 30,635
<b><u>Interest expense:</u></b>				
Production	\$ 1,969	\$ 1,692	\$ 5,724	\$ 5,416
Marketing and distribution	929	344	2,291	1,042
Corporate activities	2,265	2,157	6,999	6,417
	\$ 5,163	\$ 4,193	\$ 15,014	\$ 12,875

The following table sets forth the Company's total assets by operating segment (in thousands):

	September 30, 2019	December 31, 2018
<b><u>Total assets:</u></b>		
Production	\$ 527,950	\$ 532,790
Marketing and distribution	108,960	112,984
Corporate assets	15,950	14,117
	\$ 652,860	\$ 659,891

### 3. INVENTORIES.

Inventories consisted primarily of bulk ethanol, specialty alcohols, corn, co-products, low-carbon and Renewable Identification Number (“RIN”) credits and unleaded fuel, and are valued at the lower-of-cost-or-net realizable value, with cost determined on a first-in, first-out basis. Inventory is net of a \$0 and \$2,328,000 valuation adjustment as of September 30, 2019 and December 31, 2018, respectively. Inventory balances consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Finished goods	\$ 41,034	\$ 35,778
Work in progress	8,207	6,855
Raw materials	7,236	7,233
Low-carbon and RIN credits	4,150	6,130
Other	1,882	1,824
Total	<u>\$ 62,509</u>	<u>\$ 57,820</u>

### 4. DERIVATIVES.

The business and activities of the Company expose it to a variety of market risks, including risks related to changes in commodity prices. 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, 2019 and 2018, 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 hedge accounting treatment. The changes in fair value of these contracts are recorded on the balance sheet and recognized immediately in cost of goods sold. The Company recognized losses of \$3,320,000 and \$991,000 as the changes in the fair values of these contracts for the three months ended September 30, 2019 and 2018, respectively. The Company recognized gains of \$1,565,000 and losses of \$4,362,000 as the changes in the fair values of these contracts for the nine months ended September 30, 2019 and 2018, respectively.

Non Designated Derivative Instruments – The classification and amounts of the Company’s derivatives not designated as hedging instruments, and related cash collateral balances, are as follows (in thousands):

Type of Instrument	As of September 30, 2019			
	Assets		Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Cash collateral balance	Other current assets	\$ 2,400		
Commodity contracts	Derivative instruments	\$ 2,790	Derivative instruments	\$ 3,619

Type of Instrument	As of December 31, 2018			
	Assets		Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Cash collateral balance	Other current assets	\$ 8,479		
Commodity contracts	Derivative instruments	\$ 1,765	Derivative instruments	\$ 6,309

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

Type of Instrument	Statements of Operations Location	Realized Gains	
		Three Months Ended September 30,	
		2019	2018
Commodity contracts	Cost of goods sold	\$ 2,262	\$ 916

Type of Instrument	Statements of Operations Location	Unrealized Losses	
		Three Months Ended September 30,	
		2019	2018
Commodity contracts	Cost of goods sold	\$ (5,582)	\$ (1,907)

Type of Instrument	Statements of Operations Location	Realized Losses	
		Nine Months Ended September 30,	
		2019	2018
Commodity contracts	Cost of goods sold	\$ (2,150)	\$ (1,241)

Type of Instrument	Statements of Operations Location	Unrealized Gains (Losses)	
		Nine Months Ended September 30,	
		2019	2018
Commodity contracts	Cost of goods sold	\$ 3,715	\$ (3,121)

#### 5. LEASES.

As discussed in Note 1, on January 1, 2019, the Company adopted the provisions of ASC 842 using the prospective transition approach, which applies the provisions of ASC 842 upon adoption, with no change to prior periods. This adoption resulted in the Company recognizing initial right of use assets and lease liabilities of \$43,753,000. The adoption did not have a significant impact on the Company’s consolidated statements of operations.

Upon the initial adoption of ASC 842, the Company elected the following practical expedients allowable under the guidance: not to reassess whether any expired or existing contracts are or contain leases; not to reassess the lease classification for any expired or existing leases; not to reassess initial direct costs for any existing leases; not to separately identify lease and nonlease components; and not to evaluate historical land easements. Additionally, the Company elected the short-term lease exemption policy, applying the requirements of ASC 842 to only long-term (greater than 1 year) leases.

The Company leases railcar equipment, office equipment and land for certain of its facilities. Operating lease right of use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Company uses its estimated incremental borrowing rate, unless an implicit rate is readily determinable, as the discount rate for each lease in determining the present value of lease payments. For the three and nine months ended September 30, 2019, the Company's weighted average discount rate was 6.01%. Operating lease expense is recognized on a straight-line basis over the lease term.

The Company determines if an arrangement is a lease or contains a lease at inception. The Company's leases have remaining lease terms of approximately 1 year to 57 years, which may include options to extend the lease when it is reasonably certain the Company will exercise those options. For the three and nine months ended September 30, 2019, the weighted average remaining lease terms of equipment and land-related leases were 2.66 years and 13.43 years, respectively. The Company does not have lease arrangements with residual value guarantees, sale leaseback terms or material restrictive covenants. The Company does not have any material finance lease obligations nor sublease agreements.

The following table summarizes the remaining maturities of the Company's operating lease liabilities, assuming all land lease extensions are taken, as of September 30, 2019 (in thousands):

<b>Year Ended:</b>	<b>Equipment</b>	<b>Land Related</b>
2019	\$ 2,220	\$ 262
2020	7,349	1,054
2021	4,364	1,077
2022	4,140	1,100
2023	3,500	1,013
2024-43	10,181	34,931
	\$ 31,754	\$ 39,437

For the three and nine months ended September 30, 2019, the Company recorded operating lease costs of \$2,157,000 and \$6,490,000 in cost of goods sold, respectively, and \$119,000 and \$354,000 in selling, general and administrative expenses, respectively, in the Company's statements of operations.

#### 6. DEBT.

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

	September 30, 2019	December 31, 2018
Kinergy line of credit	\$ 79,685	\$ 57,057
Pekin term loan	39,500	43,000
Pekin revolving loan	32,000	32,000
ICP term loan	12,000	16,500
ICP revolving loan	18,000	18,000
Parent notes payable	63,200	66,948
	<u>244,385</u>	<u>233,505</u>
Less unamortized debt discount	(150)	(690)
Less unamortized debt financing costs	(1,019)	(1,377)
Less short-term portion	(144,543)	(146,671)
Long-term debt	<u>\$ 98,673</u>	<u>\$ 84,767</u>

Kinergy Operating Line of Credit – On July 31, 2019, Kinergy amended its credit facility to continue, until November 30, 2019 or earlier on ten days prior notice from the lender, the borrowing base under the credit facility at 90% of eligible accounts receivable, plus the lesser of (a) \$50,000,000, (b) 80% of eligible inventory, or (c) 95% of the estimated recovery value of eligible inventory. Additional borrowings under the expanded credit terms, which were \$4,430,000 as of September 30, 2019, accrue interest at an annual rate equal to the daily three month LIBOR plus an applicable margin of 4.00%. As of September 30, 2019, Kinergy had additional unused borrowing availability under its credit facility of \$2,247,000.

Pekin Term Loan – On March 30, 2018, Pacific Ethanol Pekin, LLC (“PE Pekin”), one of the Company’s subsidiaries, amended its term loan facility by reducing the amount of working capital it is required to maintain to not less than \$13.0 million from March 31, 2018 through November 30, 2018 and not less than \$16.0 million from December 1, 2018 and continuing at all times thereafter. In addition, a principal payment in the amount of \$3.5 million due for May 2018 was deferred until the maturity date of the term loan.

On March 21, 2019, PE Pekin amended its term and revolving credit facilities by agreeing to increase the interest rate under the facilities by 125 basis points to an annual rate equal to the 30-day LIBOR plus 5.00%. PE Pekin and its lender also agreed that it is required to maintain working capital of not less than \$15,000,000 from March 21, 2019 through July 15, 2019 and working capital of not less than \$30,000,000 from July 15, 2019 and continuing at all times thereafter. On July 15, 2019, PE Pekin and its lender agreed to a further amendment extending the aforementioned July 15, 2019 dates to November 15, 2019. As of the filing of this report, the Company believes PE Pekin is in compliance with its working capital requirement.

Under these amendments, the lenders also agreed to temporarily waive financial covenant violations, working capital maintenance violations and intercompany accounts receivable collections violations that occurred with respect to PE Pekin’s credit agreement. In addition, the lenders agreed to defer scheduled principal payments, including further deferral of principal payments in the amount of \$3,500,000 each due on February 20, 2019 and May 20, 2019. On August 6, 2019, the Company paid its \$3,500,000 principal payment scheduled for August 20, 2019.

The waivers and principal deferrals expire on November 15, 2019, or earlier in the case of an event of default, at which time the waivers will become permanent if Pacific Ethanol Central, LLC (“PE Central”), PE Pekin’s parent, has made a contribution to PE Pekin in an amount equal to \$30,000,000, minus the then-existing amount of PE Pekin’s working capital, plus the amount of any accounts receivable owed by PE Central to PE Pekin, plus \$12,000,000 (the “PE Central Contribution Amount”). In addition, if the PE Central Contribution Amount is timely received, the lenders agreed to waive PE Pekin’s debt service coverage ratio financial covenant for the year ended December 31, 2019. If the PE Central Contribution Amount is not timely made, then the temporary waivers will automatically expire.

PE Pekin is also required to pay by November 15, 2019 the aggregate amount of \$10,500,000 representing all deferred and unpaid scheduled principal payments and all additional scheduled principal payments for the remainder of 2019.

ICP Credit Facilities –As of September 30, 2019, ICP did not meet its minimum working capital requirement, however, ICP’s lender subsequently waived the minimum working capital deficiency. As of the filing of this report, the Company believes ICP is in compliance with its working capital requirement.

Restrictions – At September 30, 2019, there were approximately \$184.8 million of net assets at the Company’s subsidiaries that were not available to be transferred to Pacific Ethanol, Inc. in the form of dividends, loans or advances due to restrictions contained in the credit facilities of the Company’s subsidiaries.

## 7. COMMITMENTS AND CONTINGENCIES.

Sales Commitments – At September 30, 2019, the Company had entered into sales contracts with its major customers to sell certain quantities of ethanol and co-products. The Company had open ethanol indexed-price contracts for 184,865,000 gallons of ethanol as of September 30, 2019 and open fixed-price ethanol sales contracts totaling \$124,090,000 as of September 30, 2019. The Company had open fixed-price co-product sales contracts totaling \$33,575,000 and open indexed-price co-product sales contracts for 50,000 tons as of September 30, 2019. These sales contracts are scheduled to be completed throughout 2019.

Purchase Commitments – At September 30, 2019, the Company had indexed-price purchase contracts to purchase 7,150,000 gallons of ethanol and fixed-price purchase contracts to purchase \$23,930,000 of ethanol from its suppliers. The Company had fixed-price purchase contracts to purchase \$14,304,000 of corn from its suppliers as of September 30, 2019. These purchase commitments are scheduled to be satisfied throughout 2019.

Litigation – General – The Company is subject to various claims and contingencies in the ordinary course of its business, including those related to litigation, business transactions, employee-related matters, environmental regulations, 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 impact on the Company’s financial condition or results of operations.



8. PENSION AND RETIREMENT BENEFIT PLANS.

The Company sponsors a defined benefit pension plan (the “Retirement Plan”) and a health care and life insurance plan (the “Postretirement Plan”). The Company assumed the Retirement Plan and the Postretirement Plan as part of its acquisition of PE Central on July 1, 2015.

The Retirement Plan is noncontributory, and covers only “grandfathered” 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 Retirement Plan, which is part of a collective bargaining agreement, covers only union employees hired prior to November 1, 2010.

The Company uses a December 31 measurement date for its Retirement Plan. The Company’s funding policy is to make the minimum annual contribution required by applicable regulations. As of December 31, 2018, the Retirement Plan’s accumulated projected benefit obligation was \$18,690,000, with a fair value of plan assets of \$13,257,000. The underfunded amount of \$5,433,000 is recorded on the Company’s consolidated balance sheet in other liabilities.

The Company’s net periodic Retirement Plan costs are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest cost	\$ 190	\$ 174	\$ 570	\$ 522
Service cost	94	106	282	318
Expected return on plan assets	(190)	(204)	(570)	(612)
Net periodic expense	<u>\$ 94</u>	<u>\$ 76</u>	<u>\$ 282</u>	<u>\$ 228</u>

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 dollar cap based upon years of service. As of December 31, 2018, the Postretirement Plan’s accumulated projected benefit obligation was \$5,711,000 and is recorded on the Company’s consolidated balance sheet in other liabilities. The Company’s funding policy is to make the minimum annual contribution required by applicable regulations.

The Company’s net periodic Postretirement Plan costs are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest cost	\$ 55	\$ 46	\$ 165	\$ 138
Service cost	17	2	51	6
Amortization of loss	30	33	90	99
Net periodic expense	<u>\$ 102</u>	<u>\$ 81</u>	<u>\$ 306</u>	<u>\$ 243</u>

## 9. 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.

*Pooled separate accounts* – Pooled separate accounts invest primarily in domestic and international stocks, commercial paper or single mutual funds. The net asset value is used as a practical expedient to determine fair value for these accounts. Each pooled separate account provides for redemptions by the Retirement Plan at reported net asset values per share, with little to no advance notice requirement, therefore these funds are classified within Level 2 of the valuation hierarchy.

*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 recurring fair value measurements by level at September 30, 2019 (in thousands):

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets:</b>				
Derivative financial instruments(1)	\$ 2,790	\$ 2,790	\$ —	\$ —
	<u>\$ 2,790</u>	<u>\$ 2,790</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Liabilities:</b>				
Derivative financial instruments(1)	\$ (3,619)	\$ (3,619)	\$ —	\$ —
	<u>\$ (3,619)</u>	<u>\$ (3,619)</u>	<u>\$ —</u>	<u>\$ —</u>

The following table summarizes recurring fair value measurements by level at December 31, 2018 (in thousands):

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Benefit Plan Percentage Allocation</u>
<b>Assets:</b>					
Derivative financial instruments(1)	\$ 1,765	\$ 1,765	\$ —	\$ —	
<b>Defined benefit plan assets (pooled separate accounts):</b>					
Large U.S. Equity(2)	3,621	—	3,621	—	27%
Small/Mid U.S. Equity(3)	1,844	—	1,844	—	14%
International Equity(4)	2,106	—	2,106	—	16%
Fixed Income(5)	5,686	—	5,686	—	43%
	<u>\$ 15,022</u>	<u>\$ 1,765</u>	<u>\$ 13,257</u>	<u>\$ —</u>	
<b>Liabilities:</b>					
Derivative financial instruments	\$ (6,309)	\$ (6,309)	\$ —	\$ —	

(1) Included in derivative instruments in the consolidated balance sheets.

- (2) This category includes investments in funds comprised of equity securities of large U.S. companies. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (3) This category includes investments in funds comprised of equity securities of small- and medium-sized U.S. companies. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (4) This category includes investments in funds comprised of equity securities of foreign companies including emerging markets. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.
- (5) This category includes investments in funds comprised of U.S. and foreign investment-grade fixed income securities, high-yield fixed income securities that are rated below investment-grade, U.S. treasury securities, mortgage-backed securities, and other asset-backed securities. The funds are valued using the net asset value method in which an average of the market prices for the underlying investments is used to value the fund.

10. EARNINGS PER SHARE.

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

	<b>Three Months Ended September 30, 2019</b>		
	<b>Loss Numerator</b>	<b>Shares Denominator</b>	<b>Per-Share Amount</b>
Net loss attributed to Pacific Ethanol, Inc.	\$ (27,326)		
Less: Preferred stock dividends	(319)		
<b>Basic and diluted loss per share:</b>			
Loss available to common stockholders	<u>\$ (27,645)</u>	<u>47,777</u>	<u>\$ (0.58)</u>
	<b>Three Months Ended September 30, 2018</b>		
	<b>Loss Numerator</b>	<b>Shares Denominator</b>	<b>Per-Share Amount</b>
Net loss attributed to Pacific Ethanol, Inc.	\$ (7,514)		
Less: Preferred stock dividends	(319)		
<b>Basic and diluted loss per share:</b>			
Loss available to common stockholders	<u>\$ (7,833)</u>	<u>43,299</u>	<u>\$ (0.18)</u>
	<b>Nine Months Ended September 30, 2019</b>		
	<b>Loss Numerator</b>	<b>Shares Denominator</b>	<b>Per-Share Amount</b>
Net loss attributed to Pacific Ethanol, Inc.	\$ (47,862)		
Less: Preferred stock dividends	(946)		
<b>Basic and diluted loss per share:</b>			
Loss available to common stockholders	<u>\$ (48,808)</u>	<u>47,030</u>	<u>\$ (1.04)</u>

	Nine Months Ended September 30, 2018		
	Loss Numerator	Shares Denominator	Per-Share Amount
Net loss attributed to Pacific Ethanol, Inc.	\$ (28,263)		
Less: Preferred stock dividends	(946)		
<b>Basic and diluted loss per share:</b>			
Loss available to common stockholders	<u>\$ (29,209)</u>	<u>43,171</u>	<u>\$ (0.68)</u>

There were an aggregate of 635,000 potentially dilutive weighted-average shares from convertible securities outstanding for the three and nine months ended September 30, 2019. There were an aggregate of 425,000 and 635,000 potentially dilutive weighted-average shares from convertible securities outstanding for the three and nine months ended September 30, 2018, respectively. These convertible securities were not considered in calculating diluted net loss per share, as their effect would have been anti-dilutive.

#### 11. PARENT COMPANY FINANCIALS.

*Restricted Net Assets* – At September 30, 2019, the Company had approximately \$184,763,000 of net assets at its subsidiaries that were not available to be transferred to Pacific Ethanol in the form of dividends, distributions, loans or advances due to restrictions contained in the credit facilities of these subsidiaries.

Parent company financial statements for the periods covered in this report are set forth below (in thousands):

	September 30, 2019	December 31, 2018
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 5,658	\$ 6,759
Receivables from subsidiaries	12,270	17,156
Other current assets	1,183	1,659
Total current assets	<u>19,111</u>	<u>25,574</u>
Property and equipment, net	<u>308</u>	<u>522</u>
<b>Other Assets:</b>		
Investments in subsidiaries	249,641	286,666
Pacific Ethanol West plant receivable	55,750	58,766
Right of use operating lease assets, net	3,318	—
Other assets	1,529	1,437
Total other assets	<u>310,238</u>	<u>346,869</u>
<b>Total Assets</b>	<u>\$ 329,657</u>	<u>\$ 372,965</u>
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 2,437	\$ 2,469
Accrued PE Op Co. purchase	3,829	3,829
Current portion of long-term debt	62,866	66,255
Other current liabilities	587	385
Total current liabilities	<u>69,719</u>	<u>72,938</u>
Operating leases, net of current portion	3,108	—
Deferred tax liabilities	251	251
Other liabilities	—	9
<b>Total Liabilities</b>	<u>73,078</u>	<u>73,198</u>
<b>Stockholders' Equity:</b>		
Preferred stock	1	1
Common and non-voting common stock	50	46
Additional paid-in capital	937,795	932,179
Accumulated other comprehensive loss	(2,459)	(2,459)
Accumulated deficit	(678,808)	(630,000)
Total Pacific Ethanol, Inc. stockholders' equity	<u>256,579</u>	<u>299,767</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 329,657</u>	<u>\$ 372,965</u>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Management fees from subsidiaries	\$ 3,330	\$ 3,330	\$ 9,660	\$ 9,738
Selling, general and administrative expenses	3,827	3,181	11,374	13,069
Income (loss) from operations	(497)	149	(1,714)	(3,331)
Interest income	1,145	1,185	3,486	3,518
Interest expense	(2,276)	(2,171)	(7,039)	(6,458)
Other expense	(4)	(4)	(86)	—
Loss before benefit for income taxes	(1,632)	(841)	(5,353)	(6,271)
Benefit for income taxes	—	—	—	563
Loss before benefit for income taxes	(1,632)	(841)	(5,353)	(5,708)
Equity in losses of subsidiaries	(25,694)	(6,673)	(42,509)	(22,555)
Consolidated net loss	\$ (27,326)	\$ (7,514)	\$ (47,862)	\$ (28,263)

	For the Nine Months Ended September 30,	
	2019	2018
<b>Operating Activities:</b>		
Net loss	\$ (47,862)	\$ (28,263)
Adjustments to reconcile net loss to cash used in operating activities:		
Equity in losses of subsidiaries	42,509	22,555
Depreciation	227	481
Deferred income taxes	—	563
Amortization of debt discounts	539	357
Changes in operating assets and liabilities:		
Accounts receivables	(114)	(5,062)
Other assets	173	2,489
Accounts payable and accrued expenses	1,950	5
Accounts payable with subsidiaries	(502)	(622)
Net cash used in operating activities	\$ (3,080)	\$ (7,497)
<b>Investing Activities:</b>		
Dividend from subsidiaries	\$ —	\$ 10,000
Contributions to subsidiaries	—	(5,000)
Additions to property and equipment	(13)	(6)
Net cash provided by (used in) investing activities	\$ (13)	\$ 4,994
<b>Financing Activities:</b>		
Proceeds from issuances of common stock	\$ 3,670	\$ —
Proceeds from Pacific Ethanol West	3,016	—
Payments on senior notes	(3,748)	—
Preferred stock dividend payments	(946)	(946)
Net cash provided by (used in) financing activities	\$ 1,992	\$ (946)
Net decrease in cash and cash equivalents	(1,101)	(3,449)
Cash and cash equivalents at beginning of period	6,759	5,314
Cash and cash equivalents at end of period	\$ 5,658	\$ 1,865

## 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.

### Overview

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

We operate nine strategically-located production facilities. Four of our plants are in the Western states of California, Oregon and Idaho, and five of our plants are located in the Midwestern states of Illinois and Nebraska. We are the sixth largest producer of ethanol in the United States based on annualized volumes. Our plants have a combined production capacity of 605 million gallons per year. We market all the ethanol, specialty alcohols and co-products produced at our plants as well as ethanol produced by third parties. On an annualized basis, we market nearly 1.0 billion gallons of ethanol and nearly 3.0 million tons of co-products on a dry matter basis. Our business consists of two operating segments: a production segment and a marketing segment.

Our mission is to be a leading producer and marketer of low-carbon renewable fuels, high-value animal feed and high-quality alcohol products in the United States. We intend to accomplish this goal in part by investing in our ethanol production and distribution infrastructure, lowering the carbon intensity of our ethanol, extending our marketing business into new regional and international markets, and implementing new technologies to promote higher production yields and greater efficiencies.

*Production Segment*

We produce ethanol, specialty alcohols and co-products at our production facilities described below. Our plants located on the West Coast are near their respective fuel and feed customers, offering significant timing, transportation cost and logistical advantages. Our plants located in the Midwest are in the heart of the Corn Belt, benefit from low-cost and abundant feedstock production and allow for access to many additional domestic markets. In addition, our ability to load unit trains from our plants located in the Midwest, and barges from our Pekin, Illinois plants, allows for greater access to international markets.

We wholly-own all of our plants located on the West Coast and the three plants in Pekin, Illinois. We own approximately 74% of the two plants in Aurora, Nebraska as well as the grain elevator adjacent to those properties and related grain handling assets, including the outer rail loop, and the real property on which they are located, through Pacific Aurora, LLC, or Pacific Aurora, an entity owned approximately 26% by Aurora Cooperative Elevator Company.

All of our plants, with the exception of our Aurora East facility, are currently operating. As market conditions change, we may increase, decrease or idle production at one or more operating facilities or resume operations at any idled facility.

<b>Facility Name</b>	<b>Facility Location</b>	<b>Estimated Annual Capacity (gallons)</b>
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
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
Pekin ICP	Pekin, IL	90,000,000

We produce ethanol co-products at our production facilities such as wet distillers grains, or WDG, dried distillers grains with solubles, wet and dry corn gluten feed, condensed distillers solubles, corn gluten meal, corn germ, corn oil, dried yeast and CO<sub>2</sub>.

*Marketing Segment*

We market ethanol, specialty alcohols and co-products produced by our facilities and market ethanol produced by third parties. We have extensive customer relationships throughout the Western and Midwestern United States. Our ethanol customers are integrated oil companies and gasoline marketers who blend ethanol into gasoline. Our customers depend on us to provide a reliable supply of ethanol, and manage the logistics and timing of delivery with very little effort on their part. Our customers collectively require ethanol volumes in excess of the supplies we produce at our production facilities. We secure additional ethanol supplies from third-party plants in California and other third-party suppliers in the Midwest where a majority of ethanol producers are located. 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 market our distillers grains and other feed co-products to 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.

See “Note 2 – Segments” to our Notes to Consolidated Financial Statements included elsewhere in this report for financial information about our business segments.

### **Current Initiatives and Outlook**

During most of the third quarter, we and the ethanol industry as a whole experienced among the worst ethanol production margins in years primarily due to demand destruction from the Environmental Protection Agency’s, or EPA’s, ongoing practice of granting small refinery exemptions from the Renewable Fuel Standard, or RFS, and ongoing United States trade disputes with China.

The prolonged negative margin environment from 2018 through most of 2019 resulted in an industry-wide moderation of production volumes. We continue to moderate production volumes in locations most impacted by high ethanol inventory levels. We have idled our Aurora East production facility, and overall, we operated at approximately 82% of production capacity across our plants for the third quarter. We continue to use Kinergy’s marketing platform to source third-party ethanol to help meet our contractual commitments and support our decision to reduce production. Lower industry-wide production levels have reduced inventory and enabled a better supply-demand balance, driving inventory levels to near two-year lows.

Toward the end of the third quarter and continuing into the fourth quarter, production margins rebounded to levels better than at any time in the prior two years. We believe improved margins are sustainable with continued industry discipline to moderate production volumes, increased demand from incremental E15 sales, including year-round sales of E15, the reallocation of ethanol volumes from small refinery exemptions by the EPA, and a resolution of trade disputes with China.

We expect that the 2020 final rule for RFS blending requirements will result in higher mandated ethanol volumes and increased demand. Over the past three years, the EPA’s small refinery exemptions resulted in an annual average mandate of approximately 13.6 billion gallons. During this time, the EPA’s exemptions increased nearly four-fold to an average of twenty eight exemptions granted per year compared to an average of eight exemptions granted per year in the prior three-year period. Given the Trump Administration’s stated commitment to reallocate ethanol volumes from small refinery exemptions to other obligated parties, and ethanol’s compelling cost, octane and carbon benefits, we believe that the ethanol industry will return to growth.

United States ethanol exports are on pace to reach 1.5 billion gallons in 2019. While this export volume is below 2018’s level due to the halt of United States ethanol exports to China, if 2019’s pace is sustained, 2019 export volume will mark the second best year for export volumes. Approximately thirty countries have renewable fuel standards or targets and globally, excluding China, countries are importing more ethanol from the United States as it represents a low-cost source of high-octane and low-carbon transportation fuel. If a resolution of trade disputes with China occurs, given incremental growth in other export markets, United States ethanol exports could set a new record in 2020.



Carbon values in our West Coast markets remain strong and at or near historic highs, resulting in robust premiums for our lower-carbon ethanol as a result of government programs such as California’s Low Carbon Fuel Standard and Oregon’s Clean Fuels Program. Other states and regions are also pursuing supportive carbon policies. In Washington, the Puget Sound Clean Air Agency has proposed a Clean Fuel Standard that would apply to transportation fuels supplied or sold in the four-county Puget Sound region. Colorado, the regional Midwest and New York are also evaluating new clean fuel standards.

We are pursuing a number of strategic initiatives focused on the potential sale of certain production assets, a reduction of our debt levels, a strengthening of our cash and liquidity position, and opportunities for strategic partnerships and capital raising activities, positioning us to optimize our business performance. Our most significant challenge in meeting these objectives would be a sustained adverse margin environment.

We continue to make progress on our plans, but concluding our potential transactions has taken longer than anticipated. We believe that an improving market will help us complete our strategic initiatives. We have excellent production assets with values well in excess of our near-term liquidity needs. We are confident in our strong relationships with our financial and commercial partners and believe we are taking appropriate steps to increase shareholder value to benefit our stakeholders long-term and to provide greater financial flexibility to execute future strategic initiatives. See “-Liquidity and Capital Resources”.

We remain focused on implementing initiatives and investing in our assets to reduce costs, both at the operating and corporate levels; further diversifying our sales through additional high-protein animal feed and high-quality alcohol products; improving our production yields and other operating efficiencies; and reducing the carbon intensity of the ethanol we produce.

### **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; impairment of long-lived assets; valuation of allowance for deferred taxes; derivative instruments; accounting for business combinations; and allowance for doubtful accounts. These significant accounting principles are more fully described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” in our Annual Report on Form 10-K for the year ended December 31, 2018.

### **Results of Operations**

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

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

	Three Months Ended September 30,		Percentage Variance	Nine Months Ended September 30,		Percentage Variance
	2019	2018		2019	2018	
Production gallons sold (in millions)	130.1	139.9	(7.0)%	365.6	425.1	(14.0)%
Third party gallons sold (in millions)	80.2	72.3	10.9%	258.3	247.2	4.5%
Total gallons sold (in millions)	210.3	212.2	(0.9)%	623.9	672.3	(7.2)%
Total gallons produced (in millions)	124.2	138.7	(10.5)%	368.0	424.1	(13.2)%
Production capacity utilization	82%	91%	(9.9)%	81%	94%	(13.8)%
Average sales price per gallon	\$ 1.61	\$ 1.60	0.6%	\$ 1.59	\$ 1.61	(1.2)%
Corn cost per bushel – CBOT equivalent	\$ 3.85	\$ 3.63	6.1%	\$ 3.80	\$ 3.67	3.5%
Average basis <sup>(1)</sup>	\$ 0.47	\$ 0.21	123.8%	\$ 0.42	\$ 0.26	61.5%
Delivered cost of corn	\$ 4.32	\$ 3.84	12.5%	\$ 4.22	\$ 3.93	7.4%
Total co-product tons sold (in thousands)	720.4	773.2	(6.8)%	2,096.0	2,365.2	(11.4)%
Co-product revenues as % of delivered cost of corn <sup>(2)</sup>	30.9%	35.8%	(13.7)%	35.1%	36.2%	(3.0)%
Average CBOT ethanol price per gallon	\$ 1.41	\$ 1.35	4.4%	\$ 1.38	\$ 1.41	(2.1)%
Average CBOT corn price per bushel	\$ 3.89	\$ 3.53	10.2%	\$ 3.84	\$ 3.68	4.3%

(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.

#### 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	
	2019	2018	Dollars	Percent	2019	2018	Dollars	Percent
Net sales	\$ 365,160	\$ 370,407	\$ (5,247)	(1.4)%	\$ 1,067,264	\$ 1,180,956	\$ (113,692)	(9.6)%
Cost of goods sold	379,976	366,639	13,337	3.6%	1,080,398	1,175,099	(94,701)	(8.1)%
Gross profit	\$ (14,816)	\$ 3,768	\$ (18,584)	NM	\$ (13,134)	\$ 5,857	\$ (18,991)	NM
Percentage of net sales	(4.1)%	1.0%			(1.2)%	0.5%		

#### Net Sales

The decline in our net sales for the three and nine months ended September 30, 2019 as compared to the same periods in 2018 was primarily due to a decline in our total gallons sold.

We sold fewer production gallons and co-products for the three and nine months ended September 30, 2019 as compared to the same periods in 2018. These declines are primarily due to lower production capacity utilization at our plants in response to a lower ethanol crush margin environment, which included idling our Aurora East production facility. Our production capacity utilization declined to 82% and 81% for the three and nine months ended September 30, 2019, respectively, compared to 91% and 94% for the same periods in 2018, respectively.

#### Three Months Ended September 30, 2019 and 2018

On a consolidated basis, our average sales price per gallon increased 0.6% to \$1.61 for the three months ended September 30, 2019 compared to \$1.60 for the same period in 2018. The average Chicago Board of Trade, or CBOT, ethanol price per gallon, increased 4.4% to \$1.41 for the three months ended September 30, 2019 compared to \$1.35 for the same period in 2018.

### *Production Segment*

Net sales of ethanol from our production segment declined by \$3.9 million, or 2%, to \$212.9 million for the three months ended September 30, 2019 as compared to \$216.8 million for the same period in 2018. Our total volume of production ethanol gallons sold declined by 9.8 million gallons, or 7%, to 130.1 million gallons for the three months ended September 30, 2019 as compared to 139.9 million gallons for the same period in 2018. Our production segment's average sales price per gallon increased 6% to \$1.62 for the three months ended September 30, 2019 compared to our production segment's average sales price per gallon of \$1.53 for the same period in 2018. At our production segment's average sales price per gallon of \$1.62 for the three months ended September 30, 2019, we generated \$15.8 million less in net sales from our production segment from the 9.8 million fewer gallons of produced ethanol sold in the three months ended September 30, 2019 as compared to the same period in 2018. This decline was partially offset by the increase of \$0.09 in our production segment's average sales price per gallon for the three months ended September 30, 2019 as compared to the same period in 2018, which increased our net sales of ethanol from our production segment by \$11.9 million.

Net sales of co-products decreased \$7.6 million, or 10%, to \$65.7 million for the three months ended September 30, 2019 as compared to \$73.3 million for the same period in 2018. Our total volume of co-products sold declined by 52.8 thousand tons, or 7%, to 720.4 thousand tons for three months ended September 30, 2019 from 773.2 thousand tons for the same period in 2018, and our average sales price per ton decreased to \$91.19 for the three months ended September 30, 2019 from \$94.75 for the same period in 2018. At our average sales price per ton of \$91.19 for the three months ended September 30, 2019, we realized \$4.8 million less in net sales from the 52.8 thousand ton decline in co-products sold in the three months ended September 30, 2019 as compared to the same period in 2018. The decline in our average sales price per ton of \$3.56, or 4%, for the three months ended September 30, 2019 as compared to the same period in 2018 reduced our net sales of co-products by \$2.8 million.

### *Marketing Segment*

Net sales of ethanol from our marketing segment increased by \$6.2 million, or 8%, to \$86.1 million for the three months ended September 30, 2019 as compared to \$79.9 million for the same period in 2018. Our total volume of ethanol gallons sold by our marketing segment declined by 1.9 million gallons, or 1%, to 210.3 million gallons for the three months ended September 30, 2019 as compared to 212.2 million gallons for the same period in 2018.

The decline in production gallons sold by our marketing segment resulted in a decline of \$0.1 million in net sales generated by our marketing segment, which were eliminated upon consolidation.

Our marketing segment's average sales price per gallon increased \$0.04, or 3%, to \$1.61 for the three months ended September 30, 2019 as compared to \$1.57 for the same period in 2018. At our marketing segment's average sales price per gallon of \$1.61 for the three months ended September 30, 2019, we realized \$3.0 million less in net sales from our marketing segment from the 1.9 million fewer gallons sold in the three months ended September 30, 2019 as compared to the same period in 2018. The increase of \$0.04 in our marketing segment's average sales price per gallon for the three months ended September 30, 2019 as compared to the same period in 2018 increased our net sales from ethanol sold by our marketing segment by \$9.2 million.

### *Nine Months Ended September 30, 2019 and 2018*

On a consolidated basis, our average sales price per gallon declined 1.2% to \$1.59 for the nine months ended September 30, 2019 compared to \$1.61 for the same period in 2018. The average CBOT ethanol price per gallon declined 2.1% to \$1.38 for the nine months ended September 30, 2019 compared to \$1.41 for the same period in 2018.

### *Production Segment*

Net sales of ethanol from our production segment declined by \$83.6 million, or 12%, to \$586.7 million for the nine months ended September 30, 2019 as compared to \$670.3 million for the same period in 2018. Our total volume of production ethanol gallons sold declined by 59.5 million gallons, or 14%, to 365.6 million gallons for the nine months ended September 30, 2019 as compared to 425.1 million gallons for the same period in 2018. Our production segment's average sales price per gallon increased 2% to \$1.59 for the nine months ended September 30, 2019 compared to \$1.56 for the same period in 2018. At our production segment's average sales price per gallon of \$1.59 for the nine months ended September 30, 2019, we generated \$94.3 million less in net sales from our production segment from the 59.5 million fewer gallons of produced ethanol sold in the nine months ended September 30, 2019 as compared to the same period in 2018. The increase of \$0.03 in our production segment's average sales price per gallon for the nine months ended September 30, 2019 as compared to the same period in 2018 increased our net sales of ethanol from our production segment by \$10.7 million.

Net sales of co-products declined \$27.1 million, or 12%, to \$199.2 million for the nine months ended September 30, 2019 as compared to \$226.3 million for the same period in 2018. Our total volume of co-products sold decreased by 269.2 thousand tons, or 11%, to 2,096.0 thousand tons for nine months ended September 30, 2019 from 2,365.2 thousand tons for the same period in 2018, and our average sales price per ton decreased to \$95.03 for the nine months ended September 30, 2019 from \$95.68 for the same period in 2018. At our average sales price per ton of \$95.03 for the nine months ended September 30, 2019, we generated \$25.6 million less in net sales from the 269.2 thousand tons of additional co-products sold in the nine months ended September 30, 2019 as compared to the same period in 2018. The decrease of \$0.65, or 1%, in our average sales price per ton for the nine months ended September 30, 2019 as compared to the same period in 2018 decreased net sales of co-products by \$1.5 million.

### *Marketing Segment*

Net sales of ethanol from our marketing segment declined by \$2.9 million, or 1%, to \$280.0 million for the nine months ended September 30, 2019 as compared to \$282.9 million for the same period in 2018. Our total volume of ethanol gallons sold by our marketing segment declined by 48.4 million gallons, or 7%, to 623.9 million gallons for the nine months ended September 30, 2019 as compared to 672.3 million gallons for the same period in 2018.

The increase in production gallons sold by our marketing segment resulted in an increase of \$0.9 million in net sales generated by our marketing segment, which were eliminated upon consolidation.

Our marketing segment's average sales price per gallon increased \$0.11, or 8%, to \$1.65 for the nine months ended September 30, 2019 as compared to \$1.54 for the same period in 2018. At our marketing segment's average sales price per gallon of \$1.65 for the nine months ended September 30, 2019, we realized \$80.0 million less in net sales from our marketing segment from the 48.4 million fewer gallons sold in the nine months ended September 30, 2019 as compared to the same period in 2018. The increase of \$0.11 in our marketing segment's average sales price per gallon for the nine months ended September 30, 2019 as compared to the same period in 2018 increased our net sales from ethanol sold by our marketing segment by \$77.1 million.

### *Cost of Goods Sold and Gross Profit (Loss)*

Our consolidated gross profit (loss) decreased to a gross loss of \$14.8 million, representing a negative gross profit margin of 4.1%, for the three months ended September 30, 2019 compared to a gross profit of \$3.8 million, representing a gross profit margin of 1.0%, for the same period in 2018. Our consolidated gross profit (loss) declined to a gross loss of \$13.1 million, representing a negative gross profit margin of 1.2%, for the nine months ended September 30, 2019 compared to a gross profit of \$5.9 million, representing a gross profit margin of 0.5%, for the same period in 2018. Our gross profit and gross profit margin declined primarily due to significantly lower commodity margins predominately resulting from higher corn prices without a commensurate increase in ethanol prices.

Three Months Ended September 30, 2019 and 2018

*Production Segment*

Our production segment's gross profit from external sales declined by \$10.9 million to a gross loss of \$15.9 million for the three months ended September 30, 2019 as compared to a gross loss of \$5.0 million for the same period in 2018. Of this decline, \$12.1 million is attributable to our production segment's lower margins for the three months ended September 30, 2019 as compared to the same period in 2018, partially offset by \$1.2 million attributable to lower production volumes for the three months ended September 30, 2019 as compared to the same period in 2018.

*Marketing Segment*

Our marketing segment's gross profit declined by \$7.7 million to \$1.1 million for the three months ended September 30, 2019 as compared to \$8.8 million for the same period in 2018, largely attributable to our marketing segment's lower margins per gallon for the three months ended September 30, 2019 as compared to the same period in 2018.

Nine Months Ended September 30, 2019 and 2018

*Production Segment*

Our production segment's gross profit from external sales declined by \$7.1 million to a gross loss of \$23.6 million for the nine months ended September 30, 2019 as compared to a gross loss of \$16.5 million for the same period in 2018. Of this decline, \$11.0 million is attributable to our production segment's lower margins for the nine months ended September 30, 2019 as compared to the same period in 2018, partially offset by \$3.9 million attributable to decreased production volumes for the nine months ended September 30, 2019 as compared to the same period in 2018.

*Marketing Segment*

Our marketing segment's gross profit declined by \$11.9 million to \$10.5 million for the nine months ended September 30, 2019 as compared to \$22.4 million for the same period in 2018. Of this decline, \$11.0 million is attributable to our marketing segment's lower margins for the nine months ended September 30, 2019 as compared to the same period in 2018, and \$0.9 million is attributable to reduction in volumes for the nine months ended September 30, 2019 as compared to the same period in 2018.

### 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	
	2019	2018	Dollars	Percent	2019	2018	Dollars	Percent
	Selling, general and administrative expenses	\$ 8,687	\$ 8,970	\$ (283)	(3.2)%	\$ 23,630	\$ 27,183	\$ (3,553)
<i>Percentage of net sales</i>	2.4%	2.4%			2.2%	2.3%		

Our SG&A expenses declined for the three and nine months ended September 30, 2019 as compared to the same period in 2018. The decrease in SG&A expenses is primarily due to reductions in compensation and health insurance costs. Our capital expenditures through the first nine months of 2019 totaled \$2.1 million and were primarily attributable to ongoing repair and maintenance of our production facilities.

### Net Loss Available to Common Stockholders

The following table presents our net 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	
	2019	2018	Dollars	Percent	2019	2018	Dollars	Percent
	Net loss available to common stockholders	\$ (27,645)	\$ (7,833)	\$ (19,812)	(252.9)%	\$ (48,808)	\$ (29,209)	\$ (19,599)
<i>Percentage of net sales</i>	(7.6)%	(2.1)%			(4.6)%	(2.5)%		

The increase in net loss available to common stockholders is primarily due to lower production and third party marketing margins for the three and nine months ended September 30, 2019 as compared to the same periods in 2018.

### Liquidity and Capital Resources

During the nine months ended September 30, 2019, we funded our operations primarily from cash on hand and advances from our revolving credit facilities. These funds were also used to make capital expenditures, capital lease payments and principal and interest payments on term debt.

Both we and the ethanol industry as a whole experienced significant adverse conditions throughout most of 2018 and 2019 as a result of industry-wide record low ethanol prices due to reduced demand and high industry inventory levels. These factors resulted in prolonged negative operating margins, significantly lower cash flow from operations and substantial net losses. In response to the low-margin environment, we have pursued strategic initiatives focused on the potential sale of certain production assets, a reduction of our debt levels, a strengthening of our cash and liquidity position, and opportunities for strategic partnerships and capital raising activities, positioning us to optimize our business performance. Our most significant challenges in meeting these objectives would be a sustained adverse margin environment and insufficient cash flows to make our scheduled debt payments.

We continue to make progress on our plans, but concluding our potential transactions has taken longer than anticipated. We believe that an improving market will help us complete our strategic initiatives. We have excellent production assets with values well in excess of our near-term liquidity needs. We are confident in our strong relationships with our financial and commercial partners and believe we are taking the appropriate steps to increase our shareholder value to benefit our stakeholders long-term and to provide greater financial flexibility to executive future strategic initiatives.

Our current available capital resources consist of cash on hand and amounts available for borrowing under our credit facilities. We expect that our future available capital resources will consist primarily of our current cash balances, availability under our lines of credit, any cash generated from operations, net cash proceeds from any sale of our production assets and net cash proceeds from any equity sales or debt financing transactions.

At September 30, 2019, on a consolidated basis, we had an aggregate of \$18.9 million in cash and Kinergy had \$2.2 million in excess availability under its credit facility.

As of September 30, 2019, our current liabilities of \$228.4 million exceeded our current assets of \$161.9 million, resulting in a working capital deficit of \$66.5 million. This working capital deficit arises from the following:

- Our senior secured notes in the amount of \$63.2 million at September 30, 2019 are due on December 15, 2019 and therefore listed as current liabilities. We believe we are in compliance with the terms of these notes. We are currently in negotiations to extend the term of these notes. See “—Pacific Ethanol, Inc. Notes Payable” below.
- Our term loan in the amount of \$39.5 million and our revolving loan in the amount of \$32.0 million, both associated with our Pekin facilities, are listed as current liabilities due to a temporary forbearance agreement with our lender. See “—Pekin Credit Facilities” below.

We believe our strategic initiatives, if implemented timely and on suitable terms, will provide sufficient liquidity to meet our anticipated working capital, debt service and other liquidity needs through at least the next twelve months. However, if we are unable to timely implement our strategic initiatives, if margins do not improve, or if we are unable to further defer principal and/or interest payments or extend the maturity date of our debt, we will likely have insufficient liquidity through the next twelve months, or earlier depending on margins, operating cash flows and lender forbearance. In addition, if margins do not sustainably improve from levels experienced in the third quarter, we may be forced to curtail our production at one or more of our operating facilities. See “Risk Factors”.

### Quantitative Quarter-End Liquidity Status

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

	September 30, 2019	December 31, 2018	Change
Cash and cash equivalents	\$ 18,921	\$ 26,627	(28.9)%
Current assets	\$ 161,936	\$ 168,804	(4.1)%
Property and equipment, net	\$ 442,810	\$ 482,657	(8.3)%
Current liabilities	\$ 228,431	\$ 231,859	(1.5)%
Long-term debt, net of current portion	\$ 98,673	\$ 84,767	16.4%
Working capital deficit	\$ (66,495)	\$ (63,055)	(5.5)%
Working capital ratio	0.71	0.73	(2.7)%

### Restricted Net Assets

At September 30, 2019, we had approximately \$184.8 million of net assets at our subsidiaries that were not available to be transferred to Pacific Ethanol, Inc. in the form of dividends, loans or advances due to restrictions contained in the credit facilities of our subsidiaries.

### Changes in Working Capital and Cash Flows

Our working capital deficit increased to a deficit of \$66.5 million at September 30, 2019 from a deficit of \$63.1 million at December 31, 2018 as a result of a decrease of \$6.9 million in current assets, partially offset by a decrease of \$3.4 million in current liabilities.

Current assets decreased primarily due to a decrease of \$7.7 million in cash and cash equivalents and \$6.6 million in other current assets, partially offset by increases of \$4.7 million in inventories and \$1.7 million in accounts receivables.

Our current liabilities declined by \$3.4 million at September 30, 2019 as compared to December 31, 2018 primarily due to a decrease in accounts payable and accrued expenses of \$5.9 million, a decrease of \$2.7 million in derivative liabilities and \$2.1 million in current portion of long-term debt, partially offset by an increase of \$6.9 million in current portion – operating leases as we adopted a new accounting standard. Our current liabilities include our senior secured notes in the amount of \$63.2 million, which are due on December 15, 2019, our Pekin credit facilities in the amount of approximately \$71.5 million as a result of covenant defaults, but as to which we have received temporary lender forbearance, and \$4.4 million used under our expanded credit facility at Kinergy, the extension of which expires on November 30, 2019, or earlier on two days prior notice from the lender.

Our cash and cash equivalents declined by \$7.7 million at September 30, 2019 as compared to December 31, 2018 primarily due to \$27.2 million in cash used in our operating activities primarily as a result of higher operating losses and the other factors noted below and \$2.1 million in additions to property and equipment, partially offset by \$21.6 million in cash provided by our financing activities from additional borrowings, proceeds from a contract amendment with a vendor, and sales of our common stock.

### Cash used in our Operating Activities

Cash used in our operating activities increased by \$53.3 million for the nine months ended September 30, 2019, as compared to the same period in 2018. We used \$27.2 million of cash in our operating activities during the period. Specific factors that contributed to the increase in cash used in our operating activities include:

- an increase of \$18.1 million in our consolidated net loss;
- a decrease of \$16.3 million related to accounts payable, accrued expenses and operating leases, primarily due to the timing of payments;



- a decrease of \$13.0 million related to accounts receivable, primarily due to the timing of collections;
- a decrease of \$5.9 million in our derivative instruments as a result of closing out certain positions during the period; and
- a decrease of \$11.5 million related to inventories due to higher ending inventories resulting from slower product shipments caused by weather-related transportation logistics.

These amounts were partially offset by:

- an increase of \$5.3 million in depreciation expense due to our adoption of lease accounting, resulting in increased lease assets; and
- an increase of \$8.3 million related to prepaid expenses and other assets due to the timing of payments.

*Cash used in our Investing Activities*

Cash used in our investing activities declined by \$8.7 million for the nine months ended September 30, 2019 as compared to the same period in 2018. The decrease in cash used in our investing activities is primarily due to reduced spending on capital projects during a low margin environment.

*Cash provided by our Financing Activities*

Cash provided by our financing activities increased by \$30.2 million for the nine months ended September 30, 2019 as compared to the same period in 2018. The increase in cash provided by our financing activities is primarily due to \$8.0 million in proceeds from a contract amendment with a vendor, \$3.7 million in proceeds from sales of our common stock, \$12.7 million in additional net borrowings under Kinerger's line of credit, partially offset by \$5.7 million less in principal payments on borrowings for the period.

***Kinerger Operating Line of Credit***

Kinerger maintains an operating line of credit for an aggregate amount of up to \$100.0 million. The credit facility matures on August 2, 2022. 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 1.50% to 2.00%, or up to 4.00% for additional borrowings under relaxed borrowing base credit terms through November 30, 2019, or earlier on two days prior notice from the lender. 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 Kinerger to Pacific Ethanol as reimbursement for management and other services provided by Pacific Ethanol to Kinerger are limited under the terms of the credit facility to \$1.5 million per fiscal quarter. The credit facility also includes the accounts receivable of Pacific Ag. Products, LLC, or PAP, as additional collateral. Payments that may be made by PAP to Pacific Ethanol as reimbursement for management and other services provided by Pacific Ethanol to PAP are limited under the terms of the credit facility to \$0.5 million per fiscal quarter. PAP, one of our indirect wholly-owned subsidiaries, markets our co-products and also provides raw material procurement services to our subsidiaries.

For all monthly periods in which excess borrowing 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 certain additional indebtedness (other than specific intercompany indebtedness). 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. We believe Kinergy and PAP are in compliance with this covenant. The following table summarizes Kinergy's financial covenants and actual results for the periods presented:

	<b>Three Months Ended September 30,</b>		<b>Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2018</b>	<b>2017</b>
Fixed-Charge Coverage Ratio Requirement	2.00	2.00	2.00	2.00
Actual	5.62	18.77	19.06	2.79
Excess	3.62	16.77	17.06	0.79

Pacific Ethanol has guaranteed all of Kinergy's obligations under the credit facility. As of September 30, 2019, Kinergy had an outstanding balance of \$79.7 million with additional borrowing availability under the credit facility of \$2.2 million.

#### ***Pekin Credit Facilities***

On December 15, 2016, our wholly-owned subsidiary, Pacific Ethanol Pekin, LLC, or PE Pekin, entered into term and revolving credit facilities. PE Pekin borrowed \$64.0 million under a term loan facility that matures on August 20, 2021 and \$32.0 million under a revolving credit facility that matures on February 1, 2022. The PE Pekin credit facilities are secured by a first-priority security interest in all of PE Pekin's assets. Interest initially accrued under the PE Pekin credit facilities at an annual rate equal to the 30-day LIBOR plus 3.75%, payable monthly. PE Pekin is required to make quarterly principal payments in the amount of \$3.5 million on the term loan beginning on May 20, 2017, with the remaining principal balance payable at maturity on August 20, 2021. PE Pekin is required to pay monthly in arrears a fee on any unused portion of the revolving credit facility at a rate of 0.75% per annum. Prepayment of these facilities is subject to a prepayment penalty. Under the initial terms of the credit facilities, PE Pekin was required to maintain not less than \$20.0 million in working capital and an annual debt service coverage ratio of not less than 1.25 to 1.0.

On August 7, 2017, PE Pekin amended its term and revolving credit facilities by agreeing to increase the interest rate under the facilities by 25 basis points to an annual rate equal to the 30-day LIBOR plus 4.00%. PE Pekin and its lender also agreed that PE Pekin is required to maintain working capital of not less than \$17.5 million from August 31, 2017 through December 31, 2017 and working capital of not less than \$20.0 million from January 1, 2018 and continuing at all times thereafter. In addition, the required debt service coverage ratio was reduced to 0.15 to 1.00 for the fiscal year ended December 31, 2017. PE Pekin's actual debt service coverage ratio was 0.17 to 1.00 for the fiscal year ended December 31, 2017, 0.02 in excess of the required 0.15 to 1.00. For the month ended January 31, 2018, PE Pekin was not in compliance with its working capital requirement due to larger than anticipated repair and maintenance expenses to replace faulty equipment. PE Pekin has received a waiver from its lender for this noncompliance. Further, the lender decreased PE Pekin's working capital covenant requirement to \$13.0 million for the month ended February 28, 2018, excluding from the calculation a \$3.5 million principal payment previously due in May 2018.

On March 30, 2018, PE Pekin further amended its term loan facility by reducing the amount of working capital it is required to maintain to not less than \$13.0 million from March 31, 2018 through November 30, 2018 and not less than \$16.0 million from December 1, 2018 and continuing at all times thereafter. In addition, a principal payment in the amount of \$3.5 million due for May 2018 was deferred until the maturity date of the term loan.

At December 31, 2018 and January 31, 2019, PE Pekin experienced certain covenant violations under its term and revolving credit facilities. In February 2019, PE Pekin reached an agreement with its lender to forbear until March 11, 2019 and to defer a \$3.5 million principal payment until that date.

On March 21, 2019, PE Pekin amended its term and revolving credit facilities by agreeing to increase the interest rate under the facilities by 125 basis points to an annual rate equal to the 30-day LIBOR plus 5.00%. PE Pekin and its lender also agreed that it is required to maintain working capital of not less than \$15.0 million from March 21, 2019 through July 15, 2019 and working capital of not less than \$30.0 million from July 15, 2019 and continuing at all times thereafter. On July 15, 2019, PE Pekin and its lender agreed to a further amendment extending the aforementioned July 15, 2019 dates to November 15, 2019. On August 6, 2019, PE Pekin paid its \$3,500,000 principal payment scheduled for August 20, 2019.

Under these amendments, the lenders agreed to temporarily waive financial covenant violations, working capital maintenance violations and intercompany accounts receivable collections violations that occurred with respect to the credit agreement. The lenders also agreed to defer all scheduled principal payments, including further deferral of principal payments in the amount of \$3.5 million each due on February 20, 2019 and May 20, 2019.

The waivers and principal deferral expire on November 15, 2019, or earlier in the case of an event of default, at which time the waivers will become permanent if PE Pekin's parent, Pacific Ethanol Central, LLC, or PE Central, has made a contribution to PE Pekin in an amount equal to \$30.0 million, minus the then-existing amount of the PE Pekin's working capital, plus the amount of any accounts receivable owed by PE Central to PE Pekin, plus \$12.0 million, or the Parent Contribution Amount. In addition, if the Parent Contribution Amount is timely received, the lenders agreed to waive the PE Pekin's debt service coverage ratio financial covenant for the year ended December 31, 2019. If the Parent Contribution Amount is not timely made, then the temporary waivers will automatically expire.

PE Pekin is also required to pay by November 15, 2019 the aggregate amount of \$10.5 million representing all deferred and unpaid scheduled principal payments and all additional scheduled principal payments for the remainder of 2019. As of September 30, 2019, PE Pekin had no additional borrowing availability under its revolving credit facility.

We are in the process of documenting an extension of the waivers and principal deferral with our lender, initially for a short-term extension to December 15, 2019, with the intention of working with all of our lenders on a comprehensive long-term solution.

#### ***ICP Credit Facilities***

On September 15, 2017, ICP entered into term and revolving credit facilities. ICP borrowed \$24.0 million under a term loan facility that matures on September 20, 2021 and \$18.0 million under a revolving credit facility that matures on September 1, 2022. The ICP credit facilities are secured by a first-priority security interest in all of ICP's assets. Interest accrues under the ICP credit facilities at an annual rate equal to the 30-day LIBOR plus 3.75%, payable monthly. ICP is required to make quarterly consecutive principal payments in the amount of \$1.5 million. ICP is required to pay monthly in arrears a fee on any unused portion of the revolving credit facility at a rate of 0.75% per annum. Prepayment of these facilities is subject to a prepayment penalty. Under the terms of the credit facilities, ICP is required to maintain not less than \$8.0 million in working capital and an annual debt service coverage ratio of not less than 1.5 to 1.0, beginning for the year ended December 31, 2018. As of September 30, 2019, ICP had no additional borrowing availability under its revolving credit facility. As of September 30, 2019, ICP did not meet its minimum working capital requirement, however, ICP's lender subsequently waived the minimum working capital deficiency. As of the filing of this report, we believe ICP is in compliance with its working capital requirement.

### ***Pacific Ethanol, Inc. Notes Payable***

On December 12, 2016, we entered into a Note Purchase Agreement with five accredited investors. On December 15, 2016, under the terms of the Note Purchase Agreement, we sold \$55.0 million in aggregate principal amount of our senior secured notes to the investors in a private offering for aggregate gross proceeds of 97% of the principal amount of the notes sold. On June 26, 2017, we entered into a second Note Purchase Agreement with five accredited investors. On June 30, 2017, under the terms of the second Note Purchase Agreement, we sold an additional \$13.9 million in aggregate principal amount of our senior secured notes to the investors in a private offering for aggregate gross proceeds of 97% of the principal amount of the notes sold, for a total of \$68.9 million in aggregate principal amount of senior secured notes.

The notes mature on December 15, 2019. Interest on the notes accrues at an annual rate equal to (i) the greater of 1% and the three-month LIBOR, plus 7.0% from the closing through December 14, 2017, (ii) the greater of 1% and three-month LIBOR, plus 9% between December 15, 2017 and December 14, 2018, and (iii) the greater of 1% and three-month LIBOR plus 11% between December 15, 2018 and the maturity date. The interest rate increases by an additional 2% per annum above the interest rate otherwise applicable upon the occurrence and during the continuance of an event of default until cured. Interest is payable in cash in arrears on the 15th calendar day of each March, June, September and December. We are required to pay all outstanding principal and any accrued and unpaid interest on the notes on the maturity date. We may, at our option, prepay the outstanding principal amount of the notes at any time without premium or penalty. Pacific Ethanol, Inc. issued the notes, which are secured by a first-priority security interest in the equity interest held by Pacific Ethanol, Inc. in its wholly-owned subsidiary, PE Op. Co., which indirectly owns our plants located on the West Coast.

We are in negotiations with our senior noteholders to refinance this indebtedness and extend the maturity date as part of a comprehensive long-term solution with all of our lenders.

### **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, 2019 and 2018.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not applicable.

#### ITEM 4. CONTROLS AND PROCEDURES.

##### *Evaluation of Disclosure Controls and Procedures*

We conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15(c) 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, 2019 that our disclosure controls and procedures were effective at a reasonable assurance level.

##### *Changes in Internal Control over Financial Reporting*

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

##### *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.

### 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 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

***If we are unable to timely implement our strategic initiatives and raise sufficient capital on suitable terms, we will likely have insufficient liquidity to operate our business through the next twelve months, or earlier, resulting in a material adverse effect on our business, prospects, financial condition and results of operations, which could result in a need to seek protection under the U.S. Bankruptcy Code.***

We are engaged in strategic initiatives to reduce our debt levels and provide additional liquidity to operate our business. These initiatives will likely require the prompt sale of certain production assets as well as other capital raising activities. Financing, whether through a sale of production assets or other capital raising activities, may not be available on a timely basis, in sufficient amounts, on terms acceptable to us, or at all. In addition, any equity financing may cause significant dilution to existing stockholders and any debt financing or other financing of securities senior to our common stock will likely include financial and other covenants that will restrict our flexibility, including our ability to pay dividends on our common stock.

If we are unable to timely sell production assets or raise additional capital, or both, in sufficient amounts and on suitable terms, if we do not experience a sustained margin improvement, or if we are unable to further defer principal and/or interest payments or extend the maturity date of our debt, we will likely have insufficient liquidity to operate our business through the next twelve months, or earlier depending on margins, operating cash flows and lender forbearance. A failure to timely implement our strategic initiatives on suitable terms will have a material adverse effect on our business, prospects, financial condition and results of operations and could result in a need to seek protection under the U.S. Bankruptcy Code for all or some portion of our production asset and other subsidiaries, at the parent company level, or both.

***We may not have sufficient liquidity to satisfy our obligations under our Pekin credit facility.***

PE Central is obligated to contribute to PE Pekin, on or prior to November 15, 2019, the amount of \$30.0 million, minus the then-existing amount of PE Pekin's working capital, plus the amount of any accounts receivable owed by PE Central to PE Pekin, plus \$12.0 million. In addition, PE Pekin is required to pay to the lender under the Pekin credit facility, on or prior to November 15, 2019, the amount of \$10.5 million representing all deferred and unpaid scheduled principal payments and all additional scheduled principal payments for the remainder of 2019. PE Central and PE Pekin will not be able to contribute and pay the amounts then due and will require an extension from the lender. We cannot assure you that we will be able to obtain an extension, or if an extension is obtained, that we will have sufficient financial resources or that we will be able to sell production assets or arrange financing to contribute and pay the amounts later due. If PE Central is unable to contribute or if PE Pekin is unable to pay the amounts due under our Pekin credit facility, and if no further extension is obtained, our lender could declare all debt obligations due and payable and foreclose on its security interest in our Pekin production assets which would force us to seek protection under the U.S. Bankruptcy Code for our Pekin subsidiaries and could result in a loss of those assets, any of which would have a material adverse effect on our business, prospects, financial condition and results of operations.

***We may not have sufficient liquidity to satisfy our obligations under our senior secured notes.***

We are obligated to make interest payments of approximately \$2.0 million per quarter under our senior secured notes. In addition, the entire outstanding principal amount of the notes, currently approximately \$63.2 million, is due and payable on December 15, 2019. Our obligations under these notes are direct obligations of Pacific Ethanol, Inc. and are secured by our ownership interests in our West Coast production assets. We will likely not be able to pay the amounts then due under the notes and will require an extension from the senior noteholders. We cannot assure you that we will be able to obtain an extension, or if an extension is obtained, that we will have sufficient financial resources or that we will be able to sell production assets or arrange financing to pay the amounts later due under the notes. If we are unable to pay the amounts due under the notes, and if no further extension is obtained, our lenders could pursue a claim directly against Pacific Ethanol, Inc. and foreclose on their security interest in our West Coast production assets resulting in a loss of those assets, which would have a material adverse effect on our business, prospects, financial condition and results of operations. In addition, we may be forced to seek protection under the U.S. Bankruptcy Code.

***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.

***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, 2019 and 2018, we incurred consolidated net losses of approximately \$51.5 million and \$33.4 million, respectively. For the years ended December 31, 2018 and 2017, we incurred consolidated net losses of approximately \$67.9 million and \$38.1 million, respectively. For the nine months ended September 30, 2019, we incurred negative operating cash flows of approximately \$27.2 million. We may incur losses and negative operating cash flow in the future. We expect to rely on cash on hand, cash, if any, generated from our operations, borrowing availability under our lines of credit and proceeds from future financing activities, if any, 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 other ethanol co-products at some or all of our plants.

***Increased ethanol production or higher inventory levels 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. 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 a record 16.1 billion gallons in 2018. In addition, if ethanol production margins improve, we anticipate that owners of ethanol production facilities will increase production levels, thereby resulting in more abundant ethanol supplies and inventories. Any increase in the supply of ethanol may not be commensurate with increases in the demand for 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 \$1.20 to \$1.53 per gallon during 2018, \$1.26 to \$1.67 per gallon during 2017 and \$1.31 to \$1.75 per gallon during 2016. 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 production or distribution 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 and specialty alcohols also requires a significant and uninterrupted supply of other raw materials and energy, primarily water, electricity and natural gas. 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. During 2014, poor weather caused disruptions in rail transportation, which slowed the delivery of ethanol by rail, the principle manner by which ethanol from our plants located in the Midwest is transported to market. Disruptions in production or distribution 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 could delay transport of our products to market, and may require us to halt production at one or more plants, any of 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 and financial condition.***

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. In addition, our open contract positions may require cash deposits to cover margin calls, negatively impacting our liquidity. As a result, our results of operations and financial condition may be adversely affected by our hedging activities and 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, specialty alcohols and 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 could 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. 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.

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

Our business following recent acquisitions is larger than the individual businesses of Pacific Ethanol and the acquired companies prior to the acquisitions. Our future success depends, in part, upon our ability to manage our expanded business, which may pose continued 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 plant indebtedness exposes us to many risks that could negatively impact our business, our business prospects, our liquidity and our cash flows and results of operations.***

Our plants located in the Midwest have significant indebtedness. Unlike traditional term debt, the terms of our plant loans require amortizing payments of principal over the lives of the loans and our borrowing availability under our plant credit facilities periodically and automatically declines through the maturity dates of those facilities. Our plant indebtedness 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 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;
- 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; and/or
- limit our ability to procure additional financing for working capital or other purposes.

Our term loans and credit facilities also require compliance with numerous financial and other covenants. In addition, our plant indebtedness bears interest at variable rates. An increase in prevailing interest rates would likewise increase our debt service obligations and could materially and adversely affect our cash flows and results of operations.

Our ability to generate sufficient cash to make all principal and interest payments when due depends on our business performance, which is subject to a variety of factors beyond our control, including the supply of and demand for ethanol and co-products, ethanol and co-product prices, the cost of key production inputs, and many other factors incident to the ethanol production and marketing industry. We cannot provide any assurance that we will be able to timely satisfy such obligations. Our failure to timely satisfy our debt obligations could have a material adverse effect on our business, business prospects, liquidity, cash flows 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 EPA has implemented the RFS pursuant to the Energy Policy Act of 2005 and the Energy Independence and Security Act of 2007. The RFS program sets annual quotas for the quantity of renewable fuels (such as ethanol) that must be blended into motor fuels consumed in the United States. The domestic market for ethanol is significantly impacted by federal mandates under the RFS program for volumes of renewable fuels (such as ethanol) required to be blended with gasoline. Future demand for ethanol will be largely dependent upon incentives to blend ethanol into motor fuels, including the price of ethanol relative to the price of gasoline, the relative octane value of ethanol, constraints in the ability of vehicles to use higher ethanol blends, the RFS, and other applicable environmental requirements. Any significant increase in production capacity above the RFS minimum requirements may have an adverse impact on ethanol prices.

Legislation aimed at reducing or limiting the renewable fuel use required by the RFS has been introduced in the United States Congress. On May 7, 2019, the Food and Fuel Consumer Protection Act of 2019 (H.R. 2540), was introduced in the House of Representatives. The bill aims to prevent RFS blending obligations from requiring ethanol to make up more than 9.7 percent of the total volume of gasoline projected to be sold or introduced into commerce in the United States for a given calendar year. The bill was referred to a congressional committee, which will consider it before possibly sending the bill to the House of Representatives as a whole. On July 25, 2019, a bill (S.2298) was introduced in the United States Senate, to amend the Clean Air Act to eliminate the corn ethanol mandate for renewable fuel. The bill was read twice and referred to the Committee on Environment and Public Works. Our results of operations, cash flows and financial condition could be adversely impacted if any legislation is enacted that reduces or limits the RFS volume requirements.

Under the provisions of the Clean Air Act, as amended by the Energy Independence and Security Act of 2007, the EPA has limited authority to waive or reduce the mandated 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. Our results of operations, cash flows and financial condition could be adversely impacted if the EPA reduces the RFS requirements from the statutory levels specified in the 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.***

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, POET, LLC, Green Plains, Inc. and Valero Renewable Fuels Company, LLC, 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 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.

***Our ability to utilize net operating loss carryforwards and certain other tax attributes may be limited.***

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, or 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, 2018, of our \$183.2 million of federal NOLs, we had \$88.5 million of federal NOLs that are limited in their annual use under Section 382 of the Code beyond 2019. 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.

***Our business is not diversified. 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.***

Our business is not diversified. Our sales are highly concentrated within the ethanol production and marketing industry. We expect to be substantially focused on the production and marketing of ethanol and its co-products for the foreseeable future. An industry shift away from ethanol, or the emergence of new competing products, may significantly reduce the demand for ethanol. However, we may be unable to timely alter our business focus away from the production and marketing of ethanol to other renewable fuels or competing products. A downturn in the demand for ethanol would likely materially and adversely affect our sales and profitability.

***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, 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. 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 2018, 2017 and 2016, two customers accounted for an aggregate of approximately \$367 million, \$447 million and \$467 million in net sales, representing 25%, 27% and 29% 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 volume or dollar value of ethanol or co-products, 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.

***We incur significant expenses to maintain and upgrade our operating equipment and plants, and any interruption in the operation of our facilities may harm our operating performance.***

We regularly incur significant expenses to maintain and upgrade our equipment and facilities. The machines and equipment we use to produce our products are complex, have many parts and some are run on a continuous basis. We must perform routine maintenance on our equipment and will have to periodically replace a variety of parts such as motors, pumps, pipes and electrical parts. In addition, our facilities require periodic shutdowns to perform major maintenance and upgrades. These scheduled facility shutdowns result in decreased sales and increased costs in the periods in which a shutdown occurs and could result in unexpected operational issues in future periods as a result of changes to equipment and operational and mechanical processes made during the shutdown period.

***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 ramifications of these risks are greater in magnitude 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, loans or advances to us by the terms of their financing arrangements. At September 30, 2019, we had approximately \$184.8 million of net assets at our subsidiaries that were not available to be distributed in the form of dividends, distributions, loans or advances due to restrictions contained in their financing arrangements.

### **Risks Related to Ownership of our Common Stock**

***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;
- changes in market valuations of companies similar to us;

- stock market price and volume fluctuations generally;
- regulatory developments or increased enforcement;
- fluctuations in our quarterly or annual operating results;
- the timing and results of our strategic initiatives;
- additions or departures of key personnel;
- our ability to obtain any necessary financing;
- our financing activities and future sales of our common stock or other securities, as well as stockholder dilution; and
- our ability to maintain contracts that are critical to our operations.

Demand for ethanol could 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 and annual results are not necessarily indicative of future performance for any particular period, and we may not experience revenue growth or profitability on a quarterly or an annual basis.

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

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

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

### **Unregistered Sales of Equity Securities**

None.

### **Use of Proceeds from Registered Securities**

Not applicable.

### **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

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.



At September 30, 2019, we had approximately \$184.8 million of net assets at our subsidiaries that were not available to be transferred to Pacific Ethanol, Inc. in the form of dividends, loans or advances due to restrictions contained in the credit facilities of our subsidiaries.

For each of the three months ended September 30, 2019 and 2018, we declared and paid in cash an aggregate of \$0.3 million in dividends on our Series B Cumulative Convertible Preferred Stock, or 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. 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.**

Not applicable.

**ITEM 6. EXHIBITS.**

Exhibit Number	Description (#)
10.1	<a href="#">Amendment No. 5 to Credit Agreement dated July 15, 2019 by and among Pacific Ethanol Pekin, LLC, Compeer Financial, PCA and CoBank, ACB (1)</a>
10.2	<a href="#">Amendment No. 2 to Second Amended and Restated Credit Agreement dated July 31, 2019 by and among Kinergy Marketing LLC, Pacific Ag.Products, LLC, the parties thereto from time to time as lenders and Wells Fargo Bank, National Association (2)</a>
10.3	<a href="#">At Market Issuance Sales Agreement dated as of September 19, 2019, by and between Pacific Ethanol, Inc. and H.C. Wainwright &amp; Co., LLC (3)</a>
31.1	<a href="#">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 (*)</a>
31.2	<a href="#">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 (*)</a>
32.1	<a href="#">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 (*)</a>
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.

(#) All of the agreements filed as exhibits to this report contain representations and warranties made by the parties thereto. The assertions embodied in such representations and warranties are not necessarily assertions of fact, but a mechanism for the parties to allocate risk. Accordingly, investors should not rely on the representations and warranties as characterizations of the actual state of facts or for any other purpose at the time they were made or otherwise.

(1) Filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 19, 2019.

(2) Filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 6, 2019.

(3) Filed as an exhibit to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 19, 2019.

**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.

Dated: November 12, 2019

**PACIFIC ETHANOL, INC.**

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

**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 officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/S/ NEIL M. KOEHLER

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

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

I, Bryon T. McGregor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pacific Ethanol, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ BRYON T. MCGREGOR  
Bryon T. McGregor  
Chief Financial Officer  
(Principal Financial Officer)

**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, 2019 (the "Report"), the undersigned hereby certify in their capacities as Chief Executive Officer and Chief Financial Officer of the Company, respectively, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: November 12, 2019

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

Dated: November 12, 2019

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.