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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from _____ to _____

Commission File Number 333-126378

CEREPLAST, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or Other Jurisdiction of Incorporation or Organization)

91-2154289

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

3411-3433 West El Segundo Boulevard
Hawthorne, California
(Address of Principal Executive Office)

90250
(Zip Code)

(310) 676-5000

(Registrant's Telephone Number, Including Area Code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

THE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING AS OF NOVEMBER 14, 2008: 275,499,948

8/5/2008 5:22:45 PM

CEREPLAST, INC.
FORM 10-Q
TABLE OF CONTENTS

Page

PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS AT SEPTEMBER 30, 2008 AND DECEMBER 31, 2007
CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2008 AND 2007
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Item 4. CONTROLS AND PROCEDURES

Item 4T CONTROLS AND PROCEDURES

PART II—OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 3. DEFAULTS UPON SENIOR SECURITIES

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Item 5. OTHER INFORMATION

Item 6. EXHIBITS

SIGNATURES

Unless otherwise indicated or unless the context requires otherwise, all references in this report to "we," "us," "our" or the "Company" mean Cereplast, Inc.

PART I – FINANCIAL INFORMATION**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****CEREPLAST, INC.
CONSOLIDATED BALANCE SHEETS**

	<u>September 30, 2008</u> (Unaudited)	<u>December 31, 2007</u> (Audited)
ASSETS		
Current Assets		
Cash	\$ 955,315	\$ 8,593,714
Accounts Receivable, Net	749,220	431,020
Inventory, Net	2,917,884	1,827,667
Prepaid Expenses	214,581	67,590
Total Current Assets	<u>4,837,000</u>	<u>10,919,991</u>
Property and Equipment		
Property and Equipment	5,681,158	2,847,956
Accumulated Depreciation and Amortization	(996,881)	(596,361)
Net Property and Equipment	<u>4,684,277</u>	<u>2,251,595</u>
Other Assets		
Restricted Cash	72,417	72,892
Investments	500	500
Intangibles, Net	127,705	18,721
Deposits	40,527	30,478
Total Other Assets	<u>241,149</u>	<u>122,591</u>
Total Assets	<u>\$ 9,762,426</u>	<u>\$ 13,294,177</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	\$ 1,968,938	\$ 600,289
Other Payables	39,122	146
Accrued Expenses	573,598	152,947
Capital Leases, Current Portion	58,578	71,812
Loan Payable, Current Portion	6,730	11,139
Total Current Liabilities	<u>2,646,966</u>	<u>836,333</u>
Long-Term Liabilities		
Capital Leases	47,149	87,440
Loan Payable	-	3,874
Total Long-Term Liabilities	<u>47,149</u>	<u>91,314</u>
Total Liabilities	<u>2,694,115</u>	<u>927,647</u>
Shareholders' Equity		
Preferred Stock, \$0.001 par value; 5,000,000 authorized preferred shares	-	-
Common Stock, \$0.001 par value; 495,000,000 authorized shares; 275,499,948 shares & 259,302,409 shares issued and outstanding, respectively	275,500	259,302
Additional Paid in Capital	33,522,934	28,730,547
Retained Earnings/(Deficit)	(26,724,322)	(16,623,319)
Other Comprehensive Income (Loss)	(5,801)	-
Total Shareholders' Equity	<u>7,068,311</u>	<u>12,366,530</u>
Total Liabilities and Shareholders' Equity	<u>\$ 9,762,426</u>	<u>\$ 13,294,177</u>

See accompanying notes to unaudited consolidated financial statements.

CEREPLAST, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE LOSS
FOR THE THREE MONTHS AND NINE MONTHS ENDED
(UNAUDITED)

	Three Months Ended		Nine Months Ended	
	9/30/2008	9/30/2007	9/30/2008	9/30/2007
GROSS SALES	\$ 1,427,902	\$ 661,742	\$ 3,401,011	\$ 1,609,020
Sales Discounts, Returns & Allowances	(18,035)	(29,499)	(45,516)	(165,852)
NET SALES	<u>1,409,867</u>	<u>632,243</u>	<u>3,355,495</u>	<u>1,443,168</u>
 COST OF SALES	 <u>1,470,045</u>	 <u>514,697</u>	 <u>3,376,455</u>	 <u>1,329,176</u>
 GROSS PROFIT	 <u>(60,178)</u>	 <u>117,546</u>	 <u>(20,960)</u>	 <u>113,992</u>
OPERATING EXPENSES				
Depreciation and Amortization	141,879	108,162	407,626	256,374
Financing Discount Costs	-	-	-	816,385
Marketing Expense	314,765	47,699	995,125	88,529
Professional Fees	239,257	310,466	795,571	541,544
Rent Expense	194,330	111,392	722,315	215,550
Research and Development	267,589	148,627	813,889	343,606
Salaries & Wages	926,643	837,320	2,490,129	1,948,766
Salaries & Wages - Stock Based Compensation	352,762	-	2,229,733	-
Other Operating Expenses	576,528	281,596	1,727,772	928,696
TOTAL OPERATING EXPENSES	<u>3,013,753</u>	<u>1,845,262</u>	<u>10,182,160</u>	<u>5,139,450</u>
LOSS FROM OPERATIONS BEFORE OTHER INCOME(EXPENSES)	<u>(3,073,931)</u>	<u>(1,727,716)</u>	<u>(10,203,120)</u>	<u>(5,025,458)</u>
OTHER INCOME (EXPENSES)				
Interest Income	5,885	133,624	120,934	153,439
Interest Expense	(7,182)	(7,963)	(18,817)	(32,598)
	<u>(1,297)</u>	<u>125,661</u>	<u>102,117</u>	<u>120,841</u>
LOSS BEFORE PROVISIONS FOR TAXES	<u>(3,075,228)</u>	<u>(1,602,055)</u>	<u>(10,101,003)</u>	<u>(4,904,617)</u>
Provision for Taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS	<u>(3,075,228)</u>	<u>(1,602,055)</u>	<u>(10,101,003)</u>	<u>(4,904,617)</u>
OTHER COMPREHENSIVE LOSS				
Loss on Foreign Currency Translation	<u>(5,260)</u>	<u>-</u>	<u>(5,801)</u>	<u>-</u>
TOTAL COMPREHENSIVE LOSS	<u>\$ (3,080,488)</u>	<u>\$ (1,602,055)</u>	<u>\$ (10,106,804)</u>	<u>\$ (4,904,617)</u>
 BASIC AND DILUTED LOSS PER SHARE	 <u>\$ (0.01)</u>	 <u>\$ (0.01)</u>	 <u>\$ (0.04)</u>	 <u>\$ (0.02)</u>
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED	<u>265,144,443</u>	<u>258,179,019</u>	<u>262,154,367</u>	<u>231,570,067</u>

See accompanying notes to unaudited consolidated financial statements.

CEREPLAST, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED
(UNAUDITED)

	NineMonths Ended	
	9/30/2008	9/30/2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (10,101,003)	\$ (4,904,617)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	407,626	256,374
Bad debt expense	40,728	-
Financing Discount Costs	-	816,385
Common Stock Issued for Services, Salaries & Wages	2,287,525	863,232
(Increase) Decrease in:		
Accounts Receivable	(358,928)	(162,318)
Inventory	(1,090,217)	(936,695)
Deposits	(10,049)	(13,031)
Prepaid Expenses	(146,991)	(5,952)
Restricted Cash	475	-
Intangibles	(116,090)	-
Increase (Decrease) in:		
Accounts Payable	1,368,649	(85,086)
Other Payables	38,976	(186)
Accrued Expenses	420,651	151,331
NET CASH USED IN OPERATING ACTIVITIES	(7,258,648)	(4,020,563)
NET CASH USED IN INVESTING ACTIVITIES:		
Purchase of property and equipment, and intangibles	(2,833,202)	(1,286,827)
NET CASH USED IN INVESTING ACTIVITIES	(2,833,202)	(1,286,827)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on Shareholder Loans	-	(372,074)
Payments on Credit Lines	-	(47,468)
Payments on Capital Leases	(53,524)	14,381
Payments on Notes Payable	-	(250,000)
Payments on Term Loan Payable	(8,283)	(7,748)
Proceeds from issuance of common stock and subscription receivable	2,521,059	16,738,115
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,459,252	16,075,206
FOREIGN CURRENCY TRANSLATION	(5,801)	-
NET (DECREASE)/ INCREASE IN CASH	(7,638,399)	10,767,816
CASH, BEGINNING OF PERIOD	8,593,714	205,022
CASH, END OF PERIOD	\$ 955,315	\$ 10,972,838

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION

During the nine months ended September 30, 2008, the Company issued 11,988,636 shares in exchange for gross proceeds of \$2,637,500 under a private placement. During the nine months ended September 30, 2007 the company issued 5,168,645 shares in exchange for gross proceeds of \$1,830,000 in advance on its Equity Line of Financing and 45,826,052 shares in exchange for gross proceeds of \$16,815,100 under various private placements. For the nine months ended September 30, 2008 and 2007, the Company paid \$7,963 and \$32,598, respectively, in cash for interest and \$0 for taxes.

SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS

During the nine months ended September 30, 2008, the Company issued 4,208,902 shares, valued at \$1,796,972 for services to employees and 268,809 shares valued at \$57,793 for services to third parties. The Company also recognized \$432,761 of expense related to vesting of employee stock options for the nine months ended September 30, 2008. During the nine months ended September 30, 2007, the Company issued 4,282,054 shares, valued at \$2,321,599 for services. The Company has no employee stock option plan for the nine months ended September 30, 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008
(Unaudited)

1. ORGANIZATION AND LINE OF BUSINESS

Organization

We were incorporated on September 29, 2001 in the State of Nevada under the name of Biocorp North America Inc. On March 18, 2005, we filed an amendment to our certificate of incorporation to change our name to Cereplast, Inc.

Line of Business

We have developed and are commercializing proprietary bio-based resins through two complementary product families: Cereplast Compostables Resins[®], a renewable, ecologically sound substitute for petroleum-based plastics and Cereplast Hybrid Resins[®], which potentially replace up to 50% of the petroleum-based content of traditional plastics with materials from renewable resources. Our resins are competitively priced compared to petroleum-based plastic resins and can be converted into finished products using conventional manufacturing equipment without additional capital investment by downstream converters.

The demand for non-petroleum based, clean and renewable sources for materials, such as bioplastics, and the demand for compostable/biodegradable products are being driven globally by a variety of factors, including fossil fuel price escalation and volatility, energy security and environmental concerns. These factors have led to increased spending on clean and renewable products by corporations and individuals as well as legislative initiatives at the local and state level.

We are a full-service resin solution provider uniquely positioned to capitalize on the rapidly increasing demand for sustainable and environmentally friendly alternatives to traditional plastic products.

We primarily conduct our operations through two product families:

- Cereplast Compostables Resins[™] are renewable, ecologically-sound substitutes for petroleum-based plastics targeting primarily single-use disposables and packaging applications. We offer 11 commercial grades of Compostables Resins in this product line. These resins are compatible with existing manufacturing processes and equipment making them a substitute for traditional petroleum-based resins. We commercially introduced our Compostables line in November 2006.
- Cereplast Hybrid Resins[™] potentially replace up to 50% of the petroleum content in traditional plastics with bio-based materials such as industrial starches sourced from plants. The Hybrid Resin line is designed to offer similar properties to traditional polyolefins such as impact strength and heat deflection temperature. Hybrid Resins provide a viable alternative for brand owners and converters looking to partially replace petroleum-based resins in durable goods applications. Hybrid Resins address this need in a wide range of markets, including automotive, consumer goods, consumer electronics, medical, packaging, and construction. These resins are also compatible with existing manufacturing processes and equipment making them a substitute for traditional petroleum-based resins. We commercially introduced our first family of Hybrid Resins, Biopropylene[™], in October 2007.

As of September 30, 2008, over 150 companies have requested and been provided with samples of our bioplastic resin and 80 customers have purchased resin for trials and testing. Of these, 60 customers have advanced to

prototype testing and market qualification aimed at more than 100 different product applications. Eighteen customers, including WNA, Alcoa, Genpak, Innoware, Penley and Pace Industries, have commercialized and introduced over 85 different bioplastic products using our resins.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying interim unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. (“GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The consolidated financial statements include the financial condition and results of operations of our wholly-owned subsidiary, Cereplast International, S.A., a Luxembourg company organized during the period for the purpose of conducting sales operations in Europe. Intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2008 are not necessarily indicative of the results that may be expected for year ending December 31, 2008. For further information, refer to the financial statements for the year ended December 31, 2007 and notes thereto included in our Annual Report on Form 10-KSB, filed on March 17, 2008.

This summary of our significant accounting policies is presented to assist in understanding our financial statements. The financial statements and notes are representations by our management, which is responsible for their integrity and objectivity. These accounting policies conform to GAAP and have been consistently applied in the preparation of the financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements. Significant estimates made in preparing these financial statements include the estimate of useful lives of property and equipment, the deferred tax valuation allowance and the fair value of stock options. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 161, Disclosures about Derivative Instruments and Hedging Activities—An Amendment of FASB Statement No. 133. This standard requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. We do not expect SFAS 161 to have a material impact on our results of operations or financial condition.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51. This statement amends ARB 51 to establish accounting and reporting standards for the non-controlling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. We do not expect SFAS 160 to have a material impact on our results of operations or financial condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No.115. SFAS 159 provides companies with an option to measure, at specified election dates, certain financial instruments and other items at fair value that are not currently measured at fair value. A company that adopts SFAS 159 will report unrealized gains and losses on items for which the fair value option has been elected in its financial results during each subsequent reporting date. SFAS 159 also

establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We do not expect SFAS 159 to have a material impact on our results of operations or financial condition.

In December 2007, the SEC issued Staff Accounting Bulletin (“SAB”) No. 110 “Amendment of Topic 14, Share-Based Payment”. SAB 110 expresses the views of the Staff regarding the use of a “simplified” method, as discussed in SAB No. 107, in developing an estimate of the expected term of “plain vanilla” share options in accordance with SFAS 123R (revised 2004). We do not expect SAB 110 to have a material impact on our results of operations or financial condition.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. At various times throughout the year, we may have exceeded federally insured limits.

Concentration of Credit Risk

We had unrestricted cash, cash equivalents, and short-term investments, totaling \$955,315 at September 30, 2008 and \$8,593,714 at December 31, 2007. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Some of the securities in which we invest, however, may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. To minimize this risk, we intend to maintain our portfolio of cash equivalents and short-term investments in a variety of securities, including commercial paper, money market funds, debt securities and certificates of deposit. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. As of September 30, 2008 all of our investments were held in money market accounts and short-term instruments. We actively monitor changes in interest rates.

Other Concentration

During the quarter ended September 30, 2008, we had one significant supplier that accounted for 47.8% of total cost of goods sold and had one significant customer, Pace Industries, Inc. that accounted for 70.6% of total sales. No other supplier or customer accounted for more than 10% of sales during this period. For the nine months ended September 30, 2008 this same customer accounted for 58.8% of total sales.

Restricted Cash

We had restricted cash in the amount of \$72,417 at September 30, 2008 and \$72,892 at December 31, 2007. The restricted cash amount consists of a “Certificate of Deposit” which supports a “Letter of Credit” for a leased facility.

Fair Value of Financial Instruments

The carrying amounts of our financial instruments as of September 30, 2008 and December 31, 2007, which include cash equivalents, accounts receivable, unbilled receivables, accounts payable, accrued expenses, and advances on financing from investors, approximate their fair values due to the short-term nature of these instruments.

Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses that may arise if any of our customers are unable to make required payments. Management performs a review of the receivables past due from the customers on a monthly basis and reserves against uncollectible items for each customer after all reasonable means of

collection have been exhausted, and the potential for recovery is considered remote. The allowance for doubtful accounts was \$52,027 as of September 30, 2008 and \$11,299 as of December 31, 2007. *Inventories*

Inventories are stated at the lower of cost (first-in, first-out basis) or market, and consist primarily of raw materials used in the manufacturing of bioplastic resins, finished bioplastic resins and finished goods. Inventories are reviewed for excess and obsolescence and a reserve is established accordingly. During the three months ended September 30, 2008, an obsolescence reserve of \$115,000 was established and charged as cost of sales. As of September 30, 2008 and December 31, 2007, the inventories are as follows:

	<u>9/30/08</u>	<u>12/31/07</u>
Raw Materials	\$921,516	\$1,214,519
Bioplastic Resins	1,733,431	472,195
Finished Goods	338,679	126,039
Packaging Materials	39,258	14,264
Promo & Misc.	-	650
Reserve for Obsolescence	<u>(115,000)</u>	<u>-</u>
Inventories, Net	<u>\$2,917,884</u>	<u>\$1,827,667</u>

Property and Equipment

Property and equipment are stated at cost, and depreciation is computed on the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are between five and seven years. Repairs and maintenance expenditures are charged to expense as incurred. Property and equipment consist of:

	<u>9/30/08</u>	<u>12/31/07</u>
Equipment	\$2,550,972	\$2,371,194
Construction in Progress	2,582,029	-
Furniture & Fixtures	325,738	284,613
Leasehold Improvements	<u>222,419</u>	<u>192,149</u>
	5,681,158	2,847,956
Less Accumulated Depreciation	<u>(996,881)</u>	<u>(596,361)</u>
Net Property and Equipment	<u>\$4,684,277</u>	<u>\$2,251,595</u>

Intangibles

Intangibles are stated at cost and consist primarily of patents and trademarks. Amortization is computed on the straight-line method over the estimated life of these assets, estimated to be between five and 15 years.

	<u>9/30/08</u>	<u>12/31/07</u>
Intangibles	\$143,457	\$27,805
Less Accumulated Amortization	<u>(15,752)</u>	<u>(9,084)</u>
Net Intangibles	<u>\$127,705</u>	<u>\$18,721</u>

Deferred Income Taxes

Deferred income taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates as of the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income.

Revenue Recognition

We recognize revenue at the time of shipment of products, provided that evidence of an arrangement exists, title and risk of loss have passed to the customer, fees are fixed or determinable, and collection of the related receivable is reasonably assured.

Marketing and Advertising

We expense marketing and advertising costs as incurred. Marketing and advertising costs for the three months ended September 30, 2008 and 2007 were \$314,765 and \$47,699, respectively and for the nine months ended September 30, 2008 and 2007 were \$995,125 and \$88,529, respectively.

Research and Development Costs

Research and development costs are charged to expense as incurred. These costs consist primarily of research with respect to new grades of bioplastic resins, testing of both the bioplastic resins as well as testing of finished products made from the bio-based resins. The costs for the three months ended September 30, 2008 and 2007 were \$267,589 and \$148,627, respectively, and for the nine months ended September 30, 2008 and 2007 were \$813,889 and \$343,606, respectively.

Stock-Based Compensation

As of January 1, 2007, we adopted SFAS No. 123(R), which requires measurement of compensation cost for all stock-based awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of stock options is determined using the Black Scholes Merton valuation model. Such value is recognized as expense over the service period, net of estimated forfeitures, using the straight-line method under SFAS 123(R).

On March 29, 2005, the SEC published SAB No. 107, which provides the Staff's views on a variety of matters relating to stock-based payments. SAB 107 requires stock-based compensation be classified in the same expense line items as cash compensation. We have reclassified stock-based compensation from prior periods to correspond to current period presentation within the same operating expense line items as cash compensation paid to employees.

Loss per Share Calculations

We adopted SFAS No. 128 for the calculation of "Loss per Share." SFAS No. 128 dictates the calculation of basic earnings per share and diluted earnings per share. Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of common shares available. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the

number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Our diluted loss per share is the same as the basic loss per share for the three and nine months ended September 30, 2008 and 2007 as the inclusion of any potential shares would have had an anti-dilutive effect due to us generating a loss.

Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

3. LEASES

We currently operate out of two main locations in Hawthorne, California and Seymour, Indiana. The various leases underlying these two facilities are summarized below:

California Facilities – The Hawthorne facility is comprised of two contiguous building spaces covering an aggregate of 55,000 square feet that serve as our main corporate office, research and development lab, production facility and a second separate 30,000 square foot facility that serves as an additional logistic center. The Hawthorne facility is subject to four operating leases:

- a lease for office, industrial and warehouse space with monthly rents of \$4,687 expiring in January 2010;
- a lease for office, industrial and warehouse space with monthly rents of \$7,523 expiring in January 2010;
- a lease for office and warehouse space with monthly rents of \$16,043 expiring in April 2012; and
- a lease for office and warehouse space with monthly rents of \$18,805 expiring in January 2010.

Indiana Facility – The 105,000 square foot Seymour facility is currently used as a distribution facility for our products; construction and installation of our first production line is mechanically completed and now undergoing final stages of start-up preparation and commissioning. The Seymour facility is subject to a lease with monthly rents of \$25,000 expiring in January 2018.

4. LOAN PAYABLE

During the year ended December 31, 2004, we obtained a term loan payable in the amount of \$50,000, which bears interest at the rate of 6.75% per annum and matures in April 2009. The monthly payments are \$984 with principal and interest. The future payments as of September 30, 2008 for the loan payable are as follows:

Year ending December 31,	
2008	\$2,856
2009	3,874
	<hr style="width: 100%;"/>
	6,730
Less Current Portion of Loan Payable	<hr style="width: 100%;"/> (6,730)
Long Term Portion of Loan Payable	<hr style="width: 100%;"/> \$ -

5. INCOME TAX

We are subject to U.S. and California income tax. Subject to limited statutory exceptions, we are no longer subject to federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2004. We are not presently liable for any income taxes nor are we undergoing any tax examinations by the Internal Revenue Service. We adopted the provision of FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes on

January 1, 2007. No Deferred Tax Assets and Deferred Tax Liabilities are included in the balance at December 31, 2007 and September 30, 2008. Our policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

6. STOCK OPTIONS

We have an Employee Stock Option Plan (the "Plan"). Under the Plan, the Board of Directors may issue incentive and non-qualified stock options to our employees. Under this Plan, options are granted at the fair market value at the date of grant, and generally expire at the end of five or ten years and vest in accordance with a vesting schedule determined by our Board of Directors, usually immediately or over a three-year period with one-third vested on the grant date and in three equal annual installments vesting on each anniversary date thereafter. As of September 30, 2008, 13.375 million shares were available for future grants under the Plan. We settle stock option exercises with newly issued common shares. The following is a summary of stock option activity (in thousands, except per share data):

	<u>Nine months ended September 30, 2008</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding—beginning of year	11,625	\$ 0.56
Granted at fair value	—	—
Exercised	—	—
Canceled/forfeited	1,126	—
Outstanding—end of quarter	<u>10,499</u>	0.56
Options exercisable at quarter-end	<u>5,847</u>	\$ 0.56

The following table summarizes information about stock options as of September 30, 2008 (in thousands, except per share data):

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>				<u>Options Exercisable</u>			
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contract Life</u>	<u>Aggregate Intrinsic Value</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contract Life</u>	<u>Aggregate Intrinsic Value</u>
\$0.0-\$0.56	<u>10,499</u>	\$ 0.56	5.27	<u>\$ -</u>	<u>5,847</u>	\$ 0.56	4.72	<u>\$ -</u>

Total unrecognized compensation costs related to non-vested awards was approximately \$1.297 million as of September 30, 2008. These non-vested awards are expected to be exercised over the weighted average period of 5.95 years.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on our average stock price of \$0.26 during the three months ended September 30, 2008, which would have been received by the option holders had all option holders exercised their options as of that date. Based on the average stock price during the three months ended September 30, 2008, there were no in-the-money options exercisable as of September 30, 2008.

No options were granted and no shares vested during the three months ended September 30, 2008. Additionally, no options were exercised during the three months ended September 30, 2008 and as such no cash was received from employees as a result of employee stock option exercises.

7. CAPITAL STOCK

During the three months ended September 30, 2008, we issued shares of common stock in a private placement transaction completed on September 8, 2008, which was made in reliance upon an exemption from registration under rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"). We issued 11,988,636 restricted shares of common stock for gross cash proceeds of \$2,637,500, less related fees and expenses in the amount of \$116,441.

8. SUBSEQUENT EVENTS

On October 21, 2008, we received funds of \$212,500 pursuant to a loan agreement with one of our shareholders, Mrs. Nathalie Leblanc, a sibling of our Chief Executive Officer, in the amount of \$212,500. The loan, which is secured by the assets of the Company up to the value of the loan, bears no interest and is repayable on or before January 15, 2009 at our discretion in cash or 1,450,000 shares of Cereplast common stock.

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

CAUTIONARY STATEMENTS

This Form 10-Q may contain "forward-looking statements," as that term is used in federal securities laws, about our financial condition, results of operations and business. These statements include, among others, statements concerning the potential benefits that we may experience from its business activities and certain transactions it contemplates or has completed; and statements of our expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts. These statements may be made expressly in this Form 10-Q. You can find many of these statements by looking for words such as "believes," "expects," "anticipates," "estimates," "opines," or similar expressions used in this Form 10-Q. These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause our actual results to be materially different from any future results expressed or implied by us in those statements. The most important facts that could prevent our company from achieving its stated goals include, but are not limited to, the following:

- potential fluctuation in quarterly results;
- our failure to earn profits;
- inadequate capital to expand our business, inability to raise additional capital or financing to implement our business plans;
- changes in demand for our products and services;
- rapid and significant changes in markets;
- successful commencement of operations at our new Seymour facility and relocation of manufacturing activities from California to Indiana
- failure to commercialize new grades of resin being pursued in our technical / market development "pipeline";
- litigation with or legal claims and allegations by outside parties; and
- insufficient revenues to cover operating costs.

There is no assurance that we will be profitable. We may not be able to successfully manage or market our products and services, attract or retain qualified executives and technology personnel or obtain additional customers for our products or services. Our products and services may become obsolete, government regulation may hinder our business, additional dilution in outstanding stock ownership may be incurred due to the issuance of more shares, warrants and stock options, or the exercise of outstanding warrants and stock options, and other risks inherent in our businesses.

Because the statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. We caution you not to place undue reliance on the statements, which speak only as of the date of this Form 10-Q. The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that our company or persons acting on our behalf may issue. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Form 10-Q, or to reflect the occurrence of unanticipated events.

OVERVIEW

General.

We primarily conduct our operations through two product families:

- Cereplast Compostables Resins® are renewable, ecologically-sound substitutes for petroleum-based plastics targeting primarily single-use disposables and packaging applications. We offer 11 commercial grades of Compostables Resins in this product line. These resins are compatible with existing manufacturing processes and equipment making them a substitute for traditional petroleum-based resins. We commercially introduced our Compostables line in November 2006.
- Cereplast Hybrid Resins® potentially replace up to 50% of the petroleum content in traditional plastics with bio-based materials such as industrial starches sourced from plants. The Hybrid Resin line is designed to offer similar properties to traditional polyolefins such as impact strength and heat deflection temperature. Hybrid Resins provide a viable alternative for brand owners and converters looking to partially replace petroleum-based resins in durable goods applications. Hybrid Resins address this need in a wide range of markets, including automotive, consumer goods, consumer electronics, medical, packaging, and construction. These resins are also compatible with existing manufacturing processes and equipment making them a substitute for traditional petroleum-based resins. We commercially introduced our first family of Hybrid Resins, Biopropylene®, in October 2007.

The lead time for customer testing (which, for compostable products, includes the full product lifecycle necessary to receive compostable certifications) of our resins generally ranges from one to three years, or more depending upon the industry, the customer and the specific application. As of September 30, 2008, over 150 companies have requested and been provided with samples of our bioplastic resin and 80 customers have purchased resin for trials and testing. Of these, 60 customers have advanced to prototype testing and qualification aimed at more than 100 different product applications. As a result of successful testing and commercial product launches, some of our customers have signed multi-year supply contracts with increasing volume. In addition, 18 customers, including WNA, Alcoa, Genpak, Innoware, Penley and Pace Industries, have commercialized and introduced over 85 different bioplastic products using our resin. For the quarter ended September 30, 2008, one customer accounted for more than 10% of total sales.

Trends and Uncertainties that May Impact Future Results of Operations

Global Market and Economic Conditions. Recent global market and economic conditions have been unprecedented and challenging with tighter credit conditions and slower growth through the third quarter of 2008. For the nine-month period ended September 30, 2008, continued concerns about the systemic impact of inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining real estate market in the U.S. have contributed to increased market volatility and diminished expectations for the U.S. economy. In the third quarter, added concerns fueled by the federal government conservatorship of the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association, the declared bankruptcy of Lehman Brothers Holdings Inc., the U.S. government provided loan to American International Group Inc. and other federal government interventions in the US credit markets lead to increased market uncertainty and instability in both US and international capital and credit markets. These conditions, combined with volatile oil prices, declining business and consumer confidence and increased unemployment have in recent weeks subsequent to the end of the quarter contributed to volatility of unprecedented levels.

As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. Continued turbulence in the U.S. and international markets and economies may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers. If these market conditions continue, they may limit our ability, and the ability of our

customers, to timely replace maturing liabilities, and access the capital markets to meet liquidity needs, resulting in an adverse effect on our financial condition and results of operations.

Sales. We record sales at the time that we ship our products, provided that evidence of an arrangement exists, title and risk of loss have passed to the customer, fees are fixed or determinable, and collection of the related receivable is reasonably assured. We record sales net of sales discounts and allowances. For the nine-month period ended September 30, 2008, we provided price incentives to several customers that entered into multi-year supply contracts for their initial purchase commitments to assist in testing and sample production. In the future, we may offer these incentives on a selected basis as we continue to grow our customer base. The amount of these incentives in the future periods will be a function of the growth of our customer base and the particular commercialization.

Operating Expenses. Operating expenses consist principally of salaries (both cash and non-cash equity-based compensation), professional fees (including legal, accounting, patent-related, government compliance), marketing, rent and research and development. Salaries include all cash and non-cash compensation and related costs for all principal functions including executive, finance, accounting, production, and human resources. During recent periods we have made grants of equity awards, including shares of restricted stock and stock options, to attract directors and members of senior management, which have resulted in non-cash compensation expense for the periods reported. We expect that non-cash compensation expense attributed to equity-based awards may increase in future periods as the result of future equity-based incentive compensation awards granted to attract and retain talented employees as we continue to grow our business. In addition, we expect to experience increases in our research and development expenses as we continue to develop new products and formulations, as well as increases in marketing and promotional expenses as we seek to increase our customer base.

Expansion of Operations. Through the remainder of 2008, we will incur increased operating expenses in connection with the commissioning of our second manufacturing facility in Seymour, Indiana, including expenses related to increased headcount as well as the costs of starting up the second facility. In addition, investments in property and equipment, will result in increased depreciation expenses in future periods following the commencement of continuous commercial operations, currently expected by the end of the fourth quarter of 2008 or beginning of the first quarter of 2009.

CRITICAL ACCOUNTING POLICIES AND USE OF ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We monitor our estimates on an ongoing basis for changes in facts and circumstances, and material changes in these estimates could occur in the future. Changes in estimates are recorded in the period in which they become known. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates if past experience or other assumptions do not turn out to be substantially accurate.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2007

Sales

Gross sales increased by \$766,160 or 115.8% to \$1,427,902 for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. Net sales increased by \$777,624 or 123% to \$1,409,867 for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. The sales increase for the period is attributable to volume growth in our bioplastic resins from both existing customers and new customers launching commercial applications with our resins. The difference in gross and net sales is a result of initial price discounts given to customers to assist in testing and sample production, provide support for marketing promotion and application development and reward achievement of commercialization milestones.

Gross Profit

Gross profit decreased by \$177,724 or 151.2% from \$117,546 to \$(60,178) for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. As a percentage of net sales, gross profit margin decreased from 18.6% for the three months ended September 30, 2007 to (4.3)% for the three months ended September 30, 2008. The decrease in gross margin is largely attributable to increases in raw material costs and associated freight costs, as well as the inclusion of a reserve for inventory obsolescence of \$115,000 charged to cost of sales in the period following a review of development grade resin stocks to reflect replacement by grades with improved performance characteristics and customer acceptance following an extensive business review and recently implemented organizational cost and efficiency improvements. While capacity utilization in the Hawthorne facility continues to increase, we are still operating at a low capacity utilization rate. As such, management does not believe that the current gross margins are reflective of the target gross margins we should be able to achieve with increased utilization rates. Management expects significant improvement over the next five quarters based upon improvements in manufacturing operations (including the start-up of the Seymour facility and step-wise relocation of Compostable Resin[®] operations from California to Indiana), higher levels of equipment utilization, operations at greater scale across all functions, recently implemented cost and organizational efficiency improvements, and sales volumes with a higher percentage of commercially mature customers and applications.

Operating Expenses

- Overall, total operating expenses increased by \$1,168,491, including non-cash-related expense of \$410,556, or 63.3%, to \$3,013,753 for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. The increase for the period is attributable to increased spending to support the commercial development and introduction of new products in our two resin families and the growth of our business.
- Salaries and wages increased by \$89,323 for the three months ended September 30, 2008 compared to the three months ended September 30, 2007, and is attributable to head count increases across all departments to support the commercial introduction of our resins and upgrading of our business processes. Non-cash compensation increased by \$352,762 for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 as a result of our issuance of 964,908 restricted common shares valued at \$207,455, together with the expense of \$145,307 relating to employee stock options for the three months ended September 30, 2008.
- Marketing expense increased by \$267,066 for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. The increase for the period is attributable to increased spending to support the commercial expansion of the two families of resins and the development of a direct sales team.
- Rent expense increased by \$82,938 for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. The increase for the period was the result of manufacturing and logistics expansions both at our Hawthorne facility and also at our new Seymour facility. We currently have our primary resin manufacturing operations in California and are in the process of completing a second manufacturing facility to join our present distribution facility in Indiana to support sales and production growth. Commissioning of the Seymour facility is underway and continuous commercial production is presently expected in the first quarter of 2009.
- Research and development increased by \$118,962, for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. Increase for each of the periods was the result of our expanding effort to develop both specific new grades of resins for current and targeted customer applications as well as additional standard grades of resins within the Hybrid family.

Net Loss

Net loss increased by \$1,473,173 or 92%, to \$3,075,228 for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. This increase in net loss was a result of increased operating expenses associated with the growth of our resin operations.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2007

Sales

Gross sales increased by \$1,791,991 or 111.4% to \$3,401,011 for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. Net sales increased by \$1,912,327 or 132.5% to \$3,355,495 for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. The sales increase for the period is attributable to volume growth in our bioplastic resins from both existing customers and new customers launching commercial applications with our resins. The difference in gross and net sales is a result of initial price discounts given to customers to assist in testing and sample production, provide support for marketing promotion and application development and reward achievement of commercialization milestones.

Gross Profit

Gross profit decreased by \$134,952 to \$(20,960) for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. As a percentage of net sales, gross profit margin decreased from 7.9% for the nine months ended September 30, 2007 to (0.6)% for the nine months ended September 30, 2008. The decrease in margin can be attributed to increases in raw material costs and associated freight costs experienced in the third quarter of 2008 as well as the inclusion of a \$115,000 charge to cost of sales to establish a reserve for inventory obsolescence following an extensive business review and recently implemented organizational cost and efficiency improvements, including a review of development grade resin stocks, despite increased sales and production volumes. While capacity utilization in the Hawthorne facility continues to increase, we are still operating at a low capacity utilization rate. As such, management does not believe that the current gross margins are reflective of the target gross margins we should be able to achieve with increased utilization rates. Management expects significant improvement over the next five quarters based upon improvements in manufacturing operations (including the start-up of the Seymour facility and step-wise relocation of Compostables Resin[®] operations), higher levels of equipment utilization, operations at greater scale across all functions, recently implemented organizational cost and efficiency improvements, and sales volumes with a higher percentage of commercially mature customers and applications.

Operating Expenses

- Overall, total operating expenses increased by \$5,042,710, including non-cash-related expenses of \$2,287,526, or 98.1% to \$10,182,160 for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. The increase for the period is attributable to increased spending to support the commercial development and introduction of new products in our two resin families and the growth of our business.
- Salaries and wages increased by \$541,363 for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, and is attributable to head count increases across all departments to support the commercial introduction of our resins and upgrading of our business processes. Non-cash compensation increased by \$2,229,733 for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 as a result of our issuance of 4,208,902 restricted common shares valued at \$1,796,975, together with the expense of \$432,761 relating to employee stock options for the nine months ended September 30, 2008.
- Marketing expense increased by \$906,596 for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. The increase for the period is attributable to increased

spending to support the commercial expansion of the two families of resins and the development of a direct sales team.

- Rent expense increased by \$506,765 for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. The increase for the period was the result of manufacturing and logistics expansions both at our Hawthorne facility and also at our new Seymour facility. We currently have our primary resin manufacturing operations in California and are in the process of completing a second manufacturing facility to join our present distribution facility in Indiana to support sales and production growth. Commissioning of the Seymour facility is underway and we expect continuous commercial production in the first quarter of 2009.
- Research and development increased by \$470,283 for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. The increase for the period was the result of our expanding effort to develop both specific new grades of resins for current and targeted customer applications as well as additional standard grades of resins within the Hybrid family.

Net Loss

Net loss increased by \$5,196,386 or 105.9%, to \$10,101,003 for the nine months ended September 30, 2008 compared to the three months ended September 30, 2007. This increase in net loss was a result of increased operating expenses associated with the growth of our resin operations. We cannot guarantee when or if revenue will exceed operating costs.

LIQUIDITY AND CAPITAL RESOURCES

We require working capital to fund our operations, including payments to finance our research and development and expand sales and marketing, to purchase equipment, service indebtedness, satisfy lease obligations and execute on our business plan and growth strategy. Based on our current cash position and to complete the development of our Seymour facility, we will be required to raise additional working capital, either through commercial debt financing or through the issuance of debt or equity securities. There is no assurance that we will be able to obtain additional sources of working capital on commercially reasonable terms when needed, or at all.

We had net unrestricted cash of \$955,315 at September 30, 2008 compared to net unrestricted cash of \$8,593,714 at December 31, 2007. The net decrease in unrestricted cash is attributed principally to the funding of operating activities and the purchase of equipment for our Seymour facility.

We had positive working capital (the difference between current assets and current liabilities) of \$2,190,034 at September 30, 2008 compared to working capital of \$10,083,658 at December 31, 2007. The decrease in working capital is attributed primarily to a decrease in our cash position.

During the nine months ended September 30, 2008, we used \$7,258,648 of cash for operating activities. The increase in the use of cash for operating activities was a result of increased manufacturing operating expenses, additional company staff resources and acquisition of significant raw materials to support business growth.

Cash used in investing activities to purchase and in construction of equipment for the Indiana manufacturing facility during the nine months ended September 30, 2008 was \$2,833,202 compared to \$1,286,827 during the nine months ended September 30, 2007.

Cash provided by financing activities during the nine months ended September 30, 2008 was \$2,459,251 and was provided by proceeds of a private placement of shares of our common stock.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations at September 30, 2008 and the effects such obligations are expected to have on our liquidity and cash flows in our future periods:

	<u>Payments Due by Period</u>				
	Total	Less Than 1 year	2-3 Years	4-5 Years	More Than 5 years
Capitalized lease obligations	\$ 113,757	\$ 76,764	\$ 35,718	\$ 1,275	\$ -
Purchase obligations	345,530	345,530	-	-	-
Indebtedness	6,730	6,730	-	-	-
	<u>\$ 466,017</u>	<u>\$ 429,024</u>	<u>\$ 35,718</u>	<u>\$ 1,275</u>	<u>\$ -</u>

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any relationships with unconsolidated entities or financial partnerships such as entities often referred to as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance-sheet arrangements or for other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a number of market risks in the ordinary course of business. These risks, which include interest rate risk, foreign currency exchange risk and commodity price risk, arise in the normal course of business rather than from trading. We have examined our exposures to these risks and concluded that none of our exposures in these areas is material to fair values, cash flows or earnings. We regularly review these risks to determine if we should enter into active strategies, such as hedging, to help manage the risks. At the present time, we do not have any hedging programs in place and we are not trading in any financial or derivative instruments.

We currently do not have any material debt, so we do not have interest rate risk from a liability perspective. We do have a significant amount of cash and short-term investments with maturities less than three months. This cash portfolio exposes us to interest rate risk as short-term investment rates can be volatile. Given the short-term maturity structure of our investment portfolio, and the high-grade investment quality of our portfolio, we believe that we are not subject to principal fluctuations and the effective interest rate of our portfolio tracks closely to various short-term money market interest rate benchmarks.

ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation required by the Securities Exchange Act of 1934, as amended (the "Exchange Act"), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance 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 and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

During the most recent fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well-designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

ITEM 4T. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and SVP Finance & Business Development, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2008. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2008, our Chief Executive Officer and SVP Finance & Business Development concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Internal Control Over Financial Reporting

During the quarter ended September 30, 2008, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We were not required to include a report of management's assessment regarding internal control over financial reporting or an attestation report of our independent registered public accounting firm in our Annual Report on Form 10-KSB due to a transition period established by rules of the SEC for newly-public companies. At the end of the fiscal year 2008, our management will be required to provide an assessment of the effectiveness of our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in matters that may harm our business may arise from time to time. We are currently not aware of nor have any knowledge of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

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

We have issued the following unregistered securities during the three months ended September 30, 2008:

- 964,908 shares of our common stock valued at \$207,455 to our directors and employees as part of their compensation.
- 268,809 shares of our common stock valued at \$57,794 to third parties for services rendered in the period.
- 11,988,636 shares of our common stock to accredited investors for gross proceeds of \$2,637,500.

All of the offerings and sales above were deemed to be exempt under rule 506 of Regulation D and Section 4(2) of the Securities Act, No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, our business associates or our executive officers, and transfers of the securities were restricted by us in accordance with the requirements of the Securities Act. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, were capable of analyzing the merits and risks of their investment, and understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our SEC filings.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Articles of Incorporation ⁽¹⁾
3.2	Certificate of Amendment to the Articles of Incorporation dated February 26, 2003 ⁽¹⁾
3.3	Certificate of Amendment to the Articles of Incorporation dated July 19, 2004 ⁽¹⁾
3.4	Certificate of Amendment to the Articles of Incorporation dated March 18, 2005 ⁽¹⁾
3.5	Bylaws ⁽¹⁾
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ***
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ***

(1) Filed as an exhibit to the Form SB-2 Registration Statement declared effective on July 5, 2005 and incorporated herein by reference.

*** In accordance with Item 601(b)(32)(ii) of Regulation S-K, this exhibit shall not be deemed "filed" for the purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

SIGNATURES

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

Date: November 14,, 2008

CEREPLAST, INC.

By: /S/ Frederic Scheer

Frederic Scheer
Chairman, Chief Executive Officer

By: /S/ Stephan Garden

Stephan Garden
Principal Financial Officer

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

I, Frederic Scheer, certify that:

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

Dated: November 14, 2008

By: /s/ Frederic Scheer
Frederic Scheer, Chairman,
Chief Executive Officer
(Principal Executive Officer)

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

I, Stephan Garden, certify that:

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

Dated: November 14, 2008

By: /s/ Stephan Garden
Stephan Garden
SVP Finance & Business Development
(Principal Financial Officer)

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

In connection with the quarterly report of Cereplast, Inc. (the "Company") on Form 10-Q for the three months ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frederic Scheer, Chief Executive Officer and Principal Executive Officer, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

/s/ FREDERIC SCHEER

Frederic Scheer
Chief Executive Officer
(Principal Executive Officer)
November 14, 2008

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 HAS BEEN PROVIDED TO THE COMPANY AND WILL BE RETAINED BY THE COMPANY AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.

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

In connection with the quarterly report of Cereplast, Inc. (the "Company") on Form 10-Q for the three months ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephan Garden, SVP Finance & Business Development and Principal Financial Officer, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

/s/ STEPHAN GARDEN

Stephan Garden
SVP Finance & Business Development
(Principal Financial Officer)
November 14, 2008

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 HAS BEEN PROVIDED TO THE COMPANY AND WILL BE RETAINED BY THE COMPANY AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.