Plaintiff, Joseph Spoto (“Plaintiff”), alleges the following based upon the investigation by Plaintiff’s counsel, which included, among other things, a review of the defendants’ public documents, conference calls and announcements made by defendants, United States Securities and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding Xethanol Corporation (“Xethanol” or the “Company”) securities analysts’ reports and advisories about the Company, and information readily available on the Internet, and Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION AND OVERVIEW

1. This is a federal class action on behalf of purchasers of the common stock of Xethanol between January 31, 2006 and August 8, 2006, inclusive (the “Class Period”), seeking to pursue remedies under the Securities Exchange Act of 1934 (the “Exchange Act”).

2. Xethanol is a biotechnology-driven company with the primary goal of becoming a leader in the emerging biomass-to-ethanol industry. The Company produces ethanol and its co-
products.

3. The complaint alleges that, throughout the Class Period, defendants failed to disclose material adverse facts about the Company’s financial well-being, business, and prospects. At all relevant times, defendants portrayed Xethanol as a biotechnology-driven ethanol company that can turn wood chips, corn stalks and paper sludge into cheap alternative fuel. However, little or no evidence existed to bolster the Company’s statements that it had produced significant quantities of ethanol from those raw materials.

4. Xethanol entered the ethanol business in 2003, buying a small plant in Hopkinton, Iowa, that was using waste water from candy companies as the source of sugars it fermented into ethanol. In October 2004, Xethanol bought a second plant, in Blairstown, Iowa, out of bankruptcy. The two operations have a combined capacity of 7.1 million gallons per year and are designed to produce fuel from corn and other high-starch or high-sugar feedstocks.

5. With respect to these plants, the Company stated:

At the present time, we own two ethanol plants in Iowa - Xethanol BioFuels in Blairstown and Permeate Refining in Hopkinton. We also own several proprietary bio-extraction, bio-separation and bio-fermentation technologies that are targeted at reducing costs throughout the entire ethanol production process as well as enabling the conversion of biomass to ethanol and xylitol.

Xethanol BioFuels was acquired in November 2004 as an idled plant. During the first six months of 2005, this facility underwent substantial refurbishment and became operational in July 2005. This is a corn-based operation with an initial production capacity of 5.5 millions gallons of ethanol per year. After initial discussions with The Harris Group, our “owner’s engineering” firm, we are now evaluating contractor proposals to increase the plant production capacity to 25 million gallons and at the same time optimize efficiency. The BioFuels facility is located on a 25 acre site with ample space for expansion.

Permeate Refining was initially designed to process waste starches and sugars and has a production capacity of 1.6 million gallons of ethanol per year. In April 2005, we temporarily ceased operations at
the Permeate Refining plant in order to refurbish the facility and evaluate strategic alternatives. We are currently evaluating a project to convert Permeate into one of the first US commercial cellulosic biomass to ethanol facilities.

6. On August 7, 2006, while the market was open, ShareSleuth.com, a forensic securities investigations website, published a report which criticized Xethanol and its management. Specifically, the report questioned Xethanol’s position that it could achieve commercialization of ethanol and noted that many of Xethanol’s financiers had been disciplined by regulatory agencies. The report also claimed that defendant Christopher d’Arnaud-Taylor (“Taylor”), Xethanol’s Chairman and Chief Executive Officer, had falsified his work experience and qualifications on his résumé.

7. News of this caused a sharp decline of Xethanol shares. Between August 8, 2006 and August 9, 2006, shares of Xethanol tumbled from $6.91 per share to $5.25 per share, a two-day decline of more than $1.60 per share.

8. Defendants, throughout the Class Period, failed to disclose: (1) that its Hopkinton, Iowa Permeate Refining plant was not being refurbished; rather the plant lay vacant and uninhabited with its doors locked; (2) that the Company lacked credible management personnel; (3) that defendants engaged in an alarmingly high number of related party transactions (such that the Company used a reverse merger into a shell corporation to avoid disclosing these facts); (4) that defendants materially underreported the true cost of completing a biomass to ethanol production facility and failed to take proper adjustments, which enabled defendants to materially overstate the Company’s profitability; (5) that, because the Company lacked the necessary personnel and controls to issue accurate financial reports and projections, the Company’s financial statements were presented in violation of Generally Accepted Accounting Principles (“GAAP”); and (6) that, as a result of the foregoing, the Company’s statements regarding its prospects for biomass ethanol
production were lacking in any reasonable basis when made.

9. As a result of defendants’ wrongful acts and omissions, and the precipitous decline in the market value of Xethanol’s common stock, Plaintiff and other class members have suffered significant losses and damages.

JURISDICTION AND VENUE

10. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act, (15 U.S.C. §§ 78j(b) and 78t(a)), and Rule 10b-5 promulgated thereunder (17 C.F.R. § 240.10b-5).

11. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1331.

12. Venue is proper in this Judicial District pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this Judicial District. Additionally, the Company maintains a principal executive office within this Judicial District.

13. In connection with the acts, conduct and other wrongs alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

14. Plaintiff, Joseph Spoto, as set forth in the accompanying certification, incorporated by reference herein, purchased Xethanol common stock at artificially inflated prices during the Class Period and has been damaged thereby.
15. Defendant Xethanol is a Delaware corporation with its principal place of business located at 1185 Avenue of the Americas, New York, New York 10036.

16. Defendant Taylor was, at all relevant times until his termination in August 2006, the Company’s Chairman, President, and Chief Executive Officer.

17. Defendant Jeffrey S. Langberg ("Langberg") was, at all relevant times, a director of the Company.

18. Defendant Lawrence S. Bellone ("Bellone") was, at all relevant times since April 2005, the Company’s Chief Financial Officer.

19. Defendants Taylor, Langberg, and Bellone are collectively referred to hereinafter as the “Individual Defendants.” The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of Xethanol’s quarterly reports, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, i.e., the market. Each defendant was provided with copies of the Company’s reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available to them, each of these defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations which were being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein, as those statements were each “group-published” information, the result of the collective actions of the Individual Defendants.

**SUBSTANTIVE ALLEGATIONS**

**Background**

20. Xethanol is a biotechnology-driven company with the primary goal of becoming a
leader in the emerging biomass-to-ethanol industry. The Company produces ethanol and its co-products.

21. Xethanol went public in February 2005 through a reverse merger with a moribund pottery business whose shares traded on the Over-the-Counter market. The Company’s stock performance was unremarkable until 2006, when its shares rose sevenfold. Xethanol climbed from a low of $2.30 in January 2006 to a high of $16.18 in April 2006, riding a surge of investor interest in ethanol producers and a steady wave of press releases about new deals and developments.

22. At all times, Xethanol consistently stated that its ethanol growth strategy encompassed a three-pronged approach geared to the production of local biomass produced ethanol. The Company summarized its approach as follows:

Our business and growth strategy encompasses a 3-pronged approach which is geared at ultimately increasing production levels and lowering production costs:

Increase production capacity at our Iowa facilities through the physical expansion of these facilities utilizing cutting-edge engineering design as well as integration of our processing technologies,

Employ a regional approach to building new ethanol production by focusing on port sites and coastal urban areas on the Atlantic and Gulf coasts. By creating a regional alliance strategy we will combine Xethanol’s ethanol expertise with local capital, human resources and project development skills to penetrate coastal markets presently being served by “imports” from the Corn Belt, and

Employ a sector strategy to expansion by focusing on the forests products industry, a prolific provider of biomass waste streams and an area where we have significant technological advantages.

23. Xethanol entered the ethanol business in 2003, when the Company purchased a small plant in Hopkinton, Iowa, that was using waste water from candy companies as the source of sugars it fermented into ethanol. In October 2004, Xethanol bought a second plant, in Blairstown, Iowa, out of bankruptcy. The two operations have a combined capacity of 7.1 million gallons a
year and are designed to make fuel from corn and other high-starch or high-sugar feedstocks.

24. With respect to these plants, the Company stated:

At the present time, we own two ethanol plants in Iowa - Xethanol BioFuels in Blairstown and Permeate Refining in Hopkinton. We also own several proprietary bio-extraction, bio-separation and bio-fermentation technologies that are targeted at reducing costs throughout the entire ethanol production process as well as enabling the conversion of biomass to ethanol and xylitol.

Xethanol BioFuels was acquired in November 2004 as an idled plant. During the first six months of 2005, this facility underwent substantial refurbishment and became operational in July 2005. This is a corn-based operation with an initial production capacity of 5.5 millions gallons of ethanol per year. After initial discussions with The Harris Group, our “owner’s engineering” firm, we are now evaluating contactor proposals to increase the plant production capacity to 25 million gallons and at the same time optimize efficiency. The BioFuels facility is located on a 25 acre site with ample space for expansion.

Permeate Refining was initially designed to process waste starches and sugars and has a production capacity of 1.6 million gallons of ethanol per year. In April 2005, we temporarily ceased operations at the Permeate Refining plant in order to refurbish the facility and evaluate strategic alternatives. We are currently evaluating a project to convert Permeate into one of the first US commercial cellulosic biomass to ethanol facilities.

25. Additionally, defendants reported, at or around the beginning of the Class Period, that Xethanol had formed joint ventures to expand ethanol production locally. These types of announcements were important to investors because they represented the Company’s first regional strategic alliances, formed to develop and execute business opportunities in both the Southeast and New England regions. These joint ventures also represented important milestones in the Company’s evolution because they served to support investors’ belief that the Company was operating according to plan, and was already reaching its second stage of development, the commercialization of biomass to ethanol production.
Materially False and Misleading
Statements Issued During the Class Period

26. The Class Period begins on January 31, 2006. At that time, *Fortune Small Business Magazine* published an article about Xethanol which noted the “innovative” way the Company changed “candy” and other biomass into Xethanol. Specifically, the article stated, in relevant part, the following:

Entrepreneurs tend to stay at least one step ahead of the pack, and lately they have been widening their lead. Small businesses are generating so much that’s new in our economy that more and more big corporations are buying them up to gain access to their research and development. With that in mind, we found a half-dozen entrepreneurs who have a new idea, business, or invention you’re bound to be hearing about over the next year or so.

FILL ‘ER UP WITH CARAMEL

Leftover Halloween candy might not seem like fuel for anything but dental cavities, but Xethanol, a firm based in New York City, may change that perception.

Since 2003, Xethanol has operated two Iowa plants that can cheaply distill a gasoline additive called ethanol from bizarre sources such as stale butterscotch candy. When technicians mix the sweets with a special form of yeast, fermentation results, producing ethanol. (Typically producers of ethanol derive the clean-burning, high-octane fuel from corn.) Big oil companies then combine it with unleaded gasoline to reduce the cost of gas and the air pollution it causes.

Xethanol isn’t just relying on candy for its fuel supply. This year it plans to introduce a process that will make it possible to turn all kinds of things—including cornstalks, grass clippings, and old newspapers—into ethanol. If all goes as planned, 59-year-old CEO and founder Christopher d’Arnaud-Taylor projects revenues of $15 million this year, up from $2.5 million in 2005—and the first-ever profit for Xethanol, which he started in 2000 and took public last February. “Where there’s muck, there’s money,” he quips.

Xethanol will use a recently discovered form of yeast to ferment various types of garbage into ethanol. It has obtained rights to the process from the U.S. Department of Agriculture, where a scientist discovered that a yeast in the intestines of a type of beetle can convert plant-based waste product into ethanol.
This year d’Arnaud-Taylor intends to begin opening plants on the East Coast that will use yeast from the beetles to brew ethanol from sludge left over from paper milling. The plants will be able to make in total more than 100 million gallons of ethanol a year. That’s a trickle, considering that Americans burn nearly 21 million barrels of oil every day. But it’s a start. Thanks to federal subsidiaries and $60-a-barrel oil, it’s a seller’s market for ethanol. And even if oil prices drop below $30 a barrel, Xethanol needn’t worry, say experts. “Relying on cheaper processes than competitors could help the company if prices fall,” says Anthony Marchese, president of Monarch Capital Group in New York City…

27. Commenting on this article, in a *Business Wire* report, defendant Taylor stated:

It is most gratifying for our stockholders and employees that Xethanol has been recognized as an innovator by FORTUNE and for our Blairstown plant to be given such prominence on the cover. There are strong legislative and commercial tailwinds driving the future of ethanol and our company. The government’s support for ethanol is likely to receive a further boost in President Bush’s upcoming State of the Union address. Furthermore, the commitment of Ford Motor Company and General Motors to increasing production of ethanol enabled Flexible Fuel Vehicles, indicates that Xethanol is aligned with meeting our Nation’s need for energy independence and the production of a safe, clean-burning fuel.

28. On February 27, 2006, Xethanol issued a press release regarding the Company’s selection of a stock promotion company, Zangani, to promote the Company to investors through webcasts and podcasts, as well as an “Investor Portal.” Specifically, the Company stated, in relevant part, the following:

Xethanol Corporation, a biotechnology driven ethanol production company, announced today that it has retained Zangani to help further develop future business plans, licensing deals, international exposure and investor community communications.

Zangani will produce and webcast company presentations, CEO interviews and Q&A forums with their established investor community. “The point of this programming will allow us to help Xethanol take advantage of new media opportunities which enhance their other communication vehicles,” said Leonardo Zangani, founder and President of Zangani.
“All presentations and interviews will be produced and uploaded to the Zangani Investor Community on the same day to allow for immediate dynamic interaction between Xethanol and our community with Zangani being the conduit for that information,” stated Kevin Nally, business development consultant and moderator for the Zangani Investor Community.

Mr. Christopher d’Arnaud-Taylor, Chairman and CEO of Xethanol, commented: “We are very excited by the opportunity to team with Zangani to leverage their new media skills and spread the Xethanol message to a wider investor audience, especially the European business development opportunities that Zangani can open up to us.”

Podcasting is a method of publishing and distributing audio files via the Internet. Podcasts can be listened to directly from a computer or downloaded to a portable media player, such as Apple’s iPod.

29. Also on February 27, 2006, Stockguru.com issued a press release on M2 Presswire which stated, in relevant part, the following:

Xethanol Corporation’s goal is to be the leader in the emerging biomass-to-ethanol industry. Xethanol’s mission is to optimize the use of biomass in the renewable energy field and convert biomass that is currently being abandoned or land filled into ethanol and other valuable co-products, especially xylitol. Xethanol’s strategy is to deploy proprietary biotechnologies that will extract and ferment the sugars trapped in these biomass waste concentration’s. Xethanol’s strategic value proposition is to produce ethanol and valuable co-products cost effectively with ethanol plants located closer to biomass sources. In Iowa, Xethanol owns two ethanol production facilities, where it is deploying these technologies. For more information about Xethanol, please visit its website at http://www.xethanol.com.

30. On March 31, 2006, Xethanol filed its annual report with the SEC on Form 10-KSB. Therein, with respect to the Company’s business, Xethanol stated:

Xethanol Corporation (the “Company”) is a biotechnology-driven company in the emerging biomass-to-ethanol industry. The Company produces ethanol and its co-products. Ethanol is a clean burning, renewable fuel and is used as a primary gasoline additive under the Energy Policy Act of 2005. The Company plans to optimize the use of biomass in the renewable energy field and convert biomass that is currently being abandoned or land filled into ethanol or other valuable co-products. The Company’s business model is to deploy proprietary biotechnologies that will extract and ferment
sugars trapped in these biomass waste concentrations in a cost effective manner by locating ethanol plants closer to biomass sources and in proximity to urbanized high-demand ethanol markets.

The Company was originally incorporated on January 24, 2000 in Delaware as Freereal-Timequote.com, Inc. On August 8, 2000, the Company changed its name from Freereal-Timequote.com, Inc. to LondonManhattan.com, Inc. (“LondonManhattan”). On September 19, 2001, LondonManhattan changed its name to Xethanol Corporation, to function as a holding and management company for a series of planned acquisitions and new ventures in the biomass-to-ethanol industry.

31. Additionally, and with respect to the refurbishment of the Company’s Iowa ethanol production facility, the Company stated:

In April 2005, the Company temporarily ceased operations at Permeate in order to refurbish the facility and to consider alternatives to maximize the strategic use of the facility. The Company is currently evaluating the possibility of utilizing the facility initially as a pilot plant for commercializing certain of its technologies and ultimately scaling up the facility once the technology proves out.

***

With regard to our Permeate facility, we are currently evaluating a plant to adapt Permeate to become a full production cellulosic biomass to ethanol facility. Under this plan, we would use local industrial biomass waste streams as our feedstock. We would convert these waste streams utilizing certain of our front end processing technologies. The Permeate facility is ideally designed for this project. It is anticipated that the facility could quickly ramp up from 1.6 million gallons per year to 4 million gallons per year. A few of the very attractive aspects of this project are 1) it is expected that any required physical plant alteration would be relatively minor and could be accomplished within 6 months, 2) it will be our first cellulosic biomass facility and a proving ground for our technologies and 3) it will increase of overall production levels and profitability.

***

Permeate Refining was initially designed to process waste starches and sugars and has a production capacity of 1.6 million gallons of ethanol per year. In April 2005, we temporarily ceased operations at the Permeate Refining plant in order to refurbish the facility and evaluate strategic alternatives. We are currently evaluating a project
to convert Permeate into one of the first US commercial cellulosic biomass to ethanol facilities. We are pursuing a plan combining steam gun explosion technology with our proprietary Virginia Tech fermentation technology. Under this plan, Permeate production capacity could be increased significantly with enhanced operating efficiency.

32. The Company’s Form 10-KSB also noted that, during the fourth quarter of the prior year, defendants charged more than $3.635 million to expenses which represented the amortized costs of license agreement acquisition, after defendants considered the ambiguity related to the Company’s timing of its commercialization. Specifically, the Company’s write-down included the following technologies, some of which were acquired with stock:

Advanced Bioethanol Technologies, Inc.

On June 29, 2004, the Company acquired 100% of the issued and outstanding common stock of Advanced Bioethanol Technologies, Inc. (“ABTI”) from UTEK Corporation in exchange for 200,000 shares of the Company’s common stock at a price of $1.50 for a total consideration of $300,000. ABTI’s principal asset is a license agreement, which has a term of twenty-one years, to a biomass extraction and fermentation process developed at Virginia Polytechnic Institute and State University (“Virginia Tech”). This technology converts waste biomass mixtures to ethanol by exploiting each mixture’s unique properties to solve feedstock-specific processing problems. The license calls for minimum royalty payments of $7,500 in year three, $15,000 in year four and $30,000 in year five and each year thereafter until the end of the license term.

On December 6, 2005, the company entered into a research agreement with Virginia Tech for the further development and eventual commercialization of the licensed technology. Under this agreement, the Company will pay Virginia Tech $75,689 in five payments scheduled over the course of 2006.

Ethanol Extraction Technologies, Inc.

On September 30, 2004, the Company acquired 100% of the issued and outstanding common stock of Ethanol Extraction Technologies, Inc. (“EETI”) from UTEK Corporation in exchange for 169,230 shares of the Company’s common stock at a price of $3.25 for a total consideration of $550,000. EETI holds a license agreement, which has a term of ten years, to a patented, Queens University, Ontario,
developed extractive fermentation technology to continually remove and isolate ethanol during the fermentation process, incorporating a strategy in which the fermentation reaction and ethanol removal occur simultaneously, thereby increasing output and reducing energy costs. Under the license agreement, the Company is obligated to pay an annual earned royalty of 1% of net sales of licensed product prior to patent expiration and 0.25% thereafter plus 1% of net sales of equipment that enables the use of the licensed technology, for the term of the agreement. The license also calls for a one-time milestone payment of $2,500 per million gallons of nameplate capacity for each plant set up during the term of the agreement.

Superior Separation Technologies, Inc.

On January 11, 2005, the Company acquired 100% of the issued and outstanding common stock of Superior Separation Technologies, Inc. ("SSTI") from UTEK Corporation in exchange for 250,000 shares of the Company’s common stock at a price of $3.25 for a total consideration of $812,500. The number of shares issued was subsequently adjusted to 200,702 shares to reflect the effects of the reverse merger. SSTI holds a license agreement, which has a term of twenty years, to a patented technology developed at the U.S. Department of Energy’s National Renewable Energy Laboratory designed to effectively separate lignocellulosic material into lignin, cellulose and dissolved sugars. The license calls for minimum royalty payments of $10,000 in 2007, $25,000 in 2008 and $50,000 in 2009 and each successive year thereafter until the end of the license term.

Xylose Technologies, Inc.

On August 15, 2005, the Company acquired 100% of the issued and outstanding common stock of Xylose Technologies, Inc. ("XTI") from UTEK Corporation in exchange for 567,857 shares of the Company’s common stock at a price of $4.20 for a total consideration of $2,385,000. XTI holds a license agreement, which has a term of twenty years, to patented technologies based on research done by the U.S. Department of Agriculture’s Forest Products Lab (the “FPL”) designed to convert xylose into ethanol and xylitol. The license calls for a minimum royalty payment of $15,000 in 2008 and $25,000 in 2009 and each successive year thereafter until the end of the license term. At the time of the acquisition, XTI also held cash of $450,000.

On November 30, 2005, XTI entered into a Collaborative Research and Development Agreement ("CRADA") with the FPL for the purpose of developing genetically engineered yeast strains for the production of xylitol from cellulosic biomass, such as wood chips.
Under the CRADA, XTI will fund to FPL $250,000 over the course of 2006. The first payment of $62,500 was made in January 2006.

33. Additionally, and with respect to the Company’s growth as a result of the commercialization of biomass ethanol, the Company stated:

Iowa Expansion Strategy

Under the first prong of our business and growth strategy we plan to take advantage of our BioFuels facility which is located on 25 acres of land with nearby corn and biomass production as well as strong local civic and business relationships with all required permits already in place. After consideration and consultation with Harris Group, our process engineering firm, we are formulating a plan to expand the BioFuels facility from approximately 6 million gallons per year up to 25 million gallons per year. Our expansion plan envisions state-of-the-art engineering design and equipment and the integration of cutting edge processing technologies. We believe this expansion will optimize our investment in the facility and significantly increase profitability. We are currently evaluating contractor proposals. Of particular significance in this plan is our ability to continue to operate the plant with minimal disruptions during the expansion.

***

Regional Co-Location Strategy

Under the second prong of our business and growth strategy, we intend to build ethanol production facilities co-located with, or in proximity to, waste feedstock generators in the major ethanol usage areas clustered on the Atlantic and Gulf Coasts. To date, ethanol production has been concentrated in the corn farming states in the Midwest since corn is presently the major feedstock in ethanol production. However, ethanol buyers are clustered on the East and West Coasts around major trans-shipment points such as ports. We intend to partner with local entities that have real estate and tanker storage facilities available at these trans-shipment points and use their facilities to build local ethanol production facilities with a lower capital outlay on our part. We intend to implement proprietary bio-separation and bio-fermentation technologies at these coastal facilities that will allow us to use local biomass waste streams, such as industrial food processing wastes, in ethanol production. Our aim is to become a low-cost ethanol producer at major coastal trans-shipment points, and thus become the ethanol supplier of choice for large, local users.
Additionally, and with respect to related-party transactions, the Company stated:

**NOTE 14. RELATED PARTY TRANSACTIONS**

On January 1, 2003, the Company renegotiated an existing management services agreement with London Manhattan Limited, Inc. ("LML") for the services of Christopher d’Arnaud-Taylor as its President and Chief Executive Officer (the “2003 Agreement”). Mr. d’Arnaud-Taylor is the owner of LML, a significant shareholder of the Company and the Company’s Chairman of the Board of directors. Under this arrangement, the Company agreed to pay LML 1) a management fee of $10,000 per month until the first “Project Transaction”, as defined below, closed, $12,000 per month from such date to the closing of the second Project Transaction, and $15,000 per month, thereafter, 2) an incentive bonus of $50,000 upon closing of the first Project Transaction $100,000 upon closing of each subsequent Project Transaction and 3) $100,000 in full satisfaction for all management and/or other services previously rendered to the Company under previous agreements that remained unpaid and outstanding as of December 31, 2002. The term “Project Transaction” as used above and below means the completion of an acquisition, merger or other new venture. The acquisition of Permeate Refining, Inc., discussed in Note 3 above, represents the first Project Transaction and the acquisition of the assets of 78th Street Ethanol, LLC from FNBO, discussed in Note 5 above, represents the second Project Transaction. During 2004, the Company made total payments to Mr. d’Arnaud-Taylor of $216,275.

In January 2005, the Company terminated its arrangement with LML and entered into an employment agreement directly with Mr. d’Arnaud-Taylor as the Company’s President and Chief Executive Officer for a term of three years (the “2005 Agreement”). Under the 2005 Agreement, the Company pays Mr. d’Arnaud-Taylor a monthly fee of $15,000. During 2005, the Company made total payments to Mr. d’Arnaud-Taylor of $281,075.

On January 1, 2003, the Company entered into formal consulting services agreement with Jeffrey Langberg & Associates (“Langberg”). Langberg is a significant shareholder of the Company and became a member of the Board of directors in 2005. Under this agreement, the Company agreed to pay Langberg 1) consulting fees at the rate of $10,000 per month until such time as the first Project Transaction closes, at the rate of $12,000 per month from such date to the closing of the second Project Transaction, and at the rate of $15,000 per month thereafter, 2) an incentive bonus of $50,000 upon closing of the first Project Transaction and $100,000 upon closing of each subsequent Project Transaction thereafter, and 3) a finder’s fee
for the gross proceeds from the sale of securities to investors introduced to the Company and 4) $100,000 in full satisfaction for all consulting and/or other services previously rendered and not paid by the Company. During 2004, the Company made total payments to Langberg of $334,525 including finder’s fees of $145,025 which were recorded as a reduction to Additional paid-in-capital.

In February 2005, the Company re-negotiated its consulting services agreement with Langberg, pursuant to which Mr. Langberg agreed to provide general business advisory services to the Company. Under this agreement, the Company agreed to pay Mr. Langberg a consulting fee of $15,000 per month and a $225,000 sign-on bonus. Mr. Langberg is also eligible to receive performances bonuses at the discretion of the Board of directors. Mr. Langberg agreed to waive any compensation otherwise payable to him as a director of the Company. During 2005, the Company made total payments to Langberg of $649,147.

The Company also recorded consulting fees to other significant shareholders for the years ended December 31, 2005 and 2004 of $77,796 and $144,000, respectively. In December 2005, the Company entered into an arrangement with one of its advisory board members to act as the Company’s chief technology strategist and the Company pays a monthly consulting fee of $8,000. As of December 31, 2005, $8,000 had been paid under this arrangement. During 2004, the Company also issued 44,140 warrants to purchase common stock to a significant shareholder as compensation for consulting services.

Accounts payable to all related parties as of December 31, 2005 and 2004 were $56,080 and $388,736, respectively.

In October 2004, the Company began sharing office space in New York City with other affiliated companies under a sublease with Xethanol Management Services, LLC (“XMS”) which is a single member LLC controlled by Mr. Langberg. Under this arrangement, Xethanol is currently paying approximately $10,400 per month, plus reimbursement of other costs, in sublease payments on a month to month basis. As of December 31, 2005 total payments made were $99,806. No payments were required in 2004. During 2004, the Company paid a security deposit of $16,336 and made a one-time payment to XMS of approximately $44,000 for furniture, telephone and computer equipment and related software. Xethanol management believes the allocation of rent and other office expenditures among affiliates is reasonable and appropriate.

***
ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

***

Management and Consulting Services Agreements

In September 2001, Old Xethanol entered into a Management Services Agreement with London Manhattan Limited, Inc., a corporation controlled by Christopher d’Arnaud-Taylor, our Chairman and Chief Executive Officer, for the senior corporate management services of Mr. d’Arnaud-Taylor as its President. Pursuant to this agreement, Old Xethanol agreed to pay London Manhattan Limited, Inc. a monthly management fee, an incentive bonus based on the closing of project transactions and a percentage of our earnings before interest, depreciation and amortization. In connection with the reverse merger and private offering, we and London Manhattan Limited, Inc. agreed to terminate the Management Services Agreement, with no further liability or obligation on the part of the parties (except for certain earned, accrued fees), effective as of the closing of such transactions. Mr. d’Arnaud-Taylor entered into an employment agreement directly with us, as described in “Item 10. Executive Compensation - Employment Agreements.”

In January 2003, Old Xethanol entered into a Consulting Services Agreement with Jeffrey Langberg & Associates, pursuant to which Jeffrey S. Langberg, now one of our directors, provided business advisory services. Under this agreement, Old Xethanol had agreed to pay Jeffrey Langberg & Associates a monthly consulting fee, an incentive bonus based on the closing of project transactions and a fee for introductions to investors. In connection with the reverse merger and private offering, we and Jeffrey Langberg & Associates agreed to terminate the Consulting Services Agreement, with no further liability or obligation on the part of the parties or of us (except for certain earned, accrued fees), effective as of the closing of such transactions. Under the January 2003 agreement, we recorded consulting fees to Mr. Langberg of $389,025 in 2004 and $246,270 in 2003.

In February 2005, we entered into a Consulting Services Agreement with Mr. Langberg, pursuant to which Mr. Langberg agreed to provide general business advisory services. Under this agreement, we agreed to pay Mr. Langberg a monthly consulting fee of $15,000 per month and a sign-on bonus of $225,000. Mr. Langberg is also eligible to receive performances bonuses at the discretion of the Board of directors as well as equity-based awards under the 2005 Plan. Mr. Langberg agreed to waive any compensation otherwise payable to
him as a director of our company. During 2005, we recorded total consulting fees to Mr. Langberg of $455,000.

35. Additionally, and with respect to the Company’s internal controls, the Company stated:

**ITEM 8A. CONTROLS AND PROCEDURES**

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. The evaluation process, including the inherent limitations on the effectiveness of such controls and procedures, is more fully discussed below. Based upon our evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this report, notwithstanding the prior existence of certain material weaknesses, our disclosure controls and procedures were effective.

***

Prior to Old Xethanol’s “reverse merger” transaction with Zen in February 2005, during which time the foregoing errors in financial reporting were made, Old Xethanol had no formal audit committee, very limited accounting personnel and outsourced significant accounting functions. Reliance on such limited resources impaired Old Xethanol’s ability to provide for segregation of duties and the ability to ensure consistently complete and accurate financial reporting, as well as effective disclosure controls and procedures.

The material weaknesses were discussed in detail among management and our current independent registered public accounting firm in the first quarter of 2005 and, as a result of such
discussions, we promptly implemented a series of steps to improve our financial reporting and disclosure controls and procedures and to remedy the material weaknesses identified. Such steps included putting in place personnel, processes, technology and other resources appropriate to support our financial reporting and disclosure controls and procedures. In this regard, we (1) appointed a chief financial officer, with financial accounting and Exchange Act reporting experience, in April 2005 to oversee all of our accounting and reporting functions, (2) consolidated all of our plant accounting, reporting and administrative functions at our Xethanol BioFuels facility under a local plant controller, (3) implemented a system of formal procedures and controls to enable the accurate and timely gathering, recording, processing and “up-the-ladder” reporting of information, including formal monthly reporting requirements and regular conferences among internal accounting personnel and senior financial management, (4) consolidated all public reporting functions at our principal executive offices under the supervision of our Chief Financial Officer, and (5) on July 28, 2005, formed an audit committee of the board of directors composed entirely of independent directors. In addition, as we continue to grow, and as resources permit, we anticipate that our Chief Financial Officer will continue to hire such additional competent financial personnel to assist in the segregation of duties with respect to financial reporting and compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Because all of the foregoing steps were implemented by our company prior to the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer were able to carefully evaluate the effectiveness of these new measures, together with our other disclosure controls and procedures, at the end of the period covered by this report. On the basis of such evaluation, our Chief Executive Officer and Chief Financial Officer reached the conclusion set forth above that, as of the end of the period covered by this report, notwithstanding the prior existence of certain material weaknesses; our disclosure controls and procedures were effective…

36. Additionally, and with respect to the Company’s key management personnel, the Company stated:

Christopher d’Arnaud-Taylor, Chairman, President and Chief Executive Officer, has worked with Old Xethanol since August 2000. He became our Chairman, President and Chief Executive Officer on February 2, 2005. He is an international merchant banker and entrepreneur who gained global senior corporate executive experience with multinationals including Unilever, Reed Elsevier, Northrop Grumman and TKM Trading. He has directed the strategy,
operations and financial affairs of companies in the United States, Europe, Africa, the Middle East and Asia and managed the
development and execution of corporate turnarounds and
entrepreneurial ventures worldwide. Mr. d’Arnaud-Taylor has been a
Director and President of a private merchant banking firm, London
Manhattan Securities, Inc., for more than the past five years. London
Manhattan has worked with entrepreneurs and established companies
in forging new enterprises and realizing the potential of established
businesses through mergers and acquisitions, joint ventures and
strategic alliances. London Manhattan has participated as managing
co-venturer in special situations where its direct involvement led to
improving the operating results and strategic focus of an
underperforming company or new business venture. Mr. d’Arnaud-
Taylor also presently serves as a director of Metamorphix Global Inc,
a developer of advanced precast concrete technology that emulates
the patterns of natural stone, and Xeminex, Inc., an early-stage
producer of lead and zinc concentrates. Previously, Mr. d’Arnaud-
Taylor served as CEO of several global trading companies operating
primarily throughout the developing world trading in forest products,
precision equipment and building materials. He has consulted
extensively with leading defense contractors in the USA and Europe
on countertrade and defense offset performance. Mr. d’Arnaud-
Taylor obtained his M.B.A. from the London Business School having
completed additional graduate business studies as an exchange
scholar in international finance and development economics at the
Ecole des Hautes Etudes Commerciales in Paris, France and
corporate finance at New York University’s Stern School of
Business. He previously studied economics, government and law at
the University of Exeter, England.

***

Jeffrey S. Langberg, Director, became a member of our board of
directors on February 28, 2005. Prior to that, since January 1999, Mr.
Langberg had been a financial and business development advisor to
the Chairman of Old Xethanol. For more than the past five years, Mr.
Langberg has been an independent investment banker and business
development advisor to public and privately-held companies involved
in a broad range of industries. Mr. Langberg currently serves as an
investment banker and business development advisor to Metamorphix
Global Inc., a developer of advanced precast concrete technology that
emulates the patterns of natural stone; United Energy Corp., a
manufacturer of specialty chemicals for the oil services industry;
Deep Marine Technology, Inc., a designer of high technology single
operator submarines for deep sea work; and Hybed Fuel Systems,
Inc., a marketer of energy savings technology in the alternative fuels
industry. Mr. Langberg graduated from the University of
Pennsylvania’s Wharton School of Finance and received a law degree from Fordham University Law School.

**Louis B. Bernstein, Director**, became a member of our board of directors on June 2, 2005. Mr. Bernstein is currently Assistant General Counsel of Pfizer Inc., where he has been an attorney for 29 years. In this capacity, Mr. Bernstein has managed product liability claims and litigation involving prescription pharmaceuticals, orthopedic implants and other medical devices. Mr. Bernstein also provides due diligence, financial modeling, market research, acquisition candidate profiling and strategic partnering advice and assistance to clients in the life sciences and specialty chemical sectors. In addition, Mr. Bernstein has related experience in advertising and labeling review, legislative analysis and consultation regarding new products and investments, food and drug regulatory matters and commercial transactions.

***

**James Stewart, Vice President - Plant Operations and General Manager - Xethanol BioFuels** (subsidiary of Xethanol BioEnergy, Inc.). Mr. Stewart has more than 23 years of experience in ethanol production in the United States and throughout the world. In addition to extensive consulting experience, Mr. Stewart has been associated with the ethanol plant in Blairstown, Iowa since its inception and throughout its operations, including serving as general manager of the plant during its operation from 2000 through 2002. Mr. Stewart has extensive experience in all aspects of plant operation including regulatory affairs, staffing, engineering, feedstocks and emergency planning. Prior to his work at the Xethanol BioFuels plant, Mr. Stewart worked as a plant manager and in technical advisory roles at more than ten other ethanol production plants.

37. The Company’s Form 10-KSB was signed by the Individual Defendants, and contained the following Sarbanes-Oxley required certifications signed by defendants Taylor and Bellone:

1. I have reviewed this Annual Report on Form 10-KSB of Xethanol Corporation.

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 small business issuer as of, and for, the periods presented in this report;

4. The small business issuer’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 small business issuer 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 small business issuer, 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 small business issuer’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 small business issuer’s internal control over financial reporting that occurred during the small business issuer’s most recent fiscal quarter (the small business issuer’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer’s internal control over financial reporting; and

5. The small business issuer’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer’s auditors and the audit committee of the small business issuer’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 small business issuer’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 small business issuer’s internal control over financial reporting.

***

SECTION 906 CERTIFICATIONS

In connection with the Annual Report of Xethanol Corporation (the “Company”) on Form 10-KSB for the year ended December 31, 2005 as filed with the Securities and Exchange Commission (the “Report”), we, Christopher d’Arnaud-Taylor, President and Chief Executive Officer, and Lawrence Bellone, Principal Financial Officer and Principal Accounting Officer, certify, pursuant to 18 U.S.C. ss.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; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

38. On April 4, 2006, Xethanol announced that the Company had signed agreements for up to $46 million in two separate equity financing transactions. Specifically, the Company stated:

Xethanol Corporation, a biotechnology driven ethanol company, announced today that it has signed definitive agreements for up to $46 million in two separate equity financing transactions.

Under the terms of the first transaction, Xethanol will initially receive approximately $30 million from the issuance of shares of its common stock to institutional and private investors. Additionally, over the next three years, Xethanol could receive up to an additional $10.6 million from the exercise of warrants issued to these investors. More details and terms of the transaction will be made available in the Company’s upcoming filing of form 8-K with the Securities and Exchange Commission. As part of this transaction, the company has agreed to file a resale registration statement on Form SB-2 with the Securities and Exchange Commission within 30 days following the closing for
the purpose of registering for resale the shares of common stock sold in the financing.

Under the terms of the second transaction, Xethanol will initially receive $4 million from the issuance of shares of its common stock to Goldman Sachs & Co. Additionally, over the next three years, Xethanol could receive up to an additional $1.4 million from the exercise of warrants issued to Goldman Sachs. More details and terms of the transaction will be made available in the Company’s upcoming filing of form 8-K with the Securities and Exchange Commission.

Christopher d’Arnaud-Taylor, Chairman and CEO of Xethanol stated “We have been steadily building our business opportunities over the last year in preparation for this significant capital infusion which will now allow us to execute these plans. They include the expansion of our existing facilities, new plants in the southeast and northeast regions, and, most importantly, the integration and commercialization of our technologies. Having this capital really marks the beginning of our ability to realize our stated goal of being a leader in the emerging biomass-to-ethanol industry by employing cutting edge technologies in the conversion of low-cost biomass and other waste streams.”

Mr. d’Arnaud-Taylor further stated “The Company is extremely fortunate to gain the support of the investors participating in these financings. It is gratifying to see our business model validated.”

39. On April 11, 2006, Xethanol announced that the Company had hired Christopher Dillow to “explore strategic growth opportunities for Xethanol in the large and expanding California ethanol market.” Commenting on Mr. Dillow’s hiring and the Company’s potential in the California market, defendant Taylor stated:

As we are currently focused on our east coast regional toll-out, we are not yet ready to tackle the California ethanol market. However, now is the time to develop our market penetration strategy in that region. We have therefore hired Christopher Dillow to assist Xethanol in gaining greater visibility in the California market and to identify and evaluate potential strategic partners for us to team with. We have enjoyed an extensive and productive working experience with Christopher and we are delighted to formalize this relationship for California.
California’s demand for ethanol is about one third of the current US market. Almost all of the 900 million gallons of ethanol consumed in California in 2004, equal to more than $1.3 billion, was imported by rail or ship, mainly from Corn-Belt ethanol producers. California presently hosts production of only 8 million gallons per year at two small-scale operations, although there are ambitious plans to build several more plants that will primarily use corn as feedstock. We expect that California will be a huge opportunity for us to deploy cutting edge technologies for the conversion of low cost biomass and other waste streams to ethanol.

40. On April 21, 2006, Xethanol announced that the Company had entered into a “strategic equity” agreement to produce biodiesel fuel. Specifically, the Company stated:

Xethanol Corporation, a biotechnology driven ethanol company, announced today that it has entered into an agreement with H2Diesel, Inc. Under the terms of the agreement, Xethanol will manage the business of H2Diesel, which is to deploy the proprietary biodiesel conversion technology that H2Diesel owns under an exclusive license for North America, Central America and the Caribbean.

Xethanol received equity in H2Diesel for its management role and for entering into an option under which shares held by H2Diesel investors may elect to exchange their equity in H2Diesel for shares in Xethanol. In a separate agreement, Xethanol was granted a sub-license to produce and sell biodiesel using H2Diesel’s proprietary process in certain states. Under the agreements, Xethanol can acquire a majority interest in H2Diesel.

Details and terms of the transaction are contained in the Company’s filing on form 8-K with the Securities and Exchange Commission.

Lee Rosen, Chief Executive Officer of H2Diesel, said, “I am very pleased to have entered into such a comprehensive and strategic agreement with Xethanol. We believe that Xethanol’s proven expertise in the alternative fuel sector and commitment to processing waste streams, combined with H2Diesel’s technology, will drive rapid and widespread deployment of our unique system for producing biodiesel. We further believe that our technology, which reduces the capital expense in scaling biodiesel production and represents a quantum leap in simplifying conversion of oils into biodiesel, will make a meaningful contribution to our country’s move towards energy independence.”

Christopher d’Arnaud-Taylor, Xethanol’s Chairman and Chief Executive Officer, commented: “Xethanol has been able to identify
and acquire cutting edge technologies for converting biomass waste streams into ethanol. The H2Diesel technology, and our commitment to its deployment, reinforces our mission to be in the forefront of innovation in the biofuels sector. It further leverages our core competency of integrating technologies for converting America’s prolific waste streams into biofuels. We believe that the H2Diesel system is superior to current processing techniques and will therefore make a significant contribution to the continued growth of this industry.”

Mr. d’Arnaud-Taylor continued: “This H2Diesel strategic initiative complements our core ethanol business. We have been committed to expanding our business into other biofuels besides ethanol and having a presence in the biodiesel market has always been a key part of our strategy. The H2Diesel technology is ready to commercialize, making this an optimal strategic alliance. Biodiesel, the other mainstream biofuel along with ethanol, is currently the most rapidly growing alternative fuel market in the world. Current biodiesel production in the USA is approximately 100 million gallons per year. The U.S. Department of Agriculture estimates that US demand for biodiesel fuel will exceed 800 million gallons by 2010. Based on H2Diesel technology advantages of scalability and simplicity and production cost, we are confident that the H2Diesel-Xethanol alliance is well positioned to capture a significant share of this exploding market.”

41. On April 28, 2006, Xethanol announced that it had formed a strategic alliance with Global Energy Management, and was poised to expand its ethanol production into New England. Specifically, the Company stated:

Xethanol Corporation, a biotechnology driven ethanol company, announced today that it has organized NewEnglandXethanol LLC accelerating its growth plans to roll out ethanol production throughout the East Coast. NewEnglandXethanol will be a strategic alliance between Xethanol and Global Energy Management LLC. Its mission is to develop ethanol production in Connecticut, Massachusetts, Rhode Island, New Hampshire, Maine and Vermont. This follows the previously announced CoastalXethanol initiative to expand ethanol production throughout Georgia and the South East region.

NewEnglandXethanol will focus on a region with a strong environmental heritage and rich in biomass residues. NewEnglandXethanol plans to open several ethanol plants throughout the region deploying Xethanol’s proprietary technologies. Moreover,
NewEnglandXethanol may co-locate biodiesel production in its facilities under Xethanol’s sub-license from H2Diesel, Inc.

Mr. Tyrol, a principal of Global Energy Management, commented: “Global Energy Management is delighted to join forces with Xethanol to spearhead expansion of ethanol production in the New England region. Combining our project development expertise, deep local knowledge and established political connections with Xethanol’s technology platform will drive rapid expansion of ethanol production in a region with strong environmental priorities and a growing demand for ethanol. We expect to hit the road running with several projects already under review.”

Mr. d’Arnaud-Taylor, Chairman and CEO of Xethanol commented: “This alliance between Xethanol and Global Energy Management leading to the formation of NewEnglandXethanol is the second milestone in our East Coast regional roll-out plan. We are confident that Lee and his team’s experience in developing projects throughout the northeast and their Native American economic relationships in particular will help catapult NewEnglandXethanol into fast track production of ethanol.”

42. On May 15, 2006, Xethanol filed its quarterly report with the SEC on Form 10-QSB for the quarter ended March 31, 2006. The Company’s Form 10-QSB was signed by defendants Taylor and Bellone. With respect to the preparation of its financial statements, the Company stated:

NOTE 1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Xethanol Corporation (the “Company”) is a biotechnology-driven company in the emerging biomass-to-ethanol industry. The Company produces ethanol and its co-products. Ethanol is a clean burning, renewable fuel and is used as a primary gasoline additive under the Energy Policy Act of 2005. The Company plans to optimize the use of biomass in the renewable energy field and convert biomass that is currently being abandoned or land filled into ethanol or other valuable co-products. The Company’s business model is to deploy proprietary biotechnologies that will extract and ferment sugars trapped in biomass waste concentrations in a cost effective manner by locating ethanol plants closer to biomass sources and in proximity to urbanized high-demand ethanol markets.

The accompanying consolidated financial statements and related footnotes should be read in conjunction with the consolidated financial statements and related footnotes contained in the

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission related to interim statements. The financial information contained herein is unaudited; however, in the opinion of management, all adjustments necessary for a fair presentation of such financial information have been included. All such adjustments are of a normal recurring nature. The results of operations for the three months ended March 31, 2006 and 2005 are not necessarily indicative of the results expected for the full year. The balance sheet presented as of December 31, 2005 is derived from audited financial statements. Certain amounts from 2005 have been reclassified to conform to the 2006 presentation.

43. Additionally, and with respect to its related party transactions, the Company stated:

NOTE 6. RELATED PARTY TRANSACTIONS

In February 2005, the Company entered into a Consulting Services Agreement with Jeffrey S. Langberg, a stockholder and member of the Company’s Board of Directors, pursuant to which Mr. Langberg agreed to provide general business advisory services. Under this agreement, the Company pays Mr. Langberg a monthly consulting fee of $15,000 and Mr. Langberg is eligible to receive awards under the Company’s 2005 Incentive Compensation Plan. Mr. Langberg does not receive any compensation otherwise payable to him as a director. During the current quarter, Mr. Langberg received consulting fees of $45,000 and was awarded a performance bonus of $400,000 payable during 2006.

44. Additionally, and with respect to Xethanol’s internal controls and procedures, the Company stated:

Item 3. Controls and Procedures

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the
Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported, within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. The evaluation process, including the inherent limitations on the effectiveness of such controls and procedures, is more fully discussed below. Based upon our evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this report, notwithstanding the prior existence of certain material weaknesses, our disclosure controls and procedures were effective.

There has been no change in the Company’s internal controls over financial reporting during the fiscal quarter ending March 31, 2006 that has materially affected, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

45. Additionally, the Company’s Form 10-QSB contained the following Sarbanes-Oxley required certifications, signed by defendants Taylor and Ballone:

1. I have reviewed this quarterly report on Form 10-QSB of Xethanol Corporation.

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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer’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 small business issuer 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 small business issuer, 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 small business issuer’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 small business issuer’s internal control over financial reporting that occurred during the small business issuer’s most recent fiscal quarter (the small business issuer’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer’s internal control over financial reporting; and

5. The small business issuer’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer’s auditors and the audit committee of the small business issuer’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 small business issuer’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 small business issuer’s internal control over financial reporting.

***

SECTION 906 CERTIFICATIONS

In connection with the Quarterly Report of Xethanol Corporation (the “Company”) on Form 10-QSB for the quarters ended March 31, 2006 and 2005 as filed with the Securities and Exchange Commission (the “Report”), we, Christopher d’Arnaud-Taylor, President and Chief Executive Officer, and Lawrence Bellone, Principal Financial Officer and Principal Accounting Officer, certify, pursuant to 18 U.S.C. ss.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; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

46. On May 24, 2006, Xethanol announced that the Company had signed a letter of intent to acquire a manufacturing plant in Georgia. Specifically, the Company stated:

Xethanol Corporation, a biotechnology driven ethanol company, announced today that its CoastalXethanol subsidiary has signed a letter of intent with Pfizer, Inc. to purchase Pfizer’s pharmaceutical manufacturing complex located in Augusta, Georgia. While details are yet to be finalized, CoastalXethanol and Pfizer are working together to complete the transaction.

The state of the art, 40 acre site includes: an 89,100 square foot manufacturing facility, a 25,000 square foot warehouse facility, 7,300 square feet of laboratory space, and 16,000 square feet of offices and conference rooms. CoastalXethanol intends to retrofit the site to produce 35 million gallons per year of ethanol. The facility will produce ethanol from cellulosic and other biomass waste streams generated by industrial producers in the surrounding areas. This biomass-to-ethanol facility will be the first of its kind in the region. In addition, CoastalXethanol may produce biodiesel in this facility under Xethanol’s sublicense from H2Diesel, Inc.

A finalized agreement could produce up to 100 new jobs in Augusta, and has been embraced by local governmental agencies. “This is a
win-win situation for all companies, and we hope the details can be finalized in the near future and Augusta can become the home of CoastalXethanol’s signature plant,” said Augusta’s Mayor Deke Copenhaver.

Mr. d’Arnaud-Taylor, Chairman and CEO of Xethanol commented: “The proposed purchase and conversion of this facility serves as an excellent template of our strategy of acquiring existing industrial plants and adapting them to produce ethanol and biodiesel. Because of the size and existing infrastructure of this facility, it gives Xethanol an exceptional platform from which to launch its CoastalXethanol production initiative in a meaningful way. We believe this will be the first of several significant acquisitions in the Southeast. Xethanol appreciates Mayor Copenhaver’s and Augusta’s enthusiasm and assistance. The Mayor and his team were quick to grasp that our waste to ethanol technologies not only create renewable energy in the region, but also help solve waste disposal issues associated with the forestry industry.”

47. On May 31, 2006, Xethanol announced a “strategic alliance” with Coastal Energy Development. Specifically, the Company stated:

Xethanol Corporation, a biotechnology driven ethanol company, announced today that it has completed the organization of CoastalXethanol, LLC, continuing to bolster its growth plans to roll out ethanol production throughout the East Coast. CoastalXethanol will be a strategic alliance between Xethanol and Coastal Energy Development, Inc. Its mission is to develop ethanol production throughout Georgia and the Southeast region. The details of the agreement between CoastalXethanol, LLC and Coastal Energy Development will be detailed in a forthcoming SEC Form 8-K.

CoastalXethanol will focus on a region with a strong environmental heritage and rich in biomass residues. CoastalXethanol plans to open several ethanol plants throughout the region, deploying Xethanol’s proprietary technologies. Moreover, CoastalXethanol may co-locate biodiesel production on its facilities under Xethanol’s sub-license from H2Diesel, Inc.

CoastalXethanol’s first entry into the region is its recently announced intention to purchase Pfizer’s 40 acre pharmaceutical manufacturing complex in Augusta, Georgia, which it plans to retrofit into a 35 million gallon per year biomass-to-ethanol production facility. CoastalXethanol may also produce biodiesel at this site under Xethanol’s sublicense from H2Diesel, Inc.
CoastalXethanol is also actively pursuing a second opportunity in Savannah, Georgia for a proposed 20 million gallon facility, also using biomass waste streams. CoastalXethanol has acquired a lease/purchase option on a potential site.

Coastal Energy Development has been working with governmental agencies and Economic Development Authorities at both the local and state levels that have facilitated both the Augusta and Savannah opportunities and will allow for further project development in the region.

Chandler Hadlock, President of Coastal Energy Development, commented: “We are thrilled to ally ourselves with Xethanol in the Southeast. The opportunity of the recently announced Augusta site represents our first step in bringing biomass-to-ethanol production to this region, and this facility could be a keystone in its further development. The strong support of local and state officials as well as the enthusiasm of local business leaders is very encouraging for our future expansion in the Southeast.”

Christopher d’Arnaud-Taylor, Chairman and CEO of Xethanol commented: “Forming alliances with experienced, knowledgeable partners is key to our regional expansion strategy. The team at Coastal Energy Development has the requisite diversity of skills to develop a significant regional presence. The Coastal Energy team has been critical in the acquisition of the recently announced Augusta facility from Pfizer as well as the potential opportunity in Savannah. We look forward to working with Chandler Hadlock and his group in finalizing this important acquisition and developing future projects.”

48. On June 14, 2006, Xethanol announced that it had acquired Advanced Biomass Gasification Technologies, Inc., in a stock transaction. Specifically, the Company stated:

Xethanol Corporation, a biotechnology driven ethanol company, and UTEK Corporation, a specialty finance company focused on technology transfer, announced today that Xethanol has acquired Advanced Biomass Gasification Technologies, Inc. (ABGT), a wholly owned subsidiary of UTEK, in a stock transaction.

ABGT holds the exclusive worldwide license for MicroGasification technology developed at the Energy and Environmental Research Center (EERC) at the University of North Dakota in Grand Forks. The MicroGasifier produces syngas from carbon matter. Syngas drives a portable, power generation system that provides energy solutions for companies and municipalities with simultaneous waste disposal and power needs. Xethanol and EERC are mutually funding
a Cooperative Research and Development Agreement (CRADA) to further apply the MicroGasifier in the production of ethanol. EERC will perform system integration of the MicroGasifier for customers.

“In acquiring ABGT, Xethanol’s objective is to provide a lower cost alternative to steam boiler power generation with a small footprint waste-to-energy technology utilizing low-cost biomass feedstocks and waste streams,” said Mr. Christopher d’Arnaud-Taylor, Chief Executive Officer of Xethanol. He added, “Creating energy from industrial and biomass waste such as lignin, a byproduct of cellulosic ethanol production, and is a critical component of our business model most especially in light of the high cost of oil and natural gas.”

Mr. d’Arnaud-Taylor continued, “This acquisition establishes a strategic alliance between Xethanol and EERC, a leader in the field of gasification, and represents a major opportunity to enter the market with a powerful waste-to-energy technology with broad applications in a multi-billion dollar global industry.”

Gerald Groenewold, Director of the EERC commented, “Numerous industries such as forest products, wood processing, agricultural processing and secondary milling can benefit from the waste utilization features of this MicroGasification technology. We are looking forward to working with Xethanol as they market our technology on a global scale.”

“UTEK is pleased to consummate this technology transfer with Xethanol Corporation and we look forward to continuing our efforts to identify additional technology acquisition opportunities for its consideration,” said Joel Edelson, Vice President Technology Licensing for UTEK Corporation.

49. On June 26, 2006, in reaction to a Motley Fool article regarding the Company, Xethanol issued a press release entitled “Xethanol Sets the Record Straight Following Misleading Statements by Motley Fool.” Therein, the Company stated:

Xethanol Corporation today issued the following in response to inaccurate information that was included in a number of Internet articles during the past several days.

Following an article published by The Motley Fool on Friday, June 23, that carried a number of inaccurate and misleading statements about the company, Xethanol said:
The Motley Fool article authored by Ryan Fuhrmann has a number of inaccuracies and misleading statements, foremost of which is a quote attributed to the New York Times, which in reality is taken out of context from a New York Post story that appeared on Thursday, June 22. More importantly, the Motley Fool article, which has since been referenced by other online blogs further perpetuating the inaccuracies, suggests that Xethanol was formed simply to capitalize on the ethanol interest in today’s market.

Nothing is further from the truth. Xethanol was formed in 2001 with the express strategy to develop its business in the emerging biomass-to-ethanol industry. Since 2001, Xethanol has been engaged in the business of developing and operating facilities for the production of ethanol. It continues to be engaged only in that business and in the development of technologies and facilities for the production of other biofuels.

Like many other successful companies, Xethanol merged with a reporting shell corporation so that its shares could be publicly traded. The Company subsequently registered its outstanding shares with the SEC and applied for the listing of its shares on the American Stock Exchange. The Company’s common stock was approved for listing on June 16 and is now being traded on the AMEX.

All the prior businesses of Zen were discontinued when Xethanol merged with Zen. None of Xethanol’s management were involved with Zen or its businesses and none of Zen’s management or owners are involved with Xethanol. Zen’s prior businesses are irrelevant to Xethanol’s operations or performance and Xethanol’s financial statements reflect only the operations of Xethanol.

Xethanol continues to successfully operate and expand its business. In recognition of that fact, well-known financial institutions have invested in Xethanol and leading government and academic research facilities, including those of the United States Department of Energy and the United States Department of Agriculture have licensed their technologies to Xethanol on an exclusive basis.

The Motley Fool article is misleading and does an unjustified disservice to Xethanol, its shareholders and the investing public. The misleading statements in the article were so egregious that Xethanol felt compelled to respond.
On June 27, 2006, Xethanol announced an update concerning the Company’s progress in its expansion into New England. Specifically, the Company stated:

Xethanol Corporation, a biotechnology driven ethanol company, announced today that it has joined with Global Energy and Management, LLC to form a new venture to develop ethanol production in Connecticut, Massachusetts, Rhode Island, New Hampshire, Maine and Vermont. The new venture, known as NewEnglandXethanol, LLC or NEX, plans to open several ethanol plants throughout the region deploying Xethanol’s proprietary technologies. Additionally, Xethanol may co-locate biodiesel production in its facilities under Xethanol’s sub-license from H2Diesel, Inc.

Lee Tyrol, a principal of Global Energy, stated: “In anticipation of finalizing our operating agreement with Xethanol in the formation of NEX, our team has been laying the groundwork for several projects in the New England region. We believe that Xethanol’s strategy of bringing production to where ethanol is most in demand while employing local biomass and waste streams is a winning strategy to help reduce our nation’s dependence on foreign oil.”

Christopher d’Arnaud-Taylor, Chairman and CEO of Xethanol commented: “Strategic partnerships with companies like Global Energy will enable us to accelerate our production goals and reach our stated long-term objectives of making ethanol from regionally sourced biomass and waste streams. While Xethanol’s core competence is in operating facilities and integrating technology, Global Energy’s team brings complementary skills in identifying and securing suitable project sites, in procuring government support as well as in spearheading the permitting process.”

The material terms of the agreements between Xethanol and Global Energy regarding NEX will be disclosed in a Current Report on Form 8-K to be filed by Xethanol with the U.S. Securities and Exchange Commission.

On July 5, 2006, Xethanol announced that it had selected PRAJ Technology to design its new ethanol facility at its Blairstown, Iowa site. Specifically, the Company stated:

Xethanol Corporation, a biotechnology driven ethanol company, announced today that it has selected ethanol production technology developed by PRAJ Industries Ltd. for a new ethanol facility at its Blairstown, Iowa site. PRAJ technologies will include detailed engineering services, process design and licensing as well as the
supply of vital sections of the process plant. The new facility will have a nameplate capacity of 35 million gallons per year of fuel ethanol and will be developed alongside the company’s existing plant which will continue to operate at maximum capacity.

Christopher d’Arnaud-Taylor, Chairman and CEO of Xethanol commented, “PRAJ is a world leader in bio-ethanol technology, providing cutting edge design and construction and state-of-the-art engineering for ethanol production from a range of feedstocks. After a rigorous evaluation of their technology platform, including visiting PRAJ facilities in India and Colombia, we decided to commit to PRAJ Technology. PRAJ’s technology platform is highly adaptable to different feedstocks. We are very pleased to be working with PRAJ on this significant project and we look forward to developing multi-feedstock plants using cellulosic biomass in the future.”

Mr. d’Arnaud-Taylor further commented, “Our Blairstown site in Iowa is over 25 acres with ample space to support this significant expansion. The site is already permitted for ethanol production with much of the required infrastructure in place and feedstock readily accessible. We expect this plant to come on line in the second half of 2007. Thereafter, we will retrofit our current 6 million gallon facility at Blairstown by adopting our technology platform and converting that plant to cellulosic feedstocks.” He added, “Expanding Blairstown is a critical step in achieving our planned production goals. When completed, the two facilities at our Blairstown site will be running at 41 million gallons per year with state of the art technology and the flexibility to run a variety of feedstocks. We are making great progress in integrating our cellulosic technologies for full commercialization.”

“Xethanol’s new plant in Iowa, which is marking PRAJ’s entry into the Midwest market, will use one of the most contemporary technologies in corn to ethanol production processes to help Xethanol produce ethanol very competitively,” said Pramod Chaudhari, Chairman of PRAJ, the India based ethanol technology and equipment provider. “We are very happy to be a part of Xethanol’s ethanol ventures,” added Pramod Chaudhari.

52. On July 20, 2006, Xethanol announced that the Company would also use PRAJ Technologies for engineering services at Xethanol’s Georgia plant, on which the Company would close within 30 days. Specifically, the Company stated:

Xethanol Corporation, a biotechnology driven ethanol company, announced today that it has completed its due diligence process on its
previously announced acquisition of a Pfizer pharmaceutical manufacturing complex in Augusta, Georgia and will be closing on the complex within 30 days. The company also announced plans to construct a 50 million gallon per year cellulosic ethanol plant on the site which would begin producing ethanol by mid-2007.

PRAJ Technology, an India based world leader in bio-ethanol technology will provide detailed engineering services, process design and licensing as well as the supply of vital sections of the process plant. PRAJ was also selected to provide the same services for Xethanol’s recently announced new 35 million gallon per year facility at its Blairstown, Iowa site.

The Facility Group of Atlanta, Georgia (www.facilitygroup.com) has been retained by the company to act as EPC (Engineering, Procurement and Construction) contractor for the new plant.

Christopher d’Arnaud-Taylor, Chairman and CEO of Xethanol, commented “Having completed our due diligence on the site, we decided to raise the capacity of this plant to 50 million gallons per year. It is being designed to run on a variety of feedstocks and we are already securing the necessary feedstock streams from the forest products industry to run at capacity when we begin production by mid-2007. By combining Xethanol’s proprietary technologies with those of PRAJ, we believe that we will have achieved our goal of being a low-cost producer of fuel ethanol from cellulosic materials. With our recent announcement of expanding our Blairstown, Iowa facility to 41 million gallons per year and bringing Augusta on line with 50 million gallons per year, our stated production goals are within our sights.”

Mr. Taylor further went on to say “We have selected two leading companies to facilitate the expeditious construction of the Augusta plant. PRAJ is a world leader in bio-ethanol technology, providing cutting edge design and construction and state-of-the-art engineering for ethanol production from a range of feedstocks. The Facility Group is one on the most highly regarded facilities contractors in the country. We are very pleased to be working with both PRAJ and The Facility Group on this project.”

Lucas Rice, Xethanol’s VP of Operations stated “This site is a prime example of Xethanol’s strategy of exploiting shuttered industrial capacity and converting facilities that already have existing infrastructure to produce ethanol. In doing so, the company is able to save significant time and money in bringing facilities on line. This site, in particular, has millions of dollars in equipment and infrastructure in place and ready to use for ethanol production.”
53. On July 24, 2006, Xethanol announced that the Company had renewed its strategic alliance with UTEK Corporation. Specifically, the Company stated:

Xethanol Corporation, a biotechnology driven ethanol company, and UTEK Corporation, a specialty finance company focused on technology transfer, announced today that they have signed a renewal of their strategic alliance agreement.

Chief Executive Officer of Xethanol, Mr. Christopher d’Arnaud-Taylor stated, “I am excited about renewing this strategic alliance with UTEK that has been very productive for us since its inception. It will continue our access to prestigious research and development institutions in search of the proprietary technologies that provide us with competitive advantages in biofuels production. We are firm believers that a strong intellectual property platform is the key to differentiating Xethanol in the marketplace.”

“UTEK looks forward to working with Xethanol to identify potential technology acquisition opportunities that fit its strategic vision,” commented Doug Schaedler, Chief Operating Officer of UTEK.

Through its strategic alliance agreements, UTEK assists companies in enhancing their new product pipeline with the acquisition of proprietary intellectual capital from universities and laboratory research centers. Strategic alliance agreements are generally cancelable by either party with thirty days advance written notice.

54. On August 7, 2006, Xethanol announced that the Company had entered into an agreement to purchase the Georgia facility. Specifically, the Company stated:

Xethanol Corporation, a biotechnology driven ethanol company, announced today that it has entered into an agreement to purchase a pharmaceutical manufacturing complex in Augusta, Georgia from Pfizer Inc. as described in prior press releases. Complete terms of the purchase agreement can be found in Xethanol’s filing on Form 8-K with the Securities and Exchange Commission.

55. The statements contained in ¶¶ 26-54 were materially false and misleading when made because defendants failed to disclose or indicate the following: (1) that its Hopkinton, Iowa Permeate Refining plant was not being refurbished; rather the plant laid vacant and uninhabited with its doors locked; (2) that the Company lacked credible management personnel; (3) that
defendants engaged in an alarmingly high number of related party transactions (such that the Company used a reverse merger into a shell corporation to avoid disclosing these facts); (4) that defendants materially underreported the true cost of completing a biomass to ethanol production facility and failed to take proper adjustments, which enabled defendants to materially overstate the Company’s profitability; (5) that, because the Company lacked the necessary personnel and controls to issue accurate financial reports and projections, the Company’s financial statements were presented in violation of GAAP; and (6) that, as a result of the foregoing, the Company’s statements regarding its prospects for biomass ethanol production were lacking in any reasonable basis when made.

The Truth Begins to Emerge

56. On August 7, 2006, while the market was open, ShareSleuth.com, a forensic securities investigations website, published a report which criticized Xethanol and its management. Specifically, the report questioned Xethanol’s position that it could achieve commercialization of ethanol and noted that many of Xethanol’s investors had been disciplined by regulatory agencies. The report also claimed that defendant Taylor had falsified his work experience and qualifications on his résumé. Specifically, with respect to questions about defendant Taylor’s résumé, the Sharesleuth.com report stated:

RÉSUMÉ QUESTIONS

D’Arnaud-Taylor’s biography says he worked as an executive for several large corporations. Sharesleuth searched old newspaper and magazine articles, Who’s Who guides and other archived material and was unable to find any references to him serving in those positions.

An article in Inc. magazine in 1983 identified him as president of Boles & Co., a trading company in San Francisco. It made no mention of previous executive positions at Unilever, Reed Elsevier or Northrop Grumman. Nor did his marriage announcement in the New York Times that same year.
Sharesleuth has accounted for d’Arnaud-Taylor’s career moves since then, and none took him to any of those companies. So, for the claims in Xethanol’s SEC filings to be true, d’Arnaud-Taylor’s would have needed to make his way through the executive ranks of all of those companies by age 37.

Reed Elsevier said its pension and payroll records turned up no trace of d’Arnaud-Taylor or Christopher Taylor, as he sometimes called himself. Northrop Grumman said its human-resources department was unable to verify that d’Arnaud-Taylor had worked for the defense contractor or any of the “heritage” companies it acquired through mergers and acquisitions. Northrop Grumman noted, however, that it could not say with absolute certainty that d’Arnaud-Taylor never worked for the company.

Xethanol declined to provide d’Arnaud-Taylor’s titles or dates of service at the firms.

The first mention of d’Arnaud-Taylor’s purported positions with those companies appears in a 1996 SEC filing for Continental Orinoco Co., a penny-stock company that was pursuing a minerals venture in Venezuela. D’Arnaud-Taylor was the firm’s chairman and investor relations contact.

SEC filings show that in July 1996, Continental Orinoco hired a onetime broker named Cary Cimino as a management consultant. D’Arnaud-Taylor signed the agreement, which called for Cimino to receive 1 million shares of Continental Orinoco stock to advise the company on everything from management and marketing to strategic planning, international activities and shareholder relations.

Less than three months later, Cimino was one of 45 people arrested as part of a nationwide sting aimed at cracking down on bribes to stockbrokers. The FBI, which set up a mock brokerage firm as a front for its investigation, alleged that Cimino offered payoffs to its brokers as an inducement to sell 45,000 shares of Continental Orinoco’s stock. The FBI, which taped the conversations, said Cimino offered to pay brokers 40 percent of the transaction price in stock, or 35 percent in cash. Authorities said he followed through on the offer by transferring shares to an account controlled by undercover agents. Although others involved in the scheme were indicted by a federal grand jury, the charges against Cimino were dismissed with little explanation. He was arrested in an even bigger crackdown in 2000, and was charged with offenses that included bribing brokers and soliciting the murder of a person he thought was cooperating with authorities. He pleaded guilty and was sentenced to 10 years in prison.
The report also characterized defendant Taylor as an “International Man of Mystery” and stated:

INTERNATIONAL MAN OF MYSTERY

D’Arnaud-Taylor’s biography describes him as an international merchant banker, entrepreneur and turnaround specialist who has managed the strategy, operations and financial affairs of companies on four continents.

But a string of lawsuits stretching from Washington, D.C. to New York and Phoenix paint a somewhat different picture of Xethanol’s 60-year-old CEO, whose father was a British diplomat.

In 1992, two of d’Arnaud-Taylor’s partners in a financial-services firm called London Manhattan Co. sued him in federal court in Washington. The partners claimed that he and another member of the firm, James V. Hackney, were soliciting money for a private investment fund without their knowledge. The suit also said d’Arnaud-Taylor and Hackney engaged in other activities that were beyond the scope of London Manhattan’s business. The court file included complaint letters from companies that said they paid d’Arnaud-Taylor a retainer to secure capital but had not received funding nor collected a refund.

The partners in London Manhattan settled their litigation and parted ways. The two who sued kept the company’s original name, while d’Arnaud-Taylor and Hackney operated under several variations, including London Manhattan Ltd. and London Manhattan Communications.

The original London Manhattan Co., now based in South Carolina, has no connection to Xethanol or d’Arnaud-Taylor.

Hackney was indicted on four counts of mail fraud in 1998. Authorities said he solicited investment capital from friends and relatives, including his father-in-law, but used the money for his personal use. He was convicted and sentenced to 41 months in prison. Hackney committed his crimes in late 1995 and early 1996, a time when he was still a partner in London Manhattan Communications, according to descriptions of that firm contained in a pair of SEC filings from that period.

The New York doctor who sued d’Arnaud-Taylor and three other men alleged that, in late 1996, d’Arnaud-Taylor posed as someone who was interested in backing him in a medical-management
business. The doctor claimed that the people who were supposed to be arranging the financing -- Bruce W. Kitchen and Brian Cook -- held out d’Arnaud Taylor and another man, Franco Nocito, as verified sources of funding simply to beat a deadline that would have triggered a refund of the doctor’s $30,000 retainer. The suit said that William Scott Smith attended the same meeting and misrepresented himself as a willing source of money.

At the time, Kitchen was already facing charges in Florida in connection with an advance-free loan scheme, and was on probation in New York for running a fraudulent car-leasing operation. Nocito had been caught delivering drug cash in 1992 and agreed to cooperate with authorities. He was indicted on under seal on money-laundering charges in 1994, and was arrested and arraigned in August 1996. Smith had just settled his case with the SEC.

Kitchen eventually struck a plea bargain in the Florida case. He also pleaded guilty in a federal fraud case in New York in 2000. Those charges grew out of his activities at the financial-services company that was the focus of the doctor’s suit. Kitchen was sentenced to 50 months in prison and was ordered to pay $4.27 million in restitution. Cook also pleaded guilty in the New York case. He was sentenced to 18 months in prison and was ordered to pay $2.18 million in restitution.

Nocito pleaded guilty in his money-laundering case, acknowledging in his plea agreement that he had delivered $4.6 million in drug cash.

58. Additionally, with respect to Xethanol’s Iowa plant, Sharesleuth.com exposed that the plant was not being refurbished, but was in fact abandoned. Specifically, the Sharesleuth.com article stated:

**TESTING?**

Many of Xethanol’s recent press releases say that the company’s biotechnology is “currently deployed” at its two Iowa facilities. The company has characterized its plant in Hopkinton, Iowa as a testbed for evaluating potential feedstocks and technologies.

But that statement directly contradicts the company’s SEC filings, which note that the plant in Hopkinton suspended production in April 2005. When we paid a visit to the operation June 30, we found the doors locked, the building dark and no employees present. A large filtration unit sat on a grassy patch outside the plant, and an air system serving the building was in obvious disrepair.
D’Arnaud-Taylor said in an interview with The Wall Street Transcript in March that the Hopkinton plant was being refurbished “as we speak.” But we saw no signs of improvements, and Xethanol’s SEC filings show that capital expenditures in the first quarter were just $38,000.

Last week, a Hopkinton city official said plans to make the plant a test facility apparently had fallen by the wayside, adding that no public utility services were being provided to the building and no Xethanol employees worked there on a regular basis.

59. The Sharesleuth.com article also revealed that defendants had not been candid about their related party transactions. Specifically, the report stated:

At Xethanol, we discovered that the shareholders whose names appeared in the company’s SEC filings over the past year and a half included no fewer than eight current or former stock brokers who have been the subjects of disciplinary actions by the Securities and Exchange Commission, the National Association of Securities Dealers or other regulatory bodies.

One of the five biggest shareholders in Xethanol when it went public last year was William Scott Smith, who was charged by the SEC in 1995 with defrauding investors in a Denver-based shell company called Melbourne Capital Corp. The SEC said that Smith installed his nephew and two friends as officers and directors of Melbourne Capital, and that the group -- at Smith’s direction -- misused or misappropriated 70 percent of the $246,000 that the company raised from investors. The onetime stockbroker settled the charges in 1996, without admitting or denying guilt. The SEC assessed $256,000 in financial penalties and barred Smith from serving as an officer or director of any public company.

Xethanol’s SEC filings refer to him as W. Scott Smith and do not mention his past. We confirmed that he was the same person by comparing address records, birthdates, Social Security numbers and other identifying information.

60. Sharesleuth.com also uncovered other previously undisclosed relationships between Xethanol insiders. Specifically, the report stated:

**A SHARED HISTORY**

Smith’s ownership stake in Xethanol was not happenstance.
Florida corporation filings list d’Arnaud-Taylor and Smith as officers of London Manhattan Limited Inc., the company that provided executive-management services to Xethanol from September 2001 to January 2005. The filings list d’Arnaud-Taylor as president of London Manhattan They list Smith as vice president and Franz A. Skryanz, another Xethanol officer, as secretary and treasurer.

Sharesleuth uncovered a second connection between d’Arnaud-Taylor and Smith dating back to 1996. Their names appeared together in a suit filed by a New York doctor who claimed he was defrauded of $30,000. The doctor alleged that d’Arnaud-Taylor and Smith participated in a scheme to extract an up-front fee for business financing that was promised but never materialized. The doctor dropped his suit in favor of settlement negotiations. But d’Arnaud-Taylor’s three co-defendants later wound up in prison -- two for advance-fee loan frauds and one for laundering money for a drug ring.

Sharesleuth found that d’Arnaud-Taylor was more recently a partner in two business ventures with Andrew Kimmins, a former British brokerage executive who served prison time for fraud in the 1990s. One of those companies, or its shareholders, had an early stake in Xethanol.

It’s possible that d’Arnaud-Taylor just bragged a little on his résumé and has picked the wrong people to do business with. Sharesleuth readers should use their own judgment.

61. The Sharesleuth.com article also exposed that, contrary to Xethanol’s assertions that none of the Company’s management personnel were involved with Zen, the company with which Xethanol reverse-merged, some Xethanol officers did in fact have relationships with Zen. Specifically, the report stated:

**A MEDIA QUESTION GETS A QUESTIONABLE RESPONSE**

A financial analyst writing for MotleyFool.com suggested last month that Xethanol went public in a bid to exploit investor excitement about ethanol. The writer cited the company’s unusual history, which included a flurry of name and business changes (from FreeReal-TimeQuote.com to LondonManhattan.com Inc. to Xethanol) in the five years before the reverse merger.

Xethanol responded with a press release calling the article inaccurate and misleading. D’Arnaud-Taylor said that the company had been
focused on the ethanol business since 2001. He defended the reverse merger, with Denver-based Zen Pottery Equipment Inc., as a legitimate means to get its stock on the public market.

“None of Xethanol’s management were involved with Zen or its businesses and none of Zen’s management or owners are involved with Xethanol,” he said in the release.

SEC filings, however, show that Zen’s treasurer and chief financial officer, Walter C. Nathan, wound up with 383,333 Xethanol shares immediately after the reverse merger.

Another group of Zen shareholders, headed by Lawrence M. Underwood, emerged with 138,974 Xethanol shares.

Nathan was described in Zen’s SEC filings as a Denver insurance salesman and former real estate developer. Sharesleuth has looked deeper into his past and identified him as an ex-stockbroker, who was charged by the NASD in 1987 after two of his clients said they were guaranteed against loss as an inducement to invest $100,000 in two penny stocks. When the value of the shares fell and the men asked for the return of their money, they were rebuffed. The NASD fined Nathan $5,000 and suspended from association with any member firm for 60 days.

Underwood, too, is a former Denver stockbroker. He was charged by the NASD in 1986 with violating the rules of fair practice by charging excessive markups. He was censured, fined and ordered to disgorge $10,000; however, the SEC set aside the order after Underwood appealed.

62. Additionally, Sharesleuth.com noted that several early Xethanol shareholders had histories of regulatory action against them. Specifically, the report stated:

Other early Xethanol shareholders with past regulatory actions include:

**Stanley C. Brooks**, chairman of Brookstreet Securities Corp. in Irvine, Calif. Brooks has a long history of fines and disciplinary actions by the NASD and state regulators.

In January, he settled compliance-related charges the NASD brought against him and an affiliated brokerage, First Securities USA Inc. Brooks did not admit or deny guilt, but agreed to a two-year ban on serving in any supervisory capacity with any member firm.
Xethanol filed a registration statement with the SEC last year listing Brookstreet with 100,000 shares. The filing said Brooks had voting and disposition power over the shares. Brooks’ personal website says he and his wife are the sole owners of Brookstreet.

**Russell W. Newton**, chief financial officer of Source Capital Group Inc. in Westport, Conn.

The NASD imposed a $180,000 fine against Newton and a previous firm, Merit Capital Associates Inc., in 1999 for using brokers known to have been barred from the industry. The industry group also suspended Newton for 30 days and ordered him to retake a qualifying exam.

Newton was Merit’s chairman. A joint investigation by the NASD and the State of Connecticut found that Newton, on behalf of Merit, paid $167,500 to people who were disqualified from working as registered brokers. The investigation also found that Merit representatives in one branch office used sales scripts that were materially misleading and made exaggerated and unwarranted claims.

The Utah Division of Securities brought additional charges against Newton and Merit Capital in 2001, alleging the sale of unregistered securities, sales by unlicensed agents, failure to supervise and securities fraud. Newton settled the charges without admitting or denying guilt. He and Merit were assessed a joint fine of $25,000.

According to Xethanol’s SEC filings after the reverse merger, Newton owned 94,639 shares and had options on an additional 12,187 shares.

**Marc K. Swickle** and **Howard B. Berger**, co-founders of Professional Traders Fund LLC.

The Washington Division of Securities filed a complaint in February against Swickle, Berger and Professional Traders Fund, alleging that they sold unregistered securities to residents of that state. The agency said it intended to issue a cease and desist order against the men and the firm. Swickle and Berger have asked for a hearing, so the order remains pending.

Berger settled NASD charges in 2000 related to the alleged “flipping” of shares in the initial public offering of a penny-stock company.

The complaint charged that he and at least one other person at his brokerage placed more than 15 percent of the IPO shares with clients, with the understanding that the firm would buy them back.
immediately after the offering. The NASD also charged that Berger failed to take steps to prevent unregistered individuals from selling securities for his firm, or failed to register them.

Berger agreed to pay a $20,000 fine. He was suspended from working in a supervisory capacity for any NASD member firm for two years and suspended from working in any capacity for 120 days.

According to Xethanol’s SEC filings after the reverse merger, Professional Traders Fund held 46,153 shares.

Xethanol declined to say how it raised money from investors when it was a private company, or whether a particular company or individual acted as placement agent for the shares.

“The information concerning its initial funding is confidential information of both the Company and its initial investors and not relevant to those who now invest or own shares in the Company today,” it said. “We have provided, and continue to provide, complete and accurate financial information as required by applicable SEC regulations.”

Nor would the company say how William Scott Smith, who is 76, wound up as one of Xethanol’s largest shareholders.

“Mr. Smith’s transactions and relationship with the Company (other than as a shareholder) predated our becoming a publicly traded company,” Xethanol said. “The relevant information regarding his relationship with the Company is disclosed in our filings with the SEC.”

It was impossible to tell from Xethanol’s filings which early shareholders invested in the company before it went public, and which bought shares in a private placement that accompanied the reverse merger.

Smith reported owning 972,414 shares of Xethanol in an SEC filing in February 2005. At the time, that stake amounted to 7.3 percent of the company. Those shares would be worth $6.76 million at Friday’s closing price.

Smith’s holdings excluded 338,115 additional shares held in the name of Therese Roos, with whom he has shared addresses in Delray Beach, Fla., and Westhampton, N.Y.

One of Smith’s co-defendants in the old SEC fraud case also appeared on the list of early Xethanol shareholders. A registration statement in October 2005 shows Anthony Skulski holding 2,648
shares. An additional 1,766 shares were held in the names of Skulski’s two young children. Like Smith, Skulski settled the SEC charges without admitting or denying guilt. He agreed to pay $4,402 and commit no future violations of securities laws.

63. The Sharesleuth.com report also reported that related party connections existed between defendant Taylor and executives at H2Diesel Inc. Specifically, the article stated:

**SMALL WORLD**

SEC filings, corporate records and other documents reviewed by Sharesleuth show that d’Arnaud-Taylor has a pattern of doing business deals with a familiar circle of associates.

D’Arnaud-Taylor’s biography says he was president of Findex.com, a developer of religious software, when it went public through a reverse merger in 2000. The person who took over as that company’s chairman after the deal was Benjamin Marcovitch.

In August 2003, Xethanol signed a partnership agreement with DDS Technologies USA Inc., a small, publicly traded company in Boca Raton, Fla. The joint-venture deal called for Xethanol’s plant in Hopkinton, Iowa, to install DDS Technologies’ “revolutionary” equipment for separating agricultural products and biomass into substances that can be converted into ethanol and other byproducts.

SEC filings for DDS show that the company’s chairman and chief executive at the time of the deal was none other than Benjamin Marcovitch. The filings also identify another of the company’s co-founders as Lee S. Rosen, a former stock broker whose license was suspended by the NASD from October 1998 to April 2001 because of his failure to pay an arbitration award to a former employer.

Xethanol and DDS said in a press release that they expected to process 40 tons of biomass a day at the Hopkinton plant, starting in early 2004, and that the sale of end products would generate $5 million in annual operating profits. By October 2004, the deal between Xethanol and DDS had devolved into a federal lawsuit, with DDS claiming in its filings that Xethanol refused to pay for the first of four units and refused to give it back. Xethanol claimed the equipment did not work as advertised.

The two companies announced last fall that they had settled their differences. DDS got its system back, while Xethanol agreed to buy a new and improved version for its Blairstown plant. The companies
also agreed that Xethanol would be the exclusive marketer of the
equipment to the U.S. ethanol industry.

Xethanol said the original units did not perform as well as expected
because of calibration issues. The company added that it entered into
a new deal with DDS because it thought the improved version would
give it a competitive advantage, and because it wanted to preclude
rivals from getting the systems.

HELLO AGAIN

In April, Xethanol entered into a partnership with H2Diesel Inc., a
new company headed by Rosen.

H2Diesel had been incorporated seven weeks earlier. It says it has the
North American, Latin American, Caribbean and African license for a
proprietary additive used in making biodiesel fuel. In a convoluted
deal, two investment funds with stakes in Xethanol bought 3.25
million shares of H2Diesel’s stock for $2 million. H2Diesel issued an
additional 2.6 million shares to Xethanol, which in turn agreed to
manage H2Diesel’s business.

The deal gave the investment funds, Crestview Capital Master LLC
and Toibb Investment LLC, the right to sell their H2Diesel shares to
Xethanol in exchange for 500,000 shares of Xethanol stock. They
exercised that right in April, shortly after the agreement was signed.
In the end, the investment funds put in $2 million and got Xethanol
stock that Xethanol valued at $5.4 million. Those shares were still
worth $3.47 million at the end of last week. Xethanol said in a recent
SEC filing that the additional shares it received in the swap brought
its ownership stake in H2Diesel to 45 percent.

64. The Sharesleuth.com article also revealed relationships among Company insiders.

Specifically, the report stated:

NEW PARTNERS

Xethanol has a joint venture agreement with Coastal Energy
Development Inc., a newly formed company in Savannah, Ga., to
develop its ethanol plant in Augusta, as well as additional plants. The
agreement calls for Coastal to locate sites and secure funding for the
plants.

Coastal Energy’s president is Chandler Hadlock, a 30-year-old West
Point graduate who has spent most of his adult life in the military.
According to a story that appeared in January in the Atlanta Business
Chronicle, Coastal Energy and Xethanol are getting help in the
funding search from Epiphany Partners Inc., described as a Savannah-based merchant bank.

Florida corporation records show that two of the founders of Epiphany Partners were previously involved in a separate venture with d’Arnaud-Taylor and Kimmins, the former British brokerage boss. The records, for a company called Trafalgar Resources Inc., listed Taylor as chairman and Kimmins as chief operating officer.

Delaware franchise tax records also link d’Arnaud-Taylor and Kimmins at a company called Xeminex Inc. Kimmins was listed as Xeminex’s president in a filing on Feb. 25, 2005, just a few weeks after Xethanol completed its reverse merger. Although he did not claim them at that time, d’Arnaud-Taylor later reported beneficial ownership of 426,588 Xethanol shares held by Xeminex. He said in an SEC filing that the shares were contributed through a settlement among the shareholders of Xeminex.

One of the founders of Epiphany Partners, John J. Murphy Jr., appears in the Florida corporation filings for London Manhattan Limited Inc., the company that provided management services to Xethanol. A document in April 2002 lists him as a director of the company, with William Scott Smith as president.

65. On this news, shares of Xethanol sank $0.96, or 13.9 percent, to close, on August 8, 2006, at $5.95 per share, on heavy volume.

66. Shares of Xethanol continued to fall the next day, slipping an additional $0.70, or 11.8 percent, to close on August 9, 2006, at $5.25 per share, on heavy volume.

67. An Associate Press report attributed the drop in Xethanol’s stock to the Sharesleuth.com article. Specifically, the Associated Press reported:

The 6,000-word story about Xethanol Corp. was the first published by the Cuban-backed stock fraud-investigating Web site Sharesleuth.com. It was written by former St. Louis Post-Dispatch reported Christopher Carey.

Xethanol has said it can convert wood chips, corn stalks and paper sludge into ethanol, an additive designed to make gasoline cleaner-burning.

Sharesleuth.com reported it found no evidence that Xethanol had produced significant amounts of ethanol from those materials. It also
said the company’s recent Securities and Exchange Commission filings listed eight shareholders who have been disciplined by the SEC or other regulatory agencies.

***

*Sharesleuth.com* delayed its Xethanol story for about a week while it was being fact-checked, Carey said. He said the fact-checking process “takes ammunition away from anyone who says we’re publishing false and misleading material so that Mark Cuban can turn a profit on his investments.”

68. On August 10, 2006, Xethanol responded to the *ShareSleuth.com* report. Specifically, the Company stated:

Xethanol Corporation responded today to comments about the Company and its Chief Executive Officer that were published on the ShareSleuth.com website on August 7. Christopher d’Arnaud-Taylor, Chairman and Chief Executive Officer of Xethanol stated that “while it is generally our policy not to comment on articles or publications about our Company, the misinformation and disinformation contained in the ShareSleuth.com posting were so egregious that we felt we had no alternative but to respond.”

**Ethanol Production**

Xethanol states for the record that its Blairstown, Iowa, facility is producing ethanol at the rate of 450,000 gallons per month currently generating a gross profit of over $.50 per gallon. Full details will be made available on the Company’s filing on Form 10Q with the SEC. The ethanol produced is sold through Aventine Renewable Energy. The expansion on the Blairstown site to add 35 million gallons per year of capacity is proceeding on schedule. In addition, Xethanol has announced a planned expansion of 50 million gallons per year in Augusta, Georgia and 35 million gallons per year in Spring Hope, North Carolina.

**Scientists**

Xethanol further states for the record that it has research and development agreements in effect with two Federal Laboratories - The National Renewable Energy Laboratory (NREL) in Boulder, Colorado and the USDA Forest Product Laboratory in Madison, Wisconsin. In addition, there are research and development agreements with Virginia Tech and with The Energy & Environmental Research Center (EERC) at the University of North
Dakota. All of these institutions are populated by eminent scientists. In addition, Mark Austin, our Chief Technology Strategist, is a respected technology innovator.

Technologies.

Xethanol further states for the record that criticisms of its low level of research and development expenditures are misleading. Though our expenditures are increasing, Xethanol considers it a source of pride that it has obtained the benefit of what it believes to be valuable technology without either the time delay or the expenditure of the cash necessary for internal research and development. Xethanol is presently evaluating several cellulosic technologies that may be deployed in its expansion program.

Corporate Governance

Xethanol further states for the record that it has a Board of Directors which includes independent experienced business persons. The Company operates under and is in compliance with AMEX Company Guidelines and reports regularly and on a timely basis to the SEC.

Management Qualifications.

Xethanol further states for the record that it is in possession of information validating Mr. Taylor’s employment history. The Company reported that at its last meeting the Board of Directors decided to enter into a new 2-year employment contract with Mr. Taylor.

Mr. Taylor stated that “it is a shame and a disservice to the investor community and our shareholders that derogatory and misleading articles such as the one issued by ShareSleuth are published. We find such articles reprehensible. Xethanol questions the real purpose of this article, particularly in light of Mr. Cuban’s professed intention to ‘short the shares of this company.’ Although we are not alleging that there has been any improper stock trading in this case, articles such as this provide fertile ground for such activities to occur.”

The Company referred investors and potential investors to its public securities filings for a true and complete understanding of the Company and its business.

69. On August 17, 2006, TheStreet.com issued a report entitled “‘Gaping Holes’ at Xethanol.” The article, among other things, revealed that Xethanol had falsified the experience of
James Stewart, who ran the Company’s sole operating plant. Specifically, the article stated:

Meanwhile, controversy over the stock continues to rage.

Fans still love Xethanol because, based on its press releases and regulatory filings, the company could soon become the first big player in the so-called biomass-to-ethanol business. But skeptics wonder.

At least one Xethanol holder, private investigator Michael Ferrari of Pleasanton, Calif., counts himself among the doubters. Ferrari says he was hired by an elderly woman who bought the stock and then grew concerned about the company. He purchased some of the stock from her and then bought put options -- which become valuable if the stock falls -- to limit his exposure.

“I’m sure you have heard the investigator credo: ‘A coincidence is just a coincidence, until there are too many coincidences,’” Ferrari says. “In my 21-year career, this is the longest string of coincidences I have ever encountered or studied.”

Xethanol’s stock, which fetched more than $15 a share at its peak, tumbled 6.2% to $4.66 on Wednesday.

‘Key Employees’

At this point, sharesleuth.com has already raised a number of troubling questions.

Perhaps most notably, the blog found no evidence supporting Xethanol’s claims that its CEO held executive positions at the big-name corporations listed in his official bio. Nor could it find any reason to believe that Xethanol will be turning waste into ethanol by next year, as it promises. After all, bigger players like the federal government are still struggling to do so, and one of Xethanol’s two ethanol plants remains idled.

*TheStreet.com* recently set out to learn more about Xethanol’s business operations and the plant managers who supposedly run them.

Aside from named executives, Xethanol lists two “key employees” in regulatory filings. The first is James Stewart, a corporate vice president who runs the one company plant that actually operates. Based on that filing, Stewart “has more than 23 years of experience in ethanol production in the United States and throughout the world.”
But the Business Record, a local publication in Iowa, has painted Stewart as a regular sort of guy. The article says that Stewart, a cattle producer by trade, hatched the idea for a farmer-owned ethanol plant after viewing a government video in the mid-1990s. In the interview, Stewart told the newspaper that farmers got interested in the idea -- and pitched in $5,000 worth of corn each to invest -- while “speaking the entire time with a toothpick protruding from his mouth.”

The plant ran into trouble and shut down a couple of years after that story appeared. In 2004, The Gazette of Cedar Rapids reported the bank finally sold the plant at auction to Xethanol -- the only bidder -- for a bit more than its $5.3 million asking price.

Today, that corn-based ethanol plant serves as Xethanol’s only source of operating revenue. Based on its regulatory filings, the company last year generated $4.34 million in sales -- enough to cover the $3.3 million spent on setting up a new corporate headquarters, but very little else. The company ended the year $11.4 million in the red.

70. TheStreet.com’s article also noted the lack of production, or any discernable activity, at Xethanol’s Hopkinton, Iowa plant. Specifically, the article stated:

Idled Plants

Xethanol’s other ethanol plant -- described by sharesleuth.com as dark, empty and “in obvious disrepair” -- reportedly has no utilities, let alone a manager or staff. So it remains unclear exactly what the company’s second “key employee” does.

In its regulatory filings, Xethanol lists David Kreitzer as its vice president of business development. The company says that Kreitzer “has worked in every area of ethanol production” and highlights his role as past president of Gopher State Ethanol in particular.

As recently as May, Kreitzer seemed to still be in charge of that company. An article published by the Star-Tribune of St. Paul, Minn., specifically names Kreitzer as the property manager of Gopher State Ethanol -- a bankrupt ethanol plant that once operated inside a historic brewery. The plant shut down in 2004, the Star-Tribune reported, after nearby residents sued over its noise and smell. Those neighbors seem unhappy with the facility still.

“Neighbors became worried when they saw gaping holes in several buildings after the owners removed pieces of equipment,” the Star-Tribune reported in May. “Kreitzer said that some of the ‘openings’
were pre-existing, and that he isn’t inclined to alter ‘the historic portions of the property.’”

Based on his testimony before the St. Paul City Council, Kreitzer seems to be hunting for a buyer instead. And Xethanol, with one plant still running on corn and the other not running at all, has made clear that it’s in the market to pick up a few more facilities.

**Post Class Period Disclosures**

71. On August 22, 2006, Xethanol announced that the Company had replaced defendant Taylor with Louis Bernstein as the Company’s Chief Executive Officer. Specifically, the Company stated:

Xethanol Corporation, a biotechnology driven ethanol producer, today announced certain management changes as well as plans to further enhance senior management. The company recently announced its acquisition of several new sites and its intentions to construct state-of-the-art flexible fuel ethanol plants. Praj Technology, a world leader in ethanol plant design and technology has been retained to employ its expertise in designing and setting up these facilities. These plans include a 35 million gallon per year expansion of the company’s existing production facility in Blairstown, Iowa; a 50 million gallon per year plant at property acquired in Augusta, Georgia; and a 35 million gallon per year plant in Spring Hope, North Carolina. The company also has announced its intention to further expand in these regions as well as in the Northeast.

To better promote and execute upon these growth opportunities, the company today announced the replacement of Christopher d’Arnaud-Taylor by Louis B. Bernstein, a member of the Board of Directors, who will serve as interim Chief Executive Officer. He will manage day-to-day operations, overseeing senior management and ensuring the company continues to meet its stated milestones. He will be responsible for the company’s joint ventures to develop new production facilities. He also will be involved in the oversight of the continuing research efforts of the company to commercialize its technology portfolio in collaboration with its research partners, which include the United States Department of Energy National Renewable Energy Laboratory, The United States Department of Agriculture Forest Products Laboratory, and Virginia Polytechnic Institute.

Mr. Bernstein has been a member of the Board since June 2005. He recently retired from Pfizer Inc., where for more than 30 years he
served as in-house counsel, most recently as an Assistant General Counsel in the Litigation Practice Group. He received his undergraduate degree from Amherst College in 1972 and his law degree from the University of Virginia School of Law in 1975.

The company further announced that it has been in discussions for several months with Spencer Stuart, a global executive search firm with 50 offices in 25 countries, to conduct a search for the position of Chief Executive Officer. A formal search has been commenced. The Company is also conducting a search for a chief operating officer.

Mr. Bernstein commented: “It is an honor to be asked to take this position. Having served on the board for over a year, I believe that the company’s business model is sound, innovative and executable. The company continues to develop properly scaled facilities which both have access to readily available feedstocks and are near product demand. Moreover, the company has been able to acquire dormant industrial facilities which not only have infrastructure in place, but also have broad local political support for revitalizing communities, enabling Xethanol to bring production capacity online faster and for far less money than starting facilities from scratch. The company continues to advance the development of its technology base in cooperation with some of the leading research facilities in the country. There is a strong management team in place which we intend to make even stronger.”

72. On August 23, 2006, ShareSleuth.com published a follow-up article which examined Louis Bernstein and his corporate relationships in greater detail. Specifically, the report stated:

Xethanol Corp. has replaced Christopher d’Arnaud-Taylor as chief executive officer.

The new boss is Louis B. Bernstein, a member of Xethanol’s board and a retired assistant general counsel at Pfizer Inc. Xethanol said Bernstein would run the company on an interim basis while it searches for a permanent CEO, as well as a chief operating officer.

A spokesperson for Xethanol told Reuters that d’Arnaud-Taylor will remain an adviser to the company.

A standard background check shows that Bernstein has been a Xethanol director since June 2005, a few months after the company went public through a reverse merger with Zen Pottery Equipment Inc. of Denver. He recently retired from Pfizer after 30 years of service.
Bernstein also is a director at United Energy Corp., a New Jersey company that sells specialty chemicals used in oil and gas production, photo finishing and other fields. He joined its board in September 2003.

A check of United Energy’s SEC filings shows that five people connected to that company also have ties to Xethanol.

United Energy’s 10-K filing dated July 29, 2003 lists Jeffrey S. Langberg as the company’s director of marketing. The report said he held the position under a one-year contract. It described him as a self-employed consultant and investment banker. United Energy said Wednesday that Langberg no longer works there.

Langberg more recently has been a consultant to Xethanol, as well as a director and a major shareholder. The company’s SEC filings describe him as an independent investment banker who has advised d’Arnaud-Taylor since 1999. Langberg resigned his board seat at Xethanol in June. The annual report the company filed on March 31 said he and his spouse controlled nearly 1.14 million shares of its stock.

Xethanol’s earlier SEC filings show that United Energy’s chairman and chief executive, Ronald Wilen, also was a Xethanol shareholder. A registration statement last October listed him with 132,421 shares. The same document lists Martin Rappaport, a United Energy director, as holding 132,421 shares.

The registration statement lists Joseph J. Grano Jr. as holding 50,000 shares. Grano is the former chairman and chief executive of UBS PaineWebber Inc. and serves on Xethanol’s advisory board. United Energy’s most recent annual filing with the SEC lists Grano as holding 1.6 million of its shares, plus 1.33 million warrants. That stake, including the warrants, amounted to 9.1 percent of the shares outstanding.

**XETHANOL’S VIOLATION OF GAAP RULES IN ITS FINANCIAL STATEMENTS FILED WITH THE SEC**

73. These financial statements and the statements about the Company’s financial results were false and misleading, as such financial information was not prepared in conformity with GAAP, nor was the financial information a fair presentation of the Company’s operations.

74. GAAP are those principles recognized by the accounting profession as the
conventions, rules and procedures necessary to define accepted accounting practice at a particular
time. Regulation S-X (17 C.F.R. § 210.401(a) (1)) states that financial statements filed with the
SEC which are not prepared in compliance with GAAP are presumed to be misleading and
inaccurate. Regulation S-X requires that interim financial statements must also comply with GAAP,
with the exception that interim financial statements need not include disclosure which would be
duplicative of disclosures accompanying annual financial statements. 17 C.F.R. § 210.10-01(a).

75. Given these accounting irregularities, the Company announced financial results that
were in violation of GAAP and the following principles:

(a) The principle that “interim financial reporting should be based upon the same
accounting principles and practices used to prepare annual financial statements” was violated (APB
No. 28, ¶10);

(b) The principle that “financial reporting should provide information that is useful to
present to potential investors and creditors and other users in making rational investment, credit,
and similar decisions” was violated (FASB Statement of Concepts No. 1, ¶34);

(c) The principle that “financial reporting should provide information about the
economic resources of an enterprise, the claims to those resources, and effects of transactions,
events, and circumstances that change resources and claims to those resources” was violated (FASB
Statement of Concepts No. 1, ¶40);

(d) The principle that “financial reporting should provide information about an
enterprise’s financial performance during a period” was violated (FASB Statement of Concepts No.
1, ¶42);

(e) The principle that “completeness, meaning that nothing is left out of the information
that may be necessary to insure that it validly represents underlying events and conditions” was violated (FASB Statement of Concepts No. 2, ¶79);

(f) The principle that “financial reporting should be reliable in that it represents what it purports to represent” was violated (FASB Statement of Concepts No. 2, ¶¶ 58-59); and

(g) The principle that “conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered” was violated. (FASB Statement of Concepts No. 2, ¶95).

76. The adverse information concealed by defendants during the Class Period and detailed above was in violation of Item 303 of Regulation S-K under the federal securities law (17 C.F.R. §229.303).

PLAINTIFF’S CLASS ACTION ALLEGATIONS

77. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased the common stock of Xethanol between January 31, 2006 and August 8, 2006, inclusive (the “Class Period”) and who were damaged thereby. Excluded from the Class are defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

78. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Xethanol’s common stock was actively traded on the American Stock Exchange (“AMEX”). While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other
members of the Class may be identified from records maintained by Xethanol or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

79. Plaintiff’s claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants’ wrongful conduct in violation of federal law that is complained of herein.

80. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

81. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

a. whether the federal securities laws were violated by defendants’ acts as alleged herein;

b. whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Xethanol; and

c. to what extent the members of the Class have sustained damages and the proper measure of damages.

82. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.
UNDISCLOSED ADVERSE FACTS

83. The market for Xethanol’s common stock was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, Xethanol’s common stock traded at artificially inflated prices during the Class Period. Plaintiff and other members of the Class purchased or otherwise acquired Xethanol common stock relying upon the integrity of the market price of Xethanol’s common stock and market information relating to Xethanol, and have been damaged thereby.

84. During the Class Period, defendants materially misled the investing public, thereby inflating the price of Xethanol’s common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make defendants’ statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

85. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, defendants made or caused to be made a series of materially false or misleading statements about Xethanol’s business, prospects and operations. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of Xethanol and its business, prospects and operations, thus causing the Company’s common stock to be overvalued and artificially inflated at all relevant times. Defendants’ materially false and misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company’s common stock at artificially inflated prices, thus causing the damages
complained of herein.

LOSS CAUSATION

86. Defendants’ wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class.

87. During the Class Period, Plaintiff and the Class purchased common stock of Xethanol at artificially inflated prices and were damaged thereby. The price of Xethanol common stock declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors’ losses.

SCIENTER ALLEGATIONS

88. As alleged herein, defendants acted with scienter in that defendants knew that the public documents and statements issued or disseminated in the name of the Company were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. As set forth elsewhere herein in detail, defendants, by virtue of their receipt of information reflecting the true facts regarding Xethanol, their control over, and/or receipt and/or modification of Xethanol’s allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning Xethanol, participated in the fraudulent scheme alleged herein.

89. Defendants were motivated to, and did, conceal the true operational and financial condition of Xethanol because it enabled the defendants to register for sale with the SEC, millions of shares of Company stock held by insiders and/or defendants and also allowed defendants to raise
over $45 million through the private sale of equity.

90. Moreover, during the Class Period, defendants were motivated to artificially inflate its stock price because they had entered into a financing deal that called for Fusion Capital Fund II of Chicago to buy $40,000 of stock a day, provided that the company’s shares remained at or above certain price levels. The deal also allowed Fusion to quickly sell the shares it purchased. According to Xethanol’s SEC filings, Fusion Capital bought 1.89 million shares between Jan. 3 and April 30. Fusion paid $9.85 million, or an average of $5.20 a share. Xethanol’s stock hit its peak of $16.18 in inter-day trading on April 18, which also was the highest volume day.

91. During the Class Period, and with the Company’s stock trading at artificially inflated prices, the Individual Defendants sold over 250,000 shares of their Xethanol stock for gross proceeds of over $2.7 million. Specifically, defendant Taylor sold over $1.36 million of his personally held Xethanol shares and defendant Langberg sold over $1.41 million of his personally held Xethanol shares, as evidenced by the following chart:

<table>
<thead>
<tr>
<th>NAME</th>
<th>DATE</th>
<th>SHARES SOLD</th>
<th>PRICE</th>
<th>GROSS PROCEEDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Christopher d’Arnaud-Taylor</td>
<td>4/12/06</td>
<td>100,000</td>
<td>$12.33</td>
<td>$1,233,000.00</td>
</tr>
<tr>
<td></td>
<td>2/24/06</td>
<td>4,000</td>
<td>$5.32</td>
<td>$21,280.00</td>
</tr>
<tr>
<td></td>
<td>2/23/06</td>
<td>3,000</td>
<td>$5.33</td>
<td>$15,990.00</td>
</tr>
<tr>
<td></td>
<td>2/22/06</td>
<td>3,770</td>
<td>$5.35</td>
<td>$20,169.50</td>
</tr>
<tr>
<td></td>
<td>2/22/06</td>
<td>4,230</td>
<td>$5.40</td>
<td>$22,842.00</td>
</tr>
<tr>
<td></td>
<td>2/22/06</td>
<td>3,000</td>
<td>$5.32</td>
<td>$15,960.00</td>
</tr>
<tr>
<td></td>
<td>2/21/06</td>
<td>4,000</td>
<td>$5.47</td>
<td>$21,880.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3,000</td>
<td>$5.30</td>
<td>$15,900.00</td>
</tr>
<tr>
<td></td>
<td>Total:</td>
<td>125,000</td>
<td></td>
<td>Total: $1,367,021.50</td>
</tr>
<tr>
<td>Jeffrey S. Langberg</td>
<td>4/12/06</td>
<td>105,000</td>
<td>$12.19</td>
<td>$1,279,950.00</td>
</tr>
<tr>
<td></td>
<td>2/24/06</td>
<td>25,000</td>
<td>$5.52</td>
<td>$138,000.00</td>
</tr>
<tr>
<td></td>
<td>Total:</td>
<td>130,000</td>
<td></td>
<td>Total: $1,417,950.00</td>
</tr>
<tr>
<td></td>
<td>TOTAL:</td>
<td>255,000</td>
<td></td>
<td>TOTAL: $2,784,971.50</td>
</tr>
</tbody>
</table>
Applicability of Presumption of Reliance:  
Fraud On The Market Doctrine

92. At all relevant times, the market for Xethanol common stock was an efficient market for the following reasons, among others:

a. Xethanol stock met the requirements for listing, and was listed and actively traded on the AMEX, a highly efficient and automated market;

b. As a regulated issuer, Xethanol filed periodic public reports with the SEC and the AMEX;

c. Xethanol regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

d. Xethanol was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

93. As a result of the foregoing, the market for Xethanol common stock promptly digested current information regarding Xethanol from all publicly-available sources and reflected such information in Xethanol’s stock price. Under these circumstances, all purchasers of Xethanol common stock during the Class Period suffered similar injury through their purchase of Xethanol common stock at artificially inflated prices and a presumption of reliance applies.
NO SAFE HARBOR

94. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the specific statements pleaded herein were not identified as “forward-looking statements” when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Xethanol who knew that those statements were false when made.

FIRST CLAIM
Violation of Section 10(b) of
The Exchange Act and Rule 10b-5
Promulgated Thereunder Against All Defendants

95. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

96. During the Class Period, defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase Xethanol common stock at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

97. Defendants (a) employed devices, schemes, and artifices to defraud; (b) made untrue
statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company’s common stock in an effort to maintain artificially high market prices for Xethanol’s common stock in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons as alleged below.

98. Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations and future prospects of Xethanol as specified herein.

99. These defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Xethanol’s value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Xethanol and its business operations and future prospects in light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of Xethanol common stock during the Class Period.

100. Each of the Individual Defendants’ primary liability, and controlling person liability, arises from the following facts: (i) the Individual Defendants were high-level executives and/or directors at the Company during the Class Period and members of the Company’s management team or had control thereof; (ii) each of these defendants, by virtue of his responsibilities and
activities as a senior officer and/or director of the Company was privy to and participated in the creation, development and reporting of the Company’s internal budgets, plans, projections and/or reports; (iii) each of these defendants enjoyed significant personal contact and familiarity with the other defendants and was advised of and had access to other members of the Company’s management team, internal reports and other data and information about the Company’s finances, operations, and sales at all relevant times; and (iv) each of these defendants was aware of the Company’s dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.

101. The defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such defendants’ material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing Xethanol’s operating condition and future business prospects from the investing public and supporting the artificially inflated price of its common stock. As demonstrated by defendants’ overstatements and misstatements of the Company’s business, operations and earnings throughout the Class Period, defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

102. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Xethanol common stock was artificially inflated during the Class Period. In ignorance of the fact that market prices of Xethanol’s common stock were artificially inflated, and relying directly or indirectly on the false
and misleading statements made by defendants, or upon the integrity of the market in which the common stock trades, and/or in the absence of material adverse information that was known to or recklessly disregarded by defendants, but not disclosed in public statements by defendants during the Class Period, Plaintiff and the other members of the Class acquired Xethanol common stock during the Class Period at artificially high prices and were damaged thereby.

103. At the time of said misrepresentations and omissions, Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other members of the Class and the marketplace known the truth regarding the problems that Xethanol was experiencing, which were not disclosed by defendants, Plaintiff and other members of the Class would not have purchased or otherwise acquired their Xethanol common stock, or, if they had acquired such common stock during the Class Period, they would not have done so at the artificially inflated prices which they paid.

104. By virtue of the foregoing, defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

105. As a direct and proximate result of defendants’ wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases and sales of the Company’s common stock during the Class Period.

SECOND CLAIM
Violation of Section 20(a) of The Exchange Act Against the Individual Defendants

106. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

107. The Individual Defendants acted as controlling persons of Xethanol within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level
positions, and their ownership and contractual rights, participation in and/or awareness of the Company’s operations and/or intimate knowledge of the false financial statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company’s reports, press releases, public filings and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

108. In particular, each of these defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

109. As set forth above, Xethanol and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of defendants’ wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company’s common stock during the Class Period.

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

a. Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;
b. Awarding compensatory damages in favor of Plaintiff and the other Class members against all defendants, jointly and severally, for all damages sustained as a result of defendants’ wrongdoing, in an amount to be proven at trial, including interest thereon;

c. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

d. Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: Respectfully submitted,

: By: __________________________

Evan J. Smith
BRODSKY & SMITH, LLC
240 Mineola Boulevard
Mineola, NY 11501
Telephone: (516) 741-4977
Facsimile: (516) 741-0626

SCHIFFRIN & BARROWAY, LLP
Marc A. Topaz
Richard A. Maniskas
Alison K. Clark
280 King of Prussia Rd.
Radnor, PA 19087
(610) 667-7706

Attorneys for Plaintiff