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

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from __________ to __________

Commission file number: 000-53252

WaferGen Bio-systems, Inc.
(Exact Name of Registrant as Specified in its Charter)

Nevada	**90-0416683**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
7400 Paseo Padre Parkway, Fremont, CA	**94555**
(Address of principal executive offices)	(Zip Code)

(510) 651-4450
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☑

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The Registrant had 41,563,180 shares of common stock outstanding as of September 9, 2011.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

WAFERGEN BIO-SYSTEMS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

Assets	June 30, 2011 (Unaudited)	December 31, 2010
Current assets:		
Cash and cash equivalents	$ 24,668,747	$ 2,209,941
Restricted cash	100,826	100,651
Accounts receivable, net	91,007	778,769
Inventories, net	1,134,508	1,024,250
Prepaid expenses and other current assets	100,062	176,259
Total current assets	26,095,150	4,289,870
Property and equipment, net	1,996,861	1,191,840
Other assets	876,351	334,855
Total assets	$ 28,968,362	$ 5,816,565
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 768,946	$ 1,196,861
Accrued payroll and related costs	772,810	440,101
Deferred revenue	25,000	25,000
Other accrued expenses, current portion	583,590	428,497
Current portion of long-term debt	2,257	419,384
Total current liabilities	2,152,603	2,509,843
Other accrued expenses, non-current portion	117,293	—
Long-term debt, net of current portion	913,041	1,589,468
Derivative liability for put option on Series B redeemable convertible preference shares of subsidiary	118,476	194,088
Derivative liability for conversion element of convertible promissory notes	13,108,276	—
Warrant derivative liability	1,625,552	2,240,962
Total liabilities	18,035,241	6,534,361
Series A and B redeemable convertible preference shares of subsidiary	3,458,632	3,337,476
Commitments and contingencies (Note 14)	—	—
Stockholders' equity (deficit):		
Series C convertible preference shares of subsidiary	4,993,728	—
Preferred stock, $0.001 par value, 10,000,000 shares authorized, 2,937,499.97 shares issued and outstanding at June 30, 2011	9,838,569	—
Common stock, $0.001 par value, 300,000,000 shares authorized, 41,596,055 and 41,175,464 shares issued and outstanding at June 30, 2011, and December 31, 2010 respectively	41,596	41,175
Additional paid-in capital	48,671,241	38,881,075
Accumulated deficit	(56,399,932)	(43,265,399)
Accumulated other comprehensive income	329,287	287,877
Total stockholders' equity (deficit)	7,474,489	(4,055,272)
Total liabilities and stockholders' equity (deficit)	$ 28,968,362	$ 5,816,565

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

WAFERGEN BIO-SYSTEMS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenue	$ 44,905	$ 431,894	$ 395,937	$ 821,679
Cost of revenue	13,942	135,894	154,891	271,749
Gross profit	30,963	296,000	241,046	549,930
Operating expenses:				
Sales and marketing	870,247	475,143	1,636,159	724,949
Research and development	2,019,173	1,496,443	4,079,888	3,038,711
General and administrative	2,075,200	1,160,049	3,488,781	2,203,954
Total operating expenses	4,964,620	3,131,635	9,204,828	5,967,614
Operating loss	(4,933,657)	(2,835,635)	(8,963,782)	(5,417,684)
Other income and (expenses):				
Interest income	6,615	1,949	7,360	7,107
Interest expense (including excess debt discount of $2,255,074 expensed as interest in the three and six months ended June 30, 2011)	(2,710,344)	(1,067)	(2,819,227)	(1,674)
Change in fair value of put option, net	184,371	—	75,612	—
Change in fair value of conversion element of convertible promissory notes, net	(1,613,113)	—	(1,613,113)	—
Change in fair value of warrants, net	(190,981)	3,567,168	299,607	1,680,476
Miscellaneous income (expense)	30,145	(7,919)	(17,250)	(72,994)
Total other income and (expenses)	(4,293,307)	3,560,131	(4,067,011)	1,612,915
Net income (loss) before provision for income taxes	(9,226,964)	724,496	(13,030,793)	(3,804,769)
Provision for income taxes	(17,416)	—	(17,416)	—
Net income (loss)	(9,209,548)	724,496	(13,013,377)	(3,804,769)
Accretion on Series A and B redeemable convertible preference shares of subsidiary associated with premium	(57,036)	(78,790)	(121,156)	(144,313)
Accretion on Series A-1 convertible preferred stock associated with beneficial conversion feature	(9,250,009)	—	(9,250,009)	—
Series A-1 preferred dividend	(74,253)	—	(74,253)	—
Net income (loss) attributable to common stockholders	$ (18,590,846)	$ 645,706	$ (22,458,795)	$ (3,949,082)
Net income (loss) per share - basic	$ (0.45)	$ 0.02	$ (0.54)	$ (0.12)
Net income (loss) per share - diluted	$ (0.45)	$ 0.02	$ (0.54)	$ (0.12)
Shares used to compute net income (loss) per share - basic	41,400,151	33,846,309	41,291,426	33,675,760
Shares used to compute net income (loss) per share - diluted	41,400,151	35,045,016	41,291,426	33,675,760

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

WAFERGEN BIO-SYSTEMS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net loss	$ (13,013,377)	$ (3,804,769)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	390,490	178,722
Stock-based compensation	549,643	597,823
Change in fair value of warrants, net	(299,607)	(1,680,476)
Exchange (gain) loss on issuance of convertible preference shares of subsidiary	(58,575)	3,005
Change in fair value of put option, net	(75,612)	—
Change in fair value of conversion element of convertible promissory notes	1,613,113	—
Excess debt discount expensed as interest	2,255,074	—
Allowance for doubtful accounts	20,000	—
Amortization of debt discount	6,285	—
Change in operating assets and liabilities:		
Restricted cash	(175)	—
Accounts receivable	667,744	(216,183)
Inventories	(804,375)	(417,731)
Prepaid expenses and other assets	546,270	(114,944)
Accounts payable	(427,936)	66,565
Accrued payroll and related costs	302,187	(252,072)
Other accrued expenses	262,336	268,059
Net cash used in operating activities	(8,066,515)	(5,372,001)
Cash flows from investing activities:		
Purchase of property and equipment	(497,448)	(524,158)
Net cash used in investing activities	(497,448)	(524,158)
Cash flows from financing activities:		
Repayment of capital lease obligations	(6,595)	(14,290)
Net proceeds from issuance of Series B redeemable convertible preference shares of subsidiary	—	733,066
Net proceeds from issuance of Series C convertible preference shares of subsidiary	5,052,303	—
Repayment of term loan	(2,178,585)	—
Net proceeds from issuance of Series A-1 convertible preferred stock, convertible promissory notes and warrants	28,025,037	—
Interest converted to principal on convertible promissory notes	74,253	—
Proceeds from issuance of common stock and warrants, net of offering costs	9,200	644,377
Net cash provided by financing activities	30,975,613	1,363,153
Effect of exchange rates on cash	47,156	95,895
Net increase (decrease) in cash and cash equivalents	22,458,806	(4,437,111)
Cash and cash equivalents at beginning of the period	2,209,941	5,953,639
Cash and cash equivalents at end of the period	$ 24,668,747	$ 1,516,528

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

NOTE 1. The Company

General – WaferGen Bio-systems, Inc. and subsidiaries (the "Company") are engaged in the development, manufacture and sales of systems for gene expression, genotyping and stem cell research for the life sciences, pharmaceutical drug discovery and biomarker discovery and diagnostic products industries. The Company's products are aimed at professionals who perform genetic analysis and cell biology, primarily at pharmaceutical and biotech companies, academic and private research centers, and diagnostics companies involved in biomarker research. Through the SmartChip products, the Company plans to provide new performance standards with significant savings of time and cost for professionals in the field of gene expression research facilitating biomarker discovery, toxicology, and clinical research.

Wafergen, Inc. was incorporated in the State of Delaware on October 22, 2002, and was acquired by WaferGen Bio-systems, Inc. in a reverse merger on May 31, 2007.

On January 24, 2008, the Company formed a new subsidiary in Kulim Hi-Tech Park, Kedah, Malaysia. The subsidiary, WaferGen Biosystems (M) Sdn. Bhd. ("WGBM"), will launch various initiatives to support a number of the Company's ongoing development and commercialization goals. The Company owns 100% of the common stock and 8.2% (which includes all shares that have been assumed by the Company pursuant to exercises of exchange rights for which the Company has received notice from investors) of the preference shares of this entity. The Company expects that all of the subsidiary's preference shares will be redeemed or converted into shares of the Company, however if all preference shares were converted into common stock of WGBM, the Company would own 72.8% of WGBM's common stock. See Note 5 below.

On May 27, 2011, the Company completed a private placement offering (the "May 2011 Offering") with certain accredited investors, pursuant to which the Company sold an aggregate of approximately 2,937,500 shares of Series A-1 convertible preferred stock at a stated value of $5.20 per share, with each share being convertible into ten shares of common stock, convertible promissory notes in the aggregate principal amount of $15,275,000, convertible into an aggregate of approximately 2,679,824 shares of Series A-2 convertible preferred stock at a price of $5.70 per share, with each share being convertible into ten shares of common stock, and warrants to purchase 56,173,248 shares of the Company's common stock at an exercise price of $0.62 per whole share. The Company received aggregate gross proceeds of $30,550,000, which after deducting issuance costs of $2,524,963 left net proceeds of $28,025,037.

Subject to certain ownership limitations, the warrants issued in the May 2011 Offering were exercisable immediately and will expire five years from the date of issuance. They include a provision for excess shares in the event of a change in ownership and contain standard anti-dilution clauses in the event of recapitalization, stock splits or combinations, merger or reorganization, dividends or distributions and similar equity adjustments, but do not contain anti-dilution provisions that would prevent them from being considered indexed to the Company's stock, so they are accounted for within Stockholders' Equity.

The Company retained a selling agent in connection with this registered direct offering, and pursuant to the terms of a selling agency agreement, the Company paid the selling agents an aggregate fee totaling approximately $2,120,125.

NOTE 2. Summary of Significant Accounting Policies

Basis of Presentation – The Company has prepared the accompanying condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to these rules and regulations. These condensed consolidated financial statements should be read in conjunction with our audited financial statements and footnotes related thereto for the year ended December 31, 2010, included in our Form 10-K filed with the SEC. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company's financial position and the results of its operations and cash flows.

The results of operations for such interim periods are not necessarily indicative of results to be expected for the full year.

Basis of Consolidation – The condensed consolidated financial statements include the financial statements of WaferGen Bio-systems, Inc. and its subsidiaries. All significant transactions and balances between the WaferGen Bio-systems, Inc. and its subsidiaries have been eliminated in consolidation.

Development Stage – In prior periods the Company was in the development stage.

Use of Estimates – Preparing condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results and outcomes could differ from these estimates and assumptions.

Foreign Currencies – Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment, where that local currency is the functional currency, are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenues and expenses are translated at the average rates of exchange prevailing during each reporting period. Remeasurement adjustments resulting from this process are charged or credited to other comprehensive income (loss).

Stock-Based Compensation – The Company measures the fair value of all stock-based awards to employees, including stock options, on the grant date and records the fair value of these awards, net of estimated forfeitures, to compensation expense over the service period. The fair value of awards to consultants is measured on the dates on which performance of services is completed, with interim valuations recorded at balance sheet dates while performance is in progress. The fair value of options is estimated using the Black-Scholes valuation model, and of restricted stock is based on the Company's closing share price on the measurement date.

Change in Fair Value of Derivatives – The Company recognizes the put option on its Series B redeemable convertible preference shares of its subsidiary, the conversion element of its convertible promissory notes and its warrants with anti-dilution provisions as derivative liabilities. Such liabilities are valued when the financial instruments are initially issued or the derivative first requires recognition and are also revalued at each reporting date, with the change in their respective fair values being recorded as a change in fair value within other income and expenses in the statement of operations. The Company determines the fair value of the put option on its Series B redeemable convertible preference shares of its subsidiary using a Black-Scholes valuation and the conversion element of its convertible promissory notes and its warrants with anti-dilution provisions using a Monte Carlo Simulation approach, with key input variables provided by management.

Warranty Reserve – Our standard warranty agreement is one year from shipment of certain products. We accrue for anticipated warranty costs upon shipment of these products. Our warranty reserve is based on management's judgment regarding anticipated rates of warranty claims and associated repair costs, and we update our assessment quarterly.

Net Income (Loss) Per Share – Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding plus common share equivalents from conversion of dilutive stock options, warrants, and restricted stock using the treasury method, and convertible securities using the as-converted method, except when antidilutive. In the event of a net loss, the effects of all potentially dilutive shares are excluded from the diluted net loss per share calculation as their inclusion would be antidilutive.

Reclassification – Certain reclassifications have been made to prior periods' data to conform to the current presentation. These reclassifications had no effect on reported net losses.

Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements." This guidance requires additional disclosures about fair value measurements, including information about purchases, sales, issuances and settlements in Level 3. We adopted this guidance effective January 1, 2011, and its adoption did not have a material impact on our consolidated financial condition or results of operations.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820)." ASU 2011-04 will result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, with early application not permitted, and will become effective for us on January 1, 2012. The adoption of this standard will not have a material impact on our consolidated financial position or results of operations.

In June 2011, the FASB issued ASU 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income.” ASU 2011-05 requires that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 is effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted, and will become effective for us on January 1, 2012. The adoption of this standard will not have a material impact on our consolidated financial condition or results of operations.

NOTE 3. Inventories

Inventories consisted of the following at June 30, 2011, and December 31, 2010:

	June 30, 2011	December 31, 2010
Raw materials	$ 134,501	$ —
Work in process	2,745	—
Finished goods	1,116,216	1,143,204
Total inventories	1,253,462	1,143,204
Less allowance for excess and obsolete inventory	(118,954)	(118,954)
Inventories, net	$ 1,134,508	$ 1,024,250

NOTE 4. Long Term Obligations

On December 7, 2010, the Company entered a $2,000,000 Loan and Security Agreement (“LSA”) with Oxford Finance Corporation (“Oxford”). Borrowings under this term loan were at an interest rate of approximately 13%, and for the first six months, interest only was repayable, after which the balance of principal and interest were repayable in equal monthly installments over a thirty month period. The Company granted Oxford a first priority security interest in substantially all of its assets, excluding its intellectual property.

The Company issued warrants to purchase 95,368 shares of common stock with an allocated fair value of $46,230 and incurred other initial costs of $157,240 to obtain the LSA, and a fee of $95,000 was payable to Oxford on termination. These deferred financing costs of $298,470 were amortized as a non-cash interest expense over the period of the loan using the effective interest method.

The loan was repaid in full on May 27, 2011. At this date, the unamortized deferred financing costs of $222,275 plus additional costs arising from early termination of $83,585 were expensed as interest.

The Company leases equipment under a capital lease that expires in August 2011. Cost and accumulated depreciation of $47,162 are included in property and equipment. Aggregate future minimum obligations for the capital lease in effect as of June 30, 2011, were $2,279, of which $22 represented interest.

On May 27, 2011, the Company issued convertible promissory notes with a face value of $15,275,000, along with convertible preferred stock and warrants (see Note 1). Interest on the notes accrues at a rate of 5% per annum, and may either be paid on the last day of each fiscal quarter, or added to the principal amount of the notes, at the Company’s option.

The outstanding principal amount under these convertible promissory notes may be converted into Series A-2 convertible preferred stock at a rate of $5.70 per share, with each share of Series A-2 convertible preferred stock being convertible into ten shares of common stock. In connection with the issuance of the convertible promissory notes, the Company and the note holders entered into a Cure Amount Side Letter Agreement (“CASLA”) which provides that, in the event that the Company should require debt to be converted in order to meet equity requirements to apply for (at its discretion) or maintain a listing on a recognized exchange, the notes may be converted at a lower rate per share based on the market price of the Company's common stock at the time of conversion, such that the note is convertible into a higher number of shares of Series A-2 convertible preferred stock such that the value of the notes is maintained. The Company recognized this conversion option as an embedded derivative valued at $11,495,163 on the date of issuance (see Note 10).

The Company allocated fair values to the Series A-1 convertible preferred stock, the convertible promissory notes and the warrants on May 27, 2011, the issuance date. The Company then assigned the aggregate proceeds of $30,550,000 in proportion to those fair values. The Company thus valued the Series A-1 convertible preferred stock at $10,724,991 (see Note 6), the convertible promissory notes at $10,072,592 and the warrants at $9,752,417 (see Note 8). The difference between face value of the convertible promissory notes and their allocated fair value was recorded as debt discount. In addition, the Company recognized the conversion element of the convertible promissory notes as an embedded derivative requiring bifurcation. The fair value of this derivative liability on May 27, 2011, the commitment date, had an estimated value of $11,495,163, based on assumptions including the fair value of common stock of $0.68, estimated volatility of 64.31%, a risk-free interest rate of 0.21% and a contractual term of 3.5 years. The fair value of this derivative liability was estimated again on June 30, 2011, as $13,108,276, based on assumptions including the fair value of common stock of $0.54, estimated volatility of 62.00%, a risk-free interest rate of 0.22% and a contractual term of 3.4 years. The increase in fair value of $1,613,113 was reflected as a charge within other income and expenses in the statement of operations.

To the extent that the debt discount as initially calculated exceeded the face value of the notes, net of issuance costs, we recorded a one-time non-cash interest expense of $2,255,074. The resulting debt discount of $14,442,497 ($5,202,408 related to the valuation allocation plus $11,495,163 related to the conversion element (an embedded derivative), less the $2,255,074 expensed as interest) is being amortized as non-cash interest expense using the effective yield method over the 3.5 year contractual term of the promissory notes.

Further, issuance costs totaling $2,524,963 were allocated to the Series A-1 convertible preferred stock, the convertible promissory notes and the warrants in proportion to their fair values on their issuance date. The $832,502 thus allocated to the convertible promissory notes was recorded as a deferred financing cost and is being amortized as a non-cash interest expense using the effective yield method over the 3.5 year contractual term of the promissory notes.

The balance of the convertible promissory notes comprises the following at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Convertible Promissory Notes Payable:		
Face value	$ 15,275,000	$ —
Interest added to principal	74,253	—
Stated value	15,349,253	—
Debt discount – beneficial conversion feature, net of accumulated amortization of $6,285	14,436,212	—
Notes payable, net of debt discount	$ 913,041	$ —

The convertible promissory notes include an additional share coefficient, such that additional shares of Series A-2 convertible preferred stock may be issued in the event of an Organic Change (a substantial change in ownership of the Company, as defined).

NOTE 5. Convertible Preference Shares of Subsidiary

On July 18, 2008, the Company's Malaysian subsidiary, WGBM, received $1,000,000, less issuance costs totaling $30,000, in exchange for the issuance of Series A redeemable convertible preference shares ("RCPS") of WGBM in a private placement to Malaysian Technology Development Corporation Sdn. Bhd. ("MTDC"), a venture capital and development firm in Malaysia. WGBM sold 444,444 Series A RCPS in this private placement at the U.S. dollar equivalent of $2.25 per share. A second closing occurred on November 27, 2008, and WGBM received $1,000,000, less issuance costs totaling $30,000, from the sale of an additional 444,444 shares of Series A RCPS.

On June 8, 2009, WGBM received $250,000, less an exchange loss of $18,029 and issuance costs totaling $19,393, in exchange for the issuance of 111,111 Series B RCPS to Expedient Equity Ventures Sdn. Bhd. ("EEV"), in a private placement at the U.S. dollar equivalent of $2.25 per share. On March 9, 2010, WGBM received $250,000, less an exchange loss of $3,005 and issuance costs totaling $8,929, in exchange for the issuance of a further 111,111 Series B RCPS to EEV, in a private placement at the U.S. dollar equivalent of $2.25 per share. On September 23, 2009, WGBM received $500,000, less issuance costs totaling $7,500, in exchange for the issuance of 222,222 Series B RCPS to Prima Mahawangsa Sdn. Bhd. ("PMSB"), in a private placement at the U.S. dollar equivalent of $2.25 per share. On May 13, 2010, WGBM received $500,000, less issuance costs totaling $5,000, in exchange for the issuance of a further 222,222 Series B RCPS to PMSB, in a private placement at the U.S. dollar equivalent of $2.25 per share. These transactions represent the full subscription under a Share Subscription Agreement dated April 3, 2009, ("SSA") to sell 444,444 and 222,222 Series B RCPS to PMSB and EEV, respectively, both venture capital and development firms in Malaysia.

On September 18, 2009, WGBM received $423,128, less issuance costs totaling $11,319, in exchange for the issuance of 188,057 Series B RCPS to Kumpulan Modal Perdana Sdn. Bhd. ("KMP"), in a private placement at the U.S. dollar equivalent of $2.25 per share. This represents the full amount receivable under an SSA dated July 1, 2009, to sell Series B RCPS to KMP, a venture capital and development firm in Malaysia.

Under the terms of a Deed of Adherence dated April 3, 2009, certain rights of the holders of the Series A RCPS were modified; also, the use of funds raised through the issuance of both Series A and Series B RCPS was restricted, requiring at least 60% of the total to be utilized for the Company's operations in Malaysia.

Following these modifications, the rights of the holders of Series A and B RCPS include, but are not limited to, the right:

(a) to put to the Company their RCPS (or ordinary shares in WGBM received on conversion of those RCPS under paragraph (c) below) at any time during the year 2011 that the share price of the Company's common stock is below $2.25, to redeem for cash (or, for Series A, at the Company's option, and for Series B, at the holder's option, shares of Company common stock of equivalent value) the amount originally invested in USD plus a premium of 6% (for Series A) or 8% (for Series B), compounded annually, with yearly rests;

(b) to cause the Company to exchange their RCPS for common stock of the Company at an exchange rate of US$2.25 per share of common stock, provided, in the case of Series B RCPS, that commencing on August 1, 2010, if during the 10-day trading period immediately prior to the holder's exercise notice the average closing price of the Company's common stock is less than US$2.647, then the holder shall exchange RCPS at an exchange rate equal to 85% of such 10-day average closing price. This option expires on May 8, 2013, for MTDC's Series A RCPS, on April 3, 2014, for EEV's and PMSB's Series B RCPS and on July 1, 2014, for KMP's Series B RCPS;

(c) to convert their RCPS into ordinary shares of the subsidiary, WGBM, at any time, at a conversion rate of three ordinary shares per $100 invested in RCPS;

(d) to cause the subsidiary, WGBM, to redeem the RCPS in whole or in part at any time after December 31, 2011, for the principal paid plus a premium of 20% per annum, not compounding, from funds legally available for distribution (i.e. retained earnings; there is presently an accumulated deficit in WGBM in excess of $2 million);

(e) of first offer on any transfers or new issuance of subsidiary shares (for Series A only); and

(f) for each of Series A and Series B RCPS, to appoint one of the seven directors of the subsidiary.

On August 1, 2010, an event occurred affording the investors in Series B RCPS the option to convert their holdings into a number of shares in the Company at an exchange rate equal to 85% of the previous 10 days' average closing price. This beneficial conversion feature was recorded as a put option derivative liability and a reduction in RCPS, which was immediately amortized as accretion expense. Utilizing the Black-Scholes valuation model and assumptions of the fair value of common stock of $1.21, an exercise price of $0.9894, estimated volatility of 64.30%, a risk free interest rate of 0.14%, a zero dividend rate and an expected term of one day, the Company determined the fair value of the put option derivative liability to be $428,787.

On August 17, 2010, EEV provided notice of exercise of its option to exchange its holding of 222,222 Series B RCPS for 458,483 shares of the Company's common stock, with shares to be issued on September 16, 2010. Their RCPS were acquired by the Company. Utilizing the Black-Scholes valuation model and assumptions of the fair value of common stock of $1.25, an exercise price of $1.0906, estimated volatility of 64.02%, a risk free interest rate of 0.16%, a zero dividend rate and an expected term of one day, the Company determined the fair value of the remaining put option derivative liability relating to EEV's shares to be $73,105, and for the remaining RCPS to be $208,077.

On September 29, 2010, KMP provided notice of exercise of its option to exchange its holding of 188,057 Series B RCPS for 328,579 shares of the Company's common stock, with shares to be issued on October 29, 2010. Their RCPS were acquired by the Company. Utilizing the Black-Scholes valuation model and assumptions of the fair value of common stock of $1.51, an exercise price of $1.2878, estimated volatility of 50.94%, a risk free interest rate of 0.12%, a zero dividend rate and an expected term of one day, the Company determined the fair value of the remaining put option derivative liability relating to KMP's shares to be $73,027, and for the remaining RCPS to be $172,588.

On December 31, 2010, the Company revalued the put option liability utilizing the Black-Scholes valuation model and assumptions of the fair value of common stock of $1.22, an exercise price of $1.0217, estimated volatility of 55.40%, a risk-free interest rate of 0.07%, a zero dividend rate and an expected term of one day, and determined the fair value of the remaining put option derivative liability to be $194,088.

On March 31, 2011, the Company revalued the put option liability utilizing the Black-Scholes valuation model and assumptions of the fair value of common stock of $1.00, an exercise price of $0.7676, estimated volatility of 64.31%, a risk-free interest rate of 0.05%, a zero dividend rate and an expected term of one day, and determined the fair value of the remaining put option derivative liability to be $302,847.

On June 30, 2011, the Company revalued the put option liability utilizing the Black-Scholes valuation model and assumptions of the fair value of common stock of $0.54, an exercise price of $0.4828, estimated volatility of 52.87%, a risk-free interest rate of 0.01%, a zero dividend rate and an expected term of one day, and determined the fair value of the remaining put option derivative liability to be $118,476.

On March 10, 2011, WGBM received $5,000,000, less issuance costs totaling $6,272, in exchange for the issuance of 3,233,734 Series C convertible preference shares ("CPS") to MTDC, in a private placement at the U.S. dollar equivalent of $1.5462 per share, representing the first subscription under a Share Subscription Agreement dated December 14, 2010, ("SSA") to sell 3,233,734 Series C CPS at an initial closing and, should MTDC so elect within 36 months of the initial closing, to sell 1,077,911 shares of Series C CPS at a subsequent closing at the U.S. dollar equivalent of US$2.3193 per share. Each Series C CPS will convert into one share of the Company on the anniversary of each closing, or at any earlier date MTDC's option. MTDC may also elect to convert their Series C CPS into ordinary shares of the subsidiary, WGBM, at any time, at a conversion rate of one ordinary share per 100 CPS.

The balance remaining in Series C CPS comprises the following at June 30, 2011, and December 31, 2010:

	June 30, 2011	December 31, 2010
SERIES C		
Proceeds from issuance of CPS	$ 5,058,575	$ —
Exchange gain on issuance	(58,575)	—
Issuance costs	(6,272)	—
Total CPS accounted for as equity	$ 4,993,728	$ —

The balance remaining in Series A and B RCPS comprises the following at June 30, 2011, and December 31, 2010:

	June 30, 2011	December 31, 2010
SERIES A		
Proceeds from issuance of RCPS	$ 2,000,000	$ 2,000,000
Issuance costs	(60,000)	(60,000)
Accretion of issuance costs	55,416	45,416
Accretion of redemption premium	351,133	283,717
Total Series A RCPS	2,346,549	2,269,133
SERIES B		
Proceeds from issuance of RCPS	1,000,000	1,000,000
Issuance costs	(23,763)	(23,763)
Accretion of issuance costs	22,546	15,073
Accretion of redemption premium	113,300	77,033
Total Series B RCPS	1,112,083	1,068,343
Total RCPS accounted for as liabilities	$ 3,458,632	$ 3,337,476

WGBM is authorized to issue 200,000,000 preference shares with a par value of RM0.01. There were 4,977,345 preference shares (including 3,233,734 Series C CPS issued in the six months ended June 30, 2011, and 410,279 Series B RCPS held by the Company upon exercise by EEV and KMP of their options) issued and outstanding at June 30, 2011, and 1,743,611 preference shares (including 410,279 Series B RCPS held by the Company) issued and outstanding at December 31, 2010.

NOTE 6. Preferred Stock

The Company has 10,000,000 shares of preferred stock authorized. Effective May 26, 2011, the Company designated 4,500,000 shares as Series A-1 convertible preferred stock and 4,500,000 shares as Series A-2 convertible preferred stock (together, the "Series A Preferred Stock"). Each share of Series A Preferred Stock is convertible into ten shares of common stock, subject to an ownership cap whereby conversion may not occur to the extent the holder would own more than 9.985% of the common stock following conversion, and entitles the holder to receive dividends, as, when and if declared by the Company's Board of Directors, at an annual rate of 5% of the stated value per share of the respective series. Such dividends will accrue and accumulate on each share of Series A Preferred Stock from the date of issuance, whether or not declared, until November 27, 2014, when the right to further dividends ceases. The Series A Preferred Stock has no voting rights, and in the event of liquidation ranks senior to common stock.

Effective May 27, 2011, the Company sold an aggregate of 2,937,499.97 shares of Series A-1 convertible preferred stock with a stated value of $5.20 per share. The Company recorded the allocated valuation of $10,724,991 (see Note 4), less allocated issuance costs of $886,422, as Series A-1 convertible preferred stock within permanent equity, at net issuance cost. The Company also recognized a beneficial conversion feature calculated as the number of potential conversion shares multiplied by the excess of the market price of the common stock on the issuance date over the price per conversion share based on the valuation allocated to the Series A-1 convertible preferred stock. Since this preferred stock is immediately convertible and not redeemable, this non-contingent beneficial conversion feature of $9,250,009 was recorded as a one-time accretion expense.

NOTE 7. Stock Awards

In 2003, Wafergen, Inc.'s Board of Directors adopted the 2003 Incentive Stock Plan (the "2003 Plan"). The 2003 Plan authorized the Board of Directors to grant incentive stock options and non-statutory stock options to employees, directors, and consultants for up to 1,500,000 shares of common stock. Under the Plan, incentive stock options and nonqualified stock options could be granted. Incentive stock options were to be granted at a price that is no less than 100% of the fair value of the stock at the date of grant. Options vest over a period according to the Option Agreement, and are exercisable for a maximum period of ten years after date of grant. Options granted to stockholders who own more than 10% of the outstanding stock of WaferGen at the time of grant must be issued at an exercise price no less than 110% of the fair value of the stock on the date of grant. In November 2006, WaferGen increased the aggregate number of shares of common stock that may be issued under the 2003 Plan to a total authorized reserve of 2,500,000 shares, a 1,000,000 share increase. The 2003 Plan was frozen when the 2007 Plan was adopted, resulting in no further options available for grant.

In January 2007, the Company's Board of Directors and stockholders adopted the 2007 Stock Option Plan (the "2007 Plan"). The purpose of the 2007 Plan was to provide an incentive to retain the employment of directors, officer, consultants, advisors and employees of the Company, persons of training, experience and ability, to attract new directors, officers, consultants, advisors and employees whose services are considered valuable, to encourage the sense of proprietorship, and to stimulate the active interest of such persons into the Company's development and financial success. Under the 2007 Plan, the Company was authorized to issue incentive stock options intended to qualify under Section 422 of the Code, non-qualified stock options and restricted stock. The 2007 Plan was frozen when the 2008 Plan was adopted, resulting in no further options available for grant.

On June 5, 2008, the Company's stockholders adopted the 2008 Stock Incentive Plan (the "2008 Plan") following approval of the 2008 Plan by the Board of Directors. The 2008 Plan initially authorized the issuance of up to 2,000,000 shares of common stock pursuant to the terms of the 2008 Plan. On December 4, 2009, the Company's stockholders approved an amendment to the 2008 Plan, adding an additional 1,500,000 shares, bringing the total to 3,500,000 shares of our common stock available for issuance under the 2008 Plan. On September 16, 2010, the Company's stockholders approved a further amendment to the 2008 Plan, adding an additional 3,000,000 shares, bringing the total to 6,500,000 shares of our common stock available for issuance under the 2008 Plan. Notwithstanding the foregoing, no more than 3,250,000 shares of our common stock may be granted pursuant to awards of restricted stock and restricted stock units.

The number of shares of our common stock available under the 2008 Plan will be subject to adjustment in the event of a stock split, stock dividend or other extraordinary dividend, or other similar change in our common stock or our capital structure. The purpose of the 2008 Plan is to provide an incentive to retain the employment of directors, officers, consultants, advisors and employees of the Company, to attract new personnel whose training, experience and ability are considered valuable, to encourage the sense of proprietorship, and to stimulate the active interest of such persons in the Company's development and financial success. Under the 2008 Plan, the Company is authorized to issue incentive stock options intended to qualify under Section 422 of the Code, non-qualified stock options and restricted stock. Awards may vest over varying periods, as specified by the Company's Board of Directors for each grant, and have a maximum term of seven years from the grant date. The 2008 Plan is administered by the Company's Board of Directors.

The Company has issued both options and restricted stock under these Plans. Restricted stock grants afford the recipient the opportunity to receive shares of common stock, subject to certain terms, whereas options give them the right to purchase common stock at a set price. Both the Company's options and restricted stock issued to employees generally have vesting restrictions that are eliminated over a four-year period, although vesting may be over a shorter period, or may occur on the grant date, depending on the terms of each individual award.

A summary of stock option and restricted stock transactions in the six months ended June 30, 2011, is as follows:

		Stock Options		Restricted Stock	
	Shares Available for Grant	**Number of Options Outstanding**	**Weighted Average Exercise Price**	**Number of Shares Outstanding**	**Weighted Average Grant-Date Fair Value**
Balance at January 1, 2011	2,191,821	5,543,893	$ 1.5218	127,500	$ 1.6422
Granted	(971,175)	648,550	$ 0.8940	322,625	$ 0.8673
Exercised	—	(324,740)	$ 0.3220	—	$ —
Vested	—	—	$ —	(269,597)	$ 0.9261
Forfeited	562,448	(506,198)	$ 1.5116	(58,750)	$ 1.4806
Canceled	184,771	(740,189)	$ 1.6681	(46,778)	$ 0.6738
Balance at June 30, 2011	1,967,865	4,621,316	$ 1.4957	75,000	$ 1.6133

The Company received $104,566 for the 324,740 shares issued pursuant to options exercised during the six months ended June 30, 2011, which had an intrinsic value of $203,399. The Company received $38,527 for the 75,554 shares issued pursuant to options exercised during the six months ended June 30, 2010, which had an intrinsic value of $98,121.

The following table summarizes information concerning outstanding options as of June 30, 2011:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	**Number Outstanding as of June 30, 2011**	**Weighted Average Remaining Contractual Life (in Years)**	**Weighted Average Exercise Price**	**Number Exercisable as of June 30, 2011**	**Weighted Average Remaining Contractual Life (in Years)**	**Weighted Average Exercise Price**
$0.0002 - $0.1482	178,170	3.51	$0.0675	178,170	3.51	$0.0675
$0.4630 - $0.8500	490,549	6.70	$0.7362	45,399	4.52	$0.5837
$1.0000 - $1.5000	1,876,597	5.27	$1.3387	1,167,371	5.15	$1.3563
$1.7600 - $2.3900	2,076,000	6.02	$1.9396	1,102,419	5.79	$2.0132
	4,621,316	5.69	$1.4957	2,493,359	5.30	$1.5406

The fair value of options vested in the six months ended June 30, 2011 and 2010, was $256,303 and $211,376, respectively. The aggregate intrinsic value of options outstanding at June 30, 2011, was $84,609, all related to options exercisable. Aggregate intrinsic value is the total pretax amount (i.e., the difference between the Company's stock price and the exercise price) that would have been received by the option holders had all their in-the-money options been exercised.

The weighted-average grant date fair value of options awarded in the six months ended June 30, 2011 and 2010, was $0.38 and $0.72, respectively. Fair values were estimated using the following assumptions:

	Six Months Ended June 30,	
	2011	**2010**
Risk-free interest rate	1.50% - 2.24%	2.01% - 2.40%
Expected term	4.75 Years	4.75 Years
Expected volatility	42.44% - 50.83%	42.40% - 42.70%
Dividend yield	0%	0%

The amounts expensed for stock-based compensation totaled $267,090 and $258,877 for the three months ended June 30, 2011 and 2010, respectively, and $549,643 and $597,823 for the six months ended June 30, 2011 and 2010, respectively. The sum expensed in the three and six months ended June 30, 2011, includes $43,890 and $126,490, respectively, for restricted stock awards to consultants.

At June 30, 2011, the total stock-based compensation cost not yet recognized, net of estimated forfeitures, was $917,443. This cost is expected to be recognized over an estimated weighted average amortization period of 2.68 years. No amounts related to stock-based compensation costs have been capitalized. The tax benefit and the resulting effect on cash flows from operating and financing activities related to stock-based compensation costs were not recognized as the Company currently provides a full valuation allowance for all of its deferred taxes.

NOTE 8. Warrant Derivative Liabilities

The Company has incurred liabilities for the estimated fair value of derivative warrant instruments. The estimated fair value of the derivative warrant instruments has been calculated using a Monte Carlo Simulation approach, with key input variables provided by management, as of each issuance date, with the valuation offset against additional paid in capital, and at each reporting date, with changes in fair value recorded as unrealized gains or losses in non-operating income (expense).

In connection with our fundraising in May 27, 2011, members of management, with warrants to purchase a total of 1,051,074 shares with an estimated fair value of $315,803 following the anti-dilution adjustments on that date, waived their right to any future anti-dilution adjustments, so this estimated fair value was transferred to Stockholders' Equity. During the six months ended June 30, 2011, the remainder of the decrease in the fair value of the warrant derivative liability of $299,607 was recorded as an unrealized gain on fair value of warrants, net.

During the six months ended June 30, 2010, a $1,680,476 decrease in the fair value of the warrant derivative liability was recorded as an unrealized gain on the fair value of warrants, net. A summary of activity in warrant derivative liabilities is included in Note 10.

The fair value of warrants ranged from $0.09 to $0.26 at June 30, 2011, from $0.32 to $0.69 at December 31, 2010, and from $0.24 to $0.36 at June 30, 2010. Fair values at June 30, 2011 and 2010, were estimated using the following assumptions:

	June 30, 2011	June 30, 2010
Risk-free interest rate	0.35% - 0.80%	0.75% - 1.25%
Expected remaining term	1.51 -2.79 Years	2.31 - 3.59 Years
Expected volatility	63.87% - 90.56%	44.80% - 50.79%
Dividend yield	0%	0%

A summary of outstanding common stock warrants as of June 30, 2011, is as follows:

Securities Into Which Warrants are Convertible	Warrants Outstanding	Warrants Subject to Anti-Dilution	Exercise Price	Expiration Date
Common stock	56,173,248	—	$0.6200	May 2016
Common stock	4,487,656	3,718,425	$0.7800	June and August 2014
Common stock	2,875,736	2,774,050	$0.8400	December 2014 and January 2015
Common stock	2,265,071	2,084,914	$0.8400	May 2013
Common stock	44,401	—	$1.4100	March 2012
Common stock	95,368	—	$1.4680	December 2015
Common stock	203,500	—	$1.5000	July 2015
Common stock	3,000,830	—	$1.5500	July 2015
Common stock	2,666,459	—	$2.2500	May and June 2012
Common stock	200,000	—	$3.0000	December 2014 and November 2015
Subtotal	72,012,269	8,577,389		
Series C CPS	1,077,911	—	$2.3193	March 2014
Total	73,090,180	8,577,389		

The warrants expiring in May 2016 were issued in conjunction with the May 2011 Offering (see Note 1), and were valued at the time of issuance utilizing the Black-Scholes valuation model and assumptions of the fair value of common stock of $0.68, an exercise price of $0.62, estimated volatility of 89.58%, a risk free interest rate of 1.03%, a zero dividend rate and an expected term of 3.5 years. These warrants include the right to receive a Black-Scholes valuation, as defined, of the unexercised portion of the warrant in the event of an Organic Change (a substantial change in ownership of the Company, as defined). This contingent embedded derivative will be accounted for only in the event that an Organic Change should occur.

The warrants expiring in June and August 2014 were originally issued in June and August 2009 with an exercise price of $2.00 and entitled the holders thereof to purchase an aggregate of 1,750,185 shares. As a result of anti-dilution adjustments with respect to such warrants pursuant to their terms, such warrants, as of June 30, 2011, had an exercise price of $0.78 and entitled the holders thereof to purchase an aggregate of 4,487,656 shares. In connection with our May 2011 Offering, members of management with warrants to purchase a total of 769,231 shares waived their right to further anti-dilution adjustments.

The warrants expiring in December 2014 and January 2015 were originally issued in December 2009 and January 2010 with an exercise price of $2.50 and entitled the holders thereof to purchase an aggregate of 966,247 shares. As a result of anti-dilution adjustments with respect to such warrants pursuant to their terms, such warrants, as of June 30, 2011, had an exercise price of $0.84 and entitled the holders thereof to purchase an aggregate of 2,875,736 shares. In connection with our May 2011 Offering, members of management with warrants to purchase a total of 101,686 shares waived their right to further anti-dilution adjustments.

The warrants expiring in May 2013 were originally issued in May 2008 with an exercise price of $3.00 and entitled the holders thereof to purchase an aggregate of 634,220 shares. As a result of weighted-average anti-dilution adjustments with respect to such warrants pursuant to their terms, such warrants, as of June 30, 2011, had an exercise price of $0.84 and entitled the holders thereof to purchase an aggregate of 2,265,071 shares. In connection with our May 2011 Offering, members of management with warrants to purchase a total of 180,157 shares waived their right to further anti-dilution adjustments.

The SSA dated December 14, 2010 (see Note 5) grants the holders of the Series C CPS the right to subscribe for a further 1,077,911 CPS at a price of $2.3193. Since these Series C CPS would convert into common stock of the Company within one year of the subscription date, this right is, for accounting purposes, equivalent to a warrant to purchase the Company's common stock.

NOTE 9. Cash Flow Information

Cash paid during the six months ended June 30, 2011 and 2010, is as follows (interest paid in the six months ended June 30, 2011, excludes $178,585 which was paid to Oxford relating to termination of the term loan and was expensed as interest):

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Interest	$ 127,040	$ 1,933
Income taxes	$ —	$ —

Supplemental disclosure of non-cash investing and financing activities for the six months ended June 30, 2011 and 2010, is as follows:

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Warrant derivative liabilities transferred to equity on waiver of future anti-dilution rights	$ 315,803	$ —
Conversion element bifurcated on issuance of convertible promissory notes	$ 11,495,163	$ —
Interest converted to principal on convertible promissory notes	$ 74,253	$ —
Beneficial conversion feature related to Series A-1 convertible preferred stock	$ 9,250,009	$ —
Inventory transferred to property and equipment	$ 693,942	$ —
Restricted stock forfeited to cover income tax liability	$ 30,437	$ —
Accretion on Series A and B redeemable convertible preference shares of subsidiary associated with premium	$ 121,156	$ 144,313
Issuance to placement agents of warrants classified as derivative liabilities	$ —	$ 2,200

NOTE 10. Fair Value of Financial Instruments

Fair value measurements are determined under a three-level hierarchy for fair value measurements that prioritizes the inputs to valuation techniques used to measure fair value, distinguishing between market participant assumptions developed based on market data obtained from sources independent of the reporting entity ("observable inputs") and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances ("unobservable inputs").

Fair value is the price that would be received to sell an asset or would be paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. In determining fair value, we primarily use prices and other relevant information generated by market transactions involving identical or comparable assets ("market approach"). We also consider the impact of a significant decrease in volume and level of activity for an asset or liability when compared with normal activity to identify transactions that are not orderly.

The highest priority is given to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Securities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The three hierarchy levels are defined as follows:

Level 1 – Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly;

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Credit risk adjustments are applied to reflect the Company's own credit risk when valuing all liabilities measured at fair value. The methodology is consistent with that applied in developing counterparty credit risk adjustments, but incorporates the Company's own credit risk as observed in the credit default swap market.

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2011:

	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and cash equivalents, including restricted cash	$ 24,769,573	$ —	$ —	$ 24,769,573
Financial Liabilities:				
Warrant derivative liabilities	$ —	$ —	$ 1,625,552	$ 1,625,552
Conversion Element of Promissory Notes	$ —	$ —	$ 13,108,276	$ 13,108,276
Put option derivative liability	$ —	$ —	$ 118,476	$ 118,476

The following tables present a reconciliation of all liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2011 and 2010:

	Warrant Derivatives	Conversion Element of Promissory Notes	Put Option Derivatives	Total
Balance at January 1, 2011	$ 2,240,962	$ —	$ 194,088	$ 2,435,050
Issuances	—	11,495,163	—	11,495,163
Changes in fair value included in other income and expenses	(299,607)	1,613,113	(75,612)	1,237,894
Settlements	(315,803)	—	—	(315,803)
Balance at June 30, 2011	$ 1,625,552	$ 13,108,276	$ 118,476	$ 14,852,304
Total gains (losses) included in other income and expenses attributable to liabilities still held as of June 30, 2011	$ 353,832	$ (1,613,113)	$ 75,612	$ (1,183,669)

	Warrant Derivatives	Conversion Element of Promissory Notes	Put Option Derivatives	Total
Balance at January 1, 2010	$ 2,778,191	$ —	$ —	$ 2,778,191
Issuances	17,915	—	—	17,915
Changes in fair value included in other income and expenses	(1,680,476)	—	—	(1,680,476)
Settlements	—	—	—	—
Balance at June 30, 2010	$ 1,115,630	$ —	$ —	$ 1,115,630
Total gains (losses) included in other income and expenses attributable to liabilities still held as of June 30, 2010	$ 1,680,476	$ —	$ —	$ 1,680,476

Assumptions used in evaluating the warrant derivative liabilities, the conversion element of the promissory notes and the put option derivative liabilities are discussed in Notes 8, 4 and 5, respectively.

NOTE 11. Net Income (Loss) Per Share

The following table presents the calculation of basic and diluted net income (loss) per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income (loss) attributable to common shareholders	$ (18,590,846)	$ 645,706	$ (22,458,795)	$ (3,949,082)
Shares used to compute net income (loss) per share - basic	41,400,151	33,846,309	41,291,426	33,675,760
Common share equivalents from exercise of options	—	1,182,037	—	—
Common share equivalents from exercise of warrants	—	11,794	—	—
Shares issuable upon vesting of restricted stock	—	4,876	—	—
Shares used to compute net income (loss) per share - diluted	41,400,151	35,045,016	41,291,426	33,675,760
Net income (loss) per share – basic	$ (0.45)	$ 0.02	$ (0.54)	$ (0.12)
Net income (loss) per share – diluted	$ (0.45)	$ 0.02	$ (0.54)	$ (0.12)

No adjustment has been made to the net loss for charges, gains, losses and accretion related to Series A and B RCPS, Series C CPS, Series A-1 convertible preferred stock and convertible promissory notes in the three months ended June 30, 2011, or in the six months ended June 30, 2011 and 2010, as the effect would be anti-dilutive due to the net loss. Further, accretion of $78,790 and the related Series A and B RCPS potentially convertible into 1,772,440 shares of common stock were not reflected in the calculation of diluted earnings per share in the three months ended June 30, 2010, as the accretion per common share obtainable on conversion exceeded basic earnings per share.

The following outstanding stock options, warrants, restricted stock (on an as-converted into common stock basis) and shares issuable or contingently issuable upon conversion of SeriesA and B RCPS, Series C CPS, Series A-1 convertible preferred stock and convertible promissory notes were excluded from the computation of diluted net loss per share attributable to holders of common stock as they had antidilutive effects for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Common share equivalents issuable upon exercise of common stock options	204,757	—	290,729	1,398,181
Common share equivalents issuable upon exercise of common stock warrants	1,906,332	—	3,353,092	166,704
Shares issuable upon vesting of restricted stock	81,456	—	96,885	2,452
Shares issuable upon conversion of Series A and B RCPS	6,532,599	—	6,532,599	1,652,615
Shares issuable upon conversion of Series C CPS	3,233,734	—	2,018,851	—
Shares issuable upon conversion of Series A-1 convertible preferred stock	11,299,644	—	5,681,037	—
Shares issuable upon conversion of convertible promissory notes	10,308,445	—	5,182,699	—
Total common share equivalents excluded from denominator for diluted earnings per share computation	33,566,967	—	23,155,892	3,219,952

In the three months ended June 30, 2010, options to purchase 1,472,797 shares of common stock and warrants to purchase 6,410,028 shares of common stock were not considered in the calculation of diluted earnings per share attributable to common stockholders as the effect would have been antidilutive. The shares of common stock issuable upon full conversion of convertible promissory notes excludes the potential additional shares issuable under the terms of the CASLA, as such shares will only become issuable in the event that the Company applies for a listing on a recognized Exchange.

NOTE 12. Comprehensive Income (Loss)

The components of comprehensive income (loss), net of taxes, are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income (loss)	$ (9,209,548)	$ 724,496	$ (13,013,377)	$ (3,804,769)
Foreign currency translation adjustments, net of income taxes	(15,422)	9,843	41,410	101,739
Total comprehensive income (loss)	$ (9,224,970)	$ 734,339	$ (12,971,967)	$ (3,703,030)

NOTE 13. Concentrations

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and accounts receivable. The Company places its cash in commercial banks. Accounts in the United States are secured by the Federal Deposit Insurance Corporation. Accounts in Malaysia are also guaranteed by the Malaysian government. The Company's total deposits at commercial banks usually exceed the balances insured.

The Company generally requires no collateral from its customers.

At June 30, 2011, three customers accounted for 43%, 21% and 18%, respectively, of accounts receivable. At December 31, 2010, four different customers accounted for 39%, 26%, 19% and 10%, respectively, of accounts receivable.

During the three months ended June 30, 2011, two customers accounted for 82% and 14%, respectively, of total revenues. During the three months ended June 30, 2010, one of these customers accounted for 41% of total revenues and a different customer accounted for 49%.

During the six months ended June 30, 2011, four customers accounted for 53%, 14%, 12% and 11%, respectively, of total revenues. During the six months ended June 30, 2010, one of these customers accounted for 22% of total revenues and a different customer accounted for 58%.

NOTE 14. Contingencies

From time to time the Company may be involved in claims arising in connection with its business. Based on information currently available, the Company believes that the amount, or range, of reasonably possible losses in connection with any pending actions against it, in excess of established reserves, in the aggregate, not to be material to its consolidated financial condition or cash flows. However, losses may be material to the Company's operating results for any particular future period, depending on the level of income for such period.

Under the terms of the Registration Rights Agreement dated May 27, 2011, the Company will become liable to pay liquidated damages to purchasers in the May 2011 Offering (see Note 1) in the event that initial and subsequent Registration Statements are not filed with, or accepted by, the Securities and Exchange Commission ("SEC") within specified time periods. The Company filed a Registration Statement with the SEC on Form S-1 on July 12, 2011, which met the required deadline for the initial filing. The SEC has since reviewed this filing and provided comments, which the Company responded to on September 8, 2011. In the event that the Registration Statement is not declared effective by the SEC by October 10, 2011 (90 days after the initial filing date), the Company will be liable to pay liquidated damages to the purchasers of $305,500 (being 1% of the aggregate purchase price), plus a further $305,500 per month until the Registration Statement has been declared effective by the SEC, up to a maximum of $3,055,000 (being 10% of the aggregate purchase price). No sums have been accrued for this contingency as the Company's management does not believe it probable that liquidated damages will become payable.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion highlights the principal factors that have affected our financial condition and results of operations as well as our liquidity and capital resources for the periods described.

The information contained in this Form 10-Q is intended to update the information contained in our annual report on Form 10-K for the year ended December 31, 2010 (the "Form 10-K"), and our quarterly report on Form 10-Q for the quarter ended March 31, 2011 (the "First Quarter Form 10-Q"), both as filed with the Securities and Exchange Commission, and presumes that readers have access to, and will have read, the "Management's Discussion and Analysis of Financial Condition and Results of Operations," our consolidated financial statements and the notes thereto, and other information contained in the Form 10-K and the First Quarter Form 10-Q. The following discussion and analysis also should be read together with our condensed consolidated financial statements and the notes thereto included elsewhere in this Form 10-Q.

Forward-Looking Statements

Information included in this Form 10-Q may contain forward-looking statements. Except for the historical information contained in this discussion of the business and the discussion and analysis of financial condition and results of operations, the matters discussed herein are forward looking statements. These forward looking statements include but are not limited to the Company's plans for sales growth and expectations of gross margin, expenses, new product introduction, and the Company's liquidity and capital needs. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other variations on these words or comparable terminology. In addition to the risks and uncertainties described in "Risk Factors" contained in the Form 10-K, these risks and uncertainties may include consumer trends, business cycles, scientific developments, changes in governmental policy and regulation, currency fluctuations, economic trends in the United States and inflation. Forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that any projections or other expectations included in any forward-looking statements will come to pass. Our actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, we undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Company Overview and Background

Wafergen, Inc. was incorporated in the State of Delaware on October 22, 2002. WaferGen Bio-systems, Inc. and subsidiaries (the "Company") are engaged in the development, manufacture and sales of systems for gene expression, genotyping and stem cell research for the life sciences, pharmaceutical drug discovery and biomarker discovery and diagnostic products industries. The Company's products are aimed at professionals who perform genetic analysis and cell biology, primarily at pharmaceutical and biotech companies, academic and private research centers, and diagnostics companies involved in biomarker research. Through the SmartChip products, the Company plans to provide new performance standards with significant savings of time and cost for professionals in the field of gene expression research facilitating biomarker discovery, toxicology and clinical research.

The Company's revenue is subject to fluctuations due to the timing of sales of high-value products and service projects, the impact of seasonal spending patterns, the timing and size of research projects its customers perform, changes in overall spending levels in the life science industry and other unpredictable factors that may affect customer ordering patterns. Any significant delays in the commercial launch or any lack or delay of commercial acceptance of new products, unfavorable sales trends in existing product lines, or impacts from the other factors mentioned above, could adversely affect the Company's revenue growth or cause a sequential decline in quarterly revenue. Due to the possibility of fluctuations in the Company's revenue and net income or loss, the Company believes that quarterly comparisons of its operating results are not a good indication of future performance.

Since inception, the Company has incurred substantial operating losses. As of June 30, 2011, the Company's accumulated deficit was $56,399,932. Losses have principally occurred as a result of the substantial resources required for the research, development and manufacturing scale-up effort required to commercialize the Company's initial products and services. The Company expects to continue to incur substantial costs for research, development, and manufacturing scale-up activities for at least the next year. The Company will also need to increase its selling, general and administrative costs as it builds up its sales and marketing infrastructure to expand and support the sale of systems, other products, and services.

Results of Operations

The following table presents selected items in the condensed consolidated statements of operations for the three and six months ended June 30, 2011 and 2010, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Revenue	$ 44,905	$ 431,894	$ 395,937	$ 821,679
Cost of revenue	13,942	135,894	154,891	271,749
Gross profit	30,963	296,000	241,046	549,930
Operating expenses:				
Sales and marketing	870,247	475,143	1,636,159	724,949
Research and development	2,019,173	1,496,443	4,079,888	3,038,711
General and administrative	2,075,200	1,160,049	3,488,781	2,203,954
Total operating expenses	4,964,620	3,131,635	9,204,828	5,967,614
Operating loss	(4,933,657)	(2,835,635)	(8,963,782)	(5,417,684)
Other income and (expenses):				
Interest income	6,615	1,949	7,360	7,107
Interest expense	(2,710,344)	(1,067)	(2,819,227)	(1,674)
Change in fair value of put option, net	184,371	—	75,612	—
Change in fair value of conversion element of promissory notes, net	(1,613,113)	—	(1,613,113)	—
Change in fair value of warrants, net	(190,981)	3,567,168	299,607	1,680,476
Miscellaneous income (expense)	30,145	(7,919)	(17,250)	(72,994)
Total other income (expense)	(4,293,307)	3,560,131	(4,067,011)	1,612,915
Net income (loss) before provision for income taxes	(9,226,964)	724,496	(13,030,793)	(3,804,769)
Provision for income taxes	(17,416)	—	(17,416)	—
Net income (loss)	$ (9,209,548)	$ 724,496	$ (13,013,377)	$ (3,804,769)

Revenue

The following table presents our revenue for the three and six months ended June 30, 2011 and 2010, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
$ 44,905	$ 431,894	(90)%	$ 395,937	$ 821,679	(52)%

For the three months ended June 30, 2011, revenue decreased by $386,989, or 90%, as compared to the three months ended June 30, 2010. The decrease is primarily due to the absence of sales of SmartChip Real-Time PCR Systems to early access customers, along with a decrease in sales of our Real-Time PCR Chip panels and Fee-for-Service.

For the six months ended June 30, 2011, revenue decreased by $425,742, or 52%, as compared to the six months ended June 30, 2010. The decrease is primarily due to decreases in sales SmartChip Real-Time PCR Systems, Real-Time PCR Chip panels and Fee-for-Service, as well as SmartSlide™ products, which we no longer market, which accounted for 16% of our revenue in the first six months of 2010.

Cost of Revenue

The following table presents the cost of revenue for the three and six months ended June 30, 2011 and 2010, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
$ 13,942	$ 135,894	(90)%	$ 154,891	$ 271,749	(43)%

Cost of revenue includes the cost of products paid to third party vendors and raw materials, labor and overhead for products manufactured internally, and reserves for warranty and inventory obsolescence.

For the three months ended June 30, 2011, cost of revenue decreased by $121,952, or 90%, as compared to the three months ended June 30, 2010. The decrease related primarily to the decrease in revenue.

For the six months ended June 30, 2011, cost of revenue decreased by $116,858 or 43%, as compared to the six months ended June 30, 2010. The decrease related primarily to the decrease in revenue, offset by a lower margin on the sale of an externally manufactured system used with our SmartChip products.

Sales and Marketing

The following table presents the sales and marketing expenses for the three and six months ended June 30, 2011 and 2010, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
$ 870,247	$ 475,143	83%	$ 1,636,159	$ 724,949	126%

Sales and marketing expenses consist primarily of compensation cost of our sales and marketing team, commissions, and the costs associated with various marketing programs.

For the three months ended June 30, 2011, sales and marketing expenses increased by $395,104, or 83%, as compared to the three months ended June 30, 2010. The increase resulted primarily from increases in salaries and wages, including bonuses, and travel and subsistence costs, which arose due to an increase in the head count of sales and marketing employees and consultants, and increases in promotional activities following the commercialization of our SmartChip products and services.

For the six months ended June 30, 2011, sales and marketing expenses increased by $911,210, or 126%, as compared to the six months ended June 30, 2010. The increase resulted primarily from increases in salaries and wages, including bonuses, recruitment costs and travel and subsistence costs and facilities allocation, which arose due to an increase in the head count of sales and marketing employees and consultants, and increases in promotional activities following the commercialization of our SmartChip products and services.

We expect selling expenses will continue to increase in the future as the Company increases its marketing activities for SmartChip, and as the number of sales personnel, and their commissions, increase.

Research and Development

The following table presents the research and development expense for the three and six months ended June 30, 2011 and 2010, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
$ 2,019,173	$ 1,496,443	35%	$ 4,079,888	$ 3,038,711	34%

Research and development expenses consist primarily of salaries and other personnel-related expenses, laboratory supplies and other expenses related to the design, development, testing and enhancement of our products. Research and development expenses are expensed as they are incurred.

For the three months ended June 30, 2011, research and development expenses increased $522,730, or 35%, as compared to the three months ended June 30, 2010. The increase resulted primarily from increases in salaries and wages and expendable equipment and materials, which arose due to an increase in the head count of employees and the amount of hardware used in their research projects.

For the six months ended June 30, 2011, research and development expenses increased $1,041,177, or 34%, as compared to the six months ended June 30, 2010. The increase resulted primarily from increases in salaries and wages, depreciation of equipment and expendable equipment and materials, which arose due to an increase in the head count of employees and the amount of hardware used in their research projects.

We believe a substantial investment in research and development is essential in the long term to remain competitive and expand into additional markets. Accordingly, we expect our research and development expenses to remain at a high level of total expenditures as we grow.

General and Administrative

The following table presents the general and administrative expenses for the three and six months ended June 30, 2011 and 2010, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
$ 2,075,200	$ 1,160,049	79%	$ 3,488,781	$ 2,203,954	58%

General and administrative expenses consist primarily of personnel costs for finance, human resources, business development, and general management, as well as professional fees, such as expenses for legal and accounting services.

For the three months ended June 30, 2011, general and administrative expenses increased $915,151, or 79%, as compared to the three months ended June 30, 2010. The increase resulted primarily from increases in personnel costs, mainly for discretionary bonuses paid to senior management, and recruitment costs.

For the six months ended June 30, 2011, general and administrative expenses increased $1,284,827, or 58%, as compared to the six months ended June 30, 2010. The increase resulted primarily from increases in personnel costs, mainly for discretionary bonuses paid to senior management, and recruitment costs.

We expect our general and administrative expenses to increase as the Company expands its staff, develops its infrastructure and incurs additional costs to support the growth in its business.

Interest Income

The following table presents the interest income for the three and six months ended June 30, 2011 and 2010, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
$ 6,615	$ 1,949	239%	$ 7,360	$ 7,107	4%

The interest income is solely earned on cash balances held in interest-bearing bank accounts.

For the three months ended June 30, 2011, interest income increased by $4,666, or 239%, as compared to the three months ended June 30, 2010. For the six months ended June 30, 2011, interest income increased by $253, or 4%, as compared to the six months ended June 30, 2010. The increase in both periods was mainly due to an increase in the average cash invested in interest-bearing accounts, offset by lower interest rates.

Interest Expense

The following table presents the interest expense for the three and six months ended June 30, 2011 and 2010, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
$ 2,710,344	$ 1,067	253,915%	$ 2,819,227	$ 1,674	168,313%

For the three months ended June 30, 2011, interest expense increased $2,709,277, or 253,915%, as compared to the three months ended June 30, 2010. For the six months ended June 30, 2011, interest expense increased $2,817,553, or 168,313%, as compared to the six months ended June 30, 2010. The increase in both periods was mostly due to the convertible promissory notes in the aggregate principal amount of $15,275,000 issued in May 2011 and the term loan of $2,000,000 obtained in December 2010 and repaid in May 2011. Interest expense (which includes the amortization of debt discount and loan origination fees) will decrease in the third quarter as there will be no one-time non-cash interest expense of $2,255,074 related to the convertible promissory notes (see Note 4 to the Condensed Consolidated Financial Statements in Part I, Item 1), and there will be no interest charges related to the term loan, which included $222,275 in accelerated deferred financing costs plus $83,585 arising due to early repayment in the three and six months ended June 30, 2011. Since the effective yield amortization weights the interest charges towards the latter stages of the contractual term of the convertible promissory notes, interest charges for the remainder of 2011 will not be significantly in excess of the 5% coupon rate absent a partial extinguishment of this debt.

Change in Fair Value of Put Option, Net

The following table represents the gain on revaluation of the put option on Series B redeemable convertible preference shares ("RCPS") in our Malaysian subsidiary, WaferGen Biosystems (M) Sdn. Bhd. ("WGBM") for the three and six months ended June 30, 2011 and 2010, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
$ 184,371	$ —	N/A	$ 75,612	$ —	N/A

A revaluation gain or loss occurs due to the difference between the value of shares of common stock of the Company potentially issuable on the balance sheet date and the average of the share price for the ten previous days. The net gain from revaluation amounted to $184,371 and $75,612 for the three and six months ended June 30, 2011, respectively. There was no put option at June 30, 2010. The put option derivative liability of $118,476 as at June 30, 2011, consists of an underlying liability of $176,471, and an unrealized gain of $57,995, which arises because the number of the Company's shares that would be issued on exercise of the put option is based on the average stock price for the previous ten days, whereas the derivative liability is based on the Company's stock price on the balance sheet date. Should the average stock price for the previous ten days and the Company's stock price on the balance sheet date be equal on September 30, 2011, or on the date of conversion if earlier, we would record a loss on fair value of put option of $57,995 in the three months ending September 30, 2011.

Change in Fair Value of Conversion Element of Convertible Promissory Notes, Net

The following table represents our unrealized loss on conversion element of convertible promissory notes, net for the three and six months ended June 30, 2011 and 2010, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
$ 1,613,113	$ —	N/A	$ 1,613,113	$ —	N/A

A net gain or loss on the conversion element of convertible promissory notes arises from the change in its appraised value. The net loss was $1,613,113 during the three and six months ended June 30, 2011. There were no convertible promissory notes at June 30, 2010. The valuation model is based on the Cure Amount (see Note 4 to the Condensed Consolidated Financial Statements in Part I, Item 1) being available to note-holders, which acts rather like a full ratchet anti-dilution provision. Thus, as the stock price drops, the number of shares increases to maintain the value of the conversion element. When the conversion element was initially valued on May 27, 2011, the Company's stock price was $0.68, so there was no such protection for the first $0.11 drop in price, as the number of conversion shares could not exceed 26,798,236 (based on the $0.57 conversion price). When the conversion element was revalued on June 30, 2011, the Company's stock price was $0.54, below the conversion price, so note-holders were fully protected against any potential drop in stock price, so despite the decline in stock price, the valuation of this derivative liability increased, creating a loss.

Change in Fair Value of Warrants, Net

The following table represents our unrealized gain (loss) on fair value of warrants, net for the three and six months ended June 30, 2011 and 2010, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
$ (190,981)	$ 3,567,168	N/A	$ 299,607	$ 1,680,476	(82)%

The net loss from warrant derivative revaluations during the three months ended June 30, 2011, was $190,981, compared to a gain of $3,567,168 during the three months ended June 30, 2010. The net gain from warrant derivative revaluations during the six months ended June 30, 2011, was $299,607, compared to a gain of $1,680,476 during the six months ended June 30, 2010. These gains and losses are directly attributed to revaluations of warrants and result primarily from a net decrease or increase in the Company's stock price in the period. The warrant derivative liability is also decreasing as their remaining term diminishes. With the present number of warrants, at our June 30, 2011, closing share price of $0.54, an increase in our share price of $0.10 would generate an unrealized loss of approximately $560,000; conversely, a decrease in our share price of $0.10 would generate an unrealized gain of approximately $500,000. Should our share price increase by $0.30, the sensitivity to changes in share price would increase even further.

Miscellaneous Income (Expense)

The following table presents the miscellaneous income (expense) for the three and six months ended June 30, 2011 and 2010, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
$ 30,145	$ (7,919)	N/A	$ (17,250)	$ (72,994)	N/A

For the three months ended June 30, 2011, we recorded miscellaneous income of $30,145, compared to an expense of $7,919 for the three months ended June 30, 2010. For the six months ended June 30, 2011, we recorded miscellaneous expense of $17,250, compared to an expense of $72,994 for the six months ended June 30, 2010. Miscellaneous income and expense is mainly the result of net foreign currency exchange gains and losses in our Malaysian subsidiary, WGBM, principally due to revaluation of the inter-company account at the balance sheet date. WGBM presently has a net liability on its dollar denominated balances, so if the value of the Malaysian Ringgit decreases against the dollar, income is recorded, whereas if it increases against the dollar, an expense is recorded. In addition, we recorded a gain of $58,575 in the three months and six months ended June 30, 2011, as the local currency exchange rate for the Series C CPS received from MTDC in March 2011 (see Note 5 to the Condensed Consolidated Financial Statements in Part I, Item 1) had been previously fixed; the cash related to this gain was not received until May 2011 and we deferred its recognition until the related cash was received.

Provision for income taxes

The following table presents the provision for income taxes for the three and six months ended June 30, 2011 and 2010, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
$ (17,416)	$ —	N/A	$ (17,416)	$ —	N/A

For the three and six months ended June 30, 2011, we recorded a credit for income taxes of $17,416, being an allocation of US taxes to the cumulative translation adjustment recorded in other comprehensive income, offset by an interim estimate of Malaysian taxes payable on interest income receivable from a loan to the US parent. The Company has provided a full valuation allowance against its net deferred tax assets.

Headcount

Our consolidated headcount as of September 9, 2011, comprised 69 regular employees, 65 of whom were employed full-time, compared to 55 regular employees as of December 31, 2010, 53 of whom were employed full-time.

Liquidity and Capital Resources

From inception through June 30, 2011, the Company raised a total of $3,665,991 from the issuance of notes payable, $66,037 from the sale of Series A preferred stock, $1,559,942 from the sale of Series B preferred stock, $31,226,191, net of offering costs, from the sale of common stock and warrants, $8,842,256, net of offering costs, from the sale of convertible preference shares in its Malaysian subsidiary, $1,842,760, net of origination fees, from a secured term loan, and $28,025,037, net of offering costs, from the sale of Series A-1 preferred stock, convertible promissory notes and warrants. As of June 30, 2011, the Company had $24,668,747 in unrestricted cash and cash equivalents, and working capital of $23,942,547.

Net Cash Used in Operating Activities

The Company experienced negative cash flow from operating activities for the six months ended June 30, 2011 and 2010, in the amounts of $8,066,515 and $5,372,001, respectively. The cash used in operating activities in the six months ended June 30, 2011, was due to cash used to fund a net loss of $13,013,377, adjusted for non-cash expenses related to depreciation and amortization, stock-based compensation, change in fair value of warrants, exchange gain on issuance of convertible preference shares of subsidiary, change in fair value of put option, change in fair value of conversion element of convertible promissory notes, excess debt discount expensed as interest, allowance for doubtful accounts and amortization of debt discount totaling $4,400,811, and cash provided by a change in working capital of $546,051. The cash used in operating activities in the six months ended June 30, 2010, was due to cash used to fund a net loss of $3,804,769, adjusted for non-cash expenses related to depreciation and amortization, stock-based compensation, change in fair value of warrants and exchange loss on issuance of redeemable convertible preference shares of subsidiary totaling $900,926, and cash used by a change in working capital of $666,306. The increase in cash used in the six months ended June 30, 2011, compared to 2010, was driven primarily by the increase in the net operating loss from $5,417,684 to $8,963,782 and the collection of trade receivables, offset by an increase in inventory.

Net Cash Used in Investing Activities

The Company used $497,448 in the six months ended June 30, 2011, and $524,158 in the six months ended June 30, 2010, to acquire property and equipment, mostly for use in research and development activities.

Net Cash Provided by Financing Activities

Cash provided by financing activities in the six months ended June 30, 2011, was $30,975,613. The Company's Malaysian subsidiary received $5,052,303, including an exchange gain and net of issuance costs, in exchange for the issuance of

3,233,734 Series C CPS, and the Company received $28,025,037, net of issuance costs, from issuance of Series A-1 preferred stock, convertible promissory notes and warrants and $9,200 from the exercise of stock options. In addition, interest of $74,253 was added to the principal amount of convertible promissory notes. This was offset by payments of $6,595 on capital lease obligations and $2,178,585 to extinguish all liabilities under a term loan.

Cash provided by financing activities in the six months ended June 30, 2010, was $1,363,153. In January 2010, the Company received net cash of $47,901 (after offering expenses of $65,874 and a selling agent commission of $9,225) from the final tranche of the sale in a private placement offering of 82,000 shares of common stock and warrants to purchase 20,500 shares of common stock with an exercise price of $2.50 per share. In March 2010, the Company's Malaysian subsidiary received $238,066, net of issuance costs and a currency exchange loss, in exchange for the issuance of 111,111 Series B RCPS, and in May 2010, the Company's Malaysian subsidiary received $495,000, net of issuance costs, in exchange for the issuance of 222,222 Series B RCPS. The Company also received $33,976 from the exercise of stock options in March and May 2010 and $562,500 from the exercise of warrants in April 2010. This was offset by repayments of $14,290 on capital lease obligations.

Availability of Additional Funds

We believe funds available at June 30, 2011, along with our revenue, will fund our operations through 2013. We expect we will need to raise further capital, through the entry into a debt facility, the sale of additional securities or otherwise, to support the Company's future operations. Our operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. At the present time, we have no material commitments for capital expenditure. Our future capital requirements and the adequacy of our available funds will depend on many factors, including our ability to successfully commercialize our SmartChip products and services, competing technological and market developments, and the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

While we believe we have sufficient cash to fund our operating, investing, and financing activities in the near term, we expect that additional working capital will be needed to sustain the Company until it achieves profitability. We may be unable to raise sufficient additional capital when we need it or to raise capital on favorable terms. The conversion of our convertible promissory notes and the Series A and B RCPS of our subsidiary, and the sale of equity or convertible debt securities in the future, may be dilutive to our stockholders, and debt financing arrangements may require us to pledge certain assets and enter into covenants that could restrict certain business activities or our ability to incur further indebtedness, and may contain other terms that are not favorable to us or our stockholders. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly or to obtain funds by entering into financing agreements on unattractive terms.

Principles of Consolidation

The consolidated financial statements of WaferGen Bio-systems, Inc. include the accounts of Wafergen, Inc. and WaferGen Biosystems (M) Sdn. Bhd., the Company's Malaysian subsidiary. All significant inter-company transactions and balances are eliminated in consolidation.

Critical Accounting Estimates

Deferred Tax Valuation Allowance

We believe sufficient uncertainties exist regarding the future realization of deferred tax assets, and, accordingly, a full valuation allowance is required, amounting to approximately $17,500,000 at December 31, 2010. In subsequent periods, if and when we generate pre-tax income, a tax expense will not be recorded to the extent that the remaining valuation allowance can be used to offset that expense. Once a consistent pattern of pre-tax income is established or other events occur that indicate that the deferred tax assets will be realized, additional portions or all of the remaining valuation allowance will be reversed back to income. Should we generate pre-tax losses in subsequent periods, a tax benefit will not be recorded and the valuation allowance will be increased.

Inventory Valuation

Inventories are stated at the lower of cost and market value. We perform a detailed assessment of inventory on a regular basis, which includes, among other factors, a review of projected demand requirements, product pricing, product expiration and product lifecycle. As a result of this assessment, we record provisions for potentially excess, obsolete or impaired goods, when appropriate, in order to reduce the reported amount of inventory to its net realizable value. If actual demand and market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Warranty Reserve

Our standard warranty agreement is one year from shipment for SmartChip cyclers and nano-dispensers. We accrue for anticipated warranty costs upon shipment of these products. Our warranty reserve is based on management's judgment regarding anticipated rates of warranty claims and associated repair costs, and we update our assessment quarterly.

Stock-Based Compensation

We measure the fair value of all stock option and restricted stock awards to employees on the grant date, and record the fair value of these awards, net of estimated forfeitures, as compensation expense over the service period. The fair value of options is estimated using the Black-Scholes valuation model, and of restricted stock is based on the Company's closing share price on the measurement date. Amounts expensed with respect to options were $256,907 and $238,392, net of estimated annual forfeitures of 6%, for the six months ended June 30, 2011 and 2010, respectively. These sums exclude the compensation expense for restricted stock awards, for which the fair value is based on our closing stock price on the dates on which performance of services is recognized.

The weighted-average grant date fair value of options awarded in the six months ended June 30, 2011 and 2010, was $0.38 and $0.72, respectively. Fair values were estimated using the following assumptions:

	Six Months Ended June 30,	
	2011	**2010**
Risk-free interest rate	1.50% - 2.24%	2.01% - 2.40%
Expected term	4.75 Years	4.75 Years
Expected volatility	42.44% - 50.83%	42.40% - 42.70%
Dividend yield	0%	0%

Risk-Free Interest Rate. This is the United States Treasury rate for the day of the grant having a term equal to the expected term of the option. An increase in the risk-free interest rate will increase the fair value and the related compensation expense.

Expected Term. This is the period of time over which the award is expected to remain outstanding and is based on management's estimate, taking into consideration the vesting terms, the contractual life, and historical experience. An increase in the expected term will increase the fair value and the related compensation expense.

Expected Volatility. This is a measure of the amount by which the stock price has fluctuated or is expected to fluctuate. Since the Company's stock has not been traded for as long as the expected term of the options, the Company uses a weighted-average of the historic volatility of seven (increased from four effective April 1, 2011) comparable companies over the retrospective period corresponding to the expected life of the Company's own options on the grant date. Extra weighting is attached to those companies most similar in terms of size and business activity. An increase in the expected volatility will increase the fair value and the related compensation expense.

Dividend Yield. The Company has not made any dividend payments nor does it have plans to pay dividends in the foreseeable future. An increase in the dividend yield will decrease the fair value and the related compensation expense.

Forfeiture Rate. This is a measure of the amount of awards that are expected to not vest. An increase in the estimated forfeiture rate will decrease the related compensation expense.

Warrant Derivative Liabilities

We evaluate our warrants to determine whether they are indexed to our common stock, and if it is determined that they are not, they are treated as derivatives. We have determined that all of the warrants that we have issued which contain an anti-dilution provision are not indexed to our stock. We measure the fair value of these warrants at the dates of issuance, and at each period end, to determine the associated derivative liability.

At these measurement dates, we estimate the fair values of these securities using a Monte Carlo Simulation approach, using critical assumptions provided by management reflecting conditions at the valuation date. The fair value of warrants ranged from $0.09 to $0.26 at June 30, 2011, from $0.32 to $0.69 at December 31, 2010, and from $0.24 to $0.36 at June 30, 2010. Fair values at June 30, 2011 and 2010, were estimated using the following assumptions:

	June 30, 2011	June 30, 2010
Risk-free interest rate	0.35% - 0.80%	0.75% - 1.25%
Expected remaining term	1.51 -2.79 Years	2.31 - 3.59 Years
Expected volatility	63.87% - 90.56%	44.80% - 50.79%
Dividend yield	0%	0%

Risk-Free Interest Rate. This is the United States Treasury rate for the measurement date having a term equal to the expected remaining term of the warrant. An increase in the risk-free interest rate will increase the fair value and the associated derivative liability.

Expected Remaining Term. This is the period of time over which the warrant is expected to remain outstanding and is based on management's estimate, taking into consideration the remaining contractual life, and historical experience. An increase in the expected remaining term will increase the fair value and the associated derivative liability.

Expected Volatility. This is a measure of the amount by which the stock price has fluctuated or is expected to fluctuate. To the extent that Company's stock has not been traded for as long as the expected remaining term of the warrants, the Company uses a weighted-average of the historic volatility of seven (increased from four effective April 1, 2011) comparable companies over the retrospective period corresponding to the expected remaining term of the warrants on the measurement date. Extra weighting is attached to those companies most similar in terms of size and business activity. To the extent that Company's stock has been traded for longer expected remaining term of the warrants, this weighted average is used to determine 50% of the volatility, with the Company's own historic volatility used to determine the remaining 50%. An increase in the expected volatility will increase the fair value and the associated derivative liability.

Dividend Yield. The Company has not made any dividend payments nor does it have plans to pay dividends in the foreseeable future. An increase in the dividend yield will decrease the fair value and the associated derivative liability.

Derivative Liability for Conversion Element of Convertible Promissory Notes

We evaluate the derivative liability for the conversion element of convertible promissory notes using a Monte Carlo Simulation approach, using critical assumptions provided by management reflecting conditions at the valuation dates. The fair value of this derivative liability at May 27, 2011, included assumptions of the fair value of common stock of $0.68, estimated volatility of 64.31%, a risk-free interest rate of 0.21% and a contractual term of 3.5 years, and was estimated to be $11,495,163. The fair value of this derivative liability at June 30, 2011, included assumptions of the fair value of common stock of $0.54, estimated volatility of 62.00%, a risk-free interest rate of 0.22% and a contractual term of 3.4 years, and was estimated to be $13,108,276.

Recent Accounting Pronouncements

See the "Recent Accounting Pronouncements" in Note 2 to the Condensed Consolidated Financial Statements in Part I, Item 1 for information related to the adoption of new accounting standards, including the expected dates of adoption and estimated effects, if any, on our condensed consolidated financial statements.

Item 4. Controls and Procedures

Management's Report on Internal Control over Financial Reporting

As of the end of the period covered by this Quarterly Report, management performed, with the participation of our principal executive officer and principal financial officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934 (the "Exchange Act"). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the report we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's forms, and that such information is accumulated and communicated to our management including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosures. Based on the evaluation and the identification of the material weakness in internal control over financial reporting described below, our principal executive officer and principal financial officer concluded that, as of June 30, 2011, the Company's disclosure controls and procedures were not effective.

We identified the following material weakness in our internal controls over financial reporting as of June 30, 2011:

> We have not adequately divided, or compensated for, incompatible functions among personnel to reduce the risk that a potential material misstatement of the financial statements would occur without being prevented or detected.

The material weakness described above was previously identified in Item 9A in our Report on Form 10-K for the year ended December 31, 2010.

Changes in Internal Control over Financial Reporting

There was no material change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we may be involved in claims arising in connection with our business. Based on information currently available, we believe that the amount, or range, of reasonably possible losses in connection with any pending actions against us, in excess of established reserves, in the aggregate, not to be material to our consolidated financial condition or cash flows. However, losses may be material to the Company's operating results for any particular future period, depending on the level of income for such period.

Item 1A. Risk Factors

There are no material changes from the risk factors set forth in Part I, Item 1A, in our Annual Report on Form 10-K for the year ended December 31, 2010, except as follows:

The Company is highly leveraged.

As of June 30, 2011, the Company had issued convertible promissory notes with a stated value of $15.3 million, which include conversion price protection under certain circumstances, and convertible preferred stock with a stated value of $15.3 million. These securities may have negative consequences for us, such as:

- limiting our ability to obtain additional financing;
- limiting funds available to us because we may need to dedicate a substantial portion of our cash flow from operations to the payment of interest expense, thereby reducing the funds available to us for other purposes, including capital expenditures;
- increasing our vulnerability to economic downturns and changing market and industry conditions; and
- limiting our ability to compete with companies that are not as highly leveraged and that may be better positioned to withstand economic downturns.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Malaysian Financing

On March 10, 2011, the Company's subsidiary, WaferGen Bio-systems (M) Sdn. Bhd. (the "Malaysian Subsidiary") received $5,000,000, less issuance costs totaling $6,272, in exchange for the issuance of 3,233,734 of its Series C convertible preference shares ("CPS") to Malaysian Technology Development Corporation Sdn. Bhd. ("MTDC"), representing the first subscription under a Share Subscription Agreement dated December 14, 2010, to sell 3,233,734 Series C CPS at an initial closing and, should MTDC so elect within 36 months of the initial closing, to sell 1,077,911 shares of Series C CPS at a subsequent closing at the U.S. dollar equivalent of US$2.3193 per share. MTDC will have a put right to cause the Company to exchange their Series C CPS for shares of common stock of the Company at one-to-one ratio at any time prior to the one year anniversary of the date of issuance of the Series C CPS, at which time all Series C CPS that have not already been exchanged for shares of common stock of the Company shall be automatically exchanged for shares of common stock of the Company at a one-to-one ratio. The proceeds from the private placement will be used for general working capital purposes, including for the broad commercialization of the WaferGen SmartChip Real-Time PCR system.

May 2011 Private Placement

On May 27, 2011, the Company sold 2,937,499.97 shares of Series A-1 Convertible Preferred Stock, convertible into 29,374,999 shares of common stock, Convertible Promissory Notes in the principal amount of $15,275,000, fully convertible into common stock of the Company at $0.57 per share, and warrants to purchase an aggregate of up to 56,173,248 shares of common stock in a private placement for an aggregate purchase price of $30,550,000. Subject to certain ownership limitations, the warrants were exercisable immediately at an exercise price of $0.62 per share. The warrants expire on May 27, 2016, five years after the issuance date, and under certain circumstances are exercisable using cashless exercise. Under registration rights agreements entered in connection with the sale of the units, the purchasers are entitled "piggyback" registration rights.

The purchasers included The Shivji Family Trust (an affiliate of Alnoor Shivji, our Chairman, President and Chief Executive Officer), Joel Kanter, a member of our board of directors, The Kanter Family Foundation ("The Kanter Foundation", which is an affiliate of Joel Kanter) and Robert Coradini, a member of our board of directors. The Shivji Family Trust purchased 38,461.54 shares of Series A-1 Convertible Preferred Stock, a Convertible Promissory Note in the principal amount of $200,000 and warrants to purchase an aggregate of up to 735,493 shares of common stock for an aggregate purchase price of $400,000. Joel Kanter purchased 9,615.38 shares of Series A-1 Convertible Preferred Stock, a Convertible Promissory Note in the principal amount of $50,000 and warrants to purchase an aggregate of up to 183,873 shares of common stock for an aggregate purchase price of $100,000. The Kanter Foundation purchased 4,807.69 shares of Series A-1 Convertible Preferred Stock, a Convertible Promissory Note in the principal amount of $25,000 and warrants to purchase an aggregate of up to 91,937 shares of common stock for an aggregate purchase price of $50,000. Robert Coradini purchased 24,037.46 shares of Series A-1 Convertible Preferred Stock, a Convertible Promissory Note in the principal amount of $125,000 and warrants to purchase an aggregate of up to 459,683 shares of common stock for an aggregate purchase price of $250,000. The Shivji Family Trust, Joel Kanter, The Kanter Foundation and Robert Coradini each participated in the May 2011 Private Placement on substantially the same terms as the other purchasers.

Net proceeds received from the May 2011 Private Placement will be used for repayment of the term loan (including associated fees and expenses), for expanding the commercialization capabilities of the Company to market the SmartChip Real-Time PCR system and related products, and for working capital and general corporate purposes.

The Malaysian Financing was made solely in an "offshore transaction," as defined in Regulation S under the Securities Act. The May 2011 Private Placement was made solely to "accredited investors," as defined in Regulation D under the Securities Act, or "qualified institutional buyers" as defined in Rule 144A(a) under the Securities Act. The securities sold in the Malaysian Financing and the May 2011 Private Placement were not, prior to their issuance, registered under the Securities Act, or the securities laws of any state, and were offered and sold in reliance on the exemption from registration afforded by Section 4(2) and Regulation D (Rule 506) or Regulation S under the Securities Act and corresponding provisions of state securities laws, which exempt transactions by an issuer not involving any public offering.

Item 6. Exhibits

Exhibit No.	Description
10.1*	Letter Agreement, dated as of May 27, 2011, by and among WaferGen Bio-systems, Inc. and the investors signatory thereto
31.1*	Rule 13a-14(a)/15d-15(e) Certification of principal executive officer
31.2*	Rule 13a-14(a)/15d-15(e) Certification of principal financial officer
32.1*	Section 1350 Certification of principal executive officer (*This certification is being furnished and shall not be deemed "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.)*
32.2*	Section 1350 Certification of principal financial officer (*This certification is being furnished and shall not be deemed "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.)*

____

* Filed/furnished herewith

SIGNATURES

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

WAFERGEN BIO-SYSTEMS, INC.

Dated: September 12, 2011

By: */s/ Alnoor Shivji*
Alnoor Shivji
Chief Executive Officer
(principal executive officer)

EXHIBIT INDEX

Exhibit No.	Description
10.1	Letter Agreement, dated as of May 27, 2011, by and among WaferGen Bio-systems, Inc. and the investors signatory thereto
31.1	Rule 13a-14(a)/15d-15(e) Certification of principal executive officer
31.2	Rule 13a-14(a)/15d-15(e) Certification of principal financial officer
32.1	Section 1350 Certification of principal executive officer
32.2	Section 1350 Certification of principal financial officer

EXHIBIT 10.1

Dated: May 27, 2011

To: WaferGen Bio-systems, Inc.
7400 Paseo Padre Parkway
Fremont, CA 94555
Attention: Don Huffman, Chief Financial Officer

Dear Don,

Reference is made to that certain Purchase Agreement (the "Purchase Agreement"), dated as of May 25, 2011, by and among WaferGen Bio-systems, Inc. (the "Company") and the investors who have executed the signature page(s) thereto (collectively, the "Investors"). Capitalized terms used but not defined in this letter shall have the respective meanings ascribed to them in the Purchase Agreement.

Subject to the Company's agreement hereto by its execution of this letter below where indicated, the Investors and the undersigned individuals (collectively, the "Management Members") agree with each other and the Company as follows:

At any time the Company seeks to initially list the Company's shares of Common Stock on The NASDAQ Stock Market LLC or the NYSE Amex Equities (each, a "Securities Exchange") within the three (3) year period from the date hereof, if, in order to complete such initial listing (or otherwise maintain such listing following the listing of the shares on a Securities Exchange) the Company is advised or required by the applicable Securities Exchange to increase its shareholders' equity by a specified dollar amount (the "Cure Amount"), then the Company shall so notify the Investors and the Management Members in writing, and Investors holding at least sixty-seven percent (67%) of the aggregate principal amount of the Notes then outstanding, at their sole discretion, may require that the Management Members and any Investors then holding Notes, within ten (10) calendar days of the receipt of such written notice, increase their holdings of equity in the Company in an aggregate amount equal to the Cure Amount as follows:

(i) Management: First, the Management Members, on a pro rata basis (based upon the principal amount of the Notes then held by them) or as otherwise agreed by the Management Members, shall acquire, to the extent and only to the extent amounts are owing under the Notes held by the Management Members, additional shares of Series A Preferred Stock through the conversion of the Notes held by such Management Members into shares of Series A Preferred Stock in accordance with the terms of the Notes, but only to the extent necessary to increase the Company's shareholders' equity by the Cure Amount.

(ii) Investors: Second, to the extent that the conversion of the Notes held by Management Members as described in the foregoing paragraph (i) does not result in the Company's shareholders' equity being increased by the Cure Amount (such deficiency referred herein as the "Deficiency Amount"), then the Investors, on a pro rata basis (based upon the principal amount of the Notes then held by them) or as otherwise agreed by the Investors then holding Notes, shall acquire, to the extent and only to the extent amounts are owing under the Notes, additional shares of Series A Preferred through the conversion of Notes held by such Investors into shares of Series A Preferred in accordance with the terms of the Notes, but only to the extent necessary to further increase the Company's shareholders' equity by the Deficiency Amount.

The parties hereto agree that in case, at any time after the date hereof, any further action is necessary or desirable to carry out the purposes and intent of this letter, the parties will take such further action as any party or parties may reasonably request. This letter may be executed in one or more counterparts, and by different parties hereto on separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Any signature page of any such counterpart, or any electronic facsimile thereof, may be attached or appended to any other counterpart to complete a fully executed counterpart of this letter, and any telecopy or other facsimile transmission of any signature shall be deemed an original. This letter shall be binding upon each party's successors and assigns, and no party may transfer the Notes to another party without the transferee first agreeing to be bound by the terms and conditions of this letter.

Please confirm your agreement with the foregoing by signing and returning to Great Point Partners, LLC the duplicate copy of this letter agreement enclosed herewith.

Very truly yours,

INVESTORS:

GREAT POINT PARTNERS, LLC

By: /s/ *David E. Kroin*
Name: David E. Kroin
Title: Managing Director

BIOMEDICAL VALUE FUND, L.P.
By: Great Point Partners, LLC, its investment manager

By: /s/ *David E. Kroin*
Name: David E. Kroin
Title: Managing Director

BIOMEDICAL INSTITUTIONAL VALUE FUND, L.P.
By: Great Point Partners, LLC, its investment manager

By: /s/ *David E. Kroin*
Name: David E. Kroin
Title: Managing Director

BIOMEDICAL OFFSHORE VALUE FUND, LTD.
By: Great Point Partners, LLC, its investment manager

By: /s/ *David E. Kroin*
Name: David E. Kroin
Title: Managing Director

WS INVESTMENTS III, LLC
By: Great Point Partners, LLC, its investment manager

By: /s/ *David E. Kroin*
Name: David E. Kroin
Title: Managing Director

DAVID J. MORRISON
By: Great Point Partners, LLC, its investment manager

By: /s/ *David E. Kroin*
Name: David E. Kroin
Title: Managing Director

CLASS D SERIES OF GEF-PS, L.P.
By: Great Point Partners, LLC, its investment manager

By: /s/ *David E. Kroin*
Name: David E. Kroin
Title: Managing Director

LYRICAL MULTI-MANAGER FUND, L.P.
By: Great Point Partners, LLC, its investment manager

By: /s/ *David E. Kroin*
Name: David E. Kroin
Title: Managing Director

JEFFREY R. JAY, TRUSTEE FOR THE BENEFIT OF THOMAS C. JAY QPERT

By: /s/ *Jeffrey R. Jay*
Name:
Title:

JEFFREY R. JAY, TRUSTEE FOR THE BENEFIT OF CAROLYN JAY TRUST

By: /s/ *Jeffrey R. Jay*
Name:
Title:

JEFFREY R. JAY, TRUSTEE FOR THE BENEFIT OF JR JAY JR TRUST

By: /s/ *Jeffrey R. Jay*
Name:
Title:

DEERFIELD SPECIAL SITUATION FUND, L.P.
By:Deerfield Capital, L.P.
General Partner
By:J.E. Flynn Capital, LLC
General Partner

By: /s/ *J. E. Flynn*
Name: James E. Flynn
Title: President

DEERFIELD SPECIAL SITUATIONS FUND INTERNATIONAL, LIMITED

By: /s/ *J. E. Flynn*
Name:James E. Flynn
Title: President

DEERFIELD PRIVATE DESIGN FUND II, L.P.
By:Deerfield Capital, L.P.
General Partner
By:J.E. Flynn Capital, LLC
General Partner

By: /s/ *J. E. Flynn*
Name: James E. Flynn
Title: President

DEERFIELD PRIVATE DESIGN INTERNATIONAL II, L.P.
By:Deerfield Capital, L.P.
General Partner
By:J.E. Flynn Capital, LLC
General Partner

By: /s/ *J. E. Flynn*
Name: James E. Flynn
Title: President

JEFFREY R JAY

By: /s/ *Jeffrey R Jay*

PAUL SCHIMMEL ROLLOVER IRA

By: /s/ *Paul Schimmel*
Name:
Title:

MERLIN NEXUS III, LP
By: Merlin Nexus III, LLC (Its General Partner)

By: /s/ *Dominique Sémon*
Name: Dominique Sémon
Title:

[Side Letter Agreement]

THE SHIVJI FAMILY TRUST DATED JUNE 12, 2000

By: /s/ *Alnoor Shivji*
Name: Alnoor Shivji
Title: Trustee

[Side Letter Agreement]

ROBERT CORADINI

/s/ *Robert Coradini*

Name:Robert Coradini

[Side Letter Agreement]

CIBC TRUST COMPANY (BAHAMAS) LIMITED
AS TRUSTEE

By: /s/ *Helen M. Carroll* /s/ *Linda G. Williams*
Name: Helen M. Carroll & Linda G. Williams
Title: Authorised Signatories

KANTER FAMILY FOUNDATION

By: /s/ *Joel Kanter*
Name: Joel Kanter
Title: President

JOEL KANTER

By: /s/ *Joel Kanter*

[Side Letter Agreement]

Accepted and agreed:

WaferGen Bio-systems, Inc.

By: /s/ *Alnoor Shivji*
Name: Alnoor Sivji
Title: Chief Executive Officer

cc: Morrison & Foerster LLP
425 Market Street
San Francisco, CA 94105
Attention: John M. Rafferty, Esq.

EXHIBIT 31.1

CERTIFICATION

I, Alnoor Shivji, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WaferGen Bio-systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 12, 2011

/s/ Alnoor Shivji
Alnoor Shivji
Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

CERTIFICATION

I, Donald Huffman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of WaferGen Bio-systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 12, 2011

/s/ Donald Huffman
Donald Huffman
Chief Financial Officer
(principal financial officer)

EXHIBIT 32.1

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), I, Alnoor Shivji, certify that:

1. The Quarterly Report of WaferGen Bio-systems, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2011 (the “Report”) as filed with the Securities and Exchange Commission as of the date hereof, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 12, 2011

/s/ Alnoor Shivji
Alnoor Shivji
Chief Executive Officer
(principal executive officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to WaferGen Bio-systems, Inc., and will be retained by WaferGen Bio-systems, Inc., and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), I, Donald Huffman, certify that:

1. The Quarterly Report of WaferGen Bio-systems, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2011 (the "Report") as filed with the Securities and Exchange Commission as of the date hereof, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 12, 2011

/s/ Donald Huffman
Donald Huffman
Chief Financial Officer
(principal financial officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to WaferGen Bio-systems, Inc., and will be retained by WaferGen Bio-systems, Inc., and furnished to the Securities and Exchange Commission or its staff upon request.