VIASPACE Inc.
Form 10-Q
November 14, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934

For the quarterly period ended September 30, 2011

or

o 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 333-110680

VIASPACE INC.
(Exact name of small business issuer as specified in its charter)

Nevada	76-0742386
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2102 Business Center Drive, Suite 130, Irvine, CA 92612
(Address of principal executive offices)

(626) 768-3360
(Issuer's telephone number)

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 x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of 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 x NO o

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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO x

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 1,325,583,176 shares of $0.001 par value common stock issued and outstanding as of November 11, 2011.

VIASPACE INC.

INDEX
FISCAL QUARTER ENDED SEPTEMBER 30, 2011

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VIASPACE INC.
CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2011	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 801,000	$ 307,000
Accounts receivable, net	558,000	309,000
Inventory	471,000	551,000
Prepaid expenses	341,000	300,000
Related party receivables	1,366,000	1,377,000
Other current assets	20,000	66,000
TOTAL CURRENT ASSETS	3,557,000	2,910,000
FIXED ASSETS:		
Fixed assets, net	1,105,000	999,000
OTHER ASSETS:		
Land use right, net	527,000	558,000
Intellectual property, net	134,000	146,000
Grass license, net	434,000	453,000
Goodwill	12,322,000	12,322,000
Other	6,000	7,000
TOTAL OTHER ASSETS	13,423,000	13,486,000
TOTAL ASSETS	$ 18,085,000	$ 17,395,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 872,000	$ 621,000
Accrued expenses	121,000	269,000
Current portion of long-term debt	—	12,000
Due to Changs LLC	866,000	1,066,000
Related party payables	1,068,000	707,000
TOTAL CURRENT LIABILITIES	2,927,000	2,675,000
LONG-TERM LIABILITIES:		
Due to Changs LLC	4,265,000	4,265,000
COMMITMENTS AND CONTINGENCIES (Notes 17 and 18)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized, one share of Series A preferred stock issued and outstanding in 2011 and 2010	—	—

Common stock, $0.001 par value, 1,500,000,000 shares authorized, 1,316,376,453 and 1,228,651,926 issued and outstanding in 2011 and 2010, respectively	1,316,000	1,229,000
Additional paid in capital	43,393,000	42,084,000
Accumulated comprehensive income	45,000	25,000
Accumulated deficit	(36,740,000)	(35,568,000)
Total stockholders' equity	8,014,000	7,770,000
Noncontrolling interest	2,879,000	2,685,000
Total equity	10,893,000	10,455,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 18,085,000	$ 17,395,000

The accompanying notes are an integral part of the consolidated financial statements.

VIASPACE INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
REVENUES				
Framed-artwork	$ 2,150,000	$ 855,000	$ 5,459,000	$ 2,232,000
Security	20,000	57,000	113,000	363,000
Energy				8,000
Grass			3,000	
Total revenues	2,170,000	912,000	5,575,000	2,603,000
COST OF REVENUES	1,482,000	682,000	3,867,000	1,882,000
GROSS PROFIT	688,000	230,000	1,708,000	721,000
OPERATING EXPENSES				
Operations	43,000	54,000	139,000	116,000
Selling, general and administrative	814,000	928,000	2,520,000	2,790,000
Total operating expenses	857,000	982,000	2,659,000	2,906,000
INCOME (LOSS) FROM OPERATIONS	(169,000)	(752,000)	(951,000)	(2,185,000)
OTHER INCOME (EXPENSE)				
Interest expense	(80,000)	(81,000)	(239,000)	(230,000)
Other income	66,000	12,000	154,000	150,000
Other expense	(6,000)	(1,000)	(7,000)	(1,000)
Total other expense	(20,000)	(70,000)	(92,000)	(81,000)
LOSS BEFORE INCOME TAXES	(189,000)	(822,000)	(1,043,000)	(2,266,000)
INCOME TAXES	18,000		18,000	
NET LOSS	(207,000)	(822,000)	(1,061,000)	(2,266,000)
Net (income) loss attributed to noncontrolling interests	(64,000)	52,000	(112,000)	90,000
NET LOSS ATTRIBUTED TO VIASPACE	$ (271,000)	$ (770,000)	$ (1,173,000)	$ (2,176,000)
LOSS PER SHARE OF COMMON STOCK INCLUDING NONCONTROLLING INTERESTS —Basic and diluted	$ *	$ *	$ *	$ *
Noncontrolling interests	*	*	*	*
NET LOSS PER SHARE OF COMMON STOCK ATTRIBUTED TO VIASPACE SHAREHOLDERS—Basic and diluted	$ *	$ *	$ *	$ *
WEIGHTED AVERAGE SHARES OUTSTANDING—Basic and diluted	1,317,937,086	1,207,007,007	1,287,822,859	1,063,903,702

* Less than $0.01 per common share.

The accompanying notes are an integral part of the consolidated financial statements.

VIASPACE INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
NET LOSS ATTRIBUTED TO VIASPACE	$ (271,000)	$ (770,000)	$ (1,173,000)	$ (2,176,000)
Other Comprehensive Income:				
Foreign currency translation	8,000	6,000	20,000	6,000
Subtotal	8,000	6,000	20,000	6,000
COMPREHENSIVE LOSS	$ (263,000)	$ (764,000)	$ (1,153,000)	$ (2,170,000)

The accompanying notes are an integral part of the consolidated financial statements.

VIASPACE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,061,000)	$ (2,266,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	72,000	63,000
Amortization of intangible assets	62,000	63,000
Stock option compensation expense	505,000	608,000
Stock compensation expense related to stock issued	745,000	662,000
Operating expenses paid in stock issued	199,000	638,000
Gain (loss) on disposal of assets	3,000	(15,000)
(Increase) decrease in:		
Accounts receivable	(249,000)	71,000
Inventory	80,000	(202,000)
Prepaid expenses and other current assets	34,000	(174,000)
Increase (decrease) in:		
Accounts payable	251,000	144,000
Accrued expenses and other	(147,000)	277,000
Related party, net	372,000	(308,000)
Net cash provided by (used in) operating activities	866,000	(439,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to fixed assets	(244,000)	(147,000)
Proceeds from disposal of assets	64,000	17,000
Investment in land lease		(13,000)
Net cash used in investing activities	(180,000)	(143,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments to Changs LLC	(200,000)	
Payments on short-term debt	(12,000)	(23,000)
Net cash used in financing activities	(212,000)	(23,000)
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	20,000	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	494,000	(605,000)
CASH AND CASH EQUIVALENTS, Beginning of period	307,000	1,102,000
CASH AND CASH EQUIVALENTS, End of period	$ 801,000	$ 497,000
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$	$

Income taxes	$	$

Supplemental Disclosure of Non-Cash Activities for 2011:
The Company issued 18,680,672 shares of the Company's common stock for future services valued at $196,000. This amount was recorded at issuance as prepaid expenses.

Supplemental Disclosure of Non-Cash Activities for 2010:
The Company issued 18,000,000 shares of the Company's common stock for future services valued at $257,000. This amount was recorded at issuance as prepaid expenses.

The accompanying notes are an integral part of the consolidated financial statements.

VIASPACE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2011 (Unaudited) and December 31, 2010 (Audited)

Note 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business - VIASPACE Inc. ("we", "us", "VIASPACE", or the "Company") is a renewable and alternative energy company with a global reach. Through our subsidiaries, we operate four separate businesses. We have a majority ownership in VIASPACE Green Energy Inc., a British Virgin Islands ("BVI") international business company ("VGE") which is the parent company of Inter Pacific Arts Corporation, a BVI international business company ("IPA BVI") and Guangzhou Inter Pacific Arts, a Peoples Republic of China ("PRC") company ("IPA China"). IPA China is a wholly-owned foreign enterprise headquartered in Guangdong province of China. IPA BVI owns all equity interests of IPA China. IPA BVI and IPA China specialize in the manufacturing of high quality, copyrighted, framed artwork sold in US retail chain stores.

IPA China also has a sublicense to a fast-growing, high yield, low carbon, nonfood energy crop called Giant King™ Grass ("GKG") which can be burned in 100% biomass power plants to generate electricity; made into pellets that can be burned together with coal to reduce carbon emissions from existing power plants; generate bio methane through anaerobic digestion, and can be used as a feedstock for low carbon liquid biofuels for transportation, biochemicals and bio plastics. Cellulosic ethanol, bio butanol and other liquid biofuels, collectively called Grassoline, do not use corn or other food sources as feedstock. GKG can also be used as animal feed. GKG and other plants absorb and store carbon dioxide from the atmosphere as they grow. When they are burned, they release the carbon dioxide back into the atmosphere, but it is the same carbon dioxide that was removed from the atmosphere, and that the process is carbon neutral. Small amounts of fossil fuel are used by the farm equipment, transportation of GKG and fertilizer, so that the overall process has some carbon dioxide emissions, but much lower than burning coal or other fossil fuels directly. GKG has been independently tested by customers and been shown to have excellent energy content, very high bio methane production, and high potential for biofuels and biochemicals.

We are growing GKG on approximately 226 acres of leased land in China to serve as a nursery to provide seedlings for large bioenergy projects, a demonstration plantation for potential partners and customers to visit, to provide samples for testing by potential customers, and as a grass source for our own Green Log™ product.

Our subsidiary Direct Methanol Fuel Corporation ("DMFCC") produces disposable fuel cartridges that provide the energy source for portable electronics powered by fuel cells. We do not make fuel cells, but instead we make disposable fuel cartridges for fuel cell and electronics manufacturers such as Samsung. We are also working on a next-generation mass spectrometry technology for industrial process control and environmental monitoring through our subsidiary Ionfinity LLC ("Ionfinity").

VIASPACE is based in California with business activities in China, Korea and Japan.

Company Background - ViaSpace Technologies LLC ("ViaSpace LLC") was founded in July 1998 as a private company to commercialize proven space and defense technologies from NASA and the Department of Defense. ViaSpace LLC had licensed patents, and software technology from California Institute of Technology ("Caltech"), which manages the Jet Propulsion Laboratory ("JPL") for NASA. On June 22, 2005, ViaSpace LLC acquired the non-operating shell company Global-Wide Publication Ltd. ("GW"). GW was incorporated in the State of Nevada on July 14, 2003. At merger, GW was renamed VIASPACE Inc. The transaction was accounted for as a reverse merger and a recapitalization of the Company. VIASPACE became a public company on June 22, 2005.

Going Concern - At September 30, 2011, the Company has positive working capital of $630,000 and an accumulated deficit of $36,740,000. Our financial statements were prepared on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have not made any adjustments to the financial statements as a result of the outcome of the uncertainty described above. Accordingly, the value of the Company in liquidation may differ from the amounts in our financial statements. The Company has addressed this concern by terminating certain employees and reducing operating expenses. In addition, the Company has sold non-core and as yet non-profitable business units. The Company is now focused primarily on four business segments including the GKG business, framed artwork business, the fuel cell business and the security segment. The Company expects cash on hand as of September 30, 2011 and future operating cash flow to fund operations for a minimum of the next twelve months, and as such, the Company has no immediate need for additional outside financing. However, if revenue forecasts are not met or if future operating expenses or capital requirements increase beyond our control; the Company may need to seek additional cash resources through the sale of equity securities or debt securities.

Basis of Presentation – The accompanying unaudited consolidated financial statements of the Company were prepared in accordance with United States generally accepted accounting principles (“US GAAP”) for financial information and with Securities and Exchange Commission (“SEC”) instructions to Form 10-Q. Accordingly, the unaudited financial statements do not include all of the information and footnotes required by US GAAP. Operating results for the nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K, for the year ended December 31, 2010 filed with the SEC on March 31, 2011. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been reflected in these interim financial statements. All significant intercompany accounts and transactions have been eliminated on consolidation. Certain reclassifications were made to the September 30, 2010 consolidated financial statements, to conform to the September 30, 2011 consolidated financial statement presentation.

Noncontrolling Interest - The Company follows “Noncontrolling Interests in Consolidated Financial Statements, codified in FASB Accounting Standards Codification (“ASC”) Topic 810 which established new standards governing the accounting for and reporting of noncontrolling interests (“NCIs”) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability (as was previously the case); that increases and decreases in the parent’s ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. This standard also required changes to certain presentation and disclosure requirements. The provisions of the standard were applied to all NCIs prospectively, except for the presentation and disclosure requirements, which were applied retrospectively to all periods presented. As a result, upon adoption, the Company retroactively reclassified the “Minority interest” previously included in the “Other liabilities” section of the consolidated balance sheet to a new component of equity with respect to NCIs in consolidated subsidiaries. The adoption also impacted certain captions previously used on the consolidated statement of income and other comprehensive income, largely identifying net income including NCI and net income attributable to the Company.

Noncontrolling interest in consolidated subsidiaries is the minority stockholders’ proportionate share of equity of DMFCC, Ionfinity and VGE. The Company’s controlling interest requires the results of these companies’ operations be included in the consolidated financial statements. The percentage of DMFCC, Ionfinity and VGE not owned by the Company is shown as NCI in the Consolidated Statement of Operations and Consolidated Balance Sheet. At September 30, 2011 and December 31, 2010, the Company recorded $500,000 as NCI for an investment in DMFCC by a minority shareholder. At September 30, 2011 and December 31, 2010, the Company recorded $2,379,000 and $2,185,000, respectively, representing Common Shareholder NCIs in Ionfinity and VGE.

Principles of Consolidation - The Company is generally a founding shareholder of its affiliated companies which are consolidated. Affiliated companies include VGE, DMFCC and Ionfinity in which the Company owns, directly or indirectly, a controlling voting interest, are consolidated. Under this method, an affiliated company’s results of operations are reflected within the Company’s consolidated statement of operations. Transactions between the Company and its consolidated affiliated companies are eliminated in consolidation. The Company adopted “Business Combinations”, codified in FASB ASC Topic 805, which requires use of the purchase method for all business combinations.

Fiscal Year End - The Company’s fiscal year ends December 31.

Use of Estimates in the Preparation of the Financial Statements - The preparation of financial statements, in conformity with US GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments, purchased with an original maturity of three months or less, to be cash equivalents.

Concentration of Credit Risk - The Company's financial instruments that are exposed to credit risk consist primarily of cash equivalents. The Company maintains all of its cash accounts with high credit quality institutions. Such balances with any one institution may exceed FDIC insured limits.

Accounts Receivable Allowance for Doubtful Accounts - The allowance for doubtful accounts relates to specifically identified receivables that are evaluated individually for collectability. We determine a receivable is uncollectible when, based on current information and events, it is probable that we will be unable to collect amounts due according to the original contractual terms of the receivable agreement, without regard to any subsequent restructurings. Factors considered in assessing collectability include, but are not limited to, a customer's extended delinquency, requests for restructuring and filings for bankruptcy.

Inventory - Inventory is stated at the lower of cost or market. Cost is determined using the average cost method. Market is determined using net realizable value. The Company writes down its inventory for estimated obsolescence, excess quantities and other factors in evaluating net realizable value.

The following is a summary of inventory at September 30, 2011:

	Raw Materials	Finished Goods	Total
Framed-Artwork	$ 384,000	$	$ 384,000
Grass	78,000	9,000	87,000
Total	$ 462,000	$ 9,000	$ 471,000

The following is a summary of inventory at December 31, 2010:

	Raw Materials	Finished Goods	Total
Framed-Artwork	$ 460,000	$	$ 460,000
Grass	78,000	13,000	91,000
Total	$ 538,000	$ 13,000	$ 551,000

Property and Equipment - Property and equipment are stated at cost, net of accumulated depreciation. Expenditures for maintenance and repairs are expensed as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets and estimated lives as follows:

Building	20 to 30 years
Machinery and equipment	10 years
Office equipment	5 years
Vehicles	5 years
Computers	3 years

Land Use Right – All land in the PRC is government owned and cannot be sold to any individual or company. IPA China acquired land use rights for the land occupied by its artwork manufacturing facility in 2005. During the third quarter of 2011, VGE subleased 22 hectares (54 acres) of its land under lease to another party. As of September 30, 2011, VGE has land use rights of approximately 91 hectares, or 226 acres in Guangdong province of the PRC.

License – IPA China has a worldwide license for a fast-growing, high yield, low carbon, nonfood energy crop called GKG which can be burned in 100% biomass power plants to generate electricity; made into pellets that can be burned together with coal to reduce carbon emissions from existing power plants; generate bio methane through anaerobic digestion, and can be used as a feedstock for low carbon liquid biofuels for transportation. IPA China sublicensed this right from China Gate Technology Co., Ltd. which obtained the original license from the inventor. IPA China did not directly pay for the license. VIASPACE issued shares of its common stock to Licensor upon the acquisition of IPA China by VIASPACE and VGE on October 21, 2008 to pay for the license.

Intangible Assets - The Company’s intangible assets consist of licenses to patents that are amortized through the expiration date of the patents (up to twenty years). All intangible assets are subject to impairment tests on an annual or periodic basis. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss in an amount equal to that excess is recognized. Amortizing intangibles are currently evaluated for impairment using the methodology set forth in “Accounting for the Impairment or Disposal of Long-Lived Assets”, codified in FASB ASC Topic 360.

Goodwill - Goodwill represents the excess of the cost of an acquisition over the fair value of the Company’s share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized but tested for impairment annually and whenever impairment indicators require. Goodwill is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. Application of the goodwill impairment test requires judgment by management using a discounted cash flow methodology. This requires us to use significant judgment including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, the useful life over which cash flows will occur, determination of our weighted average cost of capital and relevant market data.

Impairment of Long-lived Assets - The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may no longer be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. For purposes of estimating future cash flows from impaired assets, the Company groups assets at the lowest level from which there is identifiable cash flows that are largely independent of the cash flow of other groups of assets. There have been no impairment charges recorded by the Company.

Fair Value of Financial Instruments - "Disclosures about Fair Value of Financial Instruments," codified in FASB ASC Topic 85, requires the Company disclose estimated fair values of financial instruments at least annually. The recorded value of accounts receivables, related party receivables, related party payables, accounts payable and accrued expenses approximate their fair values based on their short-term nature. The recorded values of long-term debt and liabilities approximate fair value.

Income Taxes– The Company utilizes "Accounting for Income Taxes," codified in FASB ASC Topic 740, which requires recognition of deferred tax assets and liabilities for expected future tax consequences of events included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. For IPA China, the statutory corporate income tax rate for foreign enterprises in the PRC is 25% for 2011. IPA BVI and VGE are BVI international companies and not subject to any US income taxes. The Company does not have any net deferred tax assets or liabilities recorded for the periods covered by the accompanying financial statements.

Revenue Recognition – Product Revenue. VIASPACE has generated revenues on product shipments. In compliance with SEC Staff Accounting Bulletin ("SAB") 104 and in accordance with "Revenue Recognition", codified in FASB ASC Topic 605, VIASPACE recognizes revenue provided (1) persuasive evidence of an arrangement exists, (2) delivery to the customer has occurred, (3) the selling price is fixed or determinable and (4) collection is reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer. The price is considered fixed or determinable when it is not subject to refund or adjustments. Our standard shipping terms are freight on board shipping point. If the Company ships product whereby a customer has a right of return or review period, the Company does not recognize revenue until the right of return or review period has lapsed. Prior to the period lapsing, any cash received would be recorded as deferred revenue on the Company's Balance Sheet.

Product Development Revenue on Fixed-Price Contracts With Milestone Values Defined. Ionfinity has generated revenues from fixed-price government contracts. These contracts have clear milestones and deliverables with distinct values assigned to each milestone. The government is not obligated to pay Ionfinity the complete value of the contract and can cancel the contract if the Company fails to meet a milestone. Although the government can cancel the contract if a milestone is not met, the Company is not required to refund any payments for prior milestones that have been approved and paid by the government. The milestones do not require the delivery of multiple elements as noted in "Revenue Arrangements with Multiple Deliverables", codified in FASB ASC Topic 605. In accordance with this topic, the Company treats each milestone as an individual revenue agreement and only recognizes revenue for each milestone when all required revenue recognition conditions are met.

Framed art sales. In accordance with FASB ASC Topic 605, IPA BVI and IPA China recognize product revenue provided: (1) persuasive evidence of an arrangement exists, (2) delivery to the customer has occurred, (3) the selling price is fixed or determinable and (4) collection is reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer. The price is considered fixed or determinable when it is not subject to refund or adjustments. Our standard shipping terms are free on board shipping point. Some of the Company's products are sold in the PRC and are subject to Chinese value-added tax. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing their finished product. Revenue is recorded net of VAT taxes.

Cost of Revenues – Cost of revenues consists primarily of material costs, employee compensation, depreciation and related expenses, which are directly attributable to the production of products. Any write-down of inventory to lower of cost or market is also recorded in cost of goods sold.

Foreign Currency Translation and Comprehensive Income (Loss) – IPA China's functional currency is the Renminbi ("RMB"). For financial reporting purposes, RMB were translated into United States Dollars ("USD") as the reporting currency. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at the average rate of exchange prevailing during the reporting period. Translation adjustments arising from the use of different exchange rates from period to period are included as a component of stockholders' equity as "Accumulated other comprehensive income". Gains and losses resulting from foreign currency transactions are included in income. There has been no significant fluctuation in exchange rate for the conversion of RMB to USD after the balance sheet date. IPA BVI's sales are denominated in USD.

Segment Reporting and Geographic Information – "Disclosures about Segments of an Enterprise and Related Information", codified in FASB ASC Topic 280, requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company.

Stock Based Compensation – VIASPACE, DMFCC and VGE have stock-based compensation plans. The Company has adopted the accounting and disclosure provisions of "Share-Based Payments", codified in FASB ASC Topic 718. The Company accounts for equity instruments issued to consultants and vendors in exchange for goods and services in accordance with the provisions of FASB ASC Topic 505-50, "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods or Services" and "Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other than Employees". The measurement date for the fair value of the equity instruments issued is determined at the earlier of: (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. In accordance with FASB ASC Topic 505-50, an asset acquired for the issuance of fully vested, non-forfeitable equity instruments should not be presented or classified as an offset to equity on the grantor's balance sheet once the equity instrument is granted for accounting purposes. Accordingly, the Company records the fair value of the fully vested, non-forfeitable common stock issued for future consulting services as prepaid expenses in its consolidated balance sheet.

Net Income (Loss) Per Share - The Company computes net loss per share in accordance with "Earnings per Share", codified in FASB ASC Topic 260. Under the provisions of this topic, basic and diluted net loss per share is computed by dividing the net loss available to common stockholders for the period by the weighted average number of shares of common stock outstanding during the period.

Research and Development - The Company charges research and development expenses to operations as incurred.

Reclassifications – Certain prior year amounts were reclassified to conform to the manner of presentation in the current period.

NOTE 2 — ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following at September 30, 2011 and December 31, 2010:

	2011	2010
US Government customers	$ 7,000	$ 6,000
Framed artwork customers	551,000	303,000
Total accounts receivable	558,000	309,000
Less: Allowance for doubtful accounts		
Accounts receivable, net	$ 558,000	$ 309,000

NOTE 3 — PREPAID EXPENSES

The Company entered into agreements with certain of its consultants and vendors whereby the Company issues registered shares of its common stock under an existing registration statement on Form S-8 as well as unregistered shares of common stock for future services to be provided to the Company. During 2011, the Company issued new shares of common stock for future services valued at $196,000 on the date of issuance. As of September 30, 2011 and December 31, 2010, the remaining value of these agreements was $291,000 and $264,000, respectively, which is included in prepaid expenses in the accompanying consolidated balance sheets. Other prepaid expenses were $50,000 and $36,000 at September 30, 2011 and December 31, 2010, respectively.

NOTE 4 — FIXED ASSETS

Fixed assets are comprised of the following at September 30, 2011 and December 31, 2010:

	2011	2010
Building	$ 806,000	$ 772,000
Machinery and equipment	465,000	417,000
Office equipment	130,000	127,000
Vehicles	222,000	170,000
Leasehold improvements	1,000	1,000
Total property and equipment	1,624,000	1,487,000
Less: Accumulated depreciation	519,000	488,000
Fixed assets, net	$ 1,105,000	$ 999,000

Depreciation was $28,000 and $22,000 for the three months ended September 30, 2011 and 2010, respectively. Depreciation was $72,000 and $63,000 for the nine months ended September 30, 2011 and 2010, respectively.

NOTE 5 — LAND USE RIGHT

Land use right is composed of the following at September 30, 2011 and December 31, 2010:

	2011	2010
Land use right	$ 720,000	$ 720,000
Less: Accumulated amortization	193,000	162,000
Land use right, net	$ 527,000	$ 558,000

Amortization was $11,000 for the three months ended September 30, 2011 and 2010. Amortization was $31,000 for the nine months ended September 30, 2011 and $30,000 for the nine months ended September 30, 2010. The amortization for the next five years from September 30, 2011 will be: 2012 - $36,000; 2013 - $31,000; 2014 - $30,000; 2015 - $30,000; and 2016 - $30,000.

NOTE 6 — INTANGIBLE ASSETS

Intellectual Property

Intangible asset balances arising from intellectual property are comprised of the following at September 30, 2011 and December 31, 2010, respectively:

	2011	2010
License to patent	$ 226,000	$ 226,000
Less: Accumulated amortization	92,000	80,000
Intellectual property, net	$ 134,000	$ 146,000

Amortization was $4,000 for the three months ended September 30, 2011 and 2010, $12,000 for the nine months ended September 30, 2011, and $13,000 for the nine months ended September 30, 2010. The amortization for the next five years will be $16,000 in each year.

License to Grass

VIASPACE through its majority owned subsidiary, VGE acquired IPA China and IPA BVI on October 21, 2008. IPA China has a worldwide license to cultivate and sell a fast-growing high yield hybrid grass called GKG that has the potential to be used in the production of nonfood biofuels and, in the more immediate term, animal feedstock for dairy cows, pigs, sheep, goats, fish and other animals. VIASPACE issued 30,576,007 shares to the Licensor of the GKG valued at $507,000 on the date of acquisition. The grass license is amortized over an estimated useful life of 20 years.

Amortization was $6,000 for the three months ended September 30, 2011 and 2010 and $19,000 for the nine months ended September 30, 2011 and $20,000 for the nine months ended September 30, 2010. The amortization expense for the next five years will be $25,000 in each year.

License to Grass is composed of the following at September 30, 2011 and December 31, 2010:

	2011	2010
License to Grass	$ 507,000	$ 507,000
Less: Accumulated amortization	73,000	54,000
License to Grass, net	$ 434,000	$ 453,000

Goodwill

VIASPACE and VGE acquired IPA China and IPA BVI on October 21, 2008 and recorded goodwill of $12,322,000 related to the acquisition.

NOTE 7 — OWNERSHIP INTEREST IN AFFILIATED COMPANIES

DMFCC. As of September 30, 2011 and December 31, 2010, the Company owned 71.4% of the outstanding shares of DMFCC.

VGE. As of September 30, 2011 and December 31, 2010, the Company owned 75.6% and 75.7%, respectively, of the outstanding shares of VGE. During 2011, the Company sold 2,060 of its VGE shares on the open market under an existing S-1 Registration Statement. VGE owns 100% of the outstanding shares of IPA BVI. IPA BVI owns 100% of the outstanding shares of IPA China. During the fourth quarter of 2010, VGE established VIASPACE Green Energy Pte. Ltd. (“VIASPACE Pte.”), a company incorporated in the Republic of Singapore. At September 30, 2011 and December 31, 2010, VIASPACE Pte. has no active operations or assets.

Ionfinity. As of September 30, 2011 and December 31, 2010, the Company owned 46.3% of the outstanding membership interests of Ionfinity. The Company has two seats on Ionfinity's board of managers of four seats. The Company provides management and accounting services for Ionfinity. The Company also acts as tax partner for Ionfinity for income tax purposes. Due to these factors, Ionfinity is considered economically and organizationally dependent on the Company and as such is included in the Consolidated Financial Statements of the Company. The non-controlling interest held by other members is disclosed separately in the Company's Consolidated Financial Statements.

NOTE 8 — STOCK OPTIONS, WARRANTS AND ISSUED STOCKS

VIASPACE Inc. 2005 Stock Incentive Plan

On October 20, 2005, the Board of Directors (the "Board") of the Company adopted the 2005 Stock Incentive Plan (the "Plan") including the 2005 Non-Employee Director Option Program (the "2005 Director Plan"). The Plan was also approved by the holders of a majority of the Company's common stock. The Plan originally provided for issuance of up to 28,000,000 shares of the Company's common stock. On July 12, 2006, the Company filed a Form S-8 Registration Statement with the SEC registering 28,000,000 shares of the Company's common stock. On February 14, 2008, the Board and the holders of a majority of the Company's common stock approved an amendment to the Plan which increased the maximum number of shares which may be issued under the Plan to 99,000,000. On April 30, 2008, the Company filed a Registration Statement on Form S-8 registering 71,000,000 shares of the Company's common stock. In addition, effective January 1, 2009 and each January 1 thereafter during the term of the Plan, the maximum number of shares under the Plan are to be increased so that the maximum number of shares is equivalent to 30% of the total number of shares of common stock issued and outstanding as of the close of business on the immediately preceding December 31. On February 4, 2009, the Company filed a Registration Statement on Form S-8 registering 146,500,000 shares of the Company's common stock based on the number of shares of common stock outstanding on December 31, 2008.

The Plan is designed to provide additional incentive to employees, directors and consultants of the Company through awarding incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock and other awards. On February 13, 2006, the Board approved the 2006 Non-Employee Director Option Program (the "2006 Director Plan") replacing the 2005 Director Plan and the 2006 Director Plan was approved by the holders of a majority of the Company's common stock. The 2006 Director Plan awards a one-time grant of 125,000 options, or such other number of options as determined by the Board as plan administrator of the 2006 Director Plan, to newly appointed outside members of the Company's Board and annual grants of 50,000 options, or such other number of options as determined by the Board, to outside members of the Board that have served at least six months.

The Company's Board administers the Plan, selects the individuals to whom options will be granted, determines the number of options to be granted, and the term and exercise price of each option. Stock options granted pursuant to the terms of the Plan generally cannot be granted with an exercise price of less than 100% of the fair market value on the grant date. The term of the options granted under the Plan cannot be greater than 10 years. Options to employees and directors generally vest over four years but the actual length of the vesting term is determined by the Board. 37,725,233 shares were available for future grant at September 30, 2011.

For the nine months ended September 30, 2011, the Company issued 16,574,908 shares of common stock, respectively, under the Plan to employees and consultants for services provided to the Company. Stock compensation expense of $187,500 was recorded relating to these share issuances and based on fair market value on the date of grant.

FASB ASC Topic 718 requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. FASB ASC Topic requires companies to estimate the fair value of share-based payment awards to employees and directors on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite services periods on a straight-line basis in the Company's Consolidated Statements of Operations.

The Company adopted the detailed method provided in FASB ASC Topic for calculating the beginning balance of the additional paid-in capital pool ("APIC pool") related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the income tax effects of employee stock-based compensation awards that are outstanding upon the adoption of FASB ASC Topic.

During the nine months ended September 30, 2011, 14,000,000 stock options were granted to employees of the Company. During this same period, no stock options were cancelled due to employees, directors or consultants terminating employment or service with the Company.

The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model has assumptions for risk free interest rates, dividends, stock volatility and expected life of an option grant. The risk free interest rate is based upon market yields for United States Treasury debt securities at a maturity near the term remaining on the option. Dividend rates are based on the Company's dividend history. The stock volatility factor is based on the historical volatility of the Company's stock price. The expected life of an option grant is based on management's estimate as no options have been exercised in the Plan to date. The Company calculated a forfeiture rate for employees and directors based on historical information. A forfeiture rate of 0% is used for options granted to consultants. The fair value of each option grant to employees, directors and consultants is calculated by the Black-Scholes method and is recognized as compensation expense on a straight-line basis over the vesting period of each stock option award. For stock options issued to employees, directors, consultants and advisory board members for 2011 and 2010, the fair value was estimated at the date of grant using the following range of assumptions:

	2011	2010
Risk free interest rate	1.60%	3.11%
Dividends	0%	0%
Volatility factor	124.49%	130.43%
Expected life	6.67 years	6.67 years
Annual forfeiture rate	13.4%	16.1%

Employee and Director Option Grants

The following table summarizes activity for employees and directors in the Company's Plan at September 30, 2011:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term In Years	Aggregate Intrinsic Value
Outstanding at December 31, 2010	56,130,000	$ 0.019		
Granted	14,000,000	0.008		
Exercised	—	—		
Forfeited	—	—		
Outstanding at September 30, 2011	70,130,000	$ 0.017	7.0	$ 21,000
Exercisable at September 30, 2011	48,784,063	$ 0.019	7.0	$ 1,000

There were 14,000,000 stock options granted to an employee in 2011. The Plan recorded $171,000 of stock option compensation expense for employee and director stock options for the nine months ended September 30, 2011. At September 30, 2011, there was $150,000 of unrecognized compensation costs related to non-vested share-based compensation arrangements under the Plan that is expected to be recognized over a weighted average period of approximately one and one-half years. At September 30, 2011, the fair value of options vested for employees and directors was $463,000. There were no options exercised during 2011.

Consultant Option Grants

The following table summarizes activity for consultants in the Company's Plan at September 30, 2011:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term In Years	Aggregate Intrinsic Value
Outstanding at December 31, 2010	1,538,462	$ 0.02		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding at September 30, 2011	1,538,462	$ 0.02	0.8	$ —
Exercisable at September 30, 2011	1,538,462	$ 0.02	0.8	$ —

There were no stock options granted to consultants during 2011. The Company recorded no compensation expense for consultant stock options during 2011. At September 30, 2011, there was no unrecognized compensation costs related to non-vested share-based compensation arrangements. At September 30, 2011, the fair value of options vested for consultants was $15,000. There were no options exercised during 2011.

Direct Methanol Fuel Cell Corporation 2002 Stock Option / Stock Issuance Plan

DMFCC formed a stock-based compensation plan in 2002 entitled the 2002 Stock Option / Stock Issuance Plan (the “DMFCC Option Plan”) that reserved 2,000,000 shares of DMFCC common stock for issuance to employees, non-employee members of the board of directors of DMFCC, board members of its parent company, consultants, and other independent advisors. As of September 30, 2011, options to purchase 1,396,000 shares of DMFCC common stock were outstanding and 604,000 shares remained available for grant under the DMFCC Option Plan. Of these outstanding options, 1,030,000 are incentive stock options issued to employees and 366,000 are non-statutory stock options issued to consultants. During the period ended September 30, 2011, DMFCC issued no stock options.

DMFCC uses the Black-Scholes option pricing model to calculate the fair market value of each option granted. The Black-Scholes option pricing model includes assumptions for risk free interest rates, dividends, stock volatility and expected life of an option grant. For stock options that are issued, the fair value of each option grant is recognized as compensation expense on a straight-line basis over the vesting period of each stock option award.

The following table summarizes activity in the DMFCC Option Plan at September 30, 2011:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term In Years	Aggregate Intrinsic Value
Outstanding at December 31, 2010	1,396,000	$ .02		
Granted	—	—		
Exercised	—	—		
Forfeited	—			
Outstanding at September 30, 2011	1,396,000	$ .02	2.9	$ —
Exercisable at September 30, 2011	1,396,000	$ .02	2.9	$ —

DMFCC recorded no stock option compensation expense during 2011. There were no options exercised during 2011.

VIASPACE Green Energy Inc. 2009 Stock Incentive Plan

On June 2, 2009, the Board of VGE adopted the 2009 Stock Incentive Plan (the “VGE Plan”). The VGE Plan was also approved by the holders of a majority of the Company’s common stock. The VGE Plan provided for the reservation for issuance under the Plan of 1,400,000 shares of VGE common stock.

The VGE Plan is designed to provide additional incentive to employees, directors and consultants of the Company through the awarding of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock and other awards. The VGE Board administers the VGE Plan, selects the individuals to whom options will be granted, determines the number of options to be granted, and the term and exercise price of each option. Stock options granted pursuant to the terms of the VGE Plan generally cannot be granted with an exercise price of less than 100% of the fair market value on the date of the grant. The term of the options granted under the Plan cannot be greater than 10 years. Options to employees and directors generally vest over a period determined by the VGE Board. 50,000 shares were available for future grant at September 30, 2011. There were no stock options issued during the nine months ended September 30, 2011. There were no stock options cancelled during 2011.

The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option pricing model. The Black-Scholes option pricing model has assumptions for risk free interest rates, dividends, stock volatility and expected life of an option grant. The risk free interest rate is based upon market yields for United States Treasury debt securities at a maturity near the term remaining on the option. Dividend rates are based on dividend history. The stock volatility factor is based on the historical volatility of VGE’s stock price. The expected life of an option grant is based on management’s estimate as no options have been exercised in the Plan to date. The fair value of each option grant to employees, directors and consultants is calculated by the Black-Scholes method and is recognized as compensation expense on a straight-line basis over the vesting period of each stock option award.

For stock options issued in 2010, the fair value was estimated at the date of grant using the following range of assumptions:

	2010
Risk free interest rate	3.37%
Dividends	0%
Volatility factor (estimated)	100.00%
Expected life	6.67 years
Annual forfeiture rate (estimated)	0%

The following table summarizes activity for employees and directors in VGE's Plan at September 30, 2011:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term In Years	Aggregate Intrinsic Value
Outstanding at December 31, 2010	1,350,000	$ 0.80		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Outstanding at September 30, 2011	1,350,000	$ 0.80	8.5	$ —
Exercisable at September 30, 2011	1,012,500	$ 0.80	8.5	$ —

There were no stock options issued in the VGE Plan in 2011. The Company recorded $334,000 of compensation expense under the VGE Plan for employee and director stock options for the nine months ended September 30, 2011. At September 30, 2011, there was $223,000 of unrecognized compensation costs related to non-vested share-based compensation arrangements under the VGE Plan that is expected to be recognized over a weighted average period of approximately one year. At September 30, 2011, the fair value of options vested for employees and directors was $810,000. There were no options exercised during 2011.

VIASPACE Warrants

The Company issued warrants in 2006 and 2007 to purchase 624,000 common shares of the Company to non-affiliate parties at exercise prices ranging from $0.30 to $0.60 per share. These warrants expire between November 2, 2011 and March 8, 2012.

NOTE 9 — SHORT-TERM AND LONG-TERM DEBT

Loan with Community Development Commission

Concentric Water LLC ("Concentric"), a wholly owned subsidiary of the Company that was closed in 2009, entered into a long-term debt agreement with the Community Development Commission ("CDC") in 2004 for $100,000, with interest of 5%, and monthly payments of $1,610. The loan was guaranteed by the Company and the Company is making the payments. On January 27, 2010, the Company and the CDC restructured the agreement whereby Concentric agreed to pay $1,986 in monthly principal payments beginning February 1, 2010 for 18 months. The interest rate on the loan remained at 5%. The loan was paid off in the third quarter of 2011.

Loans with the CDC are comprised of the following at September 30, 2011 and December 31, 2010, respectively:

	2011	2010
CDC of the County of Los Angeles, secured, with interest at 5% due July 1, 2011	$	$ 12,000
Less Current Portion of Long-term Debt		12,000
Net Long-term Debt	$	$

Due to Changs LLC

VIASPACE was obligated to pay Sung Hsien Chang ("Chang") $4,800,000 for the acquisition of IPA China and IPA BVI by VGE and the Company on October 21, 2008. Chang is a Director of VIASPACE, President of VGE, and CEO of IPA China and IPA BVI. On May 14, 2010, the Company entered into a secured Note with Chang designed to pay this amount. Under the Note, the Company must pay Chang $5,331,025 over a five-year period. Interest accrues at 6%. The principal must be repaid in five equal installments of $1,066,205 on the first through fifth anniversary of the issuance date. Chang may elect to receive payments in cash or equity securities of VIASPACE or VGE. All payments of VIASPACE or VGE common stock shall be valued at the 10-day average closing price of its respective common shares preceding the applicable payment date or by other reasonable methods determined by the board of directors of VIASPACE or VGE, as the case may be if the shares are not trading at the time of payment. The Note is secured by certain assets of the Company, including all securities of VGE held by the Company. The Note is also secured by the assets of VGE, IPA BVI and IPA China. The Note may be accelerated upon an event of default under the note which includes failure to repay any amount owed, or breach of certain representations, warranties and covenants. The Note also includes various affirmative covenants, including legal compliance and insurance maintenance; and negative covenants, including maintaining a net worth of $5 million on a consolidated basis.

On May 16, 2011, VIASPACE and Chang entered into an Amendment to Secured Promissory Note (the "Note Amendment"). The parties desired to extend the installment payment due dates by one year as part of the Note Amendment. The Note Amendment requires VIASPACE to make five equal annual installment payments of One Million Sixty Six Thousand and Two Hundred and Five Dollars ($1,066,205) each, together with interest per annum of six percent (6%), in arrears on the second, third, fourth, fifth and sixth anniversary dates of the Issue Date rather than the first, second, third, fourth and fifth anniversary dates of the Issue Date. In addition, as part of the Note Amendment, the Holder of the Note has been changed from Sung Hsien Chang to Changs LLC, a limited liability company owned by Mr. Chang and his wife. On September 23, 2011, the Company made an advance payment of $200,000 on the installment payment due to Changs LLC on May 14, 2012. The current amount of the installment payment due to Changs LLC on May 14, 2012 is $866,205.

At September 30, 2011 and December 31, 2010, there is accrued interest of $441,000 and $202,000, respectively, arising from the Note included in related party payable in the Company's Consolidated Balance Sheet.

NOTE 10 — STOCKHOLDERS' EQUITY

Preferred Stock

At September 30, 2011 and December 31, 2010, the number of authorized shares of the Company's preferred stock was 10,000,000. The par value of the preferred stock is $0.001. On May 14, 2010, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation of Series A Preferred Stock. The Certificate was approved by the Board and did not require shareholder vote. The Certificate created a new class of preferred stock known as Series A Preferred Stock. There is one share designated as Series A Preferred Stock. One share of Series A Preferred Stock is entitled to 50.1% of the outstanding votes on all shareholder voting matters. Series A Preferred Stock has no dividend rights and no rights upon a liquidation event and is subject to cancellation when certain conditions are met. On May 14, 2010, the Company issued one share of Series A Preferred Stock to Mr. Chang related to the acquisition of IPA by VIASPACE and VGE, effectively giving him a controlling interest in VIASPACE.

Common Stock

As of September 30, 2011 and December 31, 2010, the number of authorized shares of the Company's common stock was 1,500,000,000. The par value of the common stock is $0.001. Common stockholders are entitled to one vote for each share held on all matters voted on by stockholders.

As of December 31, 2010, there were 1,228,651,926 shares of common stock outstanding. During 2011, the Company issued 16,574,908 shares of common stock under an existing Registration Statement on Form S-8 to employees and consultants for services provided or to be provided to the Company. In addition, the Company issued 71,149,619 unregistered shares of common stock to employees, consultants and vendors for services provided or to be provided to the Company. All of the share issuances in 2011 were recorded at fair market value determined by the price of the Company's common stock trading on the OTC Bulletin Board on the date of grant. Stock compensation of $944,000 was recorded relating to these share issuances. As of September 30, 2011, there were 1,316,376,453 shares of common stock outstanding.

NOTE 11 — INCOME TAX

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company has accrued no interest or penalties at September 30, 2011. As of the date of these financial statements, the 2010, 2009, and 2008 income tax years are open to examination by federal and state taxing authorities.

The Company did not record a provision for income taxes for 2011 or 2010 as a result of operating losses. The Company recorded valuation allowances to fully reserve its deferred tax assets, as management believes it is more likely than not that these assets will not be realized. It is possible that management's estimates as to the likelihood of realization of its deferred tax assets could change as a result of changes in estimated operating results. Should management conclude that it is more likely than not that these deferred tax assets are, at least in part, realizable, the valuation allowance will be reduced and recognized as a deferred income tax benefit in the statement of operations in the period of change. The Company has Federal net operating loss carryovers of approximately $16,000,000 available at December 31, 2010, which expire through 2030.

NOTE 12 — RETIREMENT PLAN

The Company has no retirement plans in effect at September 30, 2011.

NOTE 13 — OPERATING SEGMENTS

The Company evaluates its reportable segments in accordance with FASB ASC Topic 280 "Disclosures about Segments of an Enterprise and Related Information". As of September 30, 2011, the Company's Chief Executive Officer, Dr. Carl Kukkonen, was the Company's Chief Operating Decision Maker ("CODM") pursuant to FASB ASC Topic 280. The CODM allocates resources to the segments based on their business prospects, product development and engineering, and marketing and strategy.

The Company operates in four reportable segments. The operations of DMFCC and VIASPACE Corporate's energy related business are included in the Energy segment. The operations of Ionfinity are included in the Security segment. The operations of IPA China and IPA BVI are included in the Framed Artwork segment. The operations of VGE (but not including operations of its subsidiaries, IPA China and IPA BVI) are included in the Grass segment.

Energy Segment:

(i) DMFCC: DMFCC is a provider of disposable fuel cartridges and intellectual property protection for manufacturers of direct methanol and other liquid hydrocarbon fuel cells. Direct methanol fuel cells are expected to be replacements for traditional batteries and are expected to gain a substantial market share in the future because they offer longer operating time as compared to current lithium ion batteries and may be instantaneously recharged by simply replacing the disposable fuel cartridge.

(ii) VIASPACE Corporate: VIASPACE Corporate is identifying and pursuing additional business opportunities in areas including batteries, alternative fuels, and new products to conserve energy and reduce emissions.

Security Segment:

(i) Ionfinity: Ionfinity is working on a next-generation mass spectrometry technology, which could significantly improve the application of mass spectrometry for industrial process control and environmental monitoring and could also spawn a new class of detection systems for homeland security.

Framed-Artwork Segment:

(i) IPA China and IPA BVI: Specialize in manufacturing high-quality, copyrighted, framed artwork in the PRC which is sold to retail stores in the US.

Grass Segment:

(i) VGE (but operations of its subsidiaries, IPA China and IPA BVI): VGE grows a fast-growing, high yield, low carbon, nonfood energy crop called GKG in the PRC. GKG can be burned in 100% biomass power plants to generate electricity; made into pellets that can be burned together with coal to reduce carbon emissions from existing power plants; generate bio methane through anaerobic digestion, and can be used as a feedstock for low carbon liquid biofuels for transportation. GKG can also be used as animal feed.

The accounting policies of the reportable segments are described in the summary of significant accounting policies (see Note 1 to these financial statements). The Company evaluates segment performance based on income (loss) from operations excluding infrequent and unusual items.

The amounts shown as “Corporate Administrative Costs” consist of unallocated corporate-level operating expenses. In addition, the Company does not allocate other income/expense, net to reportable segments.

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Income (Loss) From Operations:				
Energy	$ (4,000)	$ (12,000)	$ (24,000)	$ (34,000)
Security	6,000	(8,000)	34,000	23,000
Framed-Artwork	527,000	117,000	1,249,000	236,000
Grass	(350,000)	(324,000)	(1,088,000)	(805,000)
Loss From Operations by Reportable Segments	179,000	(227,000)	171,000	(580,000)
Corporate Administrative Costs	(45,000)	(156,000)	(205,000)	(557,000)
Corporate Stock Compensation Expense	(303,000)	(369,000)	(917,000)	(1,048,000)
Loss From Operations	$ (169,000)	$ (752,000)	$ (951,000)	$ (2,185,000)

	2011	December 31, 2010
Assets:		
Energy	$ 135,000	$ 148,000
Security	181,000	132,000
Framed-Artwork	4,820,000	4,046,000
Grass	905,000	753,000
VIASPACE Corporate	12,044,000	12,316,000
Total Assets	$ 18,085,000	$ 17,395,000

For the three months ended September 30, 2011 and 2010, the Company had one customer which made up 96% and 61%, respectively, of our consolidated revenues. For the nine months ended September 30, 2011 and 2010, the Company had one customer which made up 92% and 66%, respectively, of our consolidated revenues.

NOTE 14 — NET LOSS PER SHARE

The Company computes net loss per share in accordance with FASB ASC Topic 260. Under its provisions, basic loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the periods presented. Diluted earnings would customarily include, if dilutive, potential shares of common stock issuable upon the exercise of stock options and warrants. The dilutive effect of outstanding stock options and warrants is reflected in earnings per share in accordance with FASB ASC Topic 260 by application of the treasury stock method. For the periods presented, the computation of diluted loss per share equaled basic loss per share as the inclusion of any dilutive instruments would have had an antidilutive effect on the earnings per share calculation in the periods presented.

The following table sets forth common stock equivalents (potential common stock) for the three and months ended September 30, 2011 and 2010, respectively, that are not included in the loss per share calculation since their effect would be anti-dilutive for the periods indicated:

	2011	2010
Stock Options	71,668,000	57,668,000
Warrants	624,000	624,000

The following table sets forth the computation of basic and diluted net loss per share for the three months and nine months ended September 30, 2011 and 2010, respectively:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Basic and diluted net loss per share:				
Numerator:				
Net loss attributable to common stock	$ (271,000)	$ (770,000)	$ (1,173,000)	$ (2,176,000)
Denominator:				
Weighted average shares of common stock outstanding	1,317,937,086	1,207,007,007	1,287,822,859	1,063,903,702
Net loss per share of common stock, basic and diluted	$ *	$ *	$ *	$ *

* Less than $0.01 per share

NOTE 15 — RELATED PARTY TRANSACTIONS

Other than as listed below, we have not been a party to any significant transactions, proposed transactions, or series of transactions, and in which, to our knowledge, any of our directors, officers, five percent beneficial security holders, or any member of the immediate family of the foregoing persons has had or will have a direct or indirect material interest.

Related Party Receivables

Included in the Company's consolidated balance sheets at September 30, 2011 and December 31, 2010 are Related Party Receivables and Payables. The Related Party Receivables and Payables are detailed below. Sung Hsien Chang is a Director of VIASPACE, President of VGE, and CEO of IPA China and IPA BVI. JJ International ("JJ") is a company owned by Sung Hsien Chang that operates separately. JJ also acts as a distributor of product for VGE. IPA China recorded revenues of $63,000 from JJ for the nine months ended September 30, 2011. IPA BVI is charging JJ interest income on the outstanding receivable balance at an interest rate of 6%. For the nine months ended September 30, 2011, $32,000 was recorded as interest income to JJ and is included in Other Income in the Company's Consolidated Statements of Operations. Included in the Due from JJ International amount shown below is $129,000 and $97,000 at September 30, 2011 and December 31, 2010, respectively, representing cumulative interest income charged to JJ.

The following table represents a summary of Related Party Receivables at September 30, 2011 and December 31, 2010:

	2011	2010
Due from JJ International	$ 1,356,000	$ 1,356,000
Due from employee of IPA China	10,000	21,000
Total	$ 1,366,000	$ 1,377,000

On April 14, 2010, Sung Hsien Chang owed IPA BVI $807,833 including interest for loans and advances. Mr. Chang repaid IPA BVI on that date by transferring 56,889,650 shares of the common stock of VIASPACE to IPA BVI. The amount was repaid at fair market value and represented a closing price of VIASPACE common stock of $0.0142 per share. This amount is shown as an asset on the balance sheet of IPA BVI, but eliminated as a consolidation entry between IPA BVI and VIASPACE at September 30, 2011 and December 31, 2010. The financial statement effect on VIASPACE is a decrease in accumulated paid in capital at September 30, 2011 and December 31, 2010.

Related Party Payables

At September 30, 2011 and December 31, 201, the Company included as a related party payable $89,000 for accrued salary and partner draw due Dr. Kukkonen, CEO of ViaSpace LLC prior to its merger with the Company on June 22, 2005. In addition, at September 30, 2011 and December 31, 2010, the Company owes $80,000 to Dr. Kukkonen for a portion of 2008 and 2009 salary that was earned but not paid. In addition, at September 30, 2011 and December 31, 2010, the Company owed Dr. Kukkonen $352,000 and $302,000, respectively, for deferred salary that will be paid in shares of VIASPACE stock in lieu of cash. Total shares of common stock obligated to be issued to Dr. Kukkonen by the Company at September 30, 2011 for this amount is 25,199,984 shares.

The following table is a summary of Related Party Payables at September 30, 2011 and December 31, 2010:

	2011	2010

Due to employee of IPA China	$	78,000	$	6,000
Due to Carl Kukkonen		521,000		471,000
Due to former director		11,000		11,000
Due to Sung Hsien Chang		17,000		—
Due to Changs LLC		441,000		202,000
Due to JJ International		—		17,000
Total	$	1,068,000	$	707,000

Amounts shown as due to Changs LLC at September 30, 2011 and December 31, 2010, represent accrued interest related to the Note owed to Changs LLC discussed in Note 11.

NOTE 16 — OTHER COMMITMENTS AND CONTINGENCIES

Leases

The Company currently has no long term office lease. Lease on land in the PRC is discussed in Note 1 and Note 5. Rent expense charged to operations for the three months ended September 30, 2011 and 2010 was $9,000 and $10,000, respectively. Rent expense charged to operations for the nine months ended September 30, 2011 and 2010 was $27,000 and $33,000, respectively.

Operations in the PRC

IPA China's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in the North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

IPA China's sales, purchases and expenses transactions are denominated in RMB and all of IPA China's assets and liabilities are also denominated in RMB. The RMB is not freely convertible into foreign currencies under the current law. In China, foreign exchange transactions are required by law to be transacted only by authorized financial institutions. Remittances in currencies other than RMB may require certain supporting documentation in order to affect the remittance.

Litigation

The Company is not party to any material legal proceedings at the present time.

Employment Agreements

On May 14, 2010, VGE entered into two-year employment agreements with each of Carl Kukkonen, Sung Hsien Chang and Stephen Muzi. Dr. Kukkonen would serve as Chief Executive Officer of VGE, Mr. Chang as President of VGE, and Mr. Muzi as Chief Financial Officer, Treasurer and Secretary of VGE. Dr. Kukkonen and Mr. Chang would receive a salary of $240,000 per annum and Mr. Muzi would receive $180,000 per annum. For the first 12 months, Messrs. Kukkonen and Muzi would be paid by VIASPACE. The remainder of the employment term they would be paid in cash. Each of them would be entitled to a bonus as determined by the VGE Board of Directors, customary insurance and health benefits, 20 business days paid leave per year, and reimbursement for out-of-pocket expenses in the course of his employment.

On May 16, 2011, Dr. Kukkonen and Mr. Muzi each entered into an Amendment to Senior Executive Employment Agreement (the "Amendment") with VIASPACE and VGE. Both Amendments changed the responsibility of payment in the second year of the Employment Agreement from VGE to VIASPACE. All other terms remained the same.

NOTE 17 — FINANCIAL ACCOUNTING DEVELOPMENTS

In December 2010, FASB issued ASU No. 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company adopted the disclosure requirements for the business combinations in 2011.

In May 2011, FASB issued additional guidance on fair value disclosures. This guidance contains certain updates to the measurement guidance as well as enhanced disclosure requirements. The most significant change in disclosures is an expansion of the information required for "Level 3" measurements including enhanced disclosure for: (1) the valuation processes used by the reporting entity; and (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any. This guidance is effective for interim and annual periods beginning on or after December 15, 2011, with early adoption prohibited. The Company does not have any “Level 3” disclosures.

In June 2011, the FASB issued guidance on the presentation of comprehensive income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The guidance allows two presentation alternatives: (1) present items of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income; or (2) in two separate, but consecutive, statements of net income and other comprehensive income. This guidance is effective as of the beginning of a fiscal year that begins after December 15, 2011. Early adoption is permitted, but full retrospective application is required under both sets of accounting standards. The Company is currently evaluating which presentation alternative it will utilize.

In September 2011, the FASB issued ASU No. 2011-08, which amends current guidance by allowing an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment in order to determine whether it should perform the two-step goodwill impairment test to calculate the fair value of a reporting unit. The update also provides additional examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. This guidance is effective as of the beginning of a fiscal year that begins after December 15, 2011. Early adoption is permitted. The adoption of this update is not expected to have a material effect on the consolidated financial statements, but may impact amounts the Company records, if any, as goodwill impairment in the future.

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

The following discussion contains certain statements that constitute "forward-looking statements". Such statements appear in a number of places in this Report, including, without limitation, "Management's Discussion and Analysis of Financial Condition or Plan of Operation." These statements are not guarantees of future performance and involve risks, uncertainties and requirements that are difficult to predict or are beyond our control. Our future results may differ materially from those currently anticipated depending on a variety of factors, including those described below under "Risks Related to Our Future Operations" and our filings with the Securities and Exchange Commission. The following should be read in conjunction with the unaudited Consolidated Financial Statements and notes thereto that appear elsewhere in this Report and in conjunction with our 2010 Annual Report on Form 10-K as filed with the SEC.

VIASPACE Overview

VIASPACE Inc. ("we", "us", "VIASPACE", or the "Company") is a renewable and alternative energy company with a globa reach. We operate four separate businesses. We have a majority ownership in VIASPACE Green Energy Inc. "VGE", a British Virgin Islands ("BVI") company, which is the parent company of Inter Pacific Arts Corporation, a British Virgin Islands international business company ("IPA BVI") and Guangzhou Inter Pacific Arts, a Peoples Republic of China ("PRC") company ("IPA China"). IPA China is a wholly-owned foreign enterprise headquartered in Guangdong province of China. IPA BVI owns all equity interests of IPA China. IPA BVI and IPA China specialize in the manufacturing of high quality, copyrighted, framed artwork sold in US retail chain stores. IPA China also has a sublicense to a fast-growing, high yield, low carbon, nonfood energy crop called Giant King™ Grass ("GKG") which can be burned in 100% biomass power plants to generate electricity; made into pellets that can be burned together with coal to reduce carbon emissions from existing power plants; generate bio methane through anaerobic digestion, and can be used as a feedstock for low carbon liquid biofuels for transportation. Cellulosic ethanol and other liquid biofuels, collectively called Grassoline, do not use corn or other food sources as feedstock. GKG can also be used as animal feed. GKG and other plants absorb and store carbon dioxide from the atmosphere as they grow. When they are burned, they release the carbon dioxide back into the atmosphere, but it is the same carbon dioxide that was removed from the atmosphere, and that the process is carbon neutral. Small amounts of fossil fuel are used by the farm equipment, transportation of GKG and fertilizer, so that the overall process has some carbon dioxide emissions, but much lower than burning coal or other fossil fuels directly. GKG has been independently tested by customers and been shown to have excellent energy content and very high bio methane production. We do not build the power plant or biofuel plant; rather we grow GKG that is needed as the fuel or feedstock.

We are growing GKG on approximately 226 acres of leased land in China to serve as a nursery for expansion, a demonstration plot for potential partners and customers, to provide samples for potential customers, and as a grass source for our own products. VGE is headquartered in California with business activities in China.

We grow a fast-growing, high yield, low carbon, nonfood energy crop called GKG which can be burned in 100% biomass power plants to generate electricity; made into pellets that can be burned together with coal to reduce carbon emissions from existing power plants; generate bio methane through anaerobic digestion, and can be used as a feedstock for low carbon liquid biofuels for transportation. Cellulosic ethanol and other liquid biofuels, collectively called Grassoline, do not use corn or other food sources as feedstock. GKG can also be used as animal feed. GKG and other plants absorb and store carbon dioxide from the atmosphere as they grow. When they are burned, they release the carbon dioxide back into the atmosphere, but it is the same carbon dioxide that was removed from the atmosphere, and that the process is carbon neutral. Small amounts of fossil fuel are used by the farm equipment, transportation of GKG and fertilizer, so that the overall process is low carbon, but much lower than burning coal or other fossil fuels directly. GKG has been independently tested by customers and been shown to have excellent energy content and very high bio methane production. We do not build the power plant or biofuel plant; rather we grow GKG that is needed as the fuel or feedstock.

We also manufacture framed copyrighted artwork in China and market and sell it in the US. We also produce disposable fuel cartridges that provide the energy source for portable electronics powered by fuel cells. We do not make fuel cells, but instead we make disposable fuel cartridges for fuel cell and electronics manufacturers such as Samsung. We are also working on a next-generation mass spectrometry technology for industrial process control and environmental monitoring.

Our subsidiary Direct Methanol Fuel Corporation ("DMFCC") produces disposable fuel cartridges that provide the energy source for portable electronics powered by fuel cells. We do not make fuel cells, but instead we make disposable fuel cartridges for fuel cell and electronics manufacturers such as Samsung. We are also working on a next-generation mass spectrometry technology for industrial process control and environmental monitoring through our subsidiary Ionfinity LLC ("Ionfinity").

VIASPACE is based in California with business activities in China, Korea and Japan.

The Company's web site is www.VIASPACE.com.

Critical accounting policies and estimates

Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR60") issued by the SEC, suggests companies provide additional disclosure and commentary on those accounting policies considered most critical. FRR 60 considers an accounting policy critical if it is important to the Company's financial condition and results of operations, and requires significant judgment and estimates on the part of management in its application. For a summary of the Company's significant accounting policies, including the critical accounting policies discussed below, see the accompanying notes to the consolidated financial statements.

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, which are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The result of these evaluations forms the basis for making judgments about the carrying values of assets and liabilities and the reported amount of expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions. The following accounting policies discussed below require significant management judgments and estimates.

VIASPACE has generated revenues from product shipments. In accordance with "Revenue Recognition", codified in FASB ASC Topic 605, VIASPACE recognizes product revenue provided (1) persuasive evidence of an arrangement exists, (2) delivery to the customer has occurred, (3) the selling price is fixed or determinable and (4) collection is reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer. The price is considered fixed or determinable when it is not subject to refund or adjustments. Our standard shipping terms are freight on board shipping point. If the Company ships product whereby a customer has a right of return or review period, the Company does not recognize revenue until the right of return or review period has lapsed. Prior to the period lapsing, any cash received would be recorded as deferred revenue on the Company's Balance Sheet.

Ionfinity has generated revenues from fixed-price contracts for government contracts. These contracts have clear milestones and deliverables with distinct values assigned to each milestone. The government is not obligated to pay Ionfinity the complete value of the contract and can cancel the contract if the Company fails to meet a milestone. Although the government can cancel the contract if a milestone is not met, the Company is not required to refund any payments for prior milestones that have been approved and paid by the government. The milestones do not require the delivery of multiple elements as noted in "Revenue Arrangements with Multiple Deliverables", codified in FASB ASC Topic 605. In accordance with this topic, the Company treats each milestone as an individual revenue agreement and only recognizes revenue for each milestone when all required revenue recognition conditions are met.

In accordance with FASB ASC Topic 605, IPA BVI and IPA China recognize product revenue provided: (1) persuasive evidence of an arrangement exists, (2) delivery to the customer has occurred, (3) the selling price is fixed or determinable and (4) collection is reasonably assured. Delivery is considered to have occurred when title and risk of loss have transferred to the customer. The price is considered fixed or determinable when it is not subject to refund or adjustments. Our standard shipping terms are free on board shipping point. Some of the Company's products are sold in the PRC and are subject to Chinese value-added tax. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing their finished product. Revenue is recorded net of VAT taxes.

The Company accounts for equity instruments issued to consultants and vendors in exchange for goods and services in accordance with the provisions of FASB ASC Topic 505-50, “Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods or Services” and “Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other than Employees”. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. In accordance with FASB ASC Topic 505-50, an asset acquired in exchange for the issuance of fully vested, non-forfeitable equity instruments should not be presented or classified as an offset to equity on the grantor's balance sheet once the equity instrument is granted for accounting purposes. Accordingly, the Company records the fair value of the fully vested, non-forfeitable common stock issued for future consulting services as prepaid expenses in its consolidated balance sheet.

The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. There is no assurance that actual results will not differ from these estimates.

See footnotes in the accompanying financial statements regarding recent financial accounting developments.

Results of Operations

Three Months Ended September 30, 2011 Compared to September 30, 2010

Revenues

Revenues were $2,170,000 and $912,000 for the three months ended September 30, 2011 and 2010, respectively, an increase of $1,258,000. IPA BVI and IPA China recorded revenues of $2,150,000 during the three months ended September 30, 2011 from the sales of framed-artwork primarily to retail U.S. customers, an increase of $1,295,000 from the comparable period in 2010 due to increased customer orders and demand for artwork. Ionfinity incurred revenues of $20,000 for the three months ended September 30, 2011, a decrease of $37,000 from the comparable period in 2010. Ionfinity did not record revenues on its Phase II U.S. Army contract in 2011 as the contract was completed in 2010. Ionfinity recorded revenues in both years on a Phase II U.S. Navy contract. On September 15, 2011, Ionfinity completed its Phase II U.S. Navy contract. DMFCC or VGE did not record revenues for the three months ended September 30, 2010 and 2011.

Cost of Revenues

Costs of revenues were $1,482,000 and $682,000 for the three months ended September 30, 2011 and 2010, respectively, an increase of $800,000. IPA BVI and IPA China recorded increased cost of revenues of $847,000 due to increased sales of framed-artwork during the three months ended September 30, 2011 as compared with the same period in 2010. Ionfinity recorded lower cost of revenues of $47,000 during the three months ended September 30, 2011 as compared with the comparable period in 2010 due to the completion of the U.S. Army contract in 2010. DMFCC or VGE did not record cost of revenues for the three months ended September 30, 2010 and 2011.

Gross Profit

The resulting effect on these changes in revenues and cost of revenues from the three months ended September 30, 2010 to 2011 was an increase in gross profits from $230,000 for the three months ended September 30, 2010 to $688,000 for the three months ended September 30, 2011, an increase of $458,000.

Operations Expenses

Operations expenses were $43,000 and $54,000 for the three months ended September 30, 2011 and 2010, respectively, a decrease of $11,000. The Company incurred lower payroll and consulting costs for 2011 as compared with the same period in 2010. This decrease was partially offset by increases in GKG growing costs. The Company expects operations expenses for VGE to increase in the future as more expenditure is incurred to grow, harvest and produce GKG.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $814,000 and $928,000 for the three months ended September 30, 2011 and 2010, respectively, a decrease of $114,000. Stock option expense decreased $67,000 for the three months ended September 30, 2011 as compared with the same period in 2010 as vesting was completed related to previously issued stock options. Legal fees decreased $32,000 in 2011 due to the absence of legal fees incurred in 2010 attributable to the acquisition of IPA. Public relations expenses increased $22,000 as the Company incurred higher investor relations expenses. Consulting decreased $77,000 due to lower business development costs in 2011 as compared with 2010. Travel decreased $20,000 due to less travel in 2011 compared with the same period in 2010. Sales costs associated with shipping of artwork increased $24,000 in 2011 as compared with 2010 due to increased customer orders. Other selling, general and administrative expenses, net, increased by $36,000 for the three months ended September 30, 2011 compared with the same period in 2010.

Loss from Operations

The resulting effect on these changes in gross profits, operations expenses and selling, general and administrative expenses was a decrease in the loss from operations from $752,000 for the three months ended September 30, 2010 to loss from operations of $169,000 for the three months ended September 30, 2011, an improvement of $583,000.

Other Income (Expense), Net

Other Income

Other income increased by $54,000 for the three months ended September 30, 2011 as compared to the same period in 2010 primarily related to the settlement of contract costs by Ionfinity related to its government contracts.

Nine Months Ended September 30, 2011 Compared to September 30, 2010

Revenues

Revenues were $5,575,000 and $2,603,000 for the nine months ended September 30, 2011 and 2010, respectively, an increase of $2,972,000. IPA BVI and IPA China recorded revenues of $5,459,000 during the nine months ended September 30, 2011 from the sales of framed-artwork primarily to retail U.S. customers, an increase of $3,227,000 from the comparable period in 2010 due to increased customer orders and demand for artwork. Ionfinity incurred revenues of $113,000 for the nine months ended September 30, 2011, a decrease of $250,000 from the comparable period in 2010. Ionfinity did not record revenues on its Phase II U.S. Army contract in 2011 as the contract was completed in 2010. Ionfinity recorded revenues in both years on a Phase II U.S. Navy contract. On September 15, 2011, Ionfinity completed its Phase II U.S. Navy contract. DMFCC recorded revenues of $8,000 for the nine months ended September 30, 2010 but no revenues in 2011. VGE recorded $3,000 related to grass sales for the nine months ended September 30, 2011 but no revenues in 2010.

Cost of Revenues

Costs of revenues were $3,867,000 and $1,882,000 for the nine months ended September 30, 2011 and 2010, respectively, an increase of $1,985,000. IPA BVI and IPA China recorded increased cost of revenues of $2,228,000 due to increased sales of framed-artwork during the nine months ended September 30, 2011 as compared with the same period in 2010. Ionfinity recorded lower cost of revenues of $238,000 during the nine months ended September 30, 2011 as compared with the comparable period in 2010 due to the completion of the U.S. Army contract in 2010. DMFCC recorded lower cost of revenues of $7,000 and VGE recorded increased cost of revenues of $3,000.

Gross Profit

The resulting effect on these changes in revenues and cost of revenues from the nine months ended September 30, 2010 to 2011 was an increase in gross profits from $721,000 for the nine months ended September 30, 2010 to $1,708,000 for the nine months ended September 30, 2011, an increase of $987,000.

Operations Expenses

Operations expenses were $139,000 and $116,000 for the nine months ended September 30, 2011 and 2010, respectively, an increase of $23,000. The increase is primarily due to operations expenses incurred by VGE in the production of its GKG in China. This includes operating costs for salaries, equipment, maintenance, utilities and fuel costs. The Company expects operations expenses for VGE to increase in the future as more expenditure is incurred to grow, harvest and produce GKG.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $2,520,000 and $2,790,000 for the nine months ended September 30, 2011 and 2010, respectively, a decrease of $270,000. Stock option expense decreased $101,000 for the nine months ended September 30, 2011 as compared with the same period in 2010 as vesting was completed related to certain previously issued stock options. Stock compensation expense increased $83,000 in 2011 as compared with 2010 as additional stock was issued to employees for services. Legal fees decreased $237,000 in 2011 due to the absence of legal fees incurred in 2010 attributable to the acquisition of IPA. Consulting decreased $213,000 due to lower business development costs in 2011 as compared with 2010. Public relations expenses increased $104,000 as the Company incurred higher investor relations expenses. Sales costs associated with shipping of artwork increased

$59,000 in 2011 as compared with 2010 due to increased customer orders. Other selling, general and administrative expenses, net, increased by $35,000 for the nine months ended September 30, 2011 compared with the same period in 2010.

Loss from Operations

The resulting effect on these changes in gross profits, operations expenses and selling, general and administrative expenses was a decrease in the loss from operations from $2,185,000 for the nine months ended September 30, 2010 to loss from operations of $951,000 for the nine months ended September 30, 2011, an improvement of $1,234,000.

Other Income (Expense), Net

Interest Expense

Interest expense increased by $9,000 the nine months ended September 30, 2011 as compared to the same period in 2010, due to higher interest expense recorded on the related party loan payable to Changs LLC arising from the acquisition of IPA by the Company on October 21, 2008.

Liquidity and Capital Resources

The Company's net loss for the nine months ended September 30, 2011 was $1,061,000. Non-cash expenses of $1,583,000 for the nine months ended September 30, 2011 composed primarily of stock compensation expense and stock options expense issued to employees, directors and consultants. Working capital was positive $344,000 for the nine months ended September 30, 2011 primarily due to an increase in accounts payable. Net cash provided by operating activities was $866,000 for the nine months ended September 30, 2011.

Net cash used in investing activities was $180,000 for the nine months ended September 30, 2011. Capital expenditures incurred by VGE in purchasing equipment for its GKG business was $244,000 for the nine months ended September 30, 2011. In addition, $64,000 was received as proceeds from the disposal of assets not needed by the Company.

Net cash used in financing activities was $212,000 for the nine months ended September 30, 2011. On September 23, 2011, the Company made an advance payment of $200,000 on the installment payment due to Changs LLC on May 14, 2012. Principal payments on Company loans to the Community Development Commission totaled $12,000 in 2011.

At September 30, 2011, the Company has positive working capital of $630,000 and an accumulated deficit of $36,740,000. Our financial statements were prepared on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have not made any adjustments to the financial statements as a result of the outcome of the uncertainty described above. Accordingly, the value of the Company in liquidation may be different from the amounts set forth in our financial statements. The Company has addressed this concern by terminating certain employees and reducing operating expenses. In addition, the Company has sold non-core and as yet non-profitable business units. The Company is now focused primarily on four business segments including the GKG business, framed artwork business, the fuel cell business and the security segment. The Company expects cash on hand as of September 30, 2011 and future operating cash flow to fund operations for a minimum of the next twelve months, and as such, the Company has no immediate need for additional outside financing. However, if revenue forecasts are not met or if future operating expenses or capital requirements increase beyond our control; the Company may need to seek additional cash resources through the sale of equity securities or debt securities.

Contractual Obligations

The following table summarizes our long-term contractual obligations at September 30, 2011:

Due to Changs LLC

VIASPACE was obligated to pay Sung Hsien Chang ("Chang") $4,800,000 for the acquisition of IPA China and IPA BVI by VGE and the Company on October 21, 2008. Chang is a Director of VIASPACE, President of VGE, and CEO of IPA China and IPA BVI. On May 14, 2010, the Company entered into a secured Note with Chang designed to pay this amount. Under the Note, the Company must pay Chang $5,331,025 over a five-year period. Interest accrues at 6%. The principal must be repaid in five equal installments of $1,066,205 on the first through fifth anniversary of the issuance date. Chang may elect to receive payments in cash or equity securities of VIASPACE or VGE. All payments of VIASPACE or VGE common stock shall be valued at the 10-day average closing price of its respective common shares preceding the applicable payment date or by other reasonable methods determined by the board of directors of VIASPACE or VGE, as the case may be if the shares are not trading at the time of payment. The Note is secured by certain assets of the Company, including all securities of VGE held by the Company. The Note is also secured by the assets of VGE, IPA BVI and IPA China. The Note may be accelerated upon an event of default under the note which includes failure to repay any amount owed, or breach of certain representations, warranties and covenants. The Note also includes various affirmative covenants, including legal compliance and insurance maintenance; and negative covenants, including maintaining a net worth of $5 million on a consolidated basis.

On May 16, 2011, VIASPACE and Chang entered into an Amendment to Secured Promissory Note (the "Note Amendment"). The parties desired to extend the installment payment due dates by one year as part of the Note Amendment. The Note Amendment requires VIASPACE to make five equal annual installment payments of One Million Sixty Six Thousand and Two Hundred and Five Dollars ($1,066,205) each, together with interest per annum of six percent (6%), in arrears on the second, third, fourth, fifth and sixth anniversary dates of the Issue Date rather than the first, second, third, fourth and fifth anniversary dates of the Issue Date. In addition, as part of the Note Amendment, the Holder of the Note has been assigned from Sung Hsien Chang to Changs LLC, a limited liability company majority-owned by Mr. Chang. On September 23, 2011, the Company made an advance payment of $200,000 on the installment payment due to Changs LLC on May 14, 2012. The current amount of the installment payment due to Changs LLC on May 14, 2012 is $866,205.

At September 30, 2011 and December 31, 2010, there is accrued interest of $441,000 and $202,000, respectively, arising from the Note included in related party payable in the Company's Consolidated Balance Sheet.

Employment Agreements

On May 14, 2010, VGE entered into two-year employment agreements with each of Carl Kukkonen, Sung Hsien Chang and Stephen Muzi. Dr. Kukkonen would serve as Chief Executive Officer of VGE, Mr. Chang as President of VGE, and Mr. Muzi as Chief Financial Officer, Treasurer and Secretary of VGE. Dr. Kukkonen and Mr. Chang would receive a salary of $240,000 per annum and Mr. Muzi would receive $180,000 per annum. For the first 12 months, Messrs. Kukkonen and Muzi would be paid by VIASPACE. The remainder of the employment term they would be paid in cash. Each of them would be entitled to a bonus as determined by the VGE Board of Directors, customary insurance and health benefits, 20 business days paid leave per year, and reimbursement for out-of-pocket expenses in the course of his employment.

On May 16, 2011, Dr. Kukkonen and Mr. Muzi each entered into an Amendment to Senior Executive Employment Agreement (the "Amendment") with VIASPACE and VGE. Both Amendments changed the responsibility of payment in the second year of the Employment Agreement from VGE to VIASPACE. All other terms remained the same.

Inflation and Seasonality

We have not experienced material inflation during the past five years. Seasonality has historically not had a material effect on our operations.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as of September 30, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is confined to our cash and cash equivalents. We invest excess cash and cash equivalents in high-quality money market funds that invest in federal agency notes and US treasury notes, which we believe are subject to limited credit risk. We currently do not hedge interest rate exposure. The effective duration of our portfolio is all current with no investment of a long-term duration. Due to the short-term nature of our investments, we do not believe that we have any material exposure to interest rate risk arising from our investments.

Most of our transactions are conducted in US dollars, although we do have some sales and marketing agreements with consultants outside the US. The majority of these transactions are conducted in US dollars. If the exchange rate changed by ten percent, we do not believe it would have a material impact on our results of operations or cash flows.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures. Disclosure controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objectives is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors, mistakes or intentional circumvention of the established processes.

At the end of the period covered by this report and at the end of each fiscal quarter therein, the Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective at the reasonable assurance level described above as of the end of the period covered in this report.

Changes in internal controls over financial reporting. Management, with the participation of the Chief Executive Officer and Chief Financial Officer of the Company, has evaluated any changes in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter. Based on that evaluation, management, the Chief Executive Officer and the Chief Financial Officer of the Company have concluded that no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. The Company is a non-accelerated filer.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company does not have any material legal proceedings as of September 30, 2011.

ITEM 1A. RISK FACTORS

Risk Factors Which May Affect Future Results

The Company cautions that the following important factors, among others, in some cases have affected and in the future could affect the Company's actual results and could cause such results to differ materially from those expressed in forward-looking statements made by or on behalf of the Company.

There have been no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, other than as set forth below:

Risks Related To Our Business

We have incurred losses and anticipate continued losses for the foreseeable future.

Our net loss for the nine months ended September 30, 2011 was $1,061,000. We have not yet achieved profitability and expect to continue to incur net losses until we recognize increased revenues from GKG sales, framed-artwork sales, customer contracts, product sales or other sources. Because we do not have an operating history upon which an evaluation of our prospects can be based, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies seeking to develop new and rapidly evolving technologies. To address these risks, we must, among other things, respond to competitive factors, continue to attract, retain and motivate qualified personnel and continue to develop our technologies. We may not be successful in addressing these risks. We can give no assurance that we will achieve or sustain profitability.

Our ability to continue as a going concern is dependent on future financing.

Goldman Kurland Mohidin, LLP, our independent registered public accounting firm for 2010, included an explanatory paragraph in its report on our financial statements for 2010, which expresses substantial doubt about our ability to continue as a going concern. The inclusion of a going concern explanatory paragraph in Goldman Kurland Mohidin, LLP's report on our financial statements could have a detrimental effect on our stock price and our ability to raise additional capital if needed.

On June 20, 2011, the Company switched auditors from Goldman Kurland Mohidin, LLC to Hein & Associates LLP. Neither the Company's management nor the Company's directors had any disagreement with the prior auditors.

At September 30, 2011, the Company has positive working capital of $630,000 and an accumulated deficit of $36,740,000. Our financial statements were prepared on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. We have not made any adjustments to the financial statements as a result of the outcome of the uncertainty described above. Accordingly, the value of the Company in liquidation may be different from the amounts set forth in our financial statements. The Company has addressed this concern by terminating certain employees and reducing operating expenses. In addition, the Company has sold non-core and as yet non-profitable business units. The Company is now focused primarily on four business segments including the GKG business, framed artwork business, the fuel cell business and the security segment. The Company expects cash on hand as of September 30, 2011 and future operating cash flow to fund operations for a minimum of the next twelve months, and as such, the Company has no immediate need for additional outside financing. However, if revenue forecasts are not met or if future operating expenses or capital requirements increase beyond our control; the Company may need to seek additional cash resources through the sale of equity securities or debt securities.

Our continued success will depend on our ability to achieve profitability or to raise capital in order to fund the development and commercialization of our products. Failure to be profitable or to raise additional capital may result in substantial adverse circumstances, including our inability to continue the development of our products and our liquidation.

Our revenues to date have been to a few customers, the loss of which could result in a severe decline in revenues.

The Company had one customer who made up 92% of the consolidated revenues of the Company for the nine months ended September 30, 2011. We believe this trend of revenues to a few customers will continue in the near future. A loss of any customer by the Company could significantly reduce recognized revenues.

If we default on our secured debt to Chang, we may lose our interests in IPA BVI and IPA China.

On May 14, 2010, VIASPACE entered into a Secured Promissory Note with Sung Hsien Chang ("Chang") and must pay Chang $5,331,025 over a five-year period. Chang is a Director of VIASPACE, President of VGE, and CEO of IPA China and IPA BVI. Interest accrues at 6%. On May 16, 2011, VIASPACE and Chang entered into an Amendment to Secured Promissory Note (the "Note Amendment"). Under the Note Amendment, VIASPACE must pay Changs LLC principal in five equal installments of $1,066,205 on the second through sixth anniversary of the issuance date. The first payment is due May 14, 2012. Chang may elect to receive payments in cash or VIASPACE equity securities. In addition, as part of the Note Amendment, the Holder of the Note has been changed from Chang to Changs LLC, a limited liability company owned by Mr. Chang and his wife. On September 23, 2011, VIASPACE made an advance payment of $200,000 on the installment payment due to Changs LLC on May 14, 2012. The current amount of the installment payment due to Changs LLC on May 14, 2012 is $866,205.

We and our subsidiaries IPA BVI and IPA China have guaranteed VIASPACE's debt. We have also pledged our equity securities in VGE to Chang. Likewise, VGE has pledged its securities of IPA BVI to Chang and IPA BVI has pledged its securities of IPA China to Chang. We and our subsidiaries have also granted a security interest to Chang for all assets of our respective companies. If VIASPACE defaults in its obligation to Chang, Chang may foreclose on all assets of our Company and/or our subsidiaries. He may also seize the equity interests of our subsidiaries. Any of these actions would cause us to relinquish all ownership of our assets and our company would then lose all of its value. Under such circumstances, your securities may lose all of its value.

Risks Related To An Investment In Our Stock

Any future sale of a substantial number of shares of our common stock could depress the trading price of our common stock, lower our value and make it more difficult for us to raise capital.

Any sale of a substantial number of shares of our common stock (or the prospect of sales) may depress the price of our common stock. In particular, we anticipate that the issuance of newly-issued shares to Chang in connection with an alternate arrangement to enable us to hold interests in VGE, and in turn, IPA BVI and IPA China may be very dilutive. In addition, these sales could lower our value and make it more difficult for us to raise capital. Further, the timing of the sale of the shares of our common stock may occur at a time when we would otherwise be able to obtain additional equity capital on terms more favorable to us.

The Company has 1,500,000,000 authorized shares of common stock, of which 1,316,376,453 were issued and outstanding as of September 30, 2011. Of these issued and outstanding shares, 438,707,980 shares (33.3%) are currently held by our executive officers, directors and principal shareholders (including Dr. Carl Kukkonen, CEO and Director; Mr. Stephen J. Muzi, CFO; Mr. Sung Hsien Chang, Director and President of VGE; Mr. Rick Calacci, Director; Ms. Angelina Galiteva, Director; and Mr. Paul Kim, Director). Of the shares issued and outstanding at September 30, 2011, 527,689,256 are accounted by our transfer agent as restricted under Rule 144. These shares could be released in the future if requested by the holder of the shares, subject to volume and manner of sale restrictions under Rule 144. 788,687,197 shares of the Company's common stock are accounted for by our transfer agent as free trading at September 30, 2011.

We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances and sales of shares of our common stock will have on the market price of our common stock. Sales of substantial amounts of our common stock (including shares currently held by management and principal shareholders), or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

Our executive officers, directors and principal shareholders own 33.3% of our voting stock, which may allow them to control substantially all matters requiring shareholder approval, and their interests may not align with the interests of our other stockholders.

Our executive officers, directors and principal shareholders hold 33.3% of our outstanding shares as of September 30, 2011. In addition, on May 14, 2010, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation of Series A Preferred Stock. The Certificate was approved by the Board and did not require shareholder vote. The Certificate created a new class of preferred stock known as Series A Preferred Stock. There is one share designated as Series A Preferred Stock. One share of Series A Preferred Stock is entitled to 50.1% of the outstanding votes on all shareholder voting matters. Series A Preferred Stock has no dividend rights and no rights upon a liquidation event and is subject to cancellation when certain conditions are met. On May 14, 2010, the Company issued one share of Series A Preferred Stock to Mr. Chang related to the acquisition of IPA by VIASPACE and VGE. This empowers Chang with supermajority voting rights even after he holds less than a majority of outstanding voting securities.

If we default on our secured debt to Chang, we may lose our interests in VGE which would impact our stock price.

If VIASPACE defaults in its obligation to Chang, Chang may foreclose on all assets of our Company and/or our subsidiaries. He may also seize the equity interests of VGE. Any of these actions would cause us to relinquish all ownership of our assets and our company would then lose most of its value. Under such circumstances, your securities may lose most of its value.

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

On July 7, 2011, the Company issued Dr. Carl Kukkonen, CEO of the Company, 4,580,062 unregistered shares of the Company's common stock for salary valued at $50,400. On July 7, 2011, the Company issued Mr. Stephen Muzi, CFO of the Company, 2,727,273 unregistered shares of the Company's common stock for salary valued at $30,000. On July 29, 2011, the Company issued Dr. Carl Kukkonen, CEO of the Company, 4,233,671 unregistered shares of the Company's common stock for salary valued at $50,400. On July 29, 2011, the Company issued Mr. Stephen Muzi, CFO of the Company, 2,521,008 unregistered shares of the Company's common stock for salary valued at $30,000. On August 31, 2011, the Company issued Dr. Carl Kukkonen, CEO of the Company, 4,538,800 unregistered shares of the Company's common stock for salary valued at $50,400. On August 31, 2011, the Company issued Mr. Stephen Muzi, CFO of the Company, 2,702,703 unregistered shares of the Company's common stock for salary valued at $30,000.

The shares were issued in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933, as amended. We made a determination that these parties were sophisticated investors with enough knowledge and experience in business to evaluate the risks and merits of accepting our shares as payment for their services and the Company believes that each party was given or had access to detailed financial and other information with respect to the Company. These vendors acquired the shares for investment purposes without view to distribution, and there was no general advertising or general solicitation in connection with the issuance of the shares. Further, restrictive transfer legends were placed on all certificates issued to these parties, and no underwriting or selling commissions were paid in connection with these share issuances.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. *
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

* Filed herewith.

[SIGNATURES PAGE FOLLOWS]

SIGNATURES

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

	VIASPACE Inc. (Registrant)	
Date: November 14, 2011	By:	/s/ CARL KUKKONEN Carl Kukkonen Chief Executive Officer
Date: November 14, 2011	By:	/s/ STEPHEN J. MUZI Stephen J. Muzi Chief Financial Officer