

10QSB 1 c70997e10qsb.htm FORM 10-QSB

[Table of Contents](#)

---

---

**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  
June 30, 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-\_\_\_\_\_

**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 August 1, 2007, there were 258,179,019 shares of common stock, \$0.001 par value per share, issued and outstanding.

Transitional small business disclosure format (Check one) YES  NO

---

---

## **TABLE OF CONTENTS**

<u>PART I — FINANCIAL INFORMATION</u>	3
<u>ITEM 1. FINANCIAL STATEMENTS</u>	3
<u>BALANCE SHEET</u>	3
<u>STATEMENTS OF OPERATION</u>	4
<u>STATEMENTS OF CASH FLOWS</u>	5
<u>NOTES TO THE FINANCIAL STATEMENTS</u>	6
<u>ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION</u>	8
<u>ITEM 3. CONTROLS AND PROCEDURES</u>	10
<u>PART 2 — OTHER INFORMATION</u>	11
<u>ITEM 1. LEGAL PROCEEDINGS</u>	11
<u>ITEM 2. ISSUANCE OF UNREGISTERED SECURITIES AND USE OF PROCEEDS</u>	11
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES:</u>	11
<u>ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	11
<u>ITEM 5. OTHER INFORMATION</u>	11
<u>ITEM 6. EXHIBITS</u>	11
<u>SIGNATURES</u>	12
<u>Exhibit 31.1</u>	
<u>Exhibit 32.1</u>	



[Table of Contents](#)**PART I — FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

CEREPLAST, INC.  
BALANCE SHEET  
JUNE 30, 2007  
(UNAUDITED)

<b>ASSETS</b>	
Current Assets	
Cash	\$12,892,402
Accounts Receivable, Net	334,109
Inventory	1,470,647
Prepaid Expenses	10,062
Total Current Assets	<u>14,707,220</u>
Property and Equipment	
Property and Equipment	2,172,892
Accumulated Depreciation and Amortization	(373,446)
Net Property and Equipment	<u>1,799,446</u>
Other Assets	
Investments	500
Intangibles, Net	21,281
Deposits	21,844
Total Other Assets	<u>43,625</u>
Total Assets	<u>\$16,550,291</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
Current Liabilities	
Accounts Payable	\$ 446,825
Other Payable	121
Accrued Expenses	78,922
Capital Leases, Current Portion	74,148
Loan Payable, Current Portion	5,294
Total Current Liabilities	<u>605,310</u>
Long-Term Liabilities	
Capital Leases	122,349
Loan Payable	15,016
Total Long-Term Liabilities	<u>137,365</u>

Total Liabilities	<u>742,675</u>
-------------------	----------------

**Shareholders' Equity**

Preferred Stock, \$0.001 par value 5,000,000 authorized preferred shares, none issued and outstanding	—
Common Stock, \$0.001 par value; 495,000,000 authorized shares; 258,179,019 shares issued and outstanding	258,179
Additional Paid in Capital	26,224,159
Deferred Equity Offering Cost	(2,427,075)
Retained Earnings/(Deficit)	<u>(8,247,647)</u>
Total Shareholders' Equity	<u>15,807,616</u>

Total Liabilities and Shareholders' Equity	<u><u>\$16,550,291</u></u>
--------------------------------------------	----------------------------

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

[Table of Contents](#)

CEREPLAST, INC.  
STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	6/30/2007	6/30/2006	6/30/2007	6/30/2006
GROSS SALES	\$ 557,516	\$ 159,957	\$ 947,278	\$ 279,849
Sales Discounts, Returns & Allowances	(72,704)	—	(136,353)	—
NET SALES	484,812	159,957	810,925	279,849
 COST OF SALES	 543,935	 108,963	 814,479	 183,356
 GROSS PROFIT	 (59,123)	 50,994	 (3,554)	 96,493
 OPERATING EXPENSES				
Depreciation and Amortization	87,812	56,290	148,212	64,544
Financing Discount Costs	223,056	—	816,385	—
Marketing Expense	25,982	105,278	40,830	127,476
Professional Fees	178,155	79,323	231,078	218,985
Rent Expense	56,637	50,329	104,158	89,661
Research and Development	131,028	36,612	194,979	46,344
Salaries & Wages	889,192	122,784	1,111,446	226,446
Other Operating Expenses	373,987	158,795	647,100	293,305
TOTAL OPERATING EXPENSES	1,965,849	609,411	3,294,188	1,066,761
 LOSS FROM OPERATIONS BEFORE OTHER INCOME (EXPENSES)	 (2,024,972)	 (558,417)	 (3,297,742)	 (970,268)
 OTHER INCOME (EXPENSES)				
Interest Income	19,785	2,744	19,815	5,903
Interest Expense	(14,248)	(12,676)	(24,635)	(26,147)
	5,537	(9,932)	(4,820)	(20,244)
 LOSS BEFORE PROVISIONS FOR TAXES	 (2,019,435)	 (568,349)	 (3,302,562)	 (990,512)
 Provision for Taxes	 —	 —	 —	 —
 NET LOSS	 \$ (2,019,435)	 \$ (568,349)	 \$ (3,302,562)	 \$ (990,512)

**BASIC AND DILUTED LOSS  
PER SHARE**

<u>\$</u>	<u>(0.01)</u>	<u>\$</u>	<u>(0.00)</u>	<u>\$</u>	<u>(0.02)</u>	<u>\$</u>	<u>(0.01)</u>
-----------	---------------	-----------	---------------	-----------	---------------	-----------	---------------

**WEIGHTED-AVERAGE  
COMMON SHARES  
OUTSTANDING BASIC AND  
DILUTED**

<u>222,085,667</u>	<u>200,050,486</u>	<u>218,045,078</u>	<u>196,842,143</u>
--------------------	--------------------	--------------------	--------------------

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

Table of Contents

CEREPLAST, INC.  
STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Six Months Ended	
	<u>6/30/2007</u>	<u>6/30/2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Loss	\$ (3,302,562)	\$ (990,512)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation and Amortization	148,212	64,544
Financing Discount Costs	816,384	13,889
Common Stock Issued for Services	619,465	16,000
(Increase) Decrease in:		
Accounts Receivable	(201,638)	(78,497)
Inventory	(494,567)	(419,065)
Employee Advances	—	(5,012)
Deposits	4,500	(2,608)
Prepaid Expenses	37,997	172,686
Increase (Decrease) in:		
Accounts Payable	(320,125)	32,291
Other Payables	(780)	(4,540)
Accrued Expenses	31,012	(83,777)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(2,662,102)</u>	<u>(1,284,601)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES:</b>		
Purchase of Property and Equipment, and Intangibles	(743,616)	(436,586)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(743,616)</u>	<u>(436,586)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Advances/(Payments) on Shareholder Loans	(372,074)	29,438
Advances/(Payments) on Credit Lines	(47,468)	(20,346)
Advances/(Payments) on Capital Leases	29,644	(19,699)
Advances/(Payments) on Notes Payable	(250,000)	—
Advances/(Payments) on Term Loan Payable	(5,119)	(54,783)
Proceeds from Issuance of Common Stock	16,738,115	1,608,500
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>16,093,098</u>	<u>1,543,110</u>
<b>NET INCREASE IN CASH</b>	12,687,380	(178,077)
CASH, BEGINNING OF PERIOD	205,022	506,487
<b>CASH, END OF PERIOD</b>	<u>\$12,892,402</u>	<u>\$ 328,410</u>

## SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION

During the six months ended June 30, 2007, the Company issued 5,168,645 shares in exchange for gross proceeds of \$1,830,000 in advance on its Equity Line of Financing and 45,826,052 shares in exchange for gross proceeds of \$16,815,100 under various private placements. The Company also incurred equity offering costs of \$1,906,985. During the six months ended June 30, 2006, the Company issued 98,500 shares in exchange for a \$125,000 advance on its Equity Line of Financing.

During the six months ended June 30, 2007 and June 30, 2006 the Company was not liable for any tax payment and paid \$24,635 and \$20,817 in cash interest, respectively.

## SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS

During the six months ended June 30, 2007, the Company issued 1,335,734 shares to various employees as non-cash compensation valued at \$619,465 and 2,582,487 shares for services valued at \$1,424,867. During the six months ended June 30, 2006 the Company issued 5,000,000 shares to secure its Equity Line of Financing, 20,000, valued at \$16,000 for services and cancelled 678,106 shares.

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

## Table of Contents

CEREPLAST, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 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 June 30, 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.

Through the first half of 2007, the Company has been successful in introducing, along with its converting partners, a total of 25 products to the market, primarily in the foodservice ware industry. So far, sales and marketing efforts have primarily been directed in educating converters on using Cereplast's proprietary bio-based resins. This strategy has been helpful in developing the technological know-how necessary to ensure that manufactures would be in a position to use Cereplast's resin on their traditional converting equipment. It also helped in positioning Cereplast as a solution provider to the converter industry as it relates to bio-based materials. In addition, the Company is now starting to focus on developing relationships with brand

owners and is actively seeking opportunities outside of the foodservice ware industry to validate the breath of applications for its bio-based resins.

## 2. CAPITAL STOCK

During the six months ended June 30, 2007, the Company issued shares of common stock as follows:

- Through an initial private placement completed on March 10, 2007, 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 7,484,999 restricted shares of common stock for gross cash proceeds of \$2,245,500.
- Through an initial private placement completed on July 2, 2007, 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 38,341,053 restricted shares of common stock for gross cash proceeds of \$14,569,600. The subscribers to the private placement were primarily comprised of institutions focused on the renewable and clean technology sectors, including UBS Global Innovator Fund, Fortis Investments Environmental Fund, Clariden Leu, Credit Suisse Future Energy Fund and Swisscanto Climate Control Fund. The shares acquired through this private placement were subsequently registered with the SEC through an SB-2 filing, which was declared effective on July 11, 2007.
- The Company received funds of \$1,830,000 under its Equity Line of Financing for 5,168,645 common stock shares issued.
- The Company issued 3,918,221 shares of common stock valued at \$2,044,365 to various employees and consultants for services rendered.

## Table of Contents

### 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 June 30, 2007, over the life of the Equity Line of Financing, the Company has received \$2,755,000 in exchange for 6,586,493 shares on the equity line.

### 4. RELATED PARTY

As of June 30, 2007, the Company did not have any related party transactions as the following obligations have been satisfied:

- 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 was 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. On June 27, 2007 the Company repaid all fully outstanding principal and interest under this loan.
- 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 August 8, 2007, the Company's Board of Directors adopted a resolution by unanimous written consent accepting Mr. Jensen's resignation from the Board and appointing Petros Kitsos as a new Director to fill the vacancy left by the departure of Mr. Jensen. Mr. Kitsos was elected to a term of 3 years. In consideration for his agreement to serve as a Director of the Company, Mr. Kitsos will be issued 1,000,000 shares of the Company's common stock as follows: 500,000 shares on August 8, 2007, 250,000 shares on December 31, 2007 and 250,000 shares on April 1, 2008. The shares awarded to Mr. Kitsos might be subject to a vesting schedule to be finalized.

## [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.

## Table of Contents

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 in 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 and Six Months Ended June 30, 2007 compared to the Three Months and Six Months Ended June 30, 2006.**

Sales

Gross sales increased by \$397,559 or 248.5% to \$557,516 for the three months ended June 30, 2007 compared to the three months ended June 30, 2006 and by \$667,429 or 238.5% for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. Net sales increased by \$324,855 or 203.0% for the three months ended June 30, 2007 compared to the three months ended June 30, 2006 and by \$531,076 or 189.8% for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. The increase in sales can be directly attributed to the commercial launch of the Company's proprietary bio-based resins and the market's acceptance for foodservice ware items made of bio-based resins. The difference between gross sales and net sales is a result of discounts on bio-based resins given to contractual customers on initial volumes to build sample products and to assist in introducing products to the market.

Cost of Sales

Cost of sales increased by \$434,972 or 399.2%, to \$543,935 for the three months ended June 30, 2007 compared to the three months ended June 30, 2006 and by \$631,123 or 344.2% to \$814,479 for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. As a percentage of net sales, cost of sales was 112.2% for the three months ended June 30, 2007 compared to 68.1% for the three months ended June 30, 2006 and 86.0% for the six months ended June 30, 2007 compared to the 65.5% for the six months ended June 30, 2006. The increase in cost of sales is a result of the strategic shift in the Company's business model to solely become a resin manufacturer and reflects the additional overhead associated with manufacturing the Company's patented bio-based resins.

## Table of Contents

### Gross Profit

Gross profit decreased by \$110,117 or 215.9% from \$50,994 to (\$59,923) for the three months ended June 30, 2007 compared to the three months ended June 30, 2006 and \$100,047 or 103.7% from \$96,493 to (\$3,554) for the six months ended June 30, 2007 compared to the June 30, 2006. As a percentage of net sales, gross profit margin also decreased from 31.88% for the three months ended June 30, 2006 to (12.20%) for the three months ended June 30, 2007 and from 34.48% for the six months ended June 30, 2006 to (0.4%) compared to the six months ended June 30, 2006. The decrease in gross profit and gross profit margin can be directly attributed to a change in business model from distribution to manufacturing, an increase in direct labor as the Company increased its production staff and the plant currently operating below full capacity.

### Operating Expenses

Operating expenses increased by \$1,356,438 or 222.6%, to \$1,965,849 for the three months ended June 30, 2007 compared to the three months ended June 30, 2006 and by \$2,227,427 or 208.8% for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. This increase in operating expenses can be attributed to an increase in both cash and non-cash compensation as a result of head count increases to manage the commercial launch of its bio-based resins.

### Research and Development

Research and development (“R&D”) costs increased by \$94,416 or 257.9%, to \$131,028 for the three months ended June 30, 2007 compared to the three months ended June 30, 2006 and by \$148,635 or 320.7% to \$194,979 for the six months ended June 30, 2007 compared to the six months ended June 30, 2006. The increase in R&D costs was a result of Cereplast’s continued effort to expand and improve efficiencies in its in-house bio-based resin manufacturing capabilities, as well as increased efforts to develop additional types of bio-based resins to meet customer demands.

### Net Loss

Net loss increased by \$1,451,086 or 255.3%, to \$2,019,435 for the three months ended June 30, 2007 compared to the three months ended June 30, 2006 and by \$2,312,050 or 233.4% to \$3,302,562 for the six months ended June 30, 2007 compared to the six months ended June 30, 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 \$12,892,402 at June 30, 2007.

The Company had positive working capital (i.e. the difference between current assets and current liabilities) of \$14,101,910 at June 30, 2007.

During the six months ended June 30, 2007, the Company used \$2,662,102 of cash for operating activities, an increase of \$1,377,501 or 107.2% compared to the six months ended June 30, 2006. The increase in the use of cash for operating activities was a result of increased manufacturing operating expenses, increases in receivables and significant acquisition of raw material inventory.

Cash used in investing activities to purchase manufacturing equipment during the six months ended June 30, 2007 was \$743,616, an increase of \$307,030 or 70.3% compared to the six months ended June 30, 2006.

Cash provided by financing activities during the six months ended June 30, 2007 was \$16,093,098, an increase of \$14,549,988 or 942.9% compared to the six months ended June 30, 2006. During the six months ended June 30, 2007 the Company raised \$16,738,915 through private placements and draws on its 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.

## [Table of Contents](#)

### **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 six months ended June 30, 2007.

- The Company sold 7,484,999 restricted shares of common stock 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.

[Table of Contents](#)

**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: August 8, 2007

[Table of Contents](#)

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
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.