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

Form 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

Commission File Number 333-126378

**CEREPAST, 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.)

3421 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 or Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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   
(Do not check if a 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 13, 2009: 342,935,300.

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*Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our,” “Cereplast” or the “Company” shall refer to Cereplast, Inc.*

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**PART I — FINANCIAL INFORMATION**

**ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**CEREPPLAST, INC.  
 CONSOLIDATED BALANCE SHEETS**

	<u>9/30/09</u> (Unaudited)	<u>12/31/08</u> (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 410,009	\$ 501,699
Accounts Receivable, Net	287,468	280,102
Inventory, Net	1,058,134	1,838,775
Prepaid Expenses	718,650	160,863
<b>Total Current Assets</b>	<u>2,474,261</u>	<u>2,781,439</u>
<b>Property and Equipment</b>		
Property and Equipment	5,434,489	5,729,051
Accumulated Depreciation and Amortization	(1,392,095)	(1,132,337)
<b>Net Property and Equipment</b>	<u>4,042,394</u>	<u>4,596,714</u>
<b>Other Assets</b>		
Restricted Cash	—	48,628
Intangibles, Net	186,281	173,285
Deposits	41,311	44,943
<b>Total Other Assets</b>	<u>227,592</u>	<u>266,856</u>
<b>Total Assets</b>	<u>\$ 6,744,247</u>	<u>\$ 7,645,009</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 1,548,635	\$ 1,114,744
Other Payables	1,440	33,634
Accrued Expenses	1,030,589	829,933
Capital Leases, Current Portion	35,815	47,440
Convertible Shareholder Loan	—	212,482
Loan Payable, Current Portion	—	3,874
<b>Total Current Liabilities</b>	<u>2,616,479</u>	<u>2,242,107</u>
<b>Long-Term Liabilities</b>		
Capital Leases	11,334	40,045
<b>Total Long-Term Liabilities</b>	<u>11,334</u>	<u>40,045</u>
<b>Total Liabilities</b>	<u>2,627,813</u>	<u>2,282,152</u>
<b>Shareholders' Equity</b>		
Preferred Stock, \$0.001 par value; 5,000,000 authorized preferred shares	—	—
Common Stock, \$0.001 par value; 495,000,000 authorized shares; 339,435,300 shares & 281,134,359 shares issued and outstanding, respectively	339,435	281,134
Common Stock subscribed, not issued	50,000	250,000
Additional Paid in Capital	37,288,549	34,175,023
Retained Earnings/(Deficit)	(33,604,050)	(29,372,020)
Other Comprehensive Income	42,500	28,720
<b>Total Shareholders' Equity</b>	<u>4,116,434</u>	<u>5,362,857</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u>\$ 6,744,247</u>	<u>\$ 7,645,009</u>

See accompanying notes to consolidated financial statements.

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CEREPAST, INC.  
 CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME  
 (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	9/30/2009	9/30/2008	9/30/2009	9/30/2008
<b>GROSS SALES</b>	\$ 683,974	\$ 1,427,902	\$ 2,148,955	\$ 3,401,011
Sales Discounts, Returns & Allowances	(3,010)	(18,035)	(11,147)	(45,516)
<b>NET SALES</b>	<u>680,964</u>	<u>1,409,867</u>	<u>2,137,808</u>	<u>3,355,495</u>
<b>COST OF SALES</b>	<u>577,217</u>	<u>1,470,045</u>	<u>1,858,870</u>	<u>3,376,455</u>
<b>GROSS PROFIT (DEFICIT)</b>	<u>103,747</u>	<u>(60,178)</u>	<u>278,938</u>	<u>(20,960)</u>
<b>OPERATING EXPENSES</b>				
Depreciation and Amortization	136,188	141,879	408,277	407,626
Marketing Expense	59,434	314,765	310,350	995,125
Professional Fees	195,823	239,257	533,707	795,571
Rent Expense	51,027	194,330	509,969	722,315
Research and Development	54,183	267,589	257,972	813,889
Salaries & Wages	277,949	926,643	1,413,796	2,490,129
Salaries & Wages — Stock Based Compensation	(199,841)	352,762	(17,324)	2,229,733
Other Operating Expenses	383,316	576,528	931,954	1,727,772
<b>TOTAL OPERATING EXPENSES</b>	<u>958,079</u>	<u>3,013,753</u>	<u>4,348,701</u>	<u>10,182,160</u>
<b>LOSS FROM OPERATIONS BEFORE OTHER INCOME (EXPENSES)</b>	<u>(854,332)</u>	<u>(3,073,931)</u>	<u>(4,069,763)</u>	<u>(10,203,120)</u>
<b>OTHER INCOME (EXPENSES)</b>				
Gain on Settlement of Shareholder Loan	—	—	81,982	—
Waiver fee on Settlement of Shareholder Loan	—	—	(90,000)	—
Loss on Sale of Equipment	(129,627)	—	(154,666)	—
Interest Income	621	5,885	20,895	120,934
Interest Expense	(5,900)	(7,182)	(20,478)	(18,817)
<b>TOTAL OTHER INCOME (EXPENSES)</b>	<u>(134,906)</u>	<u>(1,297)</u>	<u>(162,267)</u>	<u>102,117</u>
<b>LOSS BEFORE PROVISION FOR TAXES</b>	(989,238)	(3,075,228)	(4,232,030)	(10,101,003)
Provision for Taxes	—	—	—	—
<b>NET LOSS</b>	(989,238)	(3,075,228)	(4,232,030)	(10,101,003)
<b>OTHER COMPREHENSIVE INCOME</b>				
Gain (loss) on Foreign Currency Translation	5,134	(5,260)	13,780	(5,801)
<b>TOTAL COMPREHENSIVE LOSS</b>	<u>\$ (984,104)</u>	<u>\$ (3,080,488)</u>	<u>\$ (4,218,250)</u>	<u>\$ (10,106,804)</u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
<b>WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED</b>				
	<u>333,165,261</u>	<u>265,144,443</u>	<u>311,270,323</u>	<u>262,154,367</u>

See accompanying notes to consolidated financial statements.

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

	9/30/2009	9/30/2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (4,232,030)	\$ (10,101,003)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	408,277	407,626
Reserve for Inventory Obsolescence	(96,041)	—
Allowance for Doubtful Accounts	12,727	40,728
Loss on sale of equipment	154,666	—
Common Stock and Common Stock Equivalent Issued for Services, Salaries & Wages	(103,775)	2,287,525
Common Stock Issued for Waiver Fee	90,000	—
Gain on Settlement of Shareholder Loan	(81,982)	—
(Increase) Decrease in:		
Accounts Receivable	(20,093)	(358,928)
Inventory	876,682	(1,090,217)
Deposits	3,632	(10,049)
Prepaid Expenses	350,081	(146,991)
Restricted Cash	48,628	475
Intangibles	(19,445)	(116,090)
Increase (Decrease) in:		
Accounts Payable	489,575	1,368,649
Accrued Expenses	200,656	420,651
Other Payables	(32,194)	38,976
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,950,636)</u>	<u>(7,258,648)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment, and intangibles	(13,738)	(2,833,202)
Proceeds from sale of equipment	3,693	—
NET CASH USED IN INVESTING ACTIVITIES	<u>(10,045)</u>	<u>(2,833,202)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on Capital Leases	(40,336)	(53,524)
Payments on Term Loan Payable	(3,874)	(8,283)
Proceeds from issuance of common stock and subscription receivable	1,899,421	2,521,059
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,855,211</u>	<u>2,459,252</u>
FOREIGN CURRENCY TRANSLATION	<u>13,780</u>	<u>(5,801)</u>
NET DECREASE IN CASH	<u>(91,690)</u>	<u>(7,638,399)</u>
CASH, BEGINNING OF PERIOD	<u>501,699</u>	<u>8,593,714</u>
CASH, END OF PERIOD	<u>\$ 410,009</u>	<u>\$ 955,315</u>

**SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION**

During the nine months ended September 30, 2009, the Company issued 33,326,819 shares in exchange for gross proceeds of \$1,666,341 under private placements, 4,568,283 shares in exchange for net proceeds of \$300,000 pursuant to a Periodic Equity Investment Agreement, and 5,000,000 shares in fulfillment of subscriptions payable of \$250,000. 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. For the nine months ended September 30, 2009 and 2008, the Company paid \$17,613 and \$7,963, respectively, in cash for interest and \$0 for taxes.

**SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS**

During the nine months ended September 30, 2009, the Company issued 3,812,239 shares valued at \$395,960 for services to directors and employees and 11,593,600 shares valued at \$1,176,180 for prepaid services and debt repayment to third parties. The Company also recognized \$499,735 of expense related to vesting of employee stock options for the same period. 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 the vesting of employee stock options for the nine months ended September 30, 2008.

See accompanying notes to consolidated financial statements.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2009**  
**(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 which are renewable, ecologically sound substitute for petroleum-based plastics and Cereplast Hybrid® Resins, which replace up to 50% of the petroleum-based content of traditional plastics with materials from renewable resources. Our resins aim to be competitively priced compared to petroleum-based plastic resins and can be converted into finished products using conventional manufacturing equipment without significant 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 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 three product families:

- Cereplast Compostables Resins® are renewable, ecologically-sound substitutes for petroleum-based plastics targeting primarily single-use disposables and packaging applications. We offer 17 commercial grades of Compostables Resins in this product line. These resins are compatible with existing manufacturing processes and equipment making them a ready substitute for traditional petroleum-based resins. We commercially introduced our Compostables line in November 2006.
- Cereplast Hybrid Resins® replace up to 50% of the petroleum content in conventional 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, and is compatible with existing converter processes and equipment. 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. We commercially introduced our first grade of Hybrid Resin, Hybrid 150, at the end of 2007. We currently offer two commercial grades in this product line.
- Cereplast Algae Plastics™. In October 2009 we announced that we have been developing a new technology to transform algae into bioplastics and intend to launch a new family of algae-based resins that will complement the company's existing line of Compostables & Hybrid resins. Although we do not expect this new technology to become commercial before the end of 2010 or early 2011, it remains an important development as we believe that the potential open by algae is quite substantial. Cereplast algae-based resins could replace in a first step 50% or more of the petroleum content used in traditional plastic resins.

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Currently, Cereplast is using renewable material such as starches from corn, tapioca, wheat and potatoes and Ingeo® PLA. Recently the algae production business has attracted a lot of attention when Exxon announced a \$600 million investment in Synthetic Genomics and BP's \$10 million investment in Martek Biosciences. The Company retains that algae is a very attractive feedstock as it does offer a low carbon footprint alternative and at the same time could be accessible in very large quantity. We also have a future plan to create algae plastic made of 100% algae component abandoning any reliance on fossils fuels.

As of September 30, 2009, over 230 companies have requested and been provided with samples of our bioplastic resin and 150 customers have purchased resin for trials and testing. Of these, 80 customers have advanced to prototype testing and qualification of more than 135 different product applications. Thirty customers, including Dorel Industries, WNA, Alcoa, Genpak, Innoware, Penley, Solo, Cadaco, Jatco, Dentek, CSI-Cosmolab, Warner Tools, Handgards and Pace Industries, have commercialized and introduced 95 different bioplastic products using our resin. As a result of successful testing and commercial product launches, some of our customers have signed multi-year supply contracts with increasing volume.

On May 19, 2009, we announced a new strategic plan ("Strategic Restructuring Program") to accelerate growth, and reduce costs by outsourcing manufacturing and concentrating our activities on core strengths in design and development, and sale and distribution of our resins. (Refer to Exhibit 99.1 of our Form 8-K filed on May 19, 2009 for the complete announcement) Although we continue to operate our Hawthorne manufacturing facility to supply our current customers, we are in advanced negotiation with a resin compounder to enter into a strategic partnership to manufacture our proprietary resins and we expect that such a partnership arrangement will be completed before year end.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Presentation and Consolidation*

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 year ended December 31, 2008 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, 2009 are not necessarily indicative of the results that may be expected for year ending December 31, 2009. For further information, refer to the financial statements for the year ended December 31, 2008 and notes thereto included in our Annual Report on Form 10-K, filed on March 30, 2009.

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.

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### *Recently Issued Accounting Pronouncements*

In June 2009, the FASB issued guidance under Accounting Standards Codification (“ASC”) Topic 105, “Generally Accepted Accounting Principles” (SFAS No. 168, The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles). This guidance establishes the FASB ASC as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. SFAS 168 and the ASC are effective for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the ASC has become non-authoritative. Following SFAS 168, the FASB will no longer issue new standards in the form of Statements, FSPs, or EITF Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to update the ASC, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the ASC. We adopted ASC 105 effective for our financial statements issued as of September 30, 2009. The adoption of this guidance did not have an impact on our financial statements but will alter the references to accounting literature within the consolidated financial statements.

In May 2009, the Financial Accounting Standards Board issued ASC Topic 855/(SFAS No. 165, Subsequent Events) “Subsequent Events”, to incorporate the accounting and disclosure requirements for subsequent events into U.S. generally accepted accounting principles with a required adoption date of June 30, 2009. ASC Topic 855 introduces new terminology, defines a date through which management must evaluate subsequent events, and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance sheet date. We adopted Statement No. 165 as of the required effective date.

### *Basis of Presentation and Going Concern*

We have incurred net losses of \$4,232,030 for the nine months ended September 30, 2009 and \$12,748,701 for the year ended December 31, 2008, and have an accumulated deficit of \$33,604,050 as of September 30, 2009. Based on our operating plan, our existing working capital will not be sufficient to meet the cash requirements to fund our planned operating expenses, capital expenditures and working capital requirements through December 31, 2009 without additional sources of cash.

These factors raise substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business.

Our plan to address the shortfall of working capital is to generate additional financing through a combination of sales of assets, incremental product sales and the sale of equity securities. There are no assurances that we will be able to obtain any sources of financing on acceptable terms, or at all.

If we cannot obtain sufficient additional financing in the short-term, we may be forced to file for bankruptcy or cease operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should we be forced to take such actions.

### *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 \$410,009 at September 30, 2009 and \$501,699 at December 31, 2008. 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, 2009 all of our investments were held in money market accounts and short-term instruments. We actively monitor changes in interest rates.

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*Other Concentration*

During the nine months ended September 30, 2009, we had two significant suppliers that accounted for 27.2% and 18.1%, respectively, of total cost of goods sold and had one customer, Dorel Juvenile Group, which accounted for 43.0% of total sales. No other supplier or customer accounted for more than 10% of cost of sales or sales during this period.

*Restricted Cash*

We had no restricted cash at September 30, 2009 and \$48,628 at December 31, 2008. The restricted cash amount consisted of a "Certificate of Deposit" which supported a "Letter of Credit" for a leased facility.

*Fair Value of Financial Instruments*

The carrying amounts of our financial instruments as of September 30, 2009 and December 31, 2008, 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 \$42,077 as of September 30, 2009, and \$29,350 as of December 31, 2008.

*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. As of September 30, 2009 and December 31, 2008, the inventories are as follows:

	9/30/09	12/31/08
Raw Materials	\$ 370,165	\$ 608,984
Bioplastic Resins	647,473	1,040,255
Finished Goods	59,133	291,890
Packaging Materials	17,322	29,646
Reserve for Obsolescence	(35,959)	(132,000)
Inventories, Net	<u>\$ 1,058,134</u>	<u>\$ 1,838,775</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:

	9/30/09	12/31/08
Equipment	\$ 2,525,354	\$ 2,582,204
Construction in Progress	2,599,735	2,593,937
Furniture & Fixtures	275,055	325,738
Leasehold Improvements	34,345	227,172
	5,434,489	5,729,051
Less Accumulated Depreciation	(1,392,095)	(1,132,337)
Net Property and Equipment	<u>\$ 4,042,394</u>	<u>\$ 4,596,714</u>

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*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.

	9/30/09	12/31/08
Intangibles	\$ 208,372	\$ 188,927
Less Accumulated Amortization	(22,091)	(15,642)
Net Intangibles	<u>\$ 186,281</u>	<u>\$ 173,285</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, 2009 and 2008 were \$59,434 and \$314,765, respectively, and for the nine months ended September 30, 2009 and 2008 were \$310,350 and \$995,125, respectively.

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### *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, 2009 and 2008 were \$54,183 and \$267,589, respectively and for the nine months ended September 30, 2009 and 2008 were \$257,972 and \$813,889, respectively.

### *Stock-Based Compensation*

We record compensation expense for employee stock based awards in accordance with the provisions of *FASB Accounting Standards Codification (ASC) 718, Compensation — Stock Compensation*. As required by ASC 718, 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 valuation model. Such value is recognized as expense over the service period, net of estimated forfeitures, using the straight-line method. Adjustments to this expense are made periodically to recognize actual rates of forfeiture which vary significantly from estimates. During the nine months ended September 30, 2009, such adjustments resulted in recovery and reduction to stock based compensation of \$879,185.

### *Loss per Share Calculations*

We calculate earnings per share in accordance with the provisions of ASC 260, *Earnings per Share*, which 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, 2009 and 2008 as 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. CAPITAL STOCK

During the nine months ended September 30, 2009, we issued shares of common stock as follows:

- In a private placement transactions, 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 33,326,819 restricted shares of common stock for gross cash proceeds of \$1,666,341, and 5,000,000 restricted shares of common stock in fulfillment of subscriptions received prior to December 31, 2008 of \$250,000.

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- Also on February 18, 2009 we also issued 2,450,000 shares of restricted common stock valued at \$220,500 to one of our shareholders, a party related to our Chief Executive Officer, in repayment of a convertible shareholder loan. The stock issuance includes 1,450,000 shares related to the original principal amount of \$212,500 and 1,000,000 additional shares related to an agreement to waive default penalties.
- We issued 8,581,100 shares of restricted common stock valued at \$907,867 to third parties for services to be rendered over twelve-month terms beginning in March 2009, May 2009 and July 2009.
- We issued 4,374,739 shares of restricted common stock valued at \$443,773 to various employees, directors, and third parties for services rendered during the period.
- We issued 4,568,283 shares of restricted common stock for net cash proceeds of \$300,000 pursuant to the Periodic Equity Investment Agreement with Cumorah Capital, Inc. dated December 8, 2008.

*Stock Option Activity*

Under this 2004 Employee Stock Option Plan, the Board of Directors may issue incentive and non-qualified stock options to our employees. Options granted under these Plans generally expire at the end of five or 10 years and vest in accordance with a vesting schedule determined by our Board of Directors, usually over three years from the grant date. As of September 30, 2009, 13,375,000 shares are available for future grants under the 2004 Employee Stock Option 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):

	Nine months ended September 30, 2009	
	Shares	Weighted Average Exercise Price
Outstanding—beginning of year	9,975	\$ 0.56
Granted at fair value	—	—
Exercised	—	—
Canceled/forfeited	(7,050)	(0.56)
Outstanding—end of quarter	<u>2,925</u>	<u>0.56</u>
Options exercisable at quarter-end	<u>1,950</u>	<u>\$ 0.56</u>

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The following table summarizes information about stock options as of September 30, 2009 (in thousands, except per share data):

Total unrecognized compensation costs related to non-vested awards was approximately \$330,382 as of September 30, 2009. These non-vested awards are expected to be exercised over the weighted average period of 4.47 years

Range of Exercise Prices	Options Outstanding				Options Exercisable			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value
\$0.0-\$0.56	2,925	\$ 0.56	4.47	—	1,950	\$ 0.56	4.47	—

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on our average stock price of \$0.12 during the three months ended September 30, 2009, 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, 2009, there were no in-the-money options exercisable as of September 30, 2009.

No options were granted and no shares vested during the three months ended September 30, 2009. Additionally, no options were exercised during the three months ended September 30, 2009, and as such no cash was received from employees as a result of any such exercise of stock options.

4. 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 consists of one building covering an aggregate of 25,000 square feet that serve as our main corporate office, research and development lab, production facility and logistic center. The Hawthorne facility is subject to two operating leases:

- a lease for office, industrial and warehouse space with monthly rents of \$15,405 expiring in January 2010;
- a lease for office and warehouse space with monthly rents of \$20,644 expiring in April 2012 has been vacated and terminated prior to expiration; and

An additional lease for a 30,000 square foot facility for office and warehouse space was terminated during the three months ended June 30, 2009 as part of our facilities consolidation and cost reduction efforts under our Strategic Restructuring Program.

*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. The Seymour facility is subject to a lease with monthly rents of \$25,000 expiring in January 2018, however the rent agreement has been amended with a substantial rent reduction for a period of several months ending at the end of 2010. As part of our Strategic Restructuring Program, we are currently in negotiations with several resin compounders to outsource manufacturing of our resins. Implementation of this plan may include the sale of the manufacturing equipment currently located on this premises and /or further consolidation of facilities.

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### 5. LOANS PAYABLE

#### *Term Loan*

During the year ended December 31, 2004, the Company obtained a term loan payable in the amount of \$50,000, bearing interest at 6.75% per annum. The loan matured and was fully repaid during the period ended June 30, 2009.

#### *Shareholder Loan*

During the year ended December 31, 2008, we received a loan of \$212,482 from one of our shareholders, a party related to our Chief Executive Officer. The loan bore no interest and was repayable on or before January 15, 2009 at our discretion in cash or in shares of Cereplast common stock. On February 18, 2009, the loan was repaid with the issue of 1,450,000 shares of Cereplast common stock valued at \$130,500 resulting in a gain on repayment of debt of \$81,982. An additional 1,000,000 shares valued at \$90,000 were issued to this same shareholder as payment for waiving any default penalties on the loan.

### 6. 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 account for income taxes in accordance with the provisions of ASC 740. No Deferred Tax Assets and Deferred Tax Liabilities are included in the balance at September 30, 2009 or December 31, 2008.

Our policy is to recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

### 7. CONTINGENCIES AND COMMITMENTS

#### *Payment of Salaries & Employment Contracts*

During the period ended September 30, 2009, we took additional measures to preserve working capital to continue to focus on financing operations and suspended or significantly reduced payment of salaries to certain employees. In July, 2009, we began repaying a portion of these suspended salaries.

In addition, as part of our workforce reduction efforts under our Strategic Restructuring Program, we furloughed certain senior management employees with whom we have employment contracts and are in default of some terms of these contracts. While we expect to incur some severance related costs associated with these reductions we cannot currently estimate the likelihood or amount of these restructuring costs.

### 8. SUBSEQUENT EVENTS

We evaluated our financial statements for subsequent events through November 16, 2009, the date the financial statements were issued. Other than the items noted below, we are not aware of any other subsequent events that would require recognition or disclosure in the financial statements.

#### *Issuance of Capital Stock*

Subsequent to September 30, 2009, we issued 2,500,000 shares of restricted common stock valued at \$250,000 for third party services and 1,000,000 shares of restricted common stock in a private placement transaction that 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, for gross proceeds of \$50,000.

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**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 our business activities and certain transactions the Company 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 the Company from achieving its stated goals include, but are not limited to, the following:

- inability to raise sufficient additional capital to finance operations;
- 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;
- decline in demand for our products and services;
- rapid and significant changes in markets and other factors that encourage use of bioplastics;
- failure to successfully commence operations at our new Seymour facility and relocate manufacturing activities from California to Indiana;
- failure to commercialize new grades of resin being pursued in our technical / market development "pipeline";
- competitor actions that curtail our market share, negatively affect pricing or limit sales growth;
- inability to retain employees as a result of deferral of payment of salaries to preserve cash;
- litigation with or legal claims and allegations by outside parties;
- insufficient revenues to cover operating costs;
- inability to successfully implement our Strategic Restructuring Program, including the successful negotiation of a strategic partnership to outsource our manufacturing activities, consolidation of product lines and the sale of our commercial production equipment at attractive prices.

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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 forward-looking 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 these 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 three product families:

- Cereplast Compostables Resins<sup>®</sup> are renewable, ecologically-sound substitutes for petroleum-based plastics targeting primarily single-use disposables and packaging applications. We offer 17 commercial grades of Compostables Resins in this product line. These resins are compatible with existing manufacturing processes and equipment making them a ready substitute for traditional petroleum-based resins. We commercially introduced our Compostables line in November 2006.
- Cereplast Hybrid Resins<sup>®</sup> replace up to 50% of the petroleum content in conventional 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, and is compatible with existing converter processes and equipment. 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. We commercially introduced our first grade of Hybrid Resin, Hybrid 150, at the end of 2007. We currently offer two commercial grades in this product line.
- Cereplast Algae Plastics<sup>™</sup>. In October 2009 we announced that we have been developing a new technology to transform algae into bioplastics and intend to launch a new family of algae-based resins that will complement the company's existing line of Compostables & Hybrid resins. Although we do not expect this new technology to become commercial before the end of 2010 or early 2011, it remains an important development as we believe that the potential open by algae is quite substantial. Cereplast algae-based resins could replace in a first step 50% or more of the petroleum content used in traditional plastic resins. Currently, Cereplast is using renewable material such as starches from corn, tapioca, wheat and potatoes and Ingeo<sup>®</sup> PLA. Recently the algae production business has attracted a lot of attention when Exxon announced a \$600 million investment in Synthetic Genomics and BP's \$10 million investment in Martek Biosciences. The Company retains that algae is a very attractive feedstock as it does offer a low carbon footprint alternative and at the same time could be accessible in very large quantity. We also have a future plan to create algae plastic made of 100% algae component abandoning any reliance on fossils fuels.

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, 2009, over 230 companies have requested and been provided with samples of our bioplastic resin and 150 customers have purchased resin for trials and testing. Of these, 80 customers have advanced to prototype testing and qualification of more than 135 different product applications. Thirty customers, including Dorel Industries, WNA, Alcoa, Genpak, Innoware, Penley, Solo, Cadaco, Jatco, Dentek, CSI-Cosmolab, Warner Tools, Handgards and Pace Industries, have commercialized and introduced 95 different bioplastic products using our resin. As a result of successful testing and commercial product launches, some of our customers have signed multi-year supply contracts with increasing volume.

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### *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 first half of 2009. For the nine-month period ended September 30, 2009, 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 last half of 2008, 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 contributed to continued 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 lead 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.

*Strategic Restructuring Program* In May 2009, we announced a new strategic plan (“Strategic Restructuring Program”) to accelerate growth and reduce costs by outsourcing manufacturing and concentrating our activities on core strengths in design and development, and sale and distribution of our resins. This plan includes reductions in workforce, consolidation of products, inventory and facilities, as well as possible the sale of certain commercial production equipment, including the newly constructed production line in Indiana. As part of this plan we reduced our footprint in California from 85,000 sq. ft. to 55,000 sq. ft. by outsourcing some of warehouse and logistics operations to a third party logistics company; reduced headcount by more than 60%, reduced salaries for senior management and trimmed inventories to reduce storage costs. We are currently working to reduce our footprint in California by a further 30,000 sq. ft to 25,000 by the end of November 2009. We have incurred and expect to continue to incur certain one-time restructuring costs associated with implementation of this plan primarily related to employment compensation, inventory consolidation, sale or disposal of non-core fixed assets and lease breakage costs however, we are not currently able to estimate the total amount of these costs.

We are currently continuing to operate our Hawthorne manufacturing facility to supply our current customers: however we are in advanced negotiations with a resin compounder to enter into a strategic partnership to manufacture our proprietary resins. We expect that such a partnership arrangement will be completed before year end.

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*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, 2009, 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. During the nine-month period ended September 30, 2009 we signed supply contracts with Dorel Juvenile Group, USA, a division of Dorel Industries, Inc. as well as Georgia Pacific's Dixie Cups and Tableware division. While we have started shipping to Dorel and expect to start shipping to Georgia Pacific in the fourth quarter, sales under these agreements will be dependent on retail market acceptance of the new Dorel and DIXIE products.

*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, research and development and restructuring costs. Salaries include all cash and non-cash compensation and related costs for all principal functions including executive, finance, accounting, production, and human resources. We expect to incur certain one-time costs associated with the implementation of our Strategic Restructuring Program, primarily in the 4<sup>th</sup> quarter of 2009, however we expect that implementation will also lead to reduction in operating expenses across all most other operating areas including salaries and wages, rent, research and development and professional fees.

### 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 accounting principles generally accepted in the United States of America. 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, 2009 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2008.

#### *Sales*

Gross sales decreased by \$743,928 or 52.1% to \$683,974 for the three months ended September 30, 2009 compared to the three months ended September 30, 2008. Net sales decreased by \$728,903 or 51.7% to \$680,964 for the three months ended September 30, 2009 compared to the three months ended September 30, 2008. The sales decrease for the period is attributable to decreases in sales volume of our bioplastic resins experienced as existing customers have delayed orders and/or launches of their own commercial applications with our resins due to the general economic downturn and global drop in demand. The reduction in orders from existing customers was partially offset by sales to new and significant customers under long-term contracts finalized during the first and second quarters, including Dorel Juvenile Group and Georgia-Pacific. The full benefit of these new sales contracts should be reflected in the first quarter of 2010. Solo Cup, a large food service ware company has introduced a new "compostable" cup made with our resin in their branded line called "BARE™". Starting November 2009 the cups are for sale in all Target stores around the country.

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### *Gross Profit*

Gross profit increased by \$163,925 from (\$60,178) to \$103,747 for the three months ended September 30, 2009 compared to the three months ended September 30, 2008. As a percentage of net sales, gross profit margin increased from (4.27)% for the three months ended September 30, 2008 to 15.2% for the three months ended September 30, 2009. The increase in gross margin is attributable to price increases across most of our resin grades and manufacturing cost efficiencies gained as a result of steps taken in implementing our Strategic Restructuring Program. While gross margins and capacity utilization in the Hawthorne facility continue 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 upon outsourcing of manufacturing activities planned under our Strategic Restructuring Program and sales volumes with a higher percentage of commercially mature customers and applications.

### *Operating Expenses*

Overall, total operating expenses decreased by \$2,055,674 or 68.2%, to \$958,079 for the three months ended September 30, 2009 compared to the three months ended September 30, 2008. The decrease for the period is largely attributable to the adoption of our Strategic Restructuring Program that calls for a focus on product development and marketing and contracting for production. The related reduction of in-house manufacturing capacity and the related workforce resulted in a reduction in salaries and wages, including a significant reduction in stock based compensation, awarded to employees during the three months ended September 30, 2009 as compared to the three months ended September 30, 2008. In addition, reduced spending on marketing, research and development and professional fees was enabled by focusing our "pipeline process" for technical development and expansion of our resin families.

- Salaries and wages, including stock based compensation, decreased by \$1,201,297 or 93.9%, to \$78,108 for the three months ended September 30, 2009, compared to the three months ended September 30, 2008, largely as a result of the significant reductions in our workforce in 2009 and associated reductions in compensation expense related to the vesting of employee stock options to reflect actual stock option forfeiture rates. Adjustments to reflect actual vs. estimated stock option forfeitures amount to \$461,380 during the three months ended September 30, 2009
- Marketing expense decreased by \$255,331, or 81.1%, to \$59,434 for the three months ended September 30, 2009 compared to the three months ended September 30, 2008. The decrease for the period is directly attributable to focusing our "pipeline process" and implementing more rigorous market and customer selection processes.
- Research and Development costs decreased by \$213,406, or 79.8% to \$54,183 for the three months ended September 30, 2009 compared to the three months ended September 30, 2008 also as a result of an improved focus of our "pipeline process" for technical development and expansion of our resin families and other cost cutting measures.
- Rent expense decreased by \$143,303, or 73.7%, to \$51,027 for the three months ended September 30, 2009 compared to the three months ended September 30, 2008. The decrease for the period resulted from the termination of two leases for 30,000 sq. ft & 25,000 sq. ft. of office and warehouse space during the previous quarter and this quarter and the renegotiation of the lease of the Indiana facility.

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### *Net Loss*

Net loss decreased by \$2,085,990 to \$989,238 for the three months ended September 30, 2009 compared to the three months ended September 30, 2008. This decrease in net loss was a result of reduced operating expenses associated with the downsizing our workforce related to manufacturing operations, leveraging of our staff resources and, improved processes and cost control and rigorous market and customer selection as well as enhanced gross profit margins as well as an adjustment to the stock based compensation expense to reflect actual vs. estimated forfeiture of stock options. Currently operating costs exceed revenue as we have only recently introduced Cereplast Hybrid Resins®. We cannot make assurances regarding when or if revenue will exceed operating results.

### RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 COMPARED TO THE SIX MONTHS ENDED SEPTEMBER 30, 2008

### *Sales*

Gross sales decreased by \$1,252,056 or 36.8% to \$2,148,955 for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. Net sales decreased by \$1,217,687 or 36.3% to \$2,137,808 for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. The sales decrease for the period is attributable to decreases in sales volume of our bioplastic resins experienced during the period as existing customers have delayed orders and/or launches of their own commercial applications with our resins due to the general economic downturn and global drop in demand. The reduction in orders from existing customers was partially offset by sales to new and significant customers under long-term contracts finalized during the first half of the year, including Dorel Juvenile Group and Georgia-Pacific. The full benefit of these new sales contracts should be reflected in the first quarter 2010.

### *Gross Profit*

Gross profit increased by \$299,898 from \$(20,960) to \$278,938 for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. As a percentage of net sales, gross profit margin increased to 13.0% for the nine months ended September 30, 2008 from (0.6)% for the same period in the prior year. The increase in gross margin is attributable to price increases across most of our resin grades. These price increases have been partially offset by increases in raw material costs and freight costs year over year as well as by one-time restructuring related charges associated with consolidation of product and inventory lines of \$39,922. Gross profit margin before accounting for this restructuring related write-down was 14.9% for the nine months ended September 30, 2009 compared to (0.6)% for the nine months ended September 30, 2008. While gross margins and capacity utilization in the Hawthorne facility continue 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 upon outsourcing of manufacturing activities planned under our Strategic Restructuring Program and sales volumes with a higher percentage of commercially mature customers and applications.

### *Operating Expenses*

Overall, total operating expenses decreased by \$5,833,459 or 57.3%, to \$4,348,701 for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. The decrease for the period is largely attributable to the impact of restructuring of our operations to focus on product development and marketing and contract for production. The related focus on reducing in-house manufacturing capacity and the related workforce reductions resulted in a significant decrease in salaries and wages, including a significant reduction in stock based compensation during the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008. In addition, reduced spending on marketing, research and development and professional fees was enabled by focusing our "pipeline process" for technical development and expansion of our resin families.

- Salaries and wages, including non-cash compensation, decreased by \$3,323,390 or 70.4%, to \$1,396,472 for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008, largely as a result of the restructuring activities and the significant reductions in our workforce made during the nine months ended September 30, 2009 compared to September 30, 2008 and associated reductions in compensation expense related to the vesting of employee stock options to reflect actual, vs. estimated, stock option forfeiture rates. Adjustments to reflect actual vs., estimated stock option forfeitures amounted to \$879,183 during the nine months ended September 30, 2009.

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- Marketing expense decreased by \$684,775, or 68.8%, to \$310,350 for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. The decrease for the period is directly attributable to focusing our “pipeline process” and implementing more rigorous market and customer selection processes.
- Professional fees expense decreased by \$261,864, or 32.9% to \$533,707 for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. The decrease for the period is due to the our renewed focus on cost reduction and leveraging staff resources as well as reductions in recruiting related expenses incurred during the prior year.
- Research and Development costs decreased by \$555,917, or 68.3%, to \$257,972 for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 also as a result of an improved focus of our “pipeline process” for technical development and expansion of our resin families.
- Rent expense decreased by \$212,346 or 29.4%, to \$509,969 for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. The decrease for the period was the result of rental income from the sublease of one of our office and warehouse premises in Hawthorne offsetting rent expense during the six months ended June 30, 2009 and the subsequent termination of this lease during the three months ended September 30, 2009. No rental income was earned on any of our leased premises for the six months ended September 30, 2008.

### *Net Loss*

Net loss decreased by \$5,868,973 or 58.1%, to \$4,232,030 for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. This decrease in net loss was a result of reduced operating expenses associated with the downsizing our manufacturing operations, leveraging of our staff resources and, improved processes and cost control and rigorous market and customer selection as well as enhanced gross profit margins. Currently, operating costs exceed revenue as we have only recently introduced Cereplast Hybrid Resins<sup>®</sup>. We cannot make any assurances regarding when or if revenue will exceed operating results.

### 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 \$410,009 at September 30, 2009 compared to net unrestricted cash of \$501,699 at December 31, 2008. The net decrease in unrestricted cash is attributed principally to the funding of operating activities offset by funds received through successful private placements and through our Periodic Equity Investment Agreement with Cumorah Capital, Inc.

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We had negative working capital (the difference between current assets and current liabilities) of \$142,218 at September 30, 2009 compared to positive working capital of \$539,332 at December 31, 2008. The decrease in working capital is primarily attributable to reduction in inventory of \$780,641 and an increase in Accounts Payable and Accrued Expenses of \$634,536 offset by and increase in prepaid expenses of \$557,787.

During the nine months ended September 30, 2009, we used \$1,950,636 of cash for operating activities compared to \$7,258,648 used for operating activities during the nine months ended September 30, 2008. The decrease in the use of cash for operating activities was a result of a decrease in operating expenses, particularly as a result of restructuring activities, as well as a focus on working capital management, which resulted in a reduction in inventory and accounts receivable and an increase in accounts payable.

Cash used in investing activities during the nine months ended September 30, 2009 was \$10,045 compared to cash used in investing activities of \$2,833,202 during the nine months ended September 30, 2008. No spending related to construction of equipment for the Indiana facility was required during the nine months ended September 30, 2009.

Cash provided by financing activities during the nine months ended September 30, 2009 was \$1,855,211 compared to cash provided by financing activities of \$2,459,252 during the nine months ended September 30, 2008, and was largely provided by proceeds of subscriptions for and private placements of shares of our common stock as well as proceeds from issuances of shares pursuant to a Periodic Equity Investment Agreement.

We have incurred a net loss of \$4,232,030 for the nine months ended September 30, 2009 and \$12,748,701 for the year ended December 31, 2008, and have an accumulated deficit of \$33,604,050 as of September 30, 2009. Based on our operating plan, our existing working capital will not be sufficient to meet the cash requirements to fund our planned operating expenses, capital expenditures and working capital requirements through December 31, 2009 without additional sources of cash.

These factors raise substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. This basis of accounting contemplates the recovery of our assets and the satisfaction of liabilities in the normal course of business.

Our plan to address the shortfall of working capital is to generate additional financing through a combination of financing of assets, incremental product sales and the sale of equity securities. There are no assurances that we will be able to obtain any sources of financing on acceptable terms, or at all.

If we cannot obtain sufficient additional financing in the short-term, we may be forced to file for bankruptcy or cease operations. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should we be forced to take such actions.

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**CONTRACTUAL OBLIGATIONS**

The following table summarizes our contractual obligations at September 30, 2009 and the effects such obligations are expected to have on our liquidity and cash flows in our future periods:

	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less Than 1 year</b>	<b>2-3 Years</b>	<b>4-5 Years</b>	<b>More Than 5 years</b>
Capitalized lease obligations	\$ 47,149	\$ 35,816	\$ 11,333	\$ —	\$ —
Rental lease obligations	346,367	239,759	106,608	—	—
Purchase obligations	390,754	390,754	—	—	—
	<u>\$ 784,270</u>	<u>\$ 666,329</u>	<u>\$ 117,941</u>	<u>\$ 0</u>	<u>\$ 0</u>

The above table does not reflect anticipated rental lease reductions as a result of anticipated facilities consolidations that are currently being assessed as part of our Strategic Restructuring Program.

**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 4T. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2009. 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, 2009, our Chief Executive Officer and Principal Financial Officer 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, 2009, 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-K due to a transition period established by rules of the SEC for newly-public companies. At the end of the fiscal year 2010, 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.

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**PART II — OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, we may become involved in various lawsuits and legal proceedings that 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 nine months ended September 30, 2009:

- 3,812,239 shares of our common stock valued at \$395,960 to our directors and employees as part of their compensation.
- 2,450,000 shares of our common stock valued at \$220,500 to a current shareholder, a party related to our Chief Executive Officer, in repayment of a convertible shareholder loan.
- 562,500 shares of our common stock valued at \$47,813 to third parties for services rendered in the period.
- 8,581,100 shares of our common stock valued at \$907,867 to third parties for prepaid services to be rendered over current and future periods.
- 33,326,819 shares of our common stock to accredited investors for gross proceeds of \$1,666,341.
- 5,000,000 shares of our common stock to accredited investors to accredited investors in fulfillment of subscriptions received prior to December 31, 2008 of \$250,000.
- 4,568,283 shares of our common stock for net cash proceeds of \$300,000 pursuant to the Periodic Equity Investment Agreement with Cumorah Capital, Inc.

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.

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**ITEM 6. EXHIBITS**

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

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(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.

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**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 16, 2009

CEREPLAST, INC.

By: /S/ Frederic Scheer

Frederic Scheer  
Chairman, Chief Executive Officer,  
Principal Financial Officer and Director



<DOCUMENT>  
<TYPE> EX-31.1  
<FILENAME> c92617exv31w1.htm  
<DESCRIPTION> Exhibit 31.1  
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**Exhibit 31.1**

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL 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 16, 2009

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



<DOCUMENT>  
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**Exhibit 32.1**

**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, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frederic Scheer, Chief Executive Officer and Principal Executive Officer 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/ FREDERIC SCHEER \_\_\_\_\_

Frederic Scheer  
Chairman, Chief Executive Officer and Director  
(Principal Executive Officer /  
Principal Financial Officer)  
November 16, 2009

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.