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

FORM 10-QSB

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended
March 31, 2007

or

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

For the transition period from to

Commission file number 333-131853

CEREPLAST, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other Jurisdiction of Incorporation or
Organization)

91-2154289
(IRS Employer Identification No.)

3421-3433 West El Segundo Boulevard
Hawthorne, California 90250
(Address of principal executive offices (zip code))

310-676-5000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the last 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 shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

On May 1, 2007, there were 215,992,593 shares of common stock, \$0.001 par value per share, issued and outstanding.

Transitional small business disclosure format (Check one) YES NO



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CEREPLAST, INC.
BALANCE SHEET
MARCH 31, 2007
(UNAUDITED)

ASSETS	
Current Assets	
Cash	\$ 1,569,057
Accounts Receivable, Net	204,126
Inventory	1,360,876
Prepaid Expenses	29,146
Total Current Assets	<u>3,163,205</u>
Property and Equipment	
Property and Equipment	1,595,418
Accumulated Depreciation and Amortization	(286,914)
Net Property and Equipment	<u>1,308,504</u>
Other Assets	
Investments	500
Intangibles, Net	22,561
Deposits	26,344
Total Other Assets	<u>49,405</u>
Total Assets	<u>\$ 4,521,114</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities	
Accounts Payable	\$ 546,780
Other Payable	241
Accrued Expenses	53,874
Credit Lines	47,468
Shareholder's Loan	162,705
Affiliate Loan	205,902
Capital Leases, Current Portion	43,126
Loan Payable, Current Portion	7,875
Total Current Liabilities	<u>1,067,971</u>
Long-Term Liabilities	
Capital Leases	110,212
Loan Payable	15,016
Total Long-Term Liabilities	<u>125,228</u>
Total Liabilities	<u>1,193,199</u>
Shareholders' Equity	
Common Stock, \$0.001 par value; 495,000,000 authorized shares; 214,669,385 shares issued and outstanding	214,670

Additional Paid in Capital	12,430,032
Deferred Equity Offering Cost	(2,594,575)
Retained Earnings/(Deficit)	(6,722,212)
Total Shareholders' Equity	<u>3,327,915</u>
Total Liabilities and Shareholders' Equity	<u>\$ 4,521,114</u>

The accompanying notes are an integral part of these financial statements.

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CEREPLAST, INC.
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended	
	3/31/2007	3/31/2006
GROSS SALES	\$ 389,762	\$ 123,067
Sales Discounts, Returns & Allowances	(63,649)	(3,175)
NET SALES	326,113	119,892
 COST OF SALES	 270,544	 74,393
 GROSS PROFIT	 55,569	 45,499
 OPERATING EXPENSES		
Depreciation and Amortization	60,400	8,253
Financing Costs	494,000	—
Financing Discount Costs	593,329	—
Marketing Expense	14,848	28,607
Professional Fees	52,923	139,662
Rent Expense	47,521	39,332
Research and Development	63,951	9,732
Salaries & Wages	222,254	103,661
Other Operating Expenses	273,113	126,301
TOTAL OPERATING EXPENSES	1,822,339	455,548
 LOSS FROM OPERATIONS BEFORE OTHER INCOME (EXPENSES)	 (1,766,770)	 (410,049)
 OTHER INCOME (EXPENSES)		
Interest Income	30	3,159
Interest Expense	(10,387)	(13,471)
	(10,357)	(10,312)
 LOSS BEFORE PROVISIONS FOR TAXES	 (1,777,127)	 (420,361)
 Provision for Taxes	 —	 1,800
 NET LOSS	 \$ (1,777,127)	 \$ (422,161)
 BASIC AND DILUTED LOSS PER SHARE	 \$ (0.01)	 \$ (0.00)
 WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING BASIC AND DILUTED	 206,543,813	 162,330,262

The accompanying notes are an integral part of these financial statements.

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CEREPLAST, INC.
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended	
	3/31/2007	3/31/2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(1,777,127)	\$ (422,161)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	60,400	8,253
Financing Discount Costs	593,329	—
(Increase) Decrease in:		
Accounts Receivable	(71,655)	(32,416)
Inventory	(384,796)	(282,057)
Employee advances	—	(2,546)
Deposits	—	(2,295)
Prepaid Expenses	18,913	160,409
Increase (Decrease) in:		
Accounts Payable	(220,170)	(113,882)
Other Payables	(661)	1,396
Accrued Expenses	2,497	(56,700)
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,779,270)</u>	<u>(741,999)</u>
NET CASH USED IN INVESTING ACTIVITIES:		
Purchase of property and equipment, and intangibles	(166,142)	(159,683)
NET CASH USED IN INVESTING ACTIVITIES	<u>(166,142)</u>	<u>(159,683)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Advances/(Payments) on Shareholder Loans	—	(3,206)
Advances/(Payments) on Credit Lines	—	(20,346)
Advances/(Payments) on Capital Leases	(13,515)	(9,793)
Advances/(Payments) on Notes Payable	(250,000)	—
Advances/(Payments) on Term Loan Payable	(2,538)	(2,370)
Proceeds from issuance of common stock and subscription receivable	3,575,500	1,431,250
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>3,309,447</u>	<u>1,395,535</u>
NET INCREASE IN CASH	1,364,035	493,853
CASH, BEGINNING OF PERIOD	<u>205,022</u>	<u>506,487</u>
CASH, END OF PERIOD	<u>\$ 1,569,057</u>	<u>\$1,000,340</u>

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION

During the three months ended March 31, 2007, the Company issued 3,918,785 shares in exchange for \$1,330,000 in advance for its Equity Line of Financing and in 2006, the Company issued 1,417,848 shares in exchange for a \$925,000 advance on its Equity Line of Financing. During the three months ended March 31, 2007, the Company paid \$9,441 in cash interest and in 2006, the Company paid \$40,057 in cash interest. During the three months ended March 31, 2007 and 2006 the Company was not liable for any income tax payments.

SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS

During 2006 the Company issued 5,000,000 shares to secure its Equity Line of Financing, 991,427 valued at \$574,443 for services, cancelled 678,106 shares and converted a related party note into 1,045,000 shares.

The accompanying notes are an integral part of these financial statements.

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CEREPLAST, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 March 31, 2007

1. ORGANIZATION AND LINE OF BUSINESS

Organization

Cereplast, Inc. (the "Company") was incorporated in the state of Nevada on September 29, 2001. The Company, based in Hawthorne California, began commercial operations on January 1, 2002 to provide products and services for biodegradable packaging and organic waste systems in the food service and beverage industries. In 2005, the Company started to re-direct its operations toward bio-based resin manufacturing. During the 4th Quarter of 2006, the Company began the commercial sale of its patented bio-based resins and expanded its production capacity.

The accompanying interim unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. 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 three month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the financial statements for the year ended December 31, 2006 and the notes thereto included in the Company's Annual Report.

Line of Business

The Company has developed a technology to produce proprietary bio-based resins, which are used as substitutes for conventional petroleum-based plastics in a variety of applications, including the manufacture of food service items such as utensils, plates, cups, and straws as well as consumer goods applications. The Company initially sold finished products to demonstrate the applications for its bio-resins and since mid-2005, the Company started its transition to become only a bio-based resin manufacturer. During 2006, the Company tested its bio-based resins as well as products manufactured by its converting customers and launched into commercial production in the 4th Quarter. As the Company started to partner with converters and those converters started to introduce full lines of products using the Company's resins, Cereplast has been winding down its finished products distribution operation and focusing primarily on the sale of its bio-based resins.

2. CAPITAL STOCK

During the three months ended March 31, 2007, the Company issued 11,403,785 shares of common stock, for cash of \$3,575,500, as follows:

- Through an initial private placement, 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, the Company issued 7,485,000 restricted shares of common stock for cash of \$2,245,500.
- The Company received funds of \$1,330,000 under its Equity Line of Financing for 3,918,785 common stock shares issued

3. EQUITY LINE OF FINANCING

On February 13, 2006, the Company entered into a \$10,000,000 private equity line of financing agreement

with Cumorah Capital, Inc., with a commitment period of twenty-four months. Based on the amount of the advance, Cumorah Capital can purchase shares of common stock at an exchange rate equal to 90% of the market price during the pricing period. A 5,000,000 shares commitment fee was paid by the Company at time of closing. As of March 31, 2007, over the life of the Equity Line of Financing, the Company has received \$2,255,000 in exchange for 5,336,633 shares on the equity line and has \$7,745,000 in availability.

4. RELATED PARTY

As of March 31, 2007, the Company held the following:

- A loan from a shareholder in the amount of \$162,705, which bears a PIK interest at the rate of 6% per year. The principal is due in June 2007. On April 4, 2007 the Company repaid all fully outstanding principal and interest under this loan.
- A loan from an affiliate in the amount of \$200,000, which bears PIK interest at the rate of 7.00% per annum, and matures in October 2008.
- A loan from an affiliate in the amount of \$250,000, which bears PIK interest at the rate of 6.00% per annum, and matures in 2007. As of March 31, 2007 the Company had repaid all fully outstanding principal and interest under this loan.

5. SUBSEQUENT EVENTS

On April 4, 2007 the Company repaid all fully outstanding principal and accrued interest under the shareholder loan due June 2007.

On April 5, 2007 the Company issued 1,323,208 shares of common stock valued at \$529,283 to various employees and consultants for services rendered.

[Table of Contents](#)**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION****Cautionary Statements**

This Form 10-QSB may contain "forward-looking statements," as that term is used in federal securities laws, about Cereplast, Inc.'s financial condition, results of operations and business. These statements include, among others:

- statements concerning the potential benefits that Cereplast, Inc. (the "Company," "we," or "Cereplast") may experience from its business activities and certain transactions it contemplates or has completed; and
- statements of Cereplast's 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-QSB. 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-QSB. These forward-looking statements are subject to numerous assumptions, risks and uncertainties that may cause Cereplast's actual results to be materially different from any future results expressed or implied by Cereplast in those statements. The most important facts that could prevent Cereplast from achieving its stated goals include, but are not limited to, the following:
 - (a) volatility or decline of Cereplast's stock price;
 - (b) potential fluctuation in quarterly results;
 - (c) failure of Cereplast to earn revenues or profits;
 - (d) inadequate capital to continue or expand its business, inability to raise additional capital or financing to implement its business plans;
 - (e) changes in demand for Cereplast's products and services;
 - (f) rapid and significant changes in markets;
 - (g) litigation with or legal claims and allegations by outside parties;
 - (h) insufficient revenues to cover operating costs.

There is no assurance that Cereplast will be profitable, Cereplast may not be able to successfully develop, manage or market its products and services, Cereplast may not be able to attract or retain qualified executives and technology personnel, Cereplast may not be able to obtain customers for its products or services, Cereplast's products and services may become obsolete, government regulation may hinder Cereplast's 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 Cereplast's 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. Cereplast cautions you not to place undue reliance on the statements, which speak only as of the date of this Form 10-QSB. 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 Cereplast or persons acting on its behalf may issue. Cereplast does 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-QSB, or to reflect the occurrence of unanticipated events.

Current Overview

We are engaged in the development, manufacture and sale of renewable plastic resins which are used as substitutes for conventional, petroleum based plastics in a variety of applications, including the manufacture of food service items such as utensils, plates, cups and straws. Our renewable resins are starch-based and compostable and incorporate resources such as corn, wheat, tapioca and potato starch, which are also bio-degradable and bio-based.

We were successful in creating a new bio-based resin that can be applied to conventional converting equipment, at a price competitive with traditional plastic. After we completed the test-market stage of our biodegradable proprietary materials through the manufacturing of disposable food service ware, we began to commercialize the sale of our bio-based resin in the 4th Quarter of 2006. Our “plastic” can be used in all major converting processes such as injection molding, thermoforming, blow molding, extrusions, etc. We spent several years on testing not only the physical properties of resins, but also their process ability on conventional equipment. Management believes that it is a key element for the resin to be useable on conventional equipment, and believes that it will be easier for traditional converters to substitute petroleum based resins with our bio-based resins.

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Products made of our resins have been tested for their compostability with specific reference to US standards set by the American Society for Testing and Materials (“ASTM”) such as ASTM 6400 D99 or ASTM 6868. Several of our resins, including our resins for injection molding, thermoforming, extrusion coating and blow molding, have passed successfully such standards requirements allowing our Company to introduce on the market products, which were the first of their class. The ASTM standards are significant in so far as they identify plastic products that will compost satisfactorily in a wide array of municipal or commercial composting facilities. Further, the ASTM standards allow consumers to educate themselves on the appropriate uses and recovery avenues for the compostable plastic products.

In addition, we had all of our commercial resins tested for their bio-based content as per ASTM 6866 standard. This is an important aspect of the resins, especially now that several State and Federal initiatives are pushing energy independence and use of alternative energy and products. Finally, all of our resins are certified GMO free and FDA compliant. All tests on our products our performed by third party independent laboratories.

Our Company so far has concentrated on applications in the food service industry due to an existing and growing demand for “compostable” products. However, we are starting to focus on sustainability applications, where biodegradable/compostable are not the main drivers but where bio-based contents can reduce production costs, reduce dependence on fossil fuels and increase the use of annually renewable resources.

We continue to implement a shift into our business model to manufacture bio-based resins directly instead of using our resin to make and sell finished products.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our 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 on-going 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.

We have identified the policies below as critical to our business operations and the understanding of our results of operations.

Revenue Recognition. Our revenue recognition polices are in compliance with Staff accounting bulletin (SAB) 101. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations by us exist and collectibility is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

Results of Operations for the Three Months Ended March 31, 2007 compared to the Three Months Ended March 31, 2006.

Sales

Gross sales increased by \$266,695 or 216.7% to \$389,762 for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. Net sales increased by \$206,221 or 172.0% for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. During the first

quarter 2007, two converter customers introduced full lines of foodservice ware disposables using Cereplast's bio-based resins. The increase in sales can be directly attributed to the commercial launch of the Company's proprietary bio-based resins.

Cost of Sales

Cost of sales increased by \$196,151 or 263.7%, to \$270,544 for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. As a percentage of net sales, cost of sales was 83.0% for the three months ended March 31, 2007 compared to 62.0% for the three months ended March 31, 2006. The cost of sales reflects the additional overhead associated with manufacturing the Company's patented bio-based resins.

Gross Profit

Gross profit increased \$10,070 or 22.1% from \$45,499 to \$55,569 for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. As a percentage of net sales, gross profit margin decreased from 38.0% for the three months ended March 31, 2006 to 17.0% for the three months ended March 31, 2007. Gross profit increased primarily as a result of the commercial launch of the Company's bio-based resins. However, the decrease in gross profit margin can be directly attributed to a change in business model from distribution to manufacturing and the plant currently operating below full capacity.

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Operating Expenses

Operating expenses increased by \$1,366,791 or 300.0%, to \$1,822,339 for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase in operating expenses can be attributed to financing costs associated with the recent capital raised by the Company and an increase in salaries and wages as a result of head count increase to manage the commercial launch of its bio-based resins.

Research and Development

Research and development ("R&D") costs increased by \$54,219 or 557.1%, to \$63,951 for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. The increase in R&D costs was a result of Cereplast's continued effort to expand its in-house bio- resin manufacturing capabilities by developing and offering various types of bio-resins.

Net Loss

Net loss increased by \$1,356,766 or 322.8%, to \$1,777,127 for the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase in net loss was a result of increased operating expenses associated with the growth of the Company's resin operations. Currently operating costs exceed revenue because the Company only recently entered the commercial sale of its bio-resin and the plant is not running at full capacity or efficiencies. We cannot assure when or if revenue will exceed operating costs.

Liquidity and Capital Resources

The Company had net cash of \$1,569,057 at March 31, 2007.

The Company had working capital equity (i.e. the difference between current assets and current liabilities) of \$2,095,234 at March 31, 2007.

During the three months ended March 31, 2007, the Company used \$1,779,270 of cash for operating activities. The increase in the use of cash for operating activities was a result of increased manufacturing operating expenses and significant acquisition of raw material inventory.

Cash used in investing activities to purchase equipment during the nine months ended March 31, 2007 was \$166,142.

Cash provided by financing activities relating to the issuance of shares of common stock during the three months ended March 31, 2007 was \$3,309,447. During the three months ended March 31, 2007 the Company raised \$2,245,500 through private placement and drew \$1,330,000 on its Equity Line of Financing.

As of March 31, 2007, over the life of the Equity Line of Financing, the Company has drawn \$2,255,000 in exchange for 5,336,633 shares, giving the Company availability of \$7,745,000 under the Equity Line of Financing.

Item 3. Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There was no change in our internal controls or in other factors that could affect these controls

during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART 2 — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company 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 the Company's business. The Company is currently not aware of nor has any knowledge 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.

ITEM 2. ISSUANCE OF UNREGISTERED SECURITIES AND USE OF PROCEEDS

We have issued the following unregistered securities during the three months ended March 31, 2007.

- The Company sold 7,485,000 restricted shares of common stock at \$0.30 per share to accredited investors for aggregate consideration of \$2,245,500 during the first quarter.

All of the above offerings and sales were deemed to be exempt under rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. 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, business associates of our company or executive officers of the Company, and transfer was restricted by the Company in accordance with the requirements of the Securities Act of 1933. 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, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to the Company's Securities and Exchange Commission 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

31.1 Certification by the Chief Executive Officer and Principal Accounting/Financing Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification by the Chief Executive Officer and Principal Accounting/Financing Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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.

CEREPLAST, INC.

By: /s/ Frederic Scheer

Frederic Scheer
President, Chief Executive Officer,
Principal
Financial/Accounting Officer and
Chairman

Dated: May 8, 2007

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EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification by the Chief Executive Officer and Principal Accounting/Financing Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by the Chief Executive Officer and Principal Accounting/Financing Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.