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 **June 30, 2020**

☐ **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	**41-2170618**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 Capitol Mall, Suite 2060, Sacramento, California	**95814**
(Address of principal executive offices)	(zip code)

(916) 403-2123
(Registrant's telephone number, including area code)

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

Title of each Class	Trading Symbol	Name of Exchange on Which Registered
Common Stock, $0.001 par value	PEIX	The Nasdaq Stock Market LLC (Nasdaq Capital Market)

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 ☒

As of August 12, 2020, there were 56,985,217 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)

	June 30, 2020 (unaudited)	December 31, 2019 *
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 29,783	$ 18,997
Accounts receivable, net (net of allowance for doubtful accounts of $16 and $39, respectively)	48,871	74,307
Inventories	46,326	60,600
Prepaid inventory	3,180	1,528
Assets held-for-sale	—	69,764
Derivative instruments	—	2,438
Other current assets	3,630	4,430
Total current assets	131,790	232,064
Property and equipment, net	317,950	332,526
Other Assets:		
Right of use operating lease assets, net	22,625	24,346
Notes receivable	16,500	—
Assets held-for-sale	—	16,500
Intangible assets	2,678	2,678
Other assets	5,586	4,381
Total other assets	47,389	47,905
Total Assets	$ 497,129	$ 612,495

* Amounts derived from the audited consolidated financial statements for the year ended December 31, 2019.

See accompanying notes to consolidated financial statements.

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

	June 30, 2020 (unaudited)	December 31, 2019 *
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable – trade	$ 27,721	$ 29,277
Accrued liabilities	13,628	22,331
Current portion – operating leases	2,898	3,457
Current portion – long-term debt	96,000	63,000
Liabilities held-for-sale	—	34,413
Derivative instruments	—	1,860
Other current liabilities	6,707	6,060
Total current liabilities	146,954	160,398
Long-term debt, net of current portion	95,888	180,795
Operating leases, net of current portion	20,164	21,171
Other liabilities	23,382	23,086
Total Liabilities	286,388	385,450
Commitments and Contingencies (Note 6)		
Stockholders' Equity:		
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 June 30, 2020 and December 31, 2019; Series B: 1,581 shares authorized; 927 shares issued and outstanding as of June 30, 2020 and December 31, 2019; liquidation preference of $19,025 as of June 30, 2020	1	1
Common stock, $0.001 par value; 300,000 shares authorized; 55,482 and 55,508 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	55	56
Non-voting common stock, $0.001 par value; 3,553 shares authorized; 1 share issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	—	—
Additional paid-in capital	944,035	942,307
Accumulated other comprehensive loss	(2,370)	(2,370)
Accumulated deficit	(730,980)	(720,214)
Total Pacific Ethanol, Inc. Stockholders' Equity	210,741	219,780
Noncontrolling interests	—	7,265
Total Stockholders' Equity	210,741	227,045
Total Liabilities and Stockholders' Equity	$ 497,129	$ 612,495

* Amounts derived from the audited consolidated financial statements for the year ended December 31, 2019.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net sales	$ 212,074	$ 346,301	$ 523,478	$ 702,104
Cost of goods sold	180,892	342,330	505,186	700,422
Gross profit	31,182	3,971	18,292	1,682
Selling, general and administrative expenses	8,629	6,708	18,841	14,943
Income (loss) from operations	22,553	(2,737)	(549)	(13,261)
Interest expense, net	(4,647)	(5,115)	(9,954)	(9,851)
Fair value adjustments	(1,314)	—	(641)	—
Other income (expense), net	(1,738)	(438)	(1,158)	661
Income (loss) before benefit for income taxes	14,854	(8,290)	(12,302)	(22,451)
Benefit for income taxes	—	—	—	—
Consolidated net income (loss)	14,854	(8,290)	(12,302)	(22,451)
Net loss attributed to noncontrolling interests	110	644	2,166	1,915
Net income (loss) attributed to Pacific Ethanol, Inc.	$ 14,964	$ (7,646)	$ (10,136)	$ (20,536)
Preferred stock dividends	$ (315)	$ (315)	$ (630)	$ (627)
Net income (loss) available to common stockholders	$ 14,649	$ (7,961)	$ (10,766)	$ (21,163)
Net income (loss) per share, basic and diluted	$ 0.27	$ (0.17)	$ (0.20)	$ (0.45)
Weighted-average shares outstanding, basic and diluted	54,498	47,771	54,163	46,651

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Operating Activities:		
Consolidated net loss	$ (12,302)	$ (22,451)
Adjustments to reconcile consolidated net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization of intangibles	18,806	23,915
Amortization of deferred financing fees	497	629
Fair value adjustments	641	—
Interest added to debt	133	—
Non-cash compensation	1,441	1,518
(Gain) loss on derivative instruments	—	(4,885)
Bad debt expense	1	27
Changes in operating assets and liabilities:		
Accounts receivable	25,435	913
Inventories	14,274	(19,670)
Prepaid expenses and other assets	(403)	7,994
Prepaid inventory	(1,652)	(172)
Operating leases	(2,348)	(5,169)
Assets held-for-sale	1,012	—
Liabilities held-for-sale	9,345	—
Accounts payable and accrued expenses	(9,225)	(8,403)
Net cash provided by (used in) operating activities	45,655	(25,754)
Investing Activities:		
Proceeds from PAL Sale	19,896	—
Additions to property and equipment	(2,510)	(1,536)
Net cash provided by (used in) investing activities	17,386	(1,536)
Financing Activities:		
Net (payments on) proceeds from Kinergy's line of credit	(36,897)	20,881
Proceeds from issuance of common stock	282	3,670
Proceeds from borrowings	9,860	—
Principal payments on borrowings	(25,500)	(6,748)
Preferred stock dividends paid	—	(627)
Net cash (used in) provided by financing activities	(52,255)	17,176
Net change in cash and cash equivalents	10,786	(10,114)
Cash and cash equivalents at beginning of period	18,997	26,627
Cash and cash equivalents at end of period	$ 29,783	$ 16,513
Supplemental Information:		
Interest paid	$ 9,733	$ 9,088
Accrued preferred stock dividends	$ 630	$ —
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	Accumulated	Accum. Other Comprehensive	Non-Controlling	
	Shares	Amount	Shares	Amount	Capital	Deficit	Income (Loss)	Interests	Total
Balances, January 1, 2020	927	$ 1	55,508	$ 56	$ 942,307	$ (720,214)	$ (2,370)	$ 7,265	$ 227,045
Stock-based compensation expense – restricted stock issued to employees and directors, net of cancellations and tax	—	—	(38)	(4)	868	—	—	—	864
Issuances of common stock	—	—	421	4	278	—	—	—	282
Preferred stock dividends	—	—	—	—	—	(315)	—	—	(315)
Net loss	—	—	—	—	—	(25,100)	—	(2,056)	(27,156)
Balances, March 31, 2020	927	$ 1	55,891	$ 56	$ 943,453	$ (745,629)	$ (2,370)	$ 5,209	$ 200,720
Stock-based compensation expense – restricted stock issued to employees and directors, net of cancellations and tax	—	—	(409)	(1)	582	—	—	—	581
Preferred stock dividends	—	—	—	—	—	(315)	—	—	(315)
Sale of interests in PAL	—	—	—	—	—	—	—	(5,099)	(5,099)
Net income (loss)	—	—	—	—	—	14,964	—	(110)	14,854
Balances, June 30, 2020	927	$ 1	55,482	$ 55	$ 944,035	$ (730,980)	$ (2,370)	$ —	$ 210,741

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Accum. Other Comprehensive	Non-Controlling	
	Shares	Amount	Shares	Amount	Capital	Deficit	Income (Loss)	Interests	Total
Balances, January 1, 2019	927	$ 1	45,771	$ 46	$ 932,179	$ (630,000)	$ (2,459)	$ 19,598	$ 319,365
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)
Balances, March 31, 2019	927	$ 1	48,884	$ 49	$ 936,643	$ (643,202)	$ (2,459)	$ 18,327	$ 309,359
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)
Balances, June 30, 2019	927	$ 1	49,838	$ 50	$ 937,208	$ (651,163)	$ (2,459)	$ 17,683	$ 301,320

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 through April 15, 2020. As discussed in Note 2, on April 15, 2020, the Company completed the sale of its ownership interests in Pacific Aurora, LLC ("Pacific Aurora"), thereby divesting the Company's two ethanol production facilities located in Nebraska.

The Company is a leading producer and marketer of high quality alcohol products and low-carbon renewable fuels in the United States. The Company's plants in Illinois and Nebraska (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's four ethanol plants in California, Oregon and Idaho (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.

Following the Company's sale of its interest in Pacific Aurora, the Company has a combined production capacity of 450 million gallons per year, markets, on an annualized basis, nearly 1.0 billion gallons combined of high quality alcohol and ethanol, based on historical volumes, 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_2, based on historical volumes.

As of June 30, 2020, the Company was operating at approximately 50% of its 450 million gallon annual production capacity. 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, 2019. 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, 2019. 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, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During the three months ended June 30, 2020, the Company continued to experience significant adverse conditions in the ethanol fuel market as demand and pricing were at record lows due to reduced domestic transportation and resulting lower gasoline demand. In response, the Company reduced production at its facilities by more than 50% in an effort to conserve capital as a result of the substantial reduction in fuel ethanol demand due to stay-at-home orders issued in response to the coronavirus pandemic. The Company, however, has not only continued producing and selling its high quality alcohol, but also converted a portion of its fuel-grade ethanol production to higher quality alcohol to respond to increased demand from the sanitizer and disinfectant markets. These sales of high quality alcohol were at a mix of fixed and spot pricing, both of which resulted in positive net income and cash flows from operations during the quarter. The Company expects robust demand for its high quality alcohol to continue for at least the next twelve months as the Company continues to enter fixed-price contracts and hedge corn input costs, locking in profit margins on sales of high quality alcohol.

At June 30, 2020, the Company had $29.8 million in cash and $10.0 million available under Kinergy's operating line of credit. During the first half of 2020, the Company generated $45.7 million in cash from its operations and realized $19.9 million in net cash proceeds from the sale of its interest in Pacific Aurora. These positive cash flows have allowed the Company to make net payments totaling $52.3 million on its debt. Further, subsequent to June 30, 2020, the Company made an additional $9.2 million in payments on its term debt.

The Company, as previously agreed with its lenders, has presented and continues to negotiate a comprehensive plan to restructure its assets and liabilities. The Company has appointed a chief restructuring officer to facilitate the development of such a plan and to assist in the Company's current strategic initiatives. The Company expects the negotiated plan may include additional assets sales, soliciting new investments in its assets, further debt payments and further reductions to overhead expenses.

The Company believes that as of the date of this report, it is in compliance with all debt covenants contained in its credit facilities, except the Company's obligation to obtain lender approval of a comprehensive plan to restructure its assets and liabilities with respect to its Pekin and ICP lenders. The Company has appointed a chief restructuring officer to facilitate the development of such a plan and has presented and continues to negotiate the plan with its lenders. As a result, the Company is not in compliance with its obligations to its lenders, which could result in their acceleration of the Company's debt. Although the Company does not expect such an outcome, especially in light of its financial performance and debt prepayments during the second quarter and thereafter, the Company does not have sufficient liquidity or capital resources to immediately repay its debt if accelerated. Even though the Company doesn't believe acceleration is probable, it has classified its related debt as current on the Company's consolidated balance sheets. Given the above noted projected cash flows from operations and debt repayments, the Company believes it has alleviated substantial doubt about its ability to continue as a going concern. Therefore, the Company believes it has sufficient liquidity to meet its anticipated working capital, debt service and other liquidity needs for 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 $40,772,000 and $63,736,000 at June 30, 2020 and December 31, 2019, respectively, were used as collateral under Kinergy's operating line of credit. The allowance for doubtful accounts was $16,000 and $39,000 as of June 30, 2020 and December 31, 2019, respectively. The Company recorded a bad debt recovery of $18,000 and a bad debt expense of $1,000 for the three months ended June 30, 2020 and 2019, respectively. The Company recorded a bad debt expense of $1,000 and $27,000 for the six months ended June 30, 2020 and 2019, respectively.

Financial Instruments – The carrying values of cash and cash equivalents, accounts receivable, derivative assets, accounts payable, accrued liabilities and derivative liabilities are reasonable estimates of their fair values because of the short maturity of these items. The carrying value of the Company's senior secured notes were recorded at fair value at December 31, 2019 and are considered Level 2 fair value measurements. The Company believes their carrying value approximates fair value at June 30, 2020. The Company believes the carrying value of its notes receivable are not considered materially different than fair value due to their recent issuances, and other long-term debt instruments are not considered materially different than fair value because the interest rates on these instruments are variable, and are considered Level 2 fair value measurements.

Estimates and Assumptions – The preparation of the consolidated financial statements in conformity with GAAP 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. PACIFIC AURORA.

On December 19, 2019, Pacific Ethanol Central, LLC ("PE Central") entered into a term sheet covering the proposed sale of its 73.93% ownership interest in Pacific Aurora to Aurora Cooperative Elevator Company ("ACEC") for $52.8 million, and as a result, the Company determined that as of December 31, 2019, the long-lived assets of Pacific Aurora should be classified as held-for-sale.

On April 15, 2020, the Company closed the sale of its ownership interest in Pacific Aurora and preliminarily received total consideration of $52.8 million, subject to working capital adjustments of approximately $35.3 million, resulting in cash proceeds of $19.9 million and the balance of $16.5 million in long-term ACEC promissory notes, resulting in a net loss on sale of approximately $1.4 million, recorded as other income (expense) in the Company's consolidated statements of operations. Approximately $14.5 million of the cash proceeds were used to repay a portion of the Company's term debt.

The Company received two promissory notes in the amounts of $8.6 million and $7.9 million as part consideration for the sale, both maturing on April 15, 2025. The $8.6 million note accrues interest at an annual rate of 5.00%. Interest payments are due quarterly beginning July 1, 2020 and principal payments of $0.4 million are due quarterly beginning July 1, 2021. The $7.9 million note accrues interest at an annual rate of 4.50%. Interest payments are due quarterly beginning July 1, 2020 and principal payments of $0.4 million are due quarterly beginning January 3, 2022.

In addition, upon the sale, the Company no longer has noncontrolling interests on its balance sheet and no longer records income (loss) of noncontrolling interests for future periods.

For the three months ended June 30, 2020 and 2019, Pacific Aurora contributed less than $0.1 million and $45.4 million in net sales, $0.5 million and $2.5 million in pre-tax loss, and $0.1 million and $0.6 million in net loss attributed to noncontrolling interests, respectively. For the six months ended June 30, 2020 and 2019, Pacific Aurora contributed $39.6 million and $81.9 million in net sales, $8.4 million and $7.4 million in pre-tax loss, and $2.2 million and $1.9 million in net loss attributed to noncontrolling interests, respectively.

3. SEGMENTS.

The Company reports its financial and operating performance in two segments: (1) ethanol production, which includes the production and sale of high quality alcohol, ethanol 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 high quality alcohol, ethanol 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net Sales				
Production, recorded as gross:				
Ethanol/alcohol sales	$ 105,321	$ 194,394	$ 289,989	$ 373,783
Co-product sales	35,328	64,679	104,129	133,485
Intersegment sales	503	421	1,097	784
Total production sales	141,152	259,494	395,215	508,052
Marketing and distribution:				
Ethanol/alcohol sales, gross	$ 71,118	$ 86,754	$ 128,624	$ 193,908
Ethanol/alcohol sales, net	307	474	736	928
Intersegment sales	893	1,942	2,785	3,760
Total marketing and distribution sales	72,318	89,170	132,145	198,596
Intersegment eliminations	(1,396)	(2,363)	(3,882)	(4,544)
Net sales as reported	$ 212,074	$ 346,301	$ 523,478	$ 702,104
Cost of goods sold:				
Production	$ 113,196	$ 257,187	$ 382,857	$ 515,782
Marketing and distribution	69,092	87,741	126,211	189,569
Intersegment eliminations	(1,396)	(2,598)	(3,882)	(4,929)
Cost of goods sold as reported	$ 180,892	$ 342,330	$ 505,186	$ 700,422
Income (loss) before benefit for income taxes:				
Production	$ 17,811	$ (7,117)	$ (7,219)	$ (24,683)
Marketing and distribution	1,664	(129)	2,605	5,989
Corporate activities	(4,621)	(1,044)	(7,688)	(3,757)
	$ 14,854	$ (8,290)	$ (12,302)	$ (22,451)
Depreciation and amortization:				
Production	$ 9,034	$ 10,199	$ 18,540	$ 23,557
Corporate activities	79	113	266	358
	$ 9,113	$ 10,312	$ 18,806	$ 23,915
Interest expense:				
Production	$ 1,623	$ 2,048	$ 3,739	$ 3,755
Marketing and distribution	313	774	940	1,362
Corporate activities	2,711	2,293	5,275	4,734
	$ 4,647	$ 5,115	$ 9,954	$ 9,851

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

	June 30, 2020	December 31, 2019
Total assets:		
Production	$ 397,331	$ 492,060
Marketing and distribution	82,868	106,863
Corporate assets	16,930	13,572
	$ 497,129	$ 612,495

4. INVENTORIES.

Inventories consisted primarily of bulk high quality alcohol, ethanol, 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 $1,290,000 valuation adjustment as of June 30, 2020 and December 31, 2019, respectively. Inventory balances consisted of the following (in thousands):

	June 30, 2020	December 31, 2019
Finished goods	$ 28,810	$ 38,194
Work in progress	3,018	7,426
Raw materials	6,655	7,890
Low-carbon and RIN credits	6,443	5,690
Other	1,400	1,400
Total	$ 46,326	$ 60,600

5. DEBT.

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

	June 30, 2020	December 31, 2019
Kinergy line of credit	$ 41,441	$ 78,338
Pekin term loan	26,000	39,500
Pekin revolving loan	32,000	32,000
ICP term loan	—	12,000
ICP revolving loan	18,000	18,000
CARES Act loans	9,860	—
Parent notes payable	65,782	65,649
	193,083	245,487
Less unamortized debt premium	346	461
Less unamortized debt financing costs	(1,541)	(2,153)
Less short-term portion	(96,000)	(63,000)
Long-term debt	$ 95,888	$ 180,795

PE Pekin Credit Facilities – On March 20, 2020, Pacific Ethanol Pekin, LLC ("PE Pekin") and its lender agreed to defer $1.0 million in aggregate interest payments due March 20, 2020 and April 20, 2020 until May 20, 2020. On that same date, the Company granted to the lender a security interest in all of the Company's equity interests in PE Op Co., which indirectly owns the Company's plants located on the West Coast. The Company and certain subsidiaries also entered into intercreditor agreements with the PE Pekin and Illinois Corn Processing, LLC ("ICP") lenders, and the agent for the Company's senior secured noteholders, to address issues of priority and the allocation of proceeds from asset sales. In July 2020, the Company reached a confidential settlement of an outstanding dispute resulting in a gain and cash proceeds of approximately $11.8 million. The Company used a portion of these funds to make approximately $7.4 million in additional principal payments on PE Pekin's term debt.

ICP Credit Facilities – On March 20, 2020, ICP and its lender agreed to defer a $1.5 million principal payment due March 20, 2020 and $0.3 million in aggregate interest payments due March 20, 2020 and April 20, 2020 until May 20, 2020. On that same date, the Company granted to the lender a security interest in all of the Company's equity interests in PE Op Co. The Company and certain of its subsidiaries also entered into intercreditor agreements with the PE Pekin and ICP lenders, and the agent for the Company's senior secured noteholders, to address issues of priority and the allocation of proceeds from asset sales. The Company used a portion of the proceeds from the settlement noted above, in July 2020, to make approximately $1.8 million in additional principal payments on ICP's term debt.

CARES Act Loans – On May 4, 2020, Pacific Ethanol, Inc. and PE Pekin received loan proceeds from Bank of America, NA under the recently enacted Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), through the Paycheck Protection Program administered by the U.S. Small Business Administration. Pacific Ethanol, Inc. received $6.0 million and PE Pekin received $3.9 million in loan proceeds. The loans mature in two years and bear interest at a rate of 1.00% per annum. Under the terms of the loans, certain amounts may be forgiven if they are used for qualifying expenses as described in the CARES Act, but the Company can provide no assurance that it will be able to obtain forgiveness of all or any portion of the loans.

Restrictions – At June 30, 2020, there were approximately $204.4 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.

6. COMMITMENTS AND CONTINGENCIES.

Sales Commitments – At June 30, 2020, 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 5,169,000 gallons of ethanol as of June 30, 2020 and open fixed-price ethanol and high quality alcohol sales contracts totaling $226,845,000 as of June 30, 2020. The Company had open fixed-price co-product sales contracts totaling $9,320,000 and open indexed-price co-product sales contracts for 179,000 tons as of June 30, 2020. These sales contracts are scheduled to be completed throughout 2020 and 2021.

Purchase Commitments – At June 30, 2020, the Company had indexed-price purchase contracts to purchase 35,476,000 gallons of ethanol and fixed-price purchase contracts to purchase $7,766,000 of ethanol from its suppliers. The Company had fixed-price purchase contracts to purchase $7,669,000 of corn from its suppliers as of June 30, 2020. These purchase commitments are scheduled to be satisfied throughout 2020. In July 2020, the Company entered into derivative contracts to hedge its corn costs for its fixed sales contracts.

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.

7. 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, 2019, the Retirement Plan's accumulated projected benefit obligation was $21.6 million, with a fair value of plan assets of $15.7 million. The underfunded amount of $5.9 million is recorded on the Company's consolidated balance sheet in other liabilities.

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, 2019, the Postretirement Plan's accumulated projected benefit obligation was $5.3 million 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.

8. FAIR VALUE MEASUREMENTS.

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

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

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.

Warrants – The Company's warrants issued December 22, 2019, were valued using the Black-Scholes Valuation Model.

Significant assumptions used and related fair value for the warrants as of June 30, 2020 were as follows:

Original Issuance	Exercise Price	Volatility	Risk Free Interest Rate	Term (years)	Warrants Outstanding	Fair Value
12/22/19	$ 1.00	122.0%	0.16%	2.50	5,500,000	$ 1,618,100

Significant assumptions used and related fair value for the warrants as of December 31, 2019 were as follows:

Original Issuance	Exercise Price	Volatility	Risk Free Interest Rate	Term (years)	Warrants Outstanding	Fair Value
12/22/19	$ 1.00	76.0%	1.66%	3.00	5,500,000	$ 977,000

The fair values of the warrants are based on unobservable inputs and are designated as Level 3 inputs.

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 and nonrecurring fair value measurements by level at June 30, 2020 (in thousands):

	Fair Value	Level 1	Level 2	Level 3
Liabilities:				
Warrants	$ (1,618)	$ —	$ —	$ (1,618)
	$ (1,618)	$ —	$ —	$ (1,618)

The following table summarizes recurring and nonrecurring fair value measurements by level at December 31, 2019 (in thousands):

	Fair Value	Level 1	Level 2	Level 3	Benefit Plan Percentage Allocation
Assets:					
Derivative financial instruments	$ 2,438	$ 2,438	$ —	$ —	
Long-lived assets held-for-sale	70,400	—	—	70,400	
Defined benefit plan assets(1)					
(pooled separate accounts):					
Large U.S. Equity(2)	4,654	—	4,654	—	30%
Small/Mid U.S. Equity(3)	2,348	—	2,348	—	15%
International Equity(4)	2,596	—	2,596	—	17%
Fixed Income(5)	6,056	—	6,056	—	38%
	$ 88,492	$ 2,438	$ 15,654	$ 70,400	
Liabilities:					
Derivative financial instruments	$ (1,860)	$ (1,860)	$ —	$ —	
Warrants	(977)	—	—	(977)	
	$ (2,837)	$ (1,860)	$ —	$ (977)	

(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.

9. EARNINGS PER SHARE.

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

	Three Months Ended June 30, 2020		
	Income Numerator	Shares Denominator	Per-Share Amount
Net income attributed to Pacific Ethanol, Inc.	$ 14,964		
Less: Preferred stock dividends	(315)		
Basic and diluted loss per share:			
Income available to common stockholders	$ 14,649	54,498	$ 0.27

	Three Months Ended June 30, 2019		
	Loss Numerator	Shares Denominator	Per-Share Amount
Net loss attributed to Pacific Ethanol, Inc.	$ (7,646)		
Less: Preferred stock dividends	(315)		
Basic and diluted loss per share:			
Loss available to common stockholders	$ (7,961)	47,771	$ (0.17)

	Six Months Ended June 30, 2020		
	Loss Numerator	Shares Denominator	Per-Share Amount
Net loss attributed to Pacific Ethanol, Inc.	$ (10,136)		
Less: Preferred stock dividends	(630)		
Basic and diluted loss per share:			
Loss available to common stockholders	$ (10,766)	54,163	$ (0.20)

	Six Months Ended June 30, 2019		
	Loss Numerator	Shares Denominator	Per-Share Amount
Net loss attributed to Pacific Ethanol, Inc.	$ (20,536)		
Less: Preferred stock dividends	(627)		
Basic and diluted loss per share:			
Loss available to common stockholders	$ (21,163)	46,651	$ (0.45)

There were an aggregate of 635,000 potentially dilutive weighted-average shares from convertible securities outstanding for the three and six months ended June 30, 2020 and 2019. These convertible securities were not considered in calculating diluted net income (loss) per share for the periods presented, as their effect would have been anti-dilutive.

10. PARENT COMPANY FINANCIALS.

Restricted Net Assets – At June 30, 2020, the Company had approximately $204,432,000 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):

	June 30, 2020	December 31, 2019
Current Assets:		
Cash and cash equivalents	$ 8,687	$ 4,985
Receivables from subsidiaries	14,264	13,057
Other current assets	1,756	2,349
Total current assets	24,707	20,391
Property and equipment, net	202	269
Other Assets:		
Investments in subsidiaries	214,898	218,464
Pacific Ethanol West plant receivable	49,937	55,750
Right of use operating lease assets, net	3,121	3,253
Other assets	1,344	1,452
Total other assets	269,300	278,919
Total Assets	$ 294,209	$ 299,579
Current Liabilities:		
Accounts payable and accrued liabilities	$ 3,297	$ 5,907
Accrued PE Op Co. purchase	3,829	3,829
Current portion of long-term debt	20,000	10,000
Other current liabilities	678	659
Total current liabilities	27,804	20,395
Long-term debt, net of current portion	51,140	56,110
Other liabilities	4,524	3,294
Total Liabilities	83,468	79,799
Stockholders' Equity:		
Preferred stock	1	1
Common and non-voting common stock	55	56
Additional paid-in capital	944,035	942,307
Accumulated other comprehensive loss	(2,370)	(2,370)
Accumulated deficit	(730,980)	(720,214)
Total Pacific Ethanol, Inc. stockholders' equity	210,741	219,780
Total Liabilities and Stockholders' Equity	$ 294,209	$ 299,579

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Management fees from subsidiaries	$ 2,873	$ 3,000	$ 6,126	$ 6,330
Selling, general and administrative expenses	4,308	2,818	9,685	7,547
Income (loss) from operations	(1,435)	182	(3,559)	(1,217)
Fair value adjustments	(1,314)	—	(641)	—
Interest income	1,004	1,172	2,046	2,331
Interest expense	(2,725)	(2,307)	(5,343)	(4,762)
Other expense	(140)	(83)	(162)	(84)
Loss before benefit for income taxes	(4,610)	(1,036)	(7,659)	(3,732)
Benefit for income taxes	—	—	—	—
Loss before benefit for income taxes	(4,610)	(1,036)	(7,659)	(3,732)
Equity in income (losses) of subsidiaries	19,574	(6,610)	(2,477)	(16,804)
Consolidated net income (loss)	$ 14,964	$ (7,646)	$ (10,136)	$ (20,536)

	For the Six Months Ended June 30,	
	2020	2019
Operating Activities:		
Net loss	$ (10,136)	$ (20,536)
Adjustments to reconcile net loss to cash used in operating activities:		
Equity in losses of subsidiaries	2,477	16,804
Fair value adjustments	(641)	—
Depreciation	67	142
Amortization of debt (premiums) discounts	(115)	357
Changes in operating assets and liabilities:		
Accounts receivable	(1,207)	1,871
Other assets	714	(281)
Accounts payable and accrued expenses	—	1,363
Accounts payable with subsidiaries	475	(600)
Net cash used in operating activities	$ (8,366)	$ (880)
Investing Activities:		
Additions to property and equipment	$ —	$ (11)
Net cash used in investing activities	$ —	$ (11)
Financing Activities:		
Proceeds from issuances of common stock	$ 282	$ 3,670
Proceeds from plant receivables	5,813	—
Proceeds from long-term debt	5,973	—
Payments on senior notes	—	(3,748)
Preferred stock dividend payments	—	(627)
Net cash provided by (used in) financing activities	$ 12,068	$ (705)
Net change in cash and cash equivalents	3,702	(1,596)
Cash and cash equivalents at beginning of period	4,985	6,759
Cash and cash equivalents at end of period	$ 8,687	$ 5,163

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 prices of our products;
- fluctuations in the costs of key production input commodities such as corn and natural gas;
- the projected growth or contraction in the 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 high quality alcohol products and low-carbon renewable fuels in the United States.

We operate seven strategically-located production facilities. Three of our plants are located in the Midwestern state of Illinois and four of our plants are in the Western states of California, Oregon and Idaho. We are the seventh largest ethanol producer in the United States based on annualized production capacity. Our plants have a combined high quality alcohol and fuel ethanol production capacity of 450 million gallons per year. We market all the high quality alcohol, ethanol and co-products produced at our plants as well as ethanol produced by third parties. In 2019, we marketed nearly 1.0 billion gallons combined of high quality alcohol and 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 high quality alcohol products, low-carbon renewable fuels and high-value animal feed in the United States. We intend to accomplish this goal in part by investing in our production and distribution infrastructure, lowering the carbon intensity of our products, 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 high quality alcohol, ethanol and co-products at our production facilities described below. 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 and barges from our Pekin, Illinois plants, allows for greater access to international markets. Our plants located on the West Coast are near their respective fuel and feed customers, offering significant timing, transportation cost and logistical advantages.

Currently, we are operating at approximately 52% of production capacity. As market conditions change, we may increase, decrease or idle production at one or more operating facilities or resume operations at any idled facility.

Facility Name	Facility Location	Estimated Annual Capacity (gallons)	Operating Status
Magic Valley	Burley, ID	60,000,000	Idled
Columbia	Boardman, OR	40,000,000	Operating
Stockton	Stockton, CA	60,000,000	Idled
Madera	Madera, CA	40,000,000	Idled
Pekin Wet	Pekin, IL	100,000,000	Operating
Pekin Dry	Pekin, IL	60,000,000	Idled*
Pekin ICP	Pekin, IL	90,000,000	Operating

* We anticipate restarting our Pekin dry mill in September 2020, which was idled due to river closures.

We produce high quality alcohol and ethanol co-products at our production facilities such as wet distillers grains, or WDG, dried distillers grains with solubles, or DDGS, wet and dry corn gluten feed, condensed distillers solubles, corn gluten meal, corn germ, corn oil, dried yeast and CO_2.

Marketing Segment

We market high quality alcohol products, low-carbon ethanol, high protein feed and co-products produced by our facilities. We also market fuel ethanol produced by third parties.

We have extensive and long-standing customer relationships, both domestic and international, for our high quality alcohol products. These customers include producers and distributors of ingredients for cosmetics, sanitizers and related products, distilled spirits producers, food products manufacturers, producers of personal health/consumer health and personal care hygiene products, and global trading firms.

Our fuel ethanol customers are located throughout the Western and Midwestern United States and consist of integrated oil companies and gasoline marketers who blend ethanol into gasoline. Our customers depend on us to provide a reliable supply of fuel 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 Western 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 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 producers.

See "Note 3 – Segments" to our Notes to Consolidated Financial Statements included elsewhere in this report for financial information about our business segments.

Current Initiatives and Outlook

In the second quarter, we experienced an excellent margin environment for our high quality alcohol, reflecting the benefits of our diversification strategy, expanded production and robust demand for our products used in sanitizers and disinfectants due to the ongoing coronavirus pandemic. To meet increased demand, we focused on debottlenecking production and other process improvements to generate additional production capacity for high quality alcohol of 25 million gallons per year at our Pekin campus. In addition, we continue to modify and refurbish existing equipment to further increase production capacity of USP-grade alcohol by an additional 30 million gallons per year by the end of 2020. As we move into 2021, our Pekin campus will have total production capacity for high quality alcohol of 140 million gallons per year, the majority of which will meet or exceed USP specifications.

Our high quality alcohol products consistently achieve significantly better margins than fuel ethanol. Moreover, high-quality alcohol is typically sold at fixed prices and volumes with longer-term commitments than fuel ethanol, allowing us to lock in our input costs over the contract term and better secure favorable margins. The majority of our high quality alcohol production is contracted through 2020, and we are building a strong book of sales for 2021 as we add new customers and renew existing contracts.

The market for high quality alcohol requires that manufacturers have specialized equipment and systems, and also strong quality controls, experience and operational capabilities to produce alcohol products that meet customers' precise and unique specifications. The coronavirus pandemic significantly increased demand for sanitizers and disinfectants, which quickly outstripped available supplies. In response, the federal government temporarily loosened quality-control requirements, which had the unintended consequence of allowing questionable third-party products into the marketplace. We expect that quality-control requirements will be retightened, highlighting a competitive advantage we hold over various third-party producers.

Our Pekin campus has produced industrial, chemical and beverage grade alcohol for over 100 years. We have new as well as many long-standing relationships with key domestic and international customers who benefit from our quality products, service and logistics advantages, including our ability to ship products via truck, rail or barge. Given our quality control capabilities, we intend to continue to meet or exceed our stringent customer and regulatory standards.

We also continue to enjoy strong demand for our high protein meal and dried yeast products, which our Pekin facilities have manufactured for over 20 years. For example, we offer a high quality yeast used in pet and human food and a high protein corn meal used in poultry, pet food and aquaculture. Despite the slowdown in our production of fuel ethanol co-products as a result of the coronavirus pandemic, we have been able to consistently maintain production of these high value products at our Pekin campus, resulting in strong co-product returns.

With regard to our fuel grade ethanol operations, we continued to experience a poor margin environment in the second quarter resulting from low demand from the impact of the coronavirus pandemic. Industry-wide ethanol production had declined by more than 50% at the beginning of the second quarter. Most of our fuel ethanol commitments for the quarter were met through our third party marketing business.

Although we have seen some resurgence in both production and demand, the current market environment for fuel ethanol remains volatile and uncertain, with overall demand off by more than 10% from a year ago. In addition, fuel ethanol production crush margins remain variable and unpredictable over the longer term. Given these market conditions, we do not intend to restart our idled fuel ethanol plants in the Western states until we can better secure positive forward operating margins for the facilities. We anticipate that reopening may also entail either repurposing certain facilities or restarting with high value complementary or differentiated products. We are considering all options for maximizing or monetizing the value of our fuel ethanol plants, and we are in discussions with various parties in this regard.

We continue to pursue a number of strategic initiatives focused on the sale of additional 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.

We remain focused on implementing initiatives and investing in our assets to further diversify our sales through additional products and revenue streams, improve our production yields and other operating efficiencies, and reduce costs, both at the operating and corporate levels.

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 and held-for-sale classification; valuation of allowance for deferred taxes and derivative instruments. 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, 2019.

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 June 30, 2020	Three Months Ended June 30, 2019	Percentage Variance	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019	Percentage Variance
Production gallons sold (in millions)	56.9	118.6	(52.0)%	179.5	235.5	(23.8)%
Third party gallons sold (in millions)	73.9	83.2	(11.2)%	136.3	178.0	(23.4)%
Total gallons sold (in millions)	130.8	201.8	(35.2)%	315.8	413.5	(23.6)%
Total gallons produced (in millions)	47.6	121.3	(60.8)%	163.9	243.8	(32.8)%
Production capacity utilization	40%	80%	(50.0)%	82%	82%	—
Average sales price per gallon	$ 1.59	$ 1.61	(1.2)%	$ 1.55	$ 1.57	(1.3)%
Corn cost per bushel – CBOT equivalent	$ 3.39	$ 3.81	(11.0)%	$ 3.59	$ 3.77	(4.8)%
Average basis [1]	$ 0.20	$ 0.41	(51.2)%	$ 0.32	$ 0.40	(20.0)%
Delivered cost of corn	$ 3.59	$ 4.22	(14.9)%	$ 3.91	$ 4.17	(6.2)%
Total co-product tons sold (in thousands)	250.1	691.5	(63.8)%	922.0	1,375.6	(33.0)%
Co-product revenues as % of delivered cost of corn [2]	46.5%	35.5%	31.0%	41.8%	37.2%	12.4%
Average CBOT ethanol price per gallon	$ 1.08	$ 1.41	(23.4)%	$ 1.16	$ 1.36	(14.7)%
Average CBOT corn price per bushel	$ 3.23	$ 3.90	(17.2)%	$ 3.59	$ 3.82	(6.0)%

(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 in dollars and gross profit as a percentage of net sales (in thousands, except percentages):

	Three Months Ended June 30,		Variance in		Six Months Ended June 30,		Variance in	
	2020	**2019**	**Dollars**	**Percent**	**2020**	**2019**	**Dollars**	**Percent**
Net sales	$ 212,074	$ 346,301	$ (134,227)	(38.8)%	$ 523,478	$ 702,104	$ (178,626)	(25.4)%
Cost of goods sold	180,892	342,330	(161,438)	(47.2)%	505,186	700,422	(195,236)	(27.9)%
Gross profit	$ 31,182	$ 3,971	$ 27,211	685.2%	$ 18,292	$ 1,682	$ 16,610	987.5%
Percentage of net sales	*14.7%*	*1.1%*			*3.5%*	*0.2%*		

Net Sales

The decline in our net sales for the three and six months ended June 30, 2020 as compared to the same periods in 2019 was primarily due to a significant decline in our ethanol production gallons sold.

We sold fewer ethanol production gallons and co-products for the three and six months ended June 30, 2020 as compared to the same periods in 2019. These declines are primarily due to significantly reduced transportation fuel demand from the effects of stay-at-home orders as a result of the coronavirus pandemic. As a result, we reduced our production capacity utilization to 40% on a consolidated basis in the second quarter. Demand for our high quality alcohol, however, increased significantly in the sanitizer and disinfectant markets. These markets have historically, and even more so in the second quarter, provided a premium price over fuel ethanol markets. Our third-party gallons sold declined in the quarter, but less than the decline in overall ethanol demand, as most of our fuel ethanol commitments for the quarter were met through our third party marketing business.

Three Months Ended June 30, 2020 and 2019

On a consolidated basis, our average sales price per gallon declined 1.2% to $1.59 for the three months ended June 30, 2020 compared to $1.61 for the same period in 2019. The average Chicago Board of Trade, or CBOT, ethanol price per gallon, declined 23.4% to $1.08 for the three months ended June 30, 2020 compared to $1.41 for the same period in 2019.

Production Segment

Net sales of alcohol and ethanol from our production segment declined by $89.1 million, or 46%, to $105.3 million for the three months ended June 30, 2020 as compared to $194.4 million for the same period in 2019. Our total volume of production gallons sold declined by 61.7 million gallons, or 52%, to 56.9 million gallons for the three months ended June 30, 2020 as compared to 118.6 million gallons for the same period in 2019. Our production segment's average sales price per gallon increased 13% to $1.85 for the three months ended June 30, 2020 compared to $1.64 for the same period in 2019. At our production segment's average sales price per gallon of $1.85 for the three months ended June 30, 2020, we generated $114.3 million less in net sales from our production segment from the 61.7 million fewer gallons of produced alcohol and ethanol sold in the three months ended June 30, 2020 as compared to the same period in 2019. The increase of $0.21 in our production segment's average sales price per gallon for the three months ended June 30, 2020 as compared to the same period in 2019 increased our net sales of alcohol and ethanol from our production segment by $25.2 million.

Net sales of co-products declined $29.4 million, or 45%, to $35.3 million for the three months ended June 30, 2020 as compared to $64.7 million for the same period in 2019. Our total volume of co-products sold declined by 441.4 thousand tons, or 64%, to 250.1 thousand tons for the three months ended June 30, 2020 from 691.5 thousand tons for the same period in 2019, however, our average sales price per ton improved to $141.26 for the three months ended June 30, 2020 from $93.53 for the same period in 2019. At our average sales price per ton of $141.26 for the three months ended June 30, 2020, we generated $62.4 million less in net sales from the 441.4 thousand ton decline in co-products sold in the three months ended June 30, 2020 as compared to the same period in 2019. The increase in our average sales price per ton of $47.73, or 51%, for the three months ended June 30, 2020 as compared to the same period in 2019 increased our net sales of co-products by $33.0 million.

Marketing Segment

Net sales of alcohol and ethanol from our marketing segment, excluding intersegment sales, declined by $15.8 million, or 18%, to $71.4 million for the three months ended June 30, 2020 as compared to $87.2 million for the same period in 2019. Our total volume of alcohol and ethanol gallons sold by our marketing segment declined by 71.0 million gallons, or 35%, to 130.8 million gallons for the three months ended June 30, 2020 as compared to 201.8 million gallons for the same period in 2019. The 71.0 million decline in gallons sold by our marketing segment is comprised of 61.7 million fewer production gallons sold and 9.3 million fewer third party gallons sold. The 9.3 million gallon decline in third party gallons sold is comprised of 0.3 million fewer gallons sold on a gross basis and 9.0 million fewer gallons sold on a net basis.

Our marketing segment's average fuel ethanol sales price per gallon declined 17% to $1.34 for the three months ended June 30, 2020 compared to $1.62 for the same period in 2019. At our marketing segment's average sales price per gallon of $1.34 for the three months ended June 30, 2020, we generated $0.4 million less in net sales from our marketing segment from the 0.3 million fewer gallons in third party ethanol sold in the three months ended June 30, 2020 as compared to the same period in 2019. The decline of $0.28 in our marketing segment's average sales price per gallon for the three months ended June 30, 2020 as compared to the same period in 2019 reduced our net sales from third party ethanol sold by our marketing segment by $15.4 million.

<u>Six Months Ended June 30, 2020 and 2019</u>

On a consolidated basis, our average sales price per gallon declined 1.3% to $1.55 for the six months ended June 30, 2020 compared to $1.57 for the same period in 2019. The average CBOT ethanol price per gallon declined 14.7% to $1.16 for the six months ended June 30, 2020 compared to $1.36 for the same period in 2019.

Production Segment

Net sales of alcohol and ethanol from our production segment declined by $83.8 million, or 22%, to $290.0 million for the six months ended June 30, 2020 as compared to $373.8 million for the same period in 2019. Our total volume of production gallons sold declined by 56.0 million gallons, or 24%, to 179.5 million gallons for the six months ended June 30, 2020 as compared to 235.5 million gallons for the same period in 2019. Our production segment's average sales price per gallon increased 2% to $1.62 for the six months ended June 30, 2020 compared to $1.59 for the same period in 2019. At our production segment's average sales price per gallon of $1.62 for the six months ended June 30, 2020, we generated $90.7 million less in net sales from our production segment from the 56.0 million fewer gallons of produced alcohol and ethanol sold in the six months ended June 30, 2020 as compared to the same period in 2019. The increase of $0.03 in our production segment's average sales price per gallon for the six months ended June 30, 2020 as compared to the same period in 2019 increased our net sales of alcohol and ethanol from our production segment by $6.9 million.

Net sales of co-products declined $29.3 million, or 22%, to $104.1 million for the six months ended June 30, 2020 as compared to $133.4 million for the same period in 2019. Our total volume of co-products sold declined by 453.6 thousand tons, or 33%, to 922.0 thousand tons for the six months ended June 30, 2020 from 1,375.6 thousand tons for the same period in 2019, and our average sales price per ton increased to $112.94 for the six months ended June 30, 2020 from $97.04 for the same period in 2019. At our average sales price per ton of $112.94 for the six months ended June 30, 2020, we generated $51.2 million less in net sales from the 453.6 thousand ton decline in co-products sold in the six months ended June 30, 2020 as compared to the same period in 2019. The increase in our average sales price per ton of $15.90, or 16%, for the six months ended June 30, 2020 as compared to the same period in 2019 increased our net sales of co-products by $21.9 million.

Marketing Segment

Net sales of alcohol and ethanol from our marketing segment, excluding intersegment sales, declined by $65.4 million, or 34%, to $129.4 million for the six months ended June 30, 2020 as compared to $194.8 million for the same period in 2019. Our total volume of alcohol and ethanol gallons sold by our marketing segment declined by 97.7 million gallons, or 24%, to 315.8 million gallons for the six months ended June 30, 2020 as compared to 413.5 million gallons for the same period in 2019. The 97.7 million decline in gallons sold by our marketing segment is comprised of 56.0 million fewer production gallons sold and 41.7 million fewer third party gallons sold. The 41.7 million decline in third party gallons sold is comprised of 31.7 million fewer gallons sold on a gross basis and 10.0 million fewer gallons sold on a net basis.

Our marketing segment's average fuel ethanol sales price per gallon declined 9.8% to $1.47 for the six months ended June 30, 2020 as compared to $1.63 for the same period in 2019. At our marketing segment's average sales price per gallon of $1.47 for the six months ended June 30, 2020, we generated $46.7 million less in net sales from our marketing segment from the 41.7 million fewer gallons in third party ethanol sold in the six months ended June 30, 2020 as compared to the same period in 2019. The decline of $0.16 in our marketing segment's average sales price per gallon for the six months ended June 30, 2020 as compared to the same period in 2019 reduced our net sales from third party ethanol sold by our marketing segment by $18.7 million.

Cost of Goods Sold and Gross Profit

Our consolidated gross profit improved to $31.2 million, representing a gross profit margin of 14.7%, for the three months ended June 30, 2020 compared to $4.0 million, representing a gross profit margin of 1.1%, for the same period in 2019. Our consolidated gross profit improved to $18.3 million, representing a gross profit margin of 3.5%, for the six months ended June 30, 2020 compared to $1.7 million, representing a gross profit margin of 0.2%, for the same period in 2019. Our gross profit and gross profit margin improved primarily due to significantly higher margins from sales of our high quality alcohol.

<u>*Three Months Ended June 30, 2020 and 2019*</u>

Production Segment

Our production segment's gross profit from external sales improved by $25.6 million to $27.9 million for the three months ended June 30, 2020 as compared to $2.3 million for the same period in 2019. Of this improvement, $55.6 million is attributable to our production segment's higher margins for the three months ended June 30, 2020 as compared to the same period in 2019, partially offset by $30.0 million in lower gross profit attributable to decreased ethanol production volumes for the three months ended June 30, 2020 as compared to the same period in 2019.

Marketing Segment

Our marketing segment's gross profit increased by $1.7 million to $3.3 million for the three months ended June 30, 2020 as compared to $1.6 million for the same period in 2019. Of this improvement, nearly all of it relates to our marketing segment's higher margins per gallon for the three months ended June 30, 2020 as compared to the same period in 2019.

<u>Six Months Ended June 30, 2020 and 2019</u>

Production Segment

Our production segment's gross profit from external sales improved by $20.1 million to $12.3 million for the six months ended June 30, 2020 as compared to a gross loss of $7.8 million for the same period in 2019. Of this improvement, $23.9 million is attributable to our production segment's higher margins for the six months ended June 30, 2020 as compared to the same period in 2019, partially offset by $3.8 million in lower gross profit attributable to reduced ethanol production volumes for the six months ended June 30, 2020 as compared to the same period in 2019.

Marketing Segment

Our marketing segment's gross profit declined by $3.5 million to $5.9 million for the six months ended June 30, 2020 as compared to $9.4 million for the same period in 2019. Of this decline, $1.3 million is attributable to our marketing segment's lower margins per gallon and $2.2 million is attributable to the reduction in third-party marketing volumes for the six months ended June 30, 2020 as compared to the same period in 2019.

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 June 30,		Variance in		Six Months Ended June 30,		Variance in	
	2020	**2019**	**Dollars**	**Percent**	**2020**	**2019**	**Dollars**	**Percent**
Selling, general and administrative expenses	$ 8,629	$ 6,708	$ 1,921	28.6%	$ 18,841	$ 14,943	$ 3,898	26.1%
Percentage of net sales	*4.1%*	*1.9%*			*3.6%*	*2.1%*		

Our SG&A expenses increased for the three and six months ended June 30, 2020 as compared to the same period in 2019. The increase in SG&A expenses is primarily due to increases in professional fees associated with the sale of our interest in Pacific Aurora, LLC, or Pacific Aurora, and our other strategic initiatives.

Net Income (Loss) Available to Common Stockholders

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

	Three Months Ended June 30,		Variance in		Six Months Ended June 30,		Variance in	
	2020	**2019**	**Dollars**	**Percent**	**2020**	**2019**	**Dollars**	**Percent**
Net income (loss) available to common stockholders	$ 14,649	$ (7,961)	$ 22,610	NM	$ (10,766)	$ (21,163)	$ 10,397	49.1%
Percentage of net sales	*6.9%*	*(2.3)%*			*(2.1)%*	*(3.0)%*		

The improvement in net income (loss) available to common stockholders is primarily due to significantly higher margins from our high quality alcohol sales for the three and six months ended June 30, 2020 as compared to the same periods in 2019.

Liquidity and Capital Resources

During the six months ended June 30, 2020, we funded our operations primarily from cash generated by our operations and cash on hand. These funds were used to make payments on our term debt and under our other credit facilities, and for capital expenditures and to make lease payments.

Our financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During the six months ended June 30, 2020, we continued to experience significant adverse conditions in the ethanol fuel market as demand and pricing were at record lows due to reduced domestic transportation and resulting lower gasoline demand. In response, we reduced production at our facilities by more than 50% in an effort to conserve capital as a result of a substantial reduction in demand due to stay-at-home orders issued in response to the coronavirus pandemic. We have, however, not only continued producing and selling high quality alcohol, but also converted a portion of our fuel ethanol production to higher quality alcohol to respond to increased demand from the sanitizer and disinfectant markets. These sales of high quality alcohol were at a mix of fixed and spot pricing, both of which resulted in positive net income and cash flows from operations during the second quarter. We expect robust demand for our high quality alcohol to continue for at least the next twelve months as we continue to enter fixed price contracts and hedge corn input costs, locking in profit margins on sales of high quality alcohol.

At June 30, 2020, we had $29.8 million in cash and $10.0 million available under our operating line of credit for our marketing subsidiary, Kinergy Marketing LLC, or Kinergy. During the first half of 2020, we generated $45.7 million in cash from our operations and realized $19.9 million in net cash from the sale of our interest in Pacific Aurora. These positive cash flows have allowed us to make net payments totaling $52.3 million on our debt. Further, subsequent to June 30, 2020, we made an additional $9.2 million in payments on our term debt.

As previously agreed with our lenders, we have presented and continue to negotiate a comprehensive plan to restructure our assets and liabilities. We have appointed a chief restructuring officer to facilitate the development of such a plan and to assist in our current strategic initiatives. We expect the negotiated plan may include additional assets sales, soliciting new investments in us or our assets, further debt payments and further reductions to overhead expenses.

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 any cash generated from our operations, cash balances, any availability under our lines of credit, net cash proceeds from any sale of our production assets and net cash proceeds from any equity sales or debt financing transactions.

As of June 30, 2020, our current liabilities of $147.0 million exceeded our current assets of $131.8 million, resulting in a working capital deficit of $15.2 million.

We believe that as of the date of this report, we are in compliance with all debt covenants contained in our credit facilities, except our obligation to obtain lender approval of a comprehensive plan to restructure our assets and liabilities with respect to our Pekin and ICP lenders. As noted above, we appointed a chief restructuring officer to facilitate the development of such a plan and we have presented and continue to negotiate the plan with our lenders. As a result, we are not in compliance with our obligations to our lenders, which could result in their acceleration of our debt. Although we do not expect such an outcome, especially in light of our financial performance and debt prepayments during the second quarter and thereafter, we do not have sufficient liquidity or capital resources to immediately repay our debt if accelerated. Even though we do not believe acceleration is probable, we have classified our related debt as current on our consolidated balance sheets. Given our cash flows from operations and debt prepayments, we believe we have alleviated substantial doubt about our ability to continue as a going concern. We therefore believe that we will have sufficient liquidity to meet our anticipated working capital, debt service and other liquidity needs for the next twelve months.

Quantitative Quarter-End Liquidity Status

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

	June 30, 2020	December 31, 2019	Change
Cash and cash equivalents	$ 29,783	$ 18,997	56.8%
Current assets	$ 131,790	$ 232,064	(43.2)%
Property and equipment, net	$ 317,950	$ 332,526	(4.4)%
Current liabilities	$ 146,954	$ 160,398	(8.4)%
Long-term debt, net of current portion	$ 95,888	$ 180,795	(47.0)%
Working capital (deficit)	$ (15,164)	$ 71,666	NM
Working capital ratio	0.90	1.45	(37.9)%

Restricted Net Assets

At June 30, 2020, we had approximately $204.4 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 declined to a deficit of $15.2 million at June 30, 2020 from working capital of $71.7 million at December 31, 2019 as a result of a decrease of $100.3 million in current assets, partially offset by a decrease of $13.4 million in current liabilities.

Current assets decreased primarily due to a decrease in assets held-for-sale associated with the completed sale of our interest in Pacific Aurora, and decreases in accounts receivable and inventories, due to the timing of collections, and lower ethanol production and sales.

Our current liabilities decreased primarily due to a decrease in liabilities held-for-sale associated with the completed sale of our interest in Pacific Aurora, partially offset by an increase in the current portion of our long-term debt primarily due to our failure to obtain lender approval of a comprehensive plan to restructure our assets and liabilities.

Our cash and cash equivalents increased by $10.8 million at June 30, 2020 as compared to December 31, 2019 primarily due to $45.7 million in cash provided by our operating activities and $17.4 million in cash provided by our investing activities, partially offset by $52.3 million in cash used in our financing activities.

Cash provided by our Operating Activities

Cash provided by our operating activities increased by $71.4 million for the six months ended June 30, 2020, as compared to the same period in 2019. We generated $45.7 million in cash from our operating activities during the first half of 2020. Specific factors that contributed to the increase in cash provided by our operating activities include:

- a decrease of $24.5 million related to accounts receivable primarily due to the timing of collections;
- a decrease of $34.0 million related to inventories as we reduced production during the period;
- a decrease of $10.1 million in our consolidated net loss due to higher margins from our sales of high quality alcohol; and
- an increase of $9.4 million related to liabilities held-for-sale in connection with the sale of our interests in Pacific Aurora.

These amounts were partially offset by:

- a decrease of $9.9 million related to prepaid expenses and other assets due to the timing of payments; and
- a decrease of $5.1 million in depreciation expense resulting from the sale of Pacific Aurora.

Cash provided by our Investing Activities

Cash provided by our investing activities was $17.4 million for the six months ended June 30, 2020, which included $19.9 million in net proceeds from the sale of Pacific Aurora, partially offset by $2.5 million of additions to property and equipment.

Cash used in our Financing Activities

Cash used in our financing activities was $52.3 million for the six months ended June 30, 2020. Cash used in our financing activities was primarily due to $36.9 million in net payments under Kinergy's line of credit and $25.5 million in principal payments on our term debt, partially offset by $9.9 million in proceeds under our CARES Act loans and $0.3 million from the issuance of common stock.

Capital Expenditures

Our capital expenditures totaled $2.5 million for the first six months of 2020, largely attributable to enhancements made to the production process of our operating facilities.

Kinergy Operating Line of Credit

Kinergy 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%. The credit facility's monthly unused line fee is 0.25% to 0.375% of the amount by which the maximum credit under the facility exceeds the average daily principal balance during the immediately preceding month. Payments that may be made by Kinergy to Pacific Ethanol as reimbursement for management and other services provided by Pacific Ethanol to Kinergy are limited under the terms of the credit facility to $1.5 million per fiscal quarter. The credit facility also includes the accounts receivable 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:

	Three Months Ended June 30,		Years Ended December 31,	
	2020	2019	2019	2018
Fixed-Charge Coverage Ratio Requirement	2.00	2.00	2.00	2.00
Actual	4.84	11.58	5.71	19.06
Excess	2.84	9.58	3.71	17.06

Pacific Ethanol has guaranteed all of Kinergy's obligations under the credit facility. As of June 30, 2020, Kinergy had an outstanding balance of $41.4 million with additional borrowing availability under the credit facility of $10.0 million.

Pekin Credit Facilities

On December 15, 2016, 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 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 \$3.5 million principal payment scheduled for August 20, 2019.

Under these amendments, the lender 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 expired on November 15, 2019, at which time the waivers were to become permanent if PE Pekin's parent, Pacific Ethanol Central, LLC, or PE Central, made a contribution to PE Pekin in an amount equal to \$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, or the Parent Contribution Amount. In addition, if the Parent Contribution Amount was timely received, the lender agreed to waive PE Pekin's debt service coverage ratio financial covenant for the year ended December 31, 2019. If the Parent Contribution Amount was not timely made, then the temporary waivers would automatically expire.

PE Pekin was 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.

On November 15, 2019, PE Pekin amended its term and revolving credit facilities by agreeing to extend the temporary waiver of violations of financial and other covenants relating to working capital maintenance, intercompany accounts receivable collections, financial projections, cash flow forecasts, and sales reports. The lender also agreed to extend the deferral of all scheduled principal payments payable on February 20, 2019, May 20, 2019 and November 15, 2019 to December 15, 2019. The amendment also made a payment default of \$250,000 or more under Kinergy's credit facility or the senior secured notes, or any acceleration of indebtedness, or any termination of any commitment to lend or termination of any forbearance or other accommodation, an event of default.

The waivers and principal deferral expired on December 15, 2019. On December 15, 2019, the waivers were to become permanent if PE Central made a contribution to PE Pekin in an amount equal to the Parent Contribution Amount. In addition, if the Parent Contribution Amount was timely received, the lender agreed to waive PE Pekin's debt service coverage ratio financial covenant for the year ended December 31, 2019. If the Parent Contribution Amount was not timely made, then the temporary waivers would automatically expire.

On December 16, 2019, PE Pekin amended its term and revolving credit facilities by agreeing to extend the deferral of all scheduled principal payments payable on February 20, 2019, May 20, 2019 and November 20, 2019 to December 20, 2019.

On December 20, 2019, PE Pekin's lender agreed to temporarily waive working capital covenant violations, debt service coverage ratio covenant violations, reporting covenant violations and certain other covenant violations that occurred under the PE Pekin credit agreement, and replaced those covenants with new EBITDA and production volume covenants. PE Pekin's lender also agreed to defer all scheduled principal installments payable under the term note on February 20, 2019, May 20, 2019 and November 20, 2019 until August 20, 2021. In addition, PE Pekin was not required to make its prior scheduled quarterly principal payments of $3.5 million until September 30, 2020, at which time $3.5 million will be due, with the same amount due quarterly thereafter until maturity.

Under the amendment, PE Pekin, collectively with Illinois Corn Processing, LLC, or ICP, agreed to pay the lenders an aggregate of $40.0 million on or before September 30, 2020 to reduce the outstanding balances of the term loans under the PE Pekin credit agreement and the ICP credit agreement. The $40.0 million is an aggregate amount payable to ICP's lender and PE Pekin's lender, and allocated between them. The $40.0 million is to be funded through asset sales, proceeds of any award, judgment or settlement of litigation, or, at our election, from funds contributed to PE Pekin by us. Following receipt by the lenders under the ICP credit agreement and the PE Pekin credit agreement, collectively, of $40.0 million in full, and once any loans corresponding to the particular midwestern asset sold are repaid, additional proceeds from the sale of any of our midwestern plant assets will generally be allocated 33/34/33% among ICP's lender and PE Pekin's lender, collectively, the selling security holders, and us, respectively. Proceeds from the sale of any of our western assets will generally be allocated 33/34/33% among PE Pekin's lender and ICP's lender, collectively, the selling security holders, and us, respectively.

PE Pekin's lender also imposed cross-default terms such that, until PE Pekin's lender and ICP's lender receive $40.0 million, a default under the ICP credit agreement would constitute a default under the PE Pekin credit agreement. PE Pekin agreed to provide additional collateral security to support its obligations under the PE Pekin credit agreement, including second lien positions in our western plants, which will terminate and be released upon PE Pekin's lender's receipt of $40.0 million.

On December 29, 2019, PE Pekin agreed to amend the secured obligations under its security agreement to include PE Pekin's unconditional guarantee of the payment of up to an aggregate $40.0 million to satisfy the obligations of ICP to ICP's lender under the ICP credit agreement.

On March 20, 2020, PE Pekin and its lender agreed to defer $1.0 million in aggregate interest payments due March 20, 2020 and April 20, 2020 until May 20, 2020. On that same date, we granted to the lender a security interest in all of our equity interests in our wholly-owned subsidiary, PE Op Co., which indirectly owns our plants located on the West Coast. We also entered into intercreditor agreements with our PE Pekin and ICP lenders, and the agent for our senior secured noteholders, to address issues of priority and the allocation of proceeds from asset sales.

On April 15, 2020, upon the closing of the sale of our interests in Pacific Aurora, we repaid approximately $11.6 million in principal on our PE Pekin term debt.

On June 26, 2020, we repaid approximately $1.9 million in additional principal on our PE Pekin term debt.

On July 22, 2020, we repaid approximately $7.4 million in additional principal on our PE Pekin term debt.

As of the filing of this report, we believe we are in compliance with all debt covenants under our PE Pekin credit facilities, except our obligation to obtain lender approval of a comprehensive plan to restructure our assets and liabilities.

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.

On December 20, 2019, ICP amended its term and revolving credit facilities under which ICP's lender granted waivers for certain ICP covenant defaults and replaced those covenants with new EBITDA and production volume covenants. ICP's lender also imposed cross-default terms such that, until ICP's lender and PE Pekin's lender receive an aggregate of $40.0 million, a default under the PE Pekin credit agreement would constitute a default under the ICP credit agreement. ICP agreed to provide additional collateral security to support its obligations under the ICP credit agreement, including second lien positions in our western plants, which will terminate and be released upon ICP's lender's receipt of an aggregate of $40.0 million. ICP's prior scheduled principal payment of $1.5 million, originally due on December 20, 2019, was deferred to the maturity date of September 20, 2021. Scheduled quarterly principal payments of $1.5 million will resume March 20, 2020.

Under the amendment, ICP, collectively with PE Pekin, agreed to pay the lenders an aggregate of $40.0 million on or before September 30, 2020 to reduce the outstanding balances of the term loans under the ICP credit agreement and the PE Pekin credit agreement. The $40.0 million is an aggregate amount payable to ICP's lender and PE Pekin's lender, and allocated between them. The $40.0 million is to be funded through asset sales, proceeds of any award, judgment or settlement of litigation, or, at our election, from funds contributed to ICP by us. Following receipt by the lenders under the ICP credit agreement and the PE Pekin credit agreement, collectively, of $40.0 million in full, and once any loans corresponding to the particular midwestern asset sold are repaid, any additional proceeds from a sale of our midwestern plant assets will generally be allocated 33/34/33% among ICP's lender and PE Pekin's lender, collectively, the selling security holders, and us, respectively. Proceeds from the sale of any of our western assets will generally be allocated 33/34/33% among PE Pekin's lender and ICP's lender, collectively, the selling security holders, and us, respectively.

On December 29, 2019, ICP agreed to amend the secured obligations under its security agreement to include ICP's unconditional guarantee of the payment of up to an aggregate $40.0 million to satisfy the obligations of PE Pekin to PE Pekin's lender under the PE Pekin credit agreement.

On March 20, 2020, ICP and its lender agreed to defer a $1.5 million principal payment due March 20, 2020 and $0.3 million in aggregate interest payments due March 20, 2020 and April 20, 2020 until May 20, 2020. On that same date, we granted to the lender a security interest in all of our equity interests in PE Op Co. We also entered into intercreditor agreements with our PE Pekin and ICP lenders, and the agent for our senior secured noteholders, to address issues of priority and the allocation of proceeds from asset sales.

On April 15, 2020, upon the closing of the sale of our interests in Pacific Aurora, we repaid approximately $2.9 million in principal on our ICP term debt.

On June 26, 2020, we repaid approximately $6.1 million in additional principal on our ICP term debt, fully repaying the ICP term debt.

On July 22, 2020, we repaid approximately $1.8 million in additional principal on our ICP revolving debt.

As of the filing of this report, we believe we are in compliance with all debt covenants under our ICP credit facilities, except our obligation to obtain lender approval of a comprehensive plan to restructure our assets and liabilities.

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 had an original maturity date of December 15, 2019. Interest on the notes accrued 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 would increase 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 was 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 PE Op. Co.

On December 16, 2019, we amended the notes to extend the maturity date from December 15, 2019 to December 23, 2019 and amended the interest rate from the greater of 1% and the three-month LIBOR, plus 11% between December 15, 2018 through December 14, 2019 to 15% commencing on September 15, 2019. Under the amendment, we also agreed to pay the December 15, 2019 interest payment 50% in cash and 50% in-kind through the issuance of an additional note in the principal amount equal thereto.

On December 22, 2019, we amended and restated the notes which extended the maturity date from December 23, 2019 to December 15, 2021. Interest on the Notes accrues at a rate of 15% per annum, payable quarterly.

On March 20, 2020, we and the noteholders agreed to defer a $2.5 million aggregate interest payment due March 15, 2020 until May 20, 2020. On that same date, ICP granted a junior lien in certain of its personal property to the noteholders, and PE Central granted a junior lien in certain of its personal property to the noteholders. PE Central also pledged its equity interests in Pacific Aurora, PE Pekin and ICP in favor of the noteholders. In addition, PE Op Co. and Pacific Ethanol West, LLC, which directly owns our plants located on the West Coast, granted a security interest in certain of their personal property to the noteholders. We also entered into intercreditor agreements with our PE Pekin and ICP lenders, and the agent for our senior secured noteholders, to address issues of priority and the allocation of proceeds from asset sales.

As of the filing of this report, we believe we are in compliance with all debt covenants under our senior secured notes.

CARES Act Loans

On May 4, 2020, Pacific Ethanol, Inc. and PE Pekin received loan proceeds from Bank of America, NA under the recently enacted Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, through the Paycheck Protection Program administered by the U.S. Small Business Administration. Pacific Ethanol, Inc. received $6.0 million and PE Pekin received $3.9 million in loan proceeds. The loans mature in two years and bear interest at a rate of 1.00% per annum. Under the terms of the loans, certain amounts may be forgiven if they are used for qualifying expenses as described in the CARES Act, but we can provide no assurance that we will be able to obtain forgiveness of all or any portion of the loans.

Effects of Inflation

The impact of inflation was not significant to our financial condition or results of operations for the three and six months ended June 30, 2020 and 2019.

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 Co-Chief Executive Officers and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Co-Chief Executive Officers and Chief Financial Officer concluded as of June 30, 2020 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

The effects of the coronavirus pandemic may further materially and adversely affect our business, results of operations and liquidity.

The coronavirus pandemic has resulted in businesses suspending or substantially curtailing global operations and travel, quarantines, and an overall substantial slowdown of economic activity. Transportation fuels in particular, including ethanol, have experienced significant price declines and reduced demand. A further or extended ongoing downturn in global economic growth, or recessionary conditions in major geographic regions, will lead to poor demand for ethanol and negatively affect the market prices of our products, further materially and adversely affecting our business, results of operations and liquidity.

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. In addition, we have significant indebtedness under our senior secured notes issued at the parent-company level. The terms of our loans require amortizing payments of principal over the lives of the loans and our borrowing availability under our plant revolving credit facilities periodically and automatically declines through the maturity dates of those facilities. Our 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.

We are not in compliance with our obligation to obtain lender approval of a comprehensive plan to restructure our assets and liabilities, which could result in their acceleration of our debt. We do not have sufficient liquidity or capital resources to immediately repay our debt if accelerated.

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, and could force us to seek protection under the U.S. Bankruptcy Code.

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 six months ended June 30, 2020 and 2019, we incurred consolidated net losses of $12.3 million and $22.5 million, respectively. For the years ended December 31, 2019 and 2018, we incurred consolidated net losses of approximately $101.3 million and $68.0 million, respectively. For the year ended December 31, 2019, we incurred negative operating cash flow of approximately $23.4 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 high quality alcohol, ethanol, distillers grains and other 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 high quality alcohol, ethanol, distillers grains and other 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, high quality alcohol, ethanol, distillers grains and other co-products, our results of operations may fluctuate substantially. In addition, increases in corn or natural gas prices or decreases in high quality alcohol, ethanol, distillers grains or other 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 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 high quality alcohol, ethanol, distillers grains or other 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 high quality alcohol, ethanol, distillers grains or other 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 or high quality alcohol prices, would adversely affect our results of operations and financial position. Further, combined revenues from sales of ethanol, distillers grains and other co-products could decline below the marginal cost of production, which may force us to suspend production of ethanol, distillers grains and other 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 $0.81 to $1.37 per gallon for the six months ended June 30, 2020, from $1.25 to $1.70 per gallon in 2019 and from $1.20 to $1.53 per gallon during 2018. 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 high quality 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. In the past, poor weather has 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, high quality alcohol 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.

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 January 3, 2019, a bill (H.R. 104) was introduced into the House of Representatives aiming to repeal certain amendments to the Clean Air Act relating to the expansion of the renewable fuel program, and for other purposes. This bill revises the renewable fuel program, including the RFS. Under current law, the RFS specifies the minimum volume of renewable fuel, such as ethanol, that must be contained in gasoline sold in the United States, except in noncontiguous states or territories. The RFS annually increases until 2022 when a minimum of 36 billion gallons of renewable fuel must be blended into gasoline. This bill decreases the volume of renewable fuel that must be contained in gasoline to 7.5 billion gallons each year. The bill also revises the RFS to eliminate separate volume requirements for the following renewable fuel categories: advanced biofuels, cellulosic biofuel, and biomass-based diesel. The bill was referred to a congressional subcommittee where it awaits further consideration. 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 June 21, 2019, a bill (H.R. 3427) was introduced in the House of Representatives aiming to repeal the EPA's Renewable Fuel Standard program, which requires transportation fuel to contain a minimum volume of renewable fuel. 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 independent registered public accounting firm's report for the year ended December 31, 2019 includes an explanatory note describing a substantial doubt as to our ability to continue as a going concern.

As a result of ethanol industry conditions that negatively affected our business, our independent registered public accounting firm included in its report on our audited consolidated financial statements as of and for the year ended December 31, 2019 an explanatory note describing a substantial doubt as to our ability to continue as a going concern. A "going concern" opinion indicates that the financial statements have been prepared assuming we will continue as a going concern, and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities, that may result if we do not continue as a going concern. The presence of a going concern note to our financial statements may have an adverse impact on our business relationships with third parties, and could make it more difficult for us to raise additional financing, all of which could have a material adverse impact on our business and prospects.

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, 2019, of our $228.8 million of federal NOLs, we had $82.1 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.

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 further declines.

Our sales are highly concentrated within the ethanol production and marketing industry. An industry shift away from ethanol, or the emergence of new competing products, may significantly reduce the demand for ethanol. An ongoing or further 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 2019 and 2018, two customers accounted for an aggregate of approximately $336 million and $367 million in net sales, representing 24% and 25% of our net sales, respectively, for those periods. 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 June 30, 2020, we had approximately $204.4 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

The conversion of convertible securities and the exercise of outstanding options and warrants to purchase our common stock could substantially dilute your investment, impede our ability to obtain additional financing and cause us to incur additional expenses.

Our Series B Preferred Stock, which are convertible into our common stock, and outstanding options to acquire our common stock issued to employees, directors and others, and warrants to purchase our common stock, allow the holders of these securities an opportunity to profit from a rise in the market price of our common stock such that conversion or exercise of the securities will result in dilution of the equity interests of our common stockholders. The terms on which we may obtain additional financing may be adversely affected by the existence and potentially dilutive impact of our Series B Preferred Stock, options and warrants. In addition, holders of our Series B Preferred Stock and warrants have registration rights with respect to the common stock underlying those Series B Preferred Stock and warrants, the registration of which may involve substantial expense.

The market price of our common stock and the value of your investment could substantially decline if shares of our Series B Preferred Stock are converted into shares of our common stock and if our options and warrants are exercised for shares of our common stock and all of these shares of common stock are resold into the market, or if a perception exists that a substantial number of shares of common stock will be issued upon conversion of our Series B Preferred Stock or upon exercise of our warrants or options and then resold into the market.

Sales of a substantial number of shares of common stock issued upon conversion of our Series B Preferred Stock and upon exercise of our options and warrants, or even the perception that these sales could occur, could adversely affect the market price of our common stock. As a result, you could experience a substantial decline in the value of your investment as a result of both the actual and potential conversion of our outstanding shares of Series B Preferred Stock and exercise of our outstanding options or warrants.

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:

- our ability to continue as a going concern;
- actions taken by our lenders;
- fluctuations in the market prices of our products;
- the cost of key production inputs, including corn and natural gas;
- the volume and timing of the receipt of orders from major customers;
- competitive pricing pressures;
- our ability to timely and cost-effectively produce, sell and deliver our products;
- the announcement, introduction and market acceptance of alternatives to our products;
- changes in market valuations of companies similar to us;
- stock market price and volume fluctuations generally;
- regulatory developments or increased enforcement;
- fluctuations in our quarterly or annual operating results;
- additions or departures of key personnel;
- the timing and results of our strategic initiatives;
- our inability to obtain 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 also be adversely affected by a slow-down in overall demand for oxygenate and gasoline additive products. The levels of our ethanol production and purchases for resale will be based upon forecasted demand. Accordingly, any inaccuracy in forecasting anticipated revenues and expenses could adversely affect our business. The failure to receive anticipated orders or to complete delivery in any quarterly period could adversely affect our results of operations for that period. Quarterly 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, the price of our common stock, or both.

Our bylaws contain an exclusive forum provision, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery shall be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of us, (b) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of us to us or our stockholders, (c) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, or (d) any action asserting a claim governed by the internal affairs doctrine.

For the avoidance of doubt, the exclusive forum provision described above does not apply to any claims arising under the Securities Act of 1933, as amended, or Securities Act, or the Securities Exchange Act of 1934, as amended, or Exchange Act. Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder, and Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder.

The choice of forum provision in our bylaws may limit our stockholders' ability to bring a claim in a judicial forum that they find favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us and our directors, officers, employees and agents even though an action, if successful, might benefit our stockholders. The applicable courts may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments or results may be more favorable to us than to our stockholders. With respect to the provision making the Court of Chancery the sole and exclusive forum for certain types of actions, stockholders who do bring a claim in the Court of Chancery could face additional litigation costs in pursuing any such claim, particularly if they do not reside in or near Delaware. Finally, if a court were to find this provision of our bylaws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could have a material adverse effect on us.

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

We granted to certain employees shares of restricted stock under our 2006 and 2016 Stock Incentive Plans pursuant to Restricted Stock Agreements dated and effective as of their respective grant dates by and between us and those employees.

We were obligated to withhold minimum withholding tax amounts with respect to vested shares of restricted stock and upon future vesting of shares of restricted stock granted to our employees. Each employee was entitled to pay the minimum withholding tax amounts to us in cash or to elect to have us withhold a vested amount of shares of restricted stock having a value equivalent to our minimum withholding tax requirements, thereby reducing the number of shares of vested restricted stock that the employee ultimately receives. If an employee failed to timely make such election, we automatically withheld the necessary shares of vested restricted stock.

For the three months ended June 30, 2020, in connection with satisfying our withholding requirements, we withheld the following number of shares of our common stock and remitted cash payments to cover the minimum withholding tax amounts, thereby effectively repurchasing from the employees such number of shares of our common stock at the following deemed purchase prices:

Month	Number of Shares Withheld	Deemed Purchase Price Per Share	Aggregate Purchase Price
April	357,239	$ 0.25	$ 89,489

Dividends

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

For the three and six months ended June 30, 2020, we accrued an aggregate of $0.3 million and $0.6 million, respectively, in dividends on our Series B Cumulative Convertible Preferred Stock, or Series B Preferred Stock, but did not declare or pay cash dividends, as permitted under an agreement with the holders of our Series B Preferred Stock, in an effort to preserve liquidity. For the three and six months ended June 30, 2019, we declared and paid in cash an aggregate of $0.3 million and $0.6 million, respectively, in dividends on our Series B Preferred Stock.

We have never declared or paid cash dividends on our common stock and do not currently intend to pay cash dividends on our common stock in the foreseeable future. We currently anticipate that we will retain any earnings for use in the continued development of our business.

The holders of our outstanding Series B Preferred Stock are entitled to dividends of 7% per annum, payable quarterly. Accrued and unpaid dividends in respect of our Series B Preferred Stock must be paid prior to the payment of any dividends in respect of shares 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	Third Amendment to Membership Interest Purchase Agreement dated as of April 15, 2020 by and among Pacific Ethanol Central, LLC, Pacific Aurora, LLC and Aurora Cooperative Elevator Company (1)
10.2	Secured Promissory Note (Negotiable) dated April 15, 2020 in the amount of $8,580,000 by Pacific Aurora, LLC in favor of Pacific Ethanol Central, LLC (1)
10.3	Secured Promissory Note (Non-Negotiable) dated April 15, 2020 in the amount of $7,920,000 by Pacific Aurora, LLC in favor of Pacific Ethanol Central, LLC (1)
10.4	Assignment of Notes and Deeds of Trust dated April 15, 2020 by and among Pacific Ethanol Central, LLC, Pacific Aurora, LLC and CoBank, ACB (1)
10.5	Partial Release of Collateral Letter dated April 15, 2020 by Pacific Ethanol, Inc. and its Subsidiaries named therein, and CoBank, ACB (1)
10.6	Partial Release of Collateral Letter dated April 15, 2020 by Pacific Ethanol, Inc. and its Subsidiaries named therein, Cortland Products Corp., and the Noteholders named therein (1)
10.7	Promissory Note dated April 29, 2020 in the amount of $5,973,138 by Pacific Ethanol, Inc. in favor of Bank of America, NA (2)
10.8	Promissory Note dated May 1, 2020 in the amount of $3,886,729 by Pacific Ethanol Pekin, LLC in favor of Bank of America, NA (2)
10.9	Security Agreement dated May 5, 2020 by Pacific Ethanol Pekin, LLC in favor of Cortland Products Corp. as collateral agent for the Noteholders identified therein (3)
10.10	Note Amendment No. 6 dated May 26, 2020 by and among Pacific Ethanol, Inc. and the Noteholders identified therein (4)
10.11	Second Amendment to Amended and Restated Employment Agreement for Neil M. Koehler dated May 22, 2020 by and between Pacific Ethanol, Inc. and Neil M. Koehler (4)
31.1	Certifications Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)
31.2	Certifications Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)
31.3	Certifications Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)
101.INS	XBRL Instance Document (*)
101.SCH	XBRL Taxonomy Extension Schema (*)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (*)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (*)
101.LAB	XBRL Taxonomy Extension Label Linkbase (*)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (*)

(*) Filed herewith.
(1) Filed as an exhibit to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 21, 2020.
(2) Filed as an exhibit to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 7, 2020.
(3) Filed as an exhibit to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 11, 2020.
(4) Filed as an exhibit to the registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 29, 2020.

SIGNATURES

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

PACIFIC ETHANOL, INC.

Dated: August 13, 2020

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

EXHIBIT 31.1

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

I, Michael D. Kandris, 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: August 13, 2020

/S/ MICHAEL D. KANDRIS
Michael D. Kandris
Co-President and Co-Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

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: August 13, 2020

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

EXHIBIT 31.3

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: August 13, 2020

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

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Pacific Ethanol, Inc. (the "Company") for the period ended June 30, 2020 (the "Report"), the undersigned hereby certify in their capacities as Co-Chief Executive Officers 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: August 13, 2020

By: /S/ MICHAEL D. KANDRIS
Michael D. Kandris
Co-President and Co-Chief Executive Officer
(Co-Principal Executive Officer)

Dated: August 13, 2020

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

Dated: August 13, 2020

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.