
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, 2012

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

(State or other jurisdiction of incorporation or organization)

90-0416683

(IRS Employer Identification No.)

7400 Paseo Padre Parkway, Fremont, CA

(Address of principal executive offices)

94555

(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 41,679,402 shares of common stock outstanding as of August 8, 2012.

TABLE OF CONTENTS

		<u>Page</u>
Part I	FINANCIAL INFORMATION	
	Item 1. Financial Statements (Unaudited)	1
	Condensed Consolidated Balance Sheets	1
	Condensed Consolidated Statements of Operations and Comprehensive Loss	2
	Condensed Consolidated Statements of Cash Flows	3
	Notes to the Condensed Consolidated Financial Statements	4
	Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	19
	Item 4. Controls and Procedures	28
Part II	OTHER INFORMATION	
	Item 1. Legal Proceedings	29
	Item 1A. Risk Factors	29
	Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	29
	Item 6. Exhibits	30
	SIGNATURES	31
	EXHIBIT INDEX	32

PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

WAFERGEN BIO-SYSTEMS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	June 30, 2012	December 31, 2011
	(Unaudited)	
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 9,361,128	\$ 15,117,172
Accounts receivable, net of zero allowance for doubtful accounts	37,006	29,382
Inventories, net	700,726	745,008
Prepaid expenses and other current assets	83,842	186,138
Total current assets	10,182,702	16,077,700
Property and equipment, net	1,241,231	1,714,090
Other assets	814,714	852,093
Total assets	<u>\$ 12,238,647</u>	<u>\$ 18,643,883</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 564,037	\$ 772,411
Accrued payroll and related costs	332,716	646,715
Other accrued expenses	604,182	682,284
Total current liabilities	1,500,935	2,101,410
Long-term debt, net of current portion	2,184,187	1,405,967
Derivative liabilities	3,405,139	5,967,330
Total liabilities	7,090,261	9,474,707
Commitments and contingencies (Note 13)	—	—
Stockholders' equity:		
Series A, B and C convertible preference shares of subsidiary	6,117,134	6,117,134
Preferred Stock: \$0.001 par value; 10,000,000 shares authorized; 2,937,500 shares issued and outstanding at June 30, 2012 and December 31, 2011	9,838,569	9,838,569
Common Stock: \$0.001 par value; 300,000,000 shares authorized; 41,679,402 and 41,619,402 shares issued and outstanding at June 30, 2012 and December 31, 2011	41,679	41,619
Additional paid-in capital	49,690,915	49,504,516
Accumulated deficit	(60,569,560)	(56,395,235)
Accumulated other comprehensive income	29,649	62,573
Total stockholders' equity	5,148,386	9,169,176
Total liabilities and stockholders' equity	<u>\$ 12,238,647</u>	<u>\$ 18,643,883</u>

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 and Comprehensive Loss (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenue	\$ 20,158	\$ 44,905	\$ 93,391	\$ 395,937
Cost of revenue	10,590	13,942	100,995	154,891
Gross profit	9,568	30,963	(7,604)	241,046
Operating expenses:				
Sales and marketing	158,278	870,247	412,831	1,636,159
Research and development	1,606,860	2,019,173	3,617,724	4,079,888
General and administrative	707,837	2,075,200	1,884,270	3,488,781
Total operating expenses	2,472,975	4,964,620	5,914,825	9,204,828
Operating loss	(2,463,407)	(4,933,657)	(5,922,429)	(8,963,782)
Other income and (expenses):				
Interest income	1,277	6,615	5,559	7,360
Interest expense (including excess debt discount of \$2,255,074 expensed as interest in the three and six months ended June 30, 2011)	(452,512)	(2,710,344)	(815,567)	(2,819,227)
Gain (loss) on revaluation of derivative liabilities, net	1,485,470	(1,619,723)	2,562,191	(1,237,894)
Miscellaneous income (expense)	172,354	30,145	22,808	(17,250)
Total other income and (expenses)	1,206,589	(4,293,307)	1,774,991	(4,067,011)
Net loss before provision for income taxes	(1,256,818)	(9,226,964)	(4,147,438)	(13,030,793)
Provision for income taxes	12,812	(17,416)	26,887	(17,416)
Net loss	(1,269,630)	(9,209,548)	(4,174,325)	(13,013,377)
Accretion on Series A and B redeemable convertible preference shares of subsidiary associated with premium	—	(57,036)	—	(121,156)
Accretion on Series A-1 convertible preferred stock associated with beneficial conversion feature	—	(9,250,009)	—	(9,250,009)
Series A-1 preferred dividend	(199,124)	(74,253)	(395,789)	(74,253)
Net loss attributable to common stockholders	\$ (1,468,754)	\$ (18,590,846)	\$ (4,570,114)	\$ (22,458,795)
Net loss per share – basic and diluted	\$ (0.04)	\$ (0.45)	\$ (0.11)	\$ (0.54)
Shares used to compute net loss per share – basic and diluted	41,656,737	41,400,151	41,652,685	41,291,426
Comprehensive Loss:				
Net loss	\$ (1,269,630)	\$ (9,209,548)	\$ (4,174,325)	\$ (13,013,377)
Foreign currency translation adjustments	(267,612)	(15,422)	(32,924)	41,410
Total comprehensive loss	\$ (1,537,242)	\$ (9,224,970)	\$ (4,207,249)	\$ (12,971,967)

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,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (4,174,325)	\$ (13,013,377)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	482,255	390,490
Stock-based compensation	186,459	549,643
Exchange gain on issuance of convertible preference shares of subsidiary	—	(58,575)
(Gain) loss on revaluation of derivative liabilities, net	(2,562,191)	1,237,894
Excess debt discount expensed as interest	—	2,255,074
Interest converted to principal on convertible promissory notes	395,843	74,253
Provision for excess and obsolete inventory	69,307	—
Allowance for doubtful accounts	—	20,000
Amortization of debt discount	382,377	6,285
Change in operating assets and liabilities:		
Restricted cash	—	(175)
Accounts receivable	(7,800)	667,744
Inventories	(25,121)	(804,375)
Prepaid expenses and other assets	139,766	546,270
Accounts payable	(208,239)	(427,936)
Accrued payroll and related costs	(313,944)	302,187
Other accrued expenses	(78,034)	262,336
Net cash used in operating activities	<u>(5,713,647)</u>	<u>(7,992,262)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(8,519)	(497,448)
Net cash used in investing activities	<u>(8,519)</u>	<u>(497,448)</u>
Cash flows from financing activities:		
Repayment of capital lease obligations	—	(6,595)
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
Proceeds from issuance of common stock and warrants, net of offering costs	—	9,200
Net cash provided by financing activities	<u>—</u>	<u>30,901,360</u>
Effect of exchange rates on cash	(33,878)	47,156
Net increase (decrease) in cash and cash equivalents	(5,756,044)	22,458,806
Cash and cash equivalents at beginning of the period	15,117,172	2,209,941
Cash and cash equivalents at end of the period	<u>\$ 9,361,128</u>	<u>\$ 24,668,747</u>

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

WAFERGEN BIO-SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

NOTE 1. The Company

General – WaferGen Bio-systems, Inc. and its 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 Malaysia. This subsidiary, WaferGen Biosystems (M) Sdn. Bhd. (“WGBM”), is involved in various initiatives to support a number of the Company’s ongoing development and commercialization goals. The parent company owns 100% of the common stock and 8.2% (including all shares that have been assumed by the parent 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 converted into shares of the parent company, however if all preference shares were converted into common stock of WGBM, the parent company would own 72.8% of WGBM’s common stock. See Note 5 below.

On August 30, 2011, the Company formed a new wholly owned subsidiary in Luxembourg to establish a presence for its marketing and research activities in Europe.

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, 2011, 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 the 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.

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 for which the 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). Foreign exchange gains and losses for assets and liabilities of the Company’s non-U.S. subsidiaries for which the functional currency is the U.S. dollar are recorded in miscellaneous income (expense) in the Company’s condensed consolidated statements of operations.

Inventory – Inventory is recorded at the lower of cost (first-in, first-out) or market value. Additionally, the Company evaluates its inventory in terms of excess and obsolete exposures.

WAFERGEN BIO-SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

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 its warrants with certain anti-dilution protection, the Series A convertible preference shares of its Malaysian subsidiary, and the conversion element of its convertible promissory notes and of the Series B convertible preference shares of its Malaysian subsidiary 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 gain or loss on revaluation within other income and expenses in the statement of operations. The Company determines the fair value of all of its derivative liabilities using a Monte Carlo Simulation approach, with key input variables provided by management.

Warranty Reserve – The Company’s standard warranty agreement is one year from shipment of certain products. The Company accrues for anticipated warranty costs upon shipment of these products. The Company’s warranty reserve is based on management’s judgment regarding anticipated rates of warranty claims and associated repair costs, and is updated 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 May 2011, the FASB issued ASU 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” (“ASU 2011-04”). ASU 2011-04 results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. The Company adopted this guidance effective January 1, 2012, and its adoption did not have a material impact on the Company’s consolidated financial condition or results of operations.

NOTE 3. Inventories

Inventories, net of provisions for potentially excess, obsolete or impaired goods, consisted of the following at June 30, 2012, and December 31, 2011:

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Raw materials	\$ 132,413	\$ 167,765
Work in process	262,871	191,450
Finished goods	<u>305,442</u>	<u>385,793</u>
Inventories, net	<u>\$ 700,726</u>	<u>\$ 745,008</u>

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 a total of 95,368 warrants to Oxford in connection with the LSA. These warrants have a term of five years, and an exercise price of \$1.468. Utilizing the Black-Scholes valuation model and assumptions of the fair value of common stock of \$1.41, an expected term of four years, estimated volatility of 43.96%, a zero dividend rate and a risk-free interest rate of 1.305%, the Company determined the total allocated fair value of the warrants to be \$46,230.

Further, the Company incurred initial costs of \$157,240 to obtain the LSA, which contained a provision providing for a termination fee of \$95,000. The total 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 financing costs of \$222,275 plus additional costs of \$83,585 arising from early termination were expensed as interest.

On May 27, 2011, the Company sold 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. The convertible promissory notes were sold along with convertible preferred stock and warrants for aggregate gross proceeds of \$30,550,000, which after deducting issuance costs of \$2,524,963 left net proceeds of \$28,025,037. Interest on the convertible promissory 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.

Using the relative fair value of the securities issued, the Company initially allocated the gross proceeds of \$30,550,000 to the convertible promissory notes (\$10,072,592), the Series A-1 convertible preferred stock (\$10,724,991 - see Note 6) and the warrants (\$9,752,417 - see Note 8). However, until September 30, 2011, the convertible promissory notes contained a feature that adjusted the number of shares issuable to investors in the event the Company requested conversion of the convertible promissory notes in certain circumstances. They also contain features affording the holder additional shares in the event of certain organic changes to the Company. Because these features result in the embedded conversion element not being considered indexed to the Company’s equity, the Company recognizes the conversion element of the convertible promissory notes as a derivative liability at its fair value. A liability of \$11,495,163 was thus recognized on the date of issuance, and this is marked to its fair value through income in all subsequent periods (see Note 9). Because the fair value of the conversion element exceeded the net proceeds initially allocated to the convertible promissory notes, the Company recognized a loss of \$2,255,074 at the date the convertible promissory notes were issued. The loss is reflected as additional interest expense.

The debt discount related to the debt element of the convertible promissory notes of \$14,442,497 is being amortized as non-cash interest expense using the effective yield method over the 3.5 year contractual term of the convertible promissory notes. The \$832,502 in issuance costs allocated to the convertible promissory notes was recorded as a deferred financing cost, which is also being amortized as a non-cash interest expense using the effective yield method over the 3.5 year contractual term of the promissory notes.

On September 30, 2011, Company and the note holders modified the convertible promissory notes to eliminate the feature that adjusted the number of shares issuable to investors in the event the Company requested conversion of the convertible promissory notes in certain circumstances. This modification reduced the fair value of the conversion element derivative by \$573,923. The gain from that reduction in value of the conversion element derivative was recognized as an increase in stockholders’ equity.

[Table of Contents](#)

The Company values the derivative liability for the conversion element of the 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%, a zero dividend rate and a contractual term of 3.50 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%, a zero dividend rate and a contractual term of 3.41 years, and was estimated to be \$13,108,276. The increase in the fair value of this derivative liability of \$1,613,113 during the three and six months ended June 30, 2011, was recorded as a revaluation loss (see Note 9).

The fair value of this derivative liability at December 31, 2011, included assumptions of the fair value of common stock of \$0.16, estimated volatility of 82.82%, a risk-free interest rate of 0.18%, a zero dividend rate and a contractual term of 2.91 years, and was estimated to be \$1,931,295. The fair value of this derivative liability at March 31, 2012, included assumptions of the fair value of common stock of \$0.15, estimated volatility of 94.40%, a risk-free interest rate of 0.25%, a zero dividend rate and a contractual term of 2.66 years, and was estimated to be \$1,081,869. The fair value of this derivative liability at June 30, 2012, included assumptions of the fair value of common stock of \$0.07, estimated volatility of 112.40%, a risk-free interest rate of 0.23%, a zero dividend rate and a contractual term of 2.41 years, and was estimated to be \$401,921. The decrease in the fair value of this derivative liability of \$1,529,374 during the six months ended June 30, 2012, was recorded as a revaluation gain (see Note 9).

The balance of the convertible promissory notes comprises the following at June 30, 2012, and December 31, 2011:

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Convertible Promissory Notes Payable:		
Face value	\$ 15,275,000	\$ 15,275,000
Interest added to principal	856,226	460,383
Stated value	16,131,226	15,735,383
Debt discount – conversion element, net of accumulated amortization of \$495,458 and \$113,081 respectively	13,947,039	14,329,416
Notes payable, net of debt discount	<u>\$ 2,184,187</u>	<u>\$ 1,405,967</u>

The Company leased equipment under a capital lease on which the final installment was paid in August 2011 and has no future obligations under capital leases as of June 30, 2012.

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 ("CPS") 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 CPS 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 CPS.

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 CPS 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 CPS 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 CPS 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 CPS 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, ("Series B SSA") to sell 444,444 and 222,222 Series B CPS to PMSB and EEV, respectively, both venture capital and development firms in Malaysia.

[Table of Contents](#)

On September 18, 2009, WGBM received \$423,128, less issuance costs totaling \$11,319, in exchange for the issuance of 188,057 Series B CPS 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 a Share Subscription Agreement dated July 1, 2009, to sell Series B CPS to KMP, a venture capital and development firm in Malaysia.

Under the terms of a Deed of Adherence dated April 3, 2009 (and under the Series C SSA, as defined below), certain rights of the holders of the Series A CPS were modified. In addition, under the terms of the Series B SSA, the use of funds raised through the issuance of both Series A and Series B CPS 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 CPS included, but were not limited to, the right:

- (a) to put to the Company their CPS (or ordinary shares in WGBM received on conversion of those CPS 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 in order to redeem for cash (or, at the holder’s option, shares of Company common stock of equivalent value) the amount originally invested in USD plus a premium of 8%, compounded annually, with yearly rests (each year’s accrued interest would be forfeited in the event of redemption prior to the anniversary of the initial investment) (the “Redemption Option,” since amended for Series A and expired for Series B, see below);
- (b) to cause the Company to exchange their CPS 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 CPS, 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 may exchange CPS 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 CPS, on April 3, 2014, for EEV’s and PMSB’s Series B CPS and on July 1, 2014, for KMP’s Series B CPS (the “Conversion Option,” since exercised by EEV and KMP);
- (c) to convert their CPS into ordinary shares of the subsidiary, WGBM, at any time, at a conversion rate of three ordinary shares per \$100 invested in CPS;
- (d) to cause the subsidiary, WGBM, to redeem the CPS 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; and
- (f) for each of Series A and Series B CPS, to appoint one of the seven directors of the subsidiary (see below also).

On August 1, 2010, an event occurred affording the investors in Series B CPS 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 conversion feature was recorded as a derivative liability and a reduction in CPS, 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, 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 derivative liability to be \$428,787.

On August 17, 2010, EEV provided notice of exercise of its option to sell to the Company its holding of 222,222 Series B CPS in exchange for 458,483 shares of the Company’s common stock, with shares to be issued on September 16, 2010. Utilizing the Black-Scholes valuation model and assumptions of the fair value of common stock of \$1.25, 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 derivative liability relating to EEV’s shares to be \$73,105, and for the remaining CPS to be \$208,077.

[Table of Contents](#)

On September 29, 2010, KMP provided notice of exercise of its option to sell to the Company its holding of 188,057 Series B CPS in exchange for 328,579 shares of the Company's common stock, with shares to be issued on October 29, 2010. Utilizing the Black-Scholes valuation model and assumptions of the fair value of common stock of \$1.51, 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 derivative liability relating to KMP's shares to be \$73,027, and for the remaining CPS to be \$172,588.

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

On March 31, 2011, the Company revalued the derivative liability utilizing the Black-Scholes valuation model and assumptions of the fair value of common stock of \$1.00, 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 derivative liability to be \$302,847. On June 30, 2011, the Company revalued the derivative liability utilizing the Black-Scholes valuation model and assumptions of the fair value of common stock of \$0.54, 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 derivative liability to be \$118,476. The decrease in the fair value of this derivative liability of \$75,612 during the six months ended June 30, 2011, was recorded as a revaluation gain (see Note 9).

On December 31, 2011, the Series B CPS Redemption Option lapsed. The Series B CPS recorded in temporary equity was transferred to permanent equity and the value of the derivative liability for the conversion element, now the only substantive right available to PMSB, increased significantly as a result. The Company revalued this derivative liability utilizing a Monte Carlo Simulation and assumptions of the fair value of common stock of \$0.16, estimated volatility of 81.69%, a risk-free interest rate of 0.28%, a zero dividend rate and an expected term of 1.81 years, and determined the fair value of the derivative liability to be \$1,245,101.

On March 31, 2012, the Company revalued the derivative liability utilizing a Monte Carlo Simulation and assumptions of the fair value of common stock of \$0.15, estimated volatility of 90.76%, a risk-free interest rate of 0.27%, a zero dividend rate and an expected term of 1.61 years, and determined the fair value of the derivative liability to be \$1,248,385. On June 30, 2012, the Company revalued the derivative liability utilizing a Monte Carlo Simulation and assumptions of the fair value of common stock of \$0.07, estimated volatility of 106.00%, a risk-free interest rate of 0.26%, a zero dividend rate and an expected term of 1.41 years, and determined the fair value of the derivative liability to be \$1,327,769. The increase in the fair value of this derivative liability of \$82,668 during the six months ended June 30, 2012, was recorded as a revaluation loss (see Note 9).

Based on the average closing price of the Company's common stock of \$0.074 in the 10-day trading period immediately prior to June 30, 2012, PMSB could have converted their holding into 15,898,251 shares of such stock had they exercised the Conversion Option on that date.

On December 9, 2011, the terms of the Series A CPS were amended by a Letter Agreement with MTDC (the "MTDCLA") to extend the period during which MTDC could exercise the Redemption Option from December 31, 2011 to April 3, 2014. In addition, the holder's option to elect to receive shares of Company common stock of equivalent value (see above) was amended to give the Company the option, upon the exercise of the Redemption Option, to pay in shares of its common stock at an Applicable Stock Price ("ASP"), calculated as 85% of the average closing price of that stock during the 10-day trading period immediately prior to MTDC's exercise notice. Further, the ASP is subject to a ceiling of \$1.55 and a floor of \$0.10.

The amendment that allows the Company to settle the Redemption Option in a variable number of shares causes the Redemption Option to no longer be considered indexed to the Company's equity. As a result, the Company recognized the Redemption Option as an embedded derivative requiring bifurcation effective December 9, 2011. The Company valued the Redemption Option utilizing a Monte Carlo Simulation and assumptions of the fair value of common stock of \$0.16, estimated volatilities of 78.02% to 80.22%, risk-free interest rates of 0.27%, a zero dividend rate and expected remaining terms of 1.61 to 1.96 years; the fair value of the Redemption Option was estimated to be \$2,198,828. The host instrument (the Series A CPS absent the Redemption Option) is not redeemable and therefore should be classified as part of permanent equity. Accordingly, this modification to the Series A CPS resulted in (1) the recognition of a

[Table of Contents](#)

derivative liability of \$2,198,828, (2) the elimination of temporary equity of \$2,519,424, and (3) an increase in permanent equity of \$320,596. As the fair value of the amended Series A CPS was \$320,390 less than the carrying amount of the accreted Series A CPS prior to the amendment, \$320,390 of the amount transferred to permanent equity was treated as reversal of prior accretion of the Series A CPS.

On December 31, 2011, the Company revalued the derivative liability for Series A CPS utilizing a Monte Carlo Simulation and assumptions of the fair value of common stock of \$0.16, estimated volatilities of 81.15% to 82.83%, risk-free interest rate of 0.28%, a zero dividend rate and expected remaining terms of 1.55 to 1.90 years; the total fair value was estimated to be \$2,135,715.

On March 31, 2012, the Company revalued the derivative liability for Series A CPS utilizing a Monte Carlo Simulation and assumptions of the fair value of common stock of \$0.15, estimated volatilities of 89.99% to 96.41%, risk-free interest rates of 0.23% to 0.28%, a zero dividend rate and expected remaining terms of 1.30 to 1.66 years; the total fair value was estimated to be \$2,204,365. On June 30, 2012, the Company revalued this derivative liability utilizing a Monte Carlo Simulation and assumptions of the fair value of common stock of \$0.07, estimated volatilities of 105.96% to 114.25%, risk-free interest rates of 0.22% to 0.26%, a zero dividend rate and expected remaining terms of 1.05 to 1.41 years; the total fair value was estimated to be \$1,346,035. The decrease in the fair value of this derivative liability of \$789,680 during the six months ended June 30, 2012, was recorded as a revaluation gain (see Note 9).

On June 30, 2012, the cash value of the Redemption Option was \$2,519,424. Since 85% of the average closing price of the Company's common stock of \$0.074 in the 10-day trading period immediately prior to June 30, 2012, was less than the ASP floor of \$0.10, the Company could have settled this liability by issuing 25,194,240 shares of its common stock on that date.

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, ("Series C 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. 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. MTDC may appoint one of the seven directors of the subsidiary (in addition to the director they may appoint as the holder of Series A CPS), and an additional independent director may be jointly appointed by MTDC and the Company. Each Series C CPS issued at the initial closing can convert into one share of the Company on April 3, 2014 (this was extended from December 20, 2011, by the MTDCLA), and each Series C CPS issued at the subsequent closing will convert into one share of the Company on the anniversary of that closing, but the Series C may convert at any earlier date following each closing at MTDC's option.

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 410,279 Series B CPS held by the Company upon exercise by EEV and KMP of their options) issued and outstanding at June 30, 2012, and December 31, 2011.

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 accrue, compounding quarterly, 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.

[Table of Contents](#)

As of June 30, 2012, \$853,997 of undeclared dividends had been accrued with respect to the outstanding Series A-1 Convertible Preferred Stock, of which \$199,124 and \$395,789 relate to the three and six months ended June 30, 2012, respectively.

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 vested 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, 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 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 following approval of the 2008 Plan by the Board of Directors, adding an additional 1,500,000 shares, bringing the total to 3,500,000 shares of the Company's 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 following approval of the 2008 Plan by the Board of Directors, adding an additional 3,000,000 shares, bringing the total to 6,500,000 shares of the Company's common stock available for issuance under the 2008 Plan. On December 30, 2011, the Company's stockholders approved a further amendment to the 2008 Plan following approval of the 2008 Plan by the Board of Directors, adding an additional 8,000,000 shares, bringing the total to 14,500,000 shares of the Company's common stock available for issuance under the 2008 Plan. Notwithstanding the foregoing, no more than 7,250,000 shares of the Company's common stock may be granted pursuant to awards of restricted stock and restricted stock units. The number of shares of the Company's 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 the Company's common stock or 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 (including restricted stock units) 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.

WAFERGEN BIO-SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

A summary of stock option and restricted stock transactions in the six months ended June 30, 2012, 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, 2012	10,305,071	4,306,900	\$ 1.3978	5,000	\$ 1.2500
Granted	(9,384,000)	9,324,000	\$ 0.1188	60,000	\$ 0.1400
Vested	—	—	\$ —	(42,500)	\$ 0.2706
Forfeited	948,178	(948,178)	\$ 0.5880	—	\$ —
Canceled	705,987	(853,176)	\$ 1.2319	—	\$ —
Balance at June 30, 2012	2,575,236	11,829,546	\$ 0.4666	22,500	\$ 0.1400

No options were exercised during the six months ended June 30, 2012. The Company received \$104,566 for the 324,740 options exercised during the six months ended June 30, 2011, which had an intrinsic value of \$203,399.

The aggregate intrinsic value of options outstanding and exercisable at June 30, 2012, was \$6,882, based on our common stock closing price of \$0.07. 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, 2012 and 2011, was \$0.08 and \$0.38, respectively. Fair values were estimated using the following assumptions:

	Six Months Ended June 30,	
	2012	2011
Risk-free interest rate	0.71% - 1.09%	1.50% - 2.24%
Expected term	4.75 Years	4.75 Years
Expected volatility	65.02% - 98.80%	42.44% - 50.83%
Dividend yield	0%	0%

The amounts expensed for stock-based compensation totaled \$80,941 and \$267,090 for the three months ended June 30, 2012 and 2011, respectively, and \$186,459 and \$549,643 for the six months ended June 30, 2012 and 2011, respectively. The expense in the three and six months ended June 30, 2011, included \$43,890 and \$126,490, respectively, for restricted stock awards to consultants; there were no such awards in the six months ended June 30, 2012.

At June 30, 2012, the total stock-based compensation cost not yet recognized, net of estimated forfeitures, was \$687,732. This cost is expected to be recognized over an estimated weighted average amortization period of 2.53 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. Warrants

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 gains or losses on revaluation in non-operating income (expense).

In connection with the 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 anti-dilution adjustments as of that date, waived their right to any future anti-dilution adjustments, so this estimated fair value was transferred to stockholders' equity.

WAFERGEN BIO-SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

During the three months ended June 30, 2012, a decrease in the fair value of the warrant derivative liability of \$26,576 was recorded as a revaluation gain. During the three months ended June 30, 2011, an increase in the fair value of the warrant derivative liability of \$190,981 was recorded as a revaluation loss. During the six months ended June 30, 2012, a decrease in the fair value of the warrant derivative liability of \$325,805 was recorded as a revaluation gain. During the six months ended June 30, 2011, a decrease in the fair value of the warrant derivative liability of \$299,607 was recorded as a revaluation gain. A summary of activity in warrant derivative liabilities is included in Note 9.

The fair value of warrants ranged from \$0.001 to \$0.052 at June 30, 2012, from \$0.02 to \$0.10 at December 31, 2011, and from and from \$0.09 to \$0.26 at June 30, 2011.

Fair values at June 30, 2012 and 2011, were estimated using the following assumptions:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Risk-free interest rate	0.20% – 0.33%	0.35% - 0.80%
Expected remaining term	0.89 – 1.99 Years	1.51 -2.79 Years
Expected volatility	96.38% – 118.21%	63.87% - 90.56%
Dividend yield	0%	0%

A summary of outstanding common stock warrants as of June 30, 2012, is as follows:

<u>Securities Into Which Warrants are Convertible</u>	<u>Total Warrants Outstanding</u>	<u>Warrants Subject to Anti-Dilution</u>	<u>Exercise Price</u>	<u>Expiration Date</u>
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	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	200,000	—	\$3.0000	December 2014 and November 2015
Subtotal	69,301,409	8,577,389		
Series C CPS	1,077,911	—	\$2.3193	March 2014
Total	<u>70,379,320</u>	<u>8,577,389</u>		

The warrants expiring in May 2016 were issued in conjunction with the May 2011 Private Placement, and were recorded at an allocated valuation of \$9,752,417 (see Note 4), less allocated issuance costs of \$806,039, 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 3.50 years. These warrants include the right to receive consideration for the unexercised portion of the warrant, based on a Black-Scholes model set forth in the warrants, in the event of certain substantial changes in ownership or trading status of the Company. This contingent embedded derivative will be accounted for only if such an event 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 December 31, 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 the May 2011 Private Placement, members of management with warrants to purchase a total of 769,231 shares (after giving effect to prior anti-dilution adjustments) waived their right to further anti-dilution adjustments.

WAFERGEN BIO-SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

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 December 31, 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 the May 2011 Private Placement, members of management with warrants to purchase a total of 101,686 shares (after giving effect to prior anti-dilution adjustments) 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 December 31, 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 the May 2011 Private Placement, members of management with warrants to purchase a total of 180,157 shares (after giving effect to prior anti-dilution adjustments) waived their right to further anti-dilution adjustments.

The 95,368 warrants expiring in December 2015 were issued in December 2010 in conjunction with obtaining a term loan (see Note 4).

The Series C SSA (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. 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, the Company primarily uses prices and other relevant information generated by market transactions involving identical or comparable assets ("market approach"). The Company also considers 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.

WAFERGEN BIO-SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2012 and December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2012				
Financial Assets:				
Cash and cash equivalents	\$ 9,361,128	\$ —	\$ —	\$ 9,361,128
Total assets	<u>\$ 9,361,128</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,361,128</u>
Financial Liabilities:				
Warrant derivative liabilities	\$ —	\$ —	\$ 329,414	\$ 329,414
Conversion element of promissory notes	—	—	401,921	401,921
Conversion element of Series B CPS	—	—	1,327,769	1,327,769
Series A CPS derivative liabilities	—	—	1,346,035	1,346,035
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,405,139</u>	<u>\$ 3,405,139</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2011				
Financial Assets:				
Cash and cash equivalents	\$ 15,117,172	\$ —	\$ —	\$ 15,117,172
Total assets	<u>\$ 15,117,172</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 15,117,172</u>
Financial Liabilities:				
Warrant derivative liabilities	\$ —	\$ —	\$ 655,219	\$ 655,219
Conversion element of promissory notes	—	—	1,931,295	1,931,295
Conversion element of Series B CPS	—	—	1,245,101	1,245,101
Series A CPS derivative liabilities	—	—	2,135,715	2,135,715
Total liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,967,330</u>	<u>\$ 5,967,330</u>

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, 2012 and 2011:

	<u>Warrant Derivatives</u>	<u>Conversion Element of Promissory Notes</u>	<u>Conversion Element of Series B CPS</u>	<u>Series A CPS Derivatives</u>	<u>Total</u>
Balance at January 1, 2012	\$ 655,219	\$ 1,931,295	\$ 1,245,101	\$ 2,135,715	\$ 5,967,330
Issuances	—	—	—	—	—
Revaluation (gains) losses included in other income and (expenses)	(325,805)	(1,529,374)	82,668	(789,680)	(2,562,191)
Settlements	—	—	—	—	—
Balance at June 30, 2012	<u>\$ 329,414</u>	<u>\$ 401,921</u>	<u>\$ 1,327,769</u>	<u>\$ 1,346,035</u>	<u>\$ 3,405,139</u>
Total gains (losses) included in other income and (expenses) attributable to liabilities still held as of June 30, 2012	<u>\$ 325,805</u>	<u>\$ 1,529,374</u>	<u>\$ (82,668)</u>	<u>\$ 789,680</u>	<u>\$ 2,562,191</u>

WAFERGEN BIO-SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

	Warrant Derivatives	Conversion Element of Promissory Notes	Conversion Element of Series B CPS	Series A CPS Derivatives	Total
Balance at January 1, 2011	\$ 2,240,962	\$ —	\$ 194,088	\$ —	\$ 2,435,050
Issuances	—	11,495,163	—	—	11,495,163
Revaluation (gains) losses 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	<u>\$ 1,625,552</u>	<u>\$ 13,108,276</u>	<u>\$ 118,476</u>	<u>\$ —</u>	<u>\$ 14,852,304</u>
Total gains (losses) included in other income and (expenses) attributable to liabilities still held as of June 30, 2011	<u>\$ 353,832</u>	<u>\$ (1,613,113)</u>	<u>\$ 75,612</u>	<u>\$ —</u>	<u>\$ (1,183,669)</u>

Assumptions used in evaluating the warrant derivative liabilities, the conversion element of the promissory notes, the conversion element of the Series B CPS and the Series A CPS derivative liabilities are discussed in Notes 8, 4, 5 and 5, respectively. The principal assumptions used, and their impact on valuations, are as follows:

Risk-Free Interest Rate. This is the U.S. Treasury rate for the measurement date having a term equal to the weighted average expected remaining term of the instrument. 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 instrument is expected to remain outstanding and is based on management's estimate, taking into consideration the remaining contractual life, and historical experience. For the convertible promissory notes, the Company considers a blend of expected remaining terms prior to partial conversion into Series A-2 Convertible Preferred Stock, giving consideration to the likelihood of conversion under various scenarios, and a further blend of expected remaining terms prior to partial conversion into common stock, all based on management's projections of when such conversions would occur within the contractual term. 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 Company's common stock price has fluctuated or is expected to fluctuate. To the extent that the Company's common stock has not been traded for as long as the expected remaining term of the instrument, the Company uses a weighted-average of the historic volatility of a group of publicly traded companies over the retrospective period corresponding to the expected remaining term of the instrument on the measurement date. The group of publicly traded companies is selected from the same industry or market index, with extra weighting attached to those companies most similar in terms of business activity, size and financial leverage. To the extent that the Company's common stock has been traded for longer than the expected remaining term of the instrument, 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 and does not plan to pay dividends in the foreseeable future. An increase in the dividend yield will decrease the fair value and the associated derivative liability.

NOTE 10. Cash Flow Information

Cash paid during the six months ended June 30, 2012 and 2011, 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,	
	2012	2011
Interest	\$ —	\$ 127,040
Income taxes	\$ 23,249	\$ —

WAFERGEN BIO-SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

Supplemental disclosure of non-cash investing and financing activities for the six months ended June 30, 2012 and 2011, is as follows:

	Six Months Ended June 30,	
	2012	2011
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	\$ 395,843	\$ 74,253
Beneficial conversion feature related to Series A-1 convertible preferred stock	\$ —	\$ 9,250,009
Inventory transferred to property and equipment	\$ —	\$ 693,942
Accretion on Series A and B convertible preference shares of subsidiary associated with premium	\$ —	\$ 121,156
Restricted stock forfeited to cover income tax liability	\$ —	\$ 30,437

NOTE 11. Net Loss Per Share

Basic and diluted net loss per share are shown on the statement of operations. No adjustment has been made to the net loss for charges, gains, losses and accretion related to Series A, B and C CPS, Series A-1 Convertible Preferred Stock and convertible promissory notes, as the effect would be anti-dilutive due to the net loss. The following outstanding stock options and warrants (on an as-converted into common stock basis) and shares issuable or contingently issuable upon conversion of restricted stock, Series A, B and 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, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Common share equivalents issuable upon exercise of common stock options	191,935	204,757	381,187	290,729
Common share equivalents issuable upon exercise of common stock warrants	—	1,906,332	—	3,353,092
Shares issuable upon vesting of restricted stock	22,665	81,456	26,058	96,885
Shares issuable upon conversion of Series A CPS	26,747,885	4,353,950	26,747,885	4,353,950
Shares issuable upon conversion of Series B CPS	15,898,251	2,178,649	15,898,251	2,178,649
Shares issuable upon conversion of Series C CPS	3,233,734	3,233,734	3,233,734	2,018,851
Shares issuable upon conversion of Series A-1 convertible preferred stock	30,783,412	11,299,644	30,673,156	5,681,037
Shares issuable upon conversion of convertible promissory notes	28,129,553	10,308,445	27,954,468	5,182,699
Total common share equivalents excluded from denominator for diluted earnings per share computation	<u>105,007,435</u>	<u>33,566,967</u>	<u>104,914,739</u>	<u>23,155,892</u>

WAFERGEN BIO-SYSTEMS, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Unaudited)

NOTE 12. 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, 2012, three customers accounted for 75%, 11% and 10%, respectively, of accounts receivable. At December 31, 2011, three different customers accounted for 38%, 33% and 10%, respectively, of accounts receivable.

During the three months ended June 30, 2012, four customers accounted for 38%, 21%, 19% and 14%, respectively, of total revenues. During the three months ended June 30, 2011, two different customers accounted for 82% and 14%, respectively, of total revenues.

During the six months ended June 30, 2012, three customers accounted for 30%, 18% and 16%, respectively, of total revenues. During the six months ended June 30, 2011, four different customers accounted for 53%, 14%, 12% and 11%, respectively, of total revenues.

NOTE 13. 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, including the matter described below, 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 or loss for such period.

Coalesce v. WaferGen. On April 24, 2012, an action entitled Coalesce Corporation ("Coalesce") v. WaferGen Bio-systems, Inc. was filed in the Alameda County Superior Court. Coalesce, a company that had been providing marketing services, sued the Company for a total of \$100,000 for alleged non-payment of sums due either subsequent to termination of a contract or under alleged verbal agreements in late 2009 and early 2010. The case is in the discovery stage. The Company believes the claim to be substantially without merit, and that any sums ultimately payable will be immaterial to the Company's financial position and results of operations. Related legal costs are being expensed as incurred.

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, 2011 (the "Form 10-K"), and our quarterly report on Form 10-Q for the quarter ended March 31, 2012 (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

Since beginning operations in 2003, we have been 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. Our 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. We plan to provide new performance standards with significant savings of time and cost for professionals in the field of gene expression research and to facilitate biomarker discovery, toxicology and clinical research through the SmartChip products and services.

Our 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 our 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 our revenue growth or cause a sequential decline in quarterly revenue. Due to the possibility of fluctuations in our revenue and net income or loss, we believe that quarterly comparisons of our operating results are not a good indicator of future performance.

Since inception, we have incurred substantial operating losses. As of June 30, 2012, our accumulated deficit was \$60,569,560. Losses have principally occurred as a result of the substantial resources required for the research, development and manufacturing scale-up effort required to commercialize our products and services. We expect to continue to incur substantial costs for research and development activities for at least the next year as we enhance our efforts to support our strategy of engaging key opinion leaders in the life science research market to address its rapidly changing needs with our new open format SmartChip products and services.

[Table of Contents](#)

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, 2012 and 2011, respectively:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenue	\$ 20,158	\$ 44,905	\$ 93,391	\$ 395,937
Cost of revenue	10,590	13,942	100,995	154,891
Gross profit	9,568	30,963	(7,604)	241,046
Operating expenses:				
Sales and marketing	158,278	870,247	412,831	1,636,159
Research and development	1,606,860	2,019,173	3,617,724	4,079,888
General and administrative	707,837	2,075,200	1,884,270	3,488,781
Total operating expenses	2,472,975	4,964,620	5,914,825	9,204,828
Operating loss	(2,463,407)	(4,933,657)	(5,922,429)	(8,963,782)
Other income and (expenses):				
Interest income	1,277	6,615	5,559	7,360
Interest expense	(452,512)	(2,710,344)	(815,567)	(2,819,227)
Gain (loss) on revaluation of derivative liabilities, net	1,485,470	(1,619,723)	2,562,191	(1,237,894)
Miscellaneous income (expense)	172,354	30,145	22,808	(17,250)
Total other income and (expenses)	1,206,589	(4,293,307)	1,774,991	(4,067,011)
Net loss before provision for income taxes	(1,256,818)	(9,226,964)	(4,147,438)	(13,030,793)
Provision for income taxes	12,812	(17,416)	26,887	(17,416)
Net loss	\$ (1,269,630)	\$ (9,209,548)	\$ (4,174,325)	\$ (13,013,377)

Revenue

The following table presents our revenue for the three and six months ended June 30, 2012 and 2011, respectively:

	<u>Three Months Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
	<u>2012</u>	<u>2011</u>	<u>% Change</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u>
	\$ 20,158	\$ 44,905	(55)%	\$ 93,391	\$ 395,937	(76)%

For the three months ended June 30, 2012, revenue decreased by \$24,747, or 55%, as compared to the three months ended June 30, 2011. The decrease is primarily due to a reduction in sales of Real-Time PCR Chip panels and of SmartSlide™ consumables, offset by an increase in service revenue.

For the six months ended June 30, 2012, revenue decreased by \$302,546, or 76%, as compared to the six months ended June 30, 2011. The decrease is primarily due to the absence of sales of any SmartChip Real-Time PCR Systems in 2012, compared to one sale in 2011 which accounted for 53% of our revenue for the period. There were also decreases in sales of our Real-Time PCR Chip panels and service revenue. Since March 31, 2011, commercialization efforts for the SmartChip Real-Time PCR Systems product line have not produced meaningful results because of the relatively small amount of sales and marketing resources, more entrenched competition, the limited number of applications, the length of the sales cycle and the small installed base of systems from which to generate recurring revenue from consumables. Future revenue will depend on market acceptance of our new open format SmartChip products which were launched on July 10, 2012.

[Table of Contents](#)

Cost of Revenue

The following table presents the cost of revenue for the three and six months ended June 30, 2012 and 2011, respectively:

<u>Three Months Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
<u>2012</u>	<u>2011</u>	<u>% Change</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u>
\$ 10,590	\$ 13,942	(24)%	\$ 100,995	\$ 154,891	(35)%

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, 2012, cost of revenue decreased by \$3,352, or 24%, as compared to the three months ended June 30, 2011. The decrease related primarily to the decrease in revenue, offset by lower margins.

For the six months ended June 30, 2012, cost of revenue decreased by \$53,896, or 35%, as compared to the six months ended June 30, 2011. The decrease related primarily to the decrease in revenue, offset by added provisions for excess inventory.

Sales and Marketing

The following table presents the sales and marketing expenses for the three and six months ended June 30, 2012 and 2011, respectively:

<u>Three Months Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
<u>2012</u>	<u>2011</u>	<u>% Change</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u>
\$ 158,278	\$ 870,247	(82)%	\$ 412,831	\$ 1,636,159	(75)%

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

For the three months ended June 30, 2012, sales and marketing expenses decreased by \$711,969, or 82%, as compared to the three months ended June 30, 2011. The decrease resulted primarily from decreases in personnel costs, due to a reduction in headcount, and the scaling back of selling and marketing activities.

For the six months ended June 30, 2012, sales and marketing expenses decreased by \$1,223,328, or 75%, as compared to the six months ended June 30, 2011. The decrease resulted primarily from decreases in personnel costs, due to a reduction in headcount and the scaling back of selling and marketing activities.

We expect selling expenses will remain at their present levels in the near future as we establish the commercial viability of our open format SmartChip products and services through cooperation with key opinion leaders, and subsequently to rise 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, 2012 and 2011, respectively:

<u>Three Months Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
<u>2012</u>	<u>2011</u>	<u>% Change</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u>
\$ 1,606,860	\$ 2,019,173	(20)%	\$ 3,617,724	\$ 4,079,888	(11)%

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, 2012, research and development expenses decreased by \$412,313, or 20%, as compared to the three months ended June 30, 2011. The decrease resulted primarily from decreases in expensed materials and reagents and consulting costs, offset by severance costs and a small increase in depreciation costs.

[Table of Contents](#)

For the six months ended June 30, 2012, research and development expenses decreased \$462,164, or 11%, as compared to the six months ended June 30, 2011. The decrease resulted primarily from decreases in expensed materials and reagents and consulting costs, offset by increases in personnel and depreciation costs.

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 for the foreseeable future.

General and Administrative

The following table presents the general and administrative expenses for the three and six months ended June 30, 2012 and 2011, respectively:

<u>Three Months Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
<u>2012</u>	<u>2011</u>	<u>% Change</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u>
\$ 707,837	\$ 2,075,200	(66)%	\$ 1,884,270	\$ 3,488,781	(46)%

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, 2012, general and administrative expenses decreased \$1,367,363, or 66%, as compared to the three months ended June 30, 2011. The decrease resulted primarily from decreases in personnel costs, mainly for salaries and discretionary bonuses paid to senior management, stock compensation costs, investor relations costs, professional fees and recruitment costs.

For the six months ended June 30, 2012, general and administrative expenses decreased \$1,604,511, or 46%, as compared to the six months ended June 30, 2011. The decrease resulted primarily from decreases in personnel costs, mainly for salaries and discretionary bonuses paid to senior management, stock compensation costs, investor relations costs, professional fees and recruitment costs, offset by a one-time expense for severance costs related to the termination of our former Chief Operating Officer and Chief Financial Officer.

We expect our general and administrative expenses to remain lower in 2012 due to reduced personnel, consultancy and other outside service costs.

Interest Income

The following table presents the interest income for the three and six months ended June 30, 2012 and 2011, respectively:

<u>Three Months Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
<u>2012</u>	<u>2011</u>	<u>% Change</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u>
\$ 1,277	\$ 6,615	(81)%	\$ 5,559	\$ 7,360	(24)%

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

For the three months ended June 30, 2012, interest income decreased by \$5,338, or 81%, as compared to the three months ended June 30, 2011. For the six months ended June 30, 2012, interest income decreased by \$1,801, or 24%, as compared to the six months ended June 30, 2011. The decrease in both periods was mainly due to a decrease in the average cash invested in interest-bearing accounts, along with lower interest rates.

Interest Expense

The following table presents the interest expense for the three and six months ended June 30, 2012 and 2011, respectively:

<u>Three Months Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
<u>2012</u>	<u>2011</u>	<u>% Change</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u>
\$ 452,512	\$ 2,710,344	(83)%	\$ 815,567	\$ 2,819,227	(71)%

For the three months ended June 30, 2012, interest expense decreased \$2,257,832, or 83%, as compared to the three months ended June 30, 2011. For the six months ended June 30, 2012, interest expense decreased \$2,003,660, or 71%, as compared to the six months ended June 30, 2011. The decrease in both periods was mostly due to the absence of a

[Table of Contents](#)

one-time non-cash interest expense of \$2,255,074 related to the convertible promissory notes (“CPNs”) in the aggregate principal amount of \$15,275,000 issued in May 2011, and of interest charges related to the term loan of \$2,000,000 obtained in December 2010 and repaid in May 2011, 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 (see Note 4 to the Condensed Consolidated Financial Statements in Part I, Item 1). This decrease was offset by interest of 5% being payable on the CPNs for the whole of both periods in 2012, and the amortization of debt discount and loan origination fees on these CPNs. We expect that the 5% interest on the CPNs, along with the effective yield amortization of debt discount, which weights the interest charges towards the latter stages of their contractual term, will result in interest expense of approximately \$2.1 million in 2012, with increased expense in 2013 and 2014.

Gain (loss) on Revaluation of Derivative Liabilities, Net

The following table represents the gain (loss) on revaluation of derivative liabilities, net for the three and six months ended June 30, 2012 and 2011, respectively:

<u>Three Months Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
<u>2012</u>	<u>2011</u>	<u>% Change</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u>
\$ 1,485,470	\$ (1,619,723)	N/A	\$ 2,562,191	\$ (1,237,894)	N/A

Our derivative liabilities arise due to the variable number of shares of our common stock that may be issued upon the exercise of those warrants with certain anti-dilution protection, upon the exchange of Series A and Series B CPS of our Malaysian subsidiary, and under the conversion element of our CPNs.

The net gain from revaluation of derivative liabilities for the three months ended June 30, 2012, was \$1,485,470, compared to a loss of \$1,619,723 for the three months ended June 30, 2011. The net gain from revaluation of derivative liabilities for the six months ended June 30, 2012, was \$2,562,191, compared to a loss of \$1,237,894 for the six months ended June 30, 2011. Gains and losses are directly attributable to revaluations of all of our derivatives and (with the exception of Series B CPS) result primarily from a net decrease or increase, respectively, in our stock price in the period. Our closing stock price was \$0.07 on June 30, 2012, compared to \$0.15 on March 31, 2012, and \$0.16 on December 31, 2011, and was \$0.54 on June 30, 2011, compared to \$1.00 on March 31, 2011, and \$1.22 on December 31, 2010. However, in the three and six months ended June 30, 2011, there was a revaluation loss of \$1,613,113 related to our CPNs, for which the valuation model was based on a feature which, at that time, adjusted the number of shares issuable to investors in the event the Company requested conversion of the CPNs in certain circumstances (see Note 4 to the Condensed Consolidated Financial Statements in Part I, Item 1) being available to note-holders, which acted rather like a full ratchet anti-dilution provision. Thus, as the stock price dropped, the number of shares increased to maintain the value of the conversion element. When the conversion element was initially valued on May 27, 2011, our 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, our 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.

Future gains or losses on revaluation will result primarily from net decreases or increases, respectively, in our stock price during the reporting period. Derivative liabilities will also decrease as the remaining term of each instrument diminishes.

Miscellaneous Income (Expense)

The following table presents the miscellaneous income (expense) for the three and six months ended June 30, 2012 and 2011, respectively:

<u>Three Months Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
<u>2012</u>	<u>2011</u>	<u>% Change</u>	<u>2012</u>	<u>2011</u>	<u>% Change</u>
\$ 172,354	\$ 30,145	472%	\$ 22,808	\$ (17,250)	N/A

For the three months ended June 30, 2012, we recorded miscellaneous income of \$172,354, compared to income of \$30,145 for the three months ended June 30, 2011. For the six months ended June 30, 2012, we recorded miscellaneous income of \$22,808, compared to an expense of \$17,250 for the six months ended June 30, 2011. Miscellaneous income and expense is mainly the result of net foreign currency exchange gains and losses in our Malaysian subsidiary, WaferGen Biosystems (M) Sdn. Bhd. (“WGBM”), principally due to revaluation of the inter-company account at the balance sheet date. WGBM presently has a net receivable 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

[Table of Contents](#)

expense is recorded. In addition, we recorded a one-time 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, 2012 and 2011, respectively:

Three Months Ended June 30,			Six Months Ended June 30,		
2012	2011	% Change	2012	2011	% Change
\$ 12,812	\$ (17,416)	N/A	\$ 26,887	\$ (17,416)	N/A

For the three and six months ended June 30, 2012, we recorded a charge for income taxes of \$12,812 and \$26,887, respectively, being an interim estimate of Malaysian taxes payable on interest income, mostly arising on its loan to WaferGen Bio-systems, Inc., plus U.S. state taxes. For the three and six months ended June 30, 2011, we recorded a credit for income taxes of \$17,416, being an allocation of U.S. taxes to the cumulative translation adjustment recorded in other comprehensive income, offset by an interim estimate of Malaysian taxes payable on interest income, mostly arising on its loan to WaferGen Bio-systems, Inc. The Company has provided a full valuation allowance against its net deferred tax assets.

Headcount

Our consolidated headcount as of August 8, 2012, comprised 28 regular employees, 27 of whom were employed full-time, compared to 54 regular employees as of December 31, 2011, 52 of whom were employed full-time.

Liquidity and Capital Resources

From inception through June 30, 2012, the Company has 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 CPS of our Malaysian subsidiary, \$1,842,760, net of origination fees, from a secured term loan, and \$27,492,876, net of offering costs and liquidated damages for late registration, from the sale of the Series A-1 Convertible Preferred Stock, convertible promissory notes and warrants in the May 2011 Private Placement. As of June 30, 2012, the Company had \$9,361,128 in unrestricted cash and cash equivalents, and working capital of \$8,681,767.

Net Cash Used in Operating Activities

The Company experienced negative cash flow from operating activities for the six months ended June 30, 2012 and 2011, in the amounts of \$5,713,647 and \$7,992,262, respectively. The cash used in operating activities in the six months ended June 30, 2012, was due to cash used to fund a net loss of \$4,174,325, adjusted for non-cash expenses related to depreciation and amortization, stock-based compensation, net gains on revaluation of derivative liabilities, interest converted to principal on convertible promissory notes, inventory provision and amortization of debt discount totaling \$1,045,950, and cash used by a change in working capital of \$493,372. 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, exchange gain on issuance of convertible preference shares of subsidiary, net losses on revaluation of derivative liabilities, excess debt discount expensed as interest, interest converted to principal on CPNs, allowance for doubtful accounts and amortization of debt discount totaling \$4,475,064, and cash provided by a change in working capital of \$546,051. The decrease in cash used in the six months ended June 30, 2012, compared to 2011, was driven primarily by the decrease in the net operating loss from \$8,963,782 to \$5,922,429, offset by the cash used in, and lack of cash provided by, the change in working capital and by a reduction in non-cash operating expenses, most notably stock compensation expense.

Net Cash Used in Investing Activities

The Company used \$8,519 in the six months ended June 30, 2012, and \$497,448 in the six months ended June 30, 2011, to acquire property and equipment.

[Table of Contents](#)

Net Cash Provided by Financing Activities

There were no financing activities in the six months ended June 30, 2012.

Cash provided by financing activities in the six months ended June 30, 2011, was \$30,901,360. 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, CPNs and warrants and \$9,200 from the exercise of stock options. This was offset by payments of \$6,595 on capital lease obligations and \$2,178,585 to extinguish all liabilities under a term loan.

Availability of Additional Funds

We believe funds available at June 30, 2012, along with our revenue, will fund our operations at least into the third quarter of 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 our 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 new open platform 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 our operations. 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 CPS of our Malaysian 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., WGBM, our Malaysian subsidiary, and WaferGen Biosystems Europe S.a.r.l., our Luxembourg subsidiary. All significant inter-company transactions and balances are eliminated in consolidation.

Critical Accounting Policies and 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 \$24,700,000 at December 31, 2011. 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.

[Table of Contents](#)

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 \$179,908 and \$256,907, net of estimated forfeitures, for the six months ended June 30, 2012 and 2011, 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 grant date for directors and employees, and on the dates on which performance of services is recognized for consultants.

The weighted-average grant date fair value of options awarded in the six months ended June 30, 2012 and 2011, was \$0.08 and \$0.38, respectively. Fair values were estimated using the following assumptions:

	<u>Six Months Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Risk-free interest rate	0.71% - 1.09%	1.50% - 2.24%
Expected term	4.75 Years	4.75 Years
Expected volatility	65.02% - 98.80%	42.44% - 50.83%
Dividend yield	0%	0%

Risk-Free Interest Rate. This is the U.S. 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 our common stock price has fluctuated or is expected to fluctuate. To the extent that our common stock has not been traded for as long as the expected remaining term of the options, we use a weighted-average of the historic volatility of a group of publicly traded companies over the retrospective period corresponding to the expected remaining term of the options on the measurement date. The group of publicly traded companies is selected from the same industry or market index, with extra weighting attached to those companies most similar in terms of business activity, size and financial leverage. To the extent that our common stock has been traded for longer than the expected remaining term of the options, this weighted average is used to determine 50% of the volatility, with our own historic volatility used to determine the remaining 50%. An increase in the expected volatility will increase the fair value and the related compensation expense.

Dividend Yield. We have not made any dividend payments and do not plan 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.

Derivative Liabilities

Our derivative liabilities arise due to the variable number of shares of our common stock that may be issued upon the exercise of those warrants with certain anti-dilution protection, upon the exchange of Series A and Series B CPS of our Malaysian subsidiary, and under the conversion element of our convertible promissory notes. We evaluate the liability for all of our derivatives using a Monte Carlo Simulation approach, using critical assumptions provided by management reflecting conditions at the valuation dates.

The fair value of the derivative liability for the conversion element of convertible promissory notes at June 30, 2012, included assumptions of the fair value of common stock of \$0.07, estimated volatility of 112.40%, a risk-free interest rate of 0.23%, a zero dividend rate and a contractual term of 2.41 years, and was estimated to be \$401,921. The fair value of this derivative liability at December 31, 2011, included assumptions of the fair value of common stock of

Table of Contents

\$0.16, estimated volatility of 82.82%, a risk-free interest rate of 0.18%, a zero dividend rate and a contractual term of 2.91 years, and was estimated to be \$1,931,295. The fair value of this derivative liability at June 30, 2011, when the convertible promissory notes contained a feature that adjusted the number of shares issuable to investors in the event the Company requested conversion of the convertible promissory notes in certain circumstances (such feature was eliminated on September 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%, a zero dividend rate and a contractual term of 3.41 years, and was estimated to be \$13,108,276. The fair value of this derivative liability when the notes were issued on 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%, a zero dividend rate and a contractual term of 3.50 years, and was estimated to be \$11,495,163.

The fair value of the derivative liability for warrants at June 30, 2012, included assumptions of the fair value of common stock of \$0.07, estimated volatilities of 96.38% to 118.21%, risk-free interest rates of 0.20% to 0.33%, a zero dividend rate and expected remaining terms of 0.89 to 1.99 years; the total fair value was estimated to be \$329,414. The fair value of this derivative liability at December 31, 2011, included assumptions of the fair value of common stock of \$0.16, estimated volatilities of 80.66% to 85.13%, risk-free interest rates of 0.16% to 0.32%, a zero dividend rate and expected remaining terms of 1.25 to 2.39 years; the total fair value was estimated to be \$655,219. The fair value of this derivative liability at June 30, 2011, included assumptions of the fair value of common stock of \$0.54, estimated volatilities of 63.87% to 90.56%, risk-free interest rates of 0.35% to 0.80%, a zero dividend rate and expected remaining terms of 1.51 to 2.79 years; the total fair value was estimated to be \$1,625,552. The fair value of this derivative liability at December 31, 2010, included assumptions of the fair value of common stock of \$1.22, estimated volatilities of 67.61% to 86.53%, risk-free interest rates of 0.57% to 1.15%, a zero dividend rate and expected remaining terms of 1.91 to 3.18 years; the total fair value was estimated to be \$2,240,962.

The fair value of the derivative liability for the conversion element of Series B CPS of our Malaysian subsidiary at June 30, 2012, included assumptions of the fair value of common stock of \$0.07, estimated volatility of 106.00%, a risk-free interest rate of 0.26%, a zero dividend rate and an expected remaining term (following lapse of the redemption option) of 1.41 years, and was estimated to be \$1,327,769. The fair value of this derivative liability at December 31, 2011, included assumptions of the fair value of common stock of \$0.16, estimated volatility of 81.69%, a risk-free interest rate of 0.28%, a zero dividend rate and an expected remaining term (following lapse of the redemption option) of 1.81 years, and was estimated to be \$1,245,101. 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 52.87%, a risk-free interest rate of 0.01%, a zero dividend rate and an expected remaining term (prior to lapse of the redemption option) of one day, was estimated to be \$118,476. The fair value of this derivative liability at December 31, 2010, included assumptions of the fair value of common stock of \$1.22, estimated volatility of 55.40%, a risk-free interest rate of 0.07%, a zero dividend rate and an expected remaining term (prior to lapse of the redemption option) of one day, and was estimated to be \$194,088.

The fair value of the derivative liability for Series A CPS of our Malaysian subsidiary at June 30, 2012, included assumptions of the fair value of common stock of \$0.07, estimated volatilities of 105.96% to 114.25%, risk-free interest rate of 0.22% to 0.26%, a zero dividend rate and expected remaining terms of 1.05 to 1.41 years; the total fair value was estimated to be \$1,346,035. The fair value of this derivative liability at December 31, 2011, included assumptions of the fair value of common stock of \$0.16, estimated volatilities of 81.15% to 82.83%, risk-free interest rate of 0.28%, a zero dividend rate and expected remaining terms of 1.55 to 1.90 years; the total fair value was estimated to be \$2,135,715. The fair value of this derivative liability at December 9, 2011, when terms were amended giving rise to the derivative liability, included assumptions of the fair value of common stock of \$0.16, estimated volatilities of 78.02% to 80.22%, risk-free interest rates of 0.27%, a zero dividend rate and expected remaining terms of 1.61 to 1.96 years; the total fair value was estimated to be \$2,198,828.

Risk-Free Interest Rate. This is the U.S. Treasury rate for the measurement date having a term equal to the weighted average expected remaining term of the instrument. 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 instrument is expected to remain outstanding and is based on management's estimate, taking into consideration the remaining contractual life, and historical experience. For our convertible promissory notes, we consider a blend of expected remaining terms prior to partial conversion into the Company's Series A-2 Convertible Preferred Stock, giving consideration to the likelihood of conversion under various scenarios, and a further blend of expected remaining terms prior to partial conversion into common stock, all based on management's projections of when such conversions would occur within the contractual term. 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 our common stock price has fluctuated or is expected to fluctuate. To the extent that our common stock has not been traded for as long as the expected remaining term of the instrument, we use a weighted-average of the historic volatility of a group of publicly traded companies over the

[Table of Contents](#)

retrospective period corresponding to the expected remaining term of the instrument on the measurement date. The group of publicly traded companies is selected from the same industry or market index, with extra weighting attached to those companies most similar in terms of business activity, size and financial leverage. To the extent that our common stock has been traded for longer than the expected remaining term of the instrument, this weighted average is used to determine 50% of the volatility, with our 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. We have not made any dividend payments and do not plan to pay dividends in the foreseeable future. An increase in the dividend yield will decrease the fair value and the associated derivative liability.

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 in the first quarter of 2012, none of which had a material impact 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, 2012, 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, 2012:

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, 2011.

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, 2012, 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.

Coalesce v. WaferGen. On April 24, 2012, an action entitled Coalesce Corporation ("Coalesce") v. WaferGen Bio-systems, Inc. was filed in the Alameda County Superior Court. Coalesce, a company that had been providing marketing services, sued the Company for a total of \$100,000 for alleged non-payment of sums due either subsequent to termination of a contract or under alleged verbal agreements in late 2009 and early 2010. The case is in the discovery stage. We believe the claim to be substantially without merit, and that any sums ultimately payable will be immaterial to our financial position and results of operations.

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, 2011.

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

None.

Item 6. Exhibits

Exhibit Number	Description
10.1*†	Employment Separation Agreement, dated March 26, 2012, by and between Mona Chadha and WaferGen Bio-systems, Inc.
10.2*†	Employment Separation Agreement, dated March 26, 2012, by and between Donald Huffman and WaferGen Bio-systems, Inc.
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 (<i>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.</i>)
32.2*	Section 1350 Certification of principal financial officer (<i>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.</i>)
101 §	The following financial information from the Company’s Quarterly Report on Form 10-Q for the period ended June 30, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets at June 30, 2012 and December 31, 2011, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2012 and 2011, (iii) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011, and (iv) Notes to the Condensed Consolidated Financial Statements.

* Filed/furnished herewith

† Indicates a management contract or compensatory plan or arrangement.

§ Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

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: August 10, 2012

By: /s/ IVAN TRIFUNOVICH

Ivan Trifunovich
Chief Executive Officer
(principal executive officer)

EXHIBIT INDEX

Exhibit Number	Description
10.1†	Employment Separation Agreement, dated March 26, 2012, by and between Mona Chadha and WaferGen Bio-systems, Inc.
10.2†	Employment Separation Agreement, dated March 26, 2012, by and between Donald Huffman and WaferGen Bio-systems, Inc.
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
101 §	The following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Balance Sheets at June 30, 2012 and December 31, 2011, (ii) the Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and six months ended June 30, 2012 and 2011, (iii) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011, and (iv) Notes to the Condensed Consolidated Financial Statements.

† Indicates a management contract or compensatory plan or arrangement.

§ Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

SEVERANCE AGREEMENT AND RELEASE

This Agreement, dated as of May 4, 2012 (“Effective Date”), is between MONA CHADHA (“Chadha”) and WAFERGEN BIO-SYSTEMS, INC. (“Company”), collectively the Parties.

RECITALS

A. Company previously employed Chadha.

B. Chadha and Company desire to resolve all claims as described in this Agreement and thereby avoid the expense and uncertainty of litigation. This Agreement is intended to supersede the separation terms and Form of Release provided for in Chadha’s Executive Employment Agreement dated October 30, 2009 (the “Executive Employment Agreement”).

AGREEMENT AND RELEASE

ACCORDINGLY, the Parties agree as follows:

1. Settlement Terms.

(a) Company will pay Chadha six (6) months salary, less applicable deductions as required by law, as a lump sum payment seven (7) days after the signing of this agreement and less \$11,165.98 in order to reimburse the Company for certain taxes owed by Chadha to the Company relating to the stock previously granted to her as additional compensation.

(b) Company will pay Chadha an additional 32 hours of vacation pay.

(c) Company will reimburse Chadha for her March phone bill of \$139.10.

(d) Company will reimburse Chadha for attorneys’ fees of \$2,500.

(e) Company will provide a letter of reference to prospective employers in the form attached hereto as Exhibit A.

(f) Chadha shall be permitted to retain her Company Apple computer and iPad.

(g) In addition, as provided in Chadha’s Executive Employment Agreement: (i) If Chadha elects to continue her medical coverage under COBRA, Company shall pay the premiums for COBRA coverage until the earlier of (a) twelve (12) months following the date of termination of employment, or (b) the date Chadha becomes eligible for coverage under another employer’s health plan. (ii) Chadha will be eligible to receive a pro-rated Bonus, in such amount as determined following the end of the year to which the bonus relates, based on the actual achievement of the applicable performance goals for such year, pro-rated based on the number of days Chadha is employed with the Company during such year. Any Bonus shall be paid in a lump sum amount as soon as reasonably practicable thereafter, but no later than the end of the second year following the year in which the termination occurs. (Currently, the Company has not implemented for 2012, and does not plan to implement, a bonus plan or related applicable

performance goals for any employee.) (iii) Any unvested Company stock options granted to Chadha shall become fully vested. Such stock options shall be exercisable for 90 days after the separation date of Chadha's employment with the Company. (iv) Chadha shall receive reasonable executive outplacement services at Company's expense, in an amount not to exceed \$10,000, for a period of twelve (12) months or until Chadha secures comparable employment (whichever is earlier).

2. Released Claims. Chadha, in consideration of the promises and covenants made by Company in this Agreement, hereby compromises, settles and releases Company from any and all past, present, or future claims, demands, obligations, or causes of action, whether based on tort, contract, statute, constitution or other theories of recovery arising from the employment relationship between Company and Chadha including, but not limited to, claims under her Executive Employment Agreement, and the termination of that employment relationship or claims under the Stock Option Agreement or any cash or stock bonus pertaining to the employment relationship, except as otherwise provided herein. Such claims include those Chadha may have or has, or which may later accrue to or be acquired by Chadha, against Company or its predecessors, successors in interest, assigns, parent and subsidiary organizations, affiliates, and partners, and its past, present, and future shareholders, officers, directors, agents, employees, and their heirs and assigns. Such claims specifically include but are not limited to claims for wrongful termination, constructive discharge, fraud, misrepresentation, defamation, trade libel, invasion of privacy, claims for future vesting of stock options or additional stock entitlement except as otherwise provided herein, negligent or intentional infliction of emotional distress, or any claim for discrimination under federal or state law including, but not limited to, discrimination based on age, sex, sexual preference, race, physical or mental disability, or any claims under Title VII of the Civil Rights Act, the Age Discrimination in Employment Act, or the Fair Employment and Housing Act of California.

3. Released Claims. Company, in consideration of the promises and covenants made by Chadha in this Agreement, hereby compromises, settles and releases Chadha from any and all past, present, or future claims, demands, obligations, or causes of action, whether based on tort, contract, statute, constitution or other theories of recovery arising from the employment relationship between Company and Chadha, except as noted below, including, but not limited to, claims arising out of her Executive Employment Agreement and the termination of that employment relationship. Such claims include those Company may have or has, or which may later accrue to or be acquired by Company against Chadha. Such claims specifically include, but are not limited to, claims for negligence, defamation, trade libel, breach of contract and breach of the covenant of good faith and fair dealing. Nothing in this Agreement shall be read to release Chadha for claims based upon any intentional acts, fraud, criminal acts or securities violations on the part of Chadha which have caused or will cause damage to Company.

4. Section 1542 Waiver. The Company and Chadha understand and agree that the Released Claims include not only claims presently known to Chadha, but also include all unknown or unanticipated claims, rights, demands, actions, obligations, liabilities, and causes of action of every kind and character that would otherwise come within the scope of the Released Claims as described in Section 2. Chadha understands that she may hereafter discover facts different from what she now believes to be true, which if known, could have materially affected this Agreement, but she nevertheless waives any claims or rights based on different or additional

facts. Chadha knowingly and voluntarily waives any and all rights or benefits that she may now have, or in the future may have, under the terms of Section 1542 of the California Civil Code, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HER MUST HAVE MATERIALLY AFFECTED HER SETTLEMENT WITH THE DEBTOR.

5. Age Discrimination Claims. Chadha understands and agrees that by entering into this Agreement, (i) she is waiving any rights or claims she might have under the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act; (ii) she has received consideration beyond that to which she was previously entitled; (iii) she has been advised to consult with an attorney before signing this Agreement; and (iv) she has been offered the opportunity to evaluate the terms of this Agreement for not less than twenty-one (21) days prior to her execution of the Agreement. Chadha may revoke this Agreement (by written notice to Company) for a period of seven (7) days after her execution of the Agreement, and it shall become enforceable only upon the expiration of this revocation period without prior revocation by Company.

6. Confidential Information; Return of Company Property.

(a) Company has developed, compiled and owns certain proprietary techniques and confidential information that have great value in its business. This information includes but is not limited to any and all information (in any medium, including but not limited to, written documents and electronic files) concerning unpublished personnel, legal matters, financial data, marketing and sales data, product and product development information, customer lists, employee lists, contracts, licensing agreements, processes, formulas, trade secrets, inventions, discoveries, improvements, data, know-how, formats, marketing plans, business plans, strategies, forecasts, and supplier and vendor identities, characteristics and agreements ("Confidential Information"). Chadha has had access to confidential information of other employees and vendors of Company. Confidential Information includes not only information disclosed by Company or its Clients to Chadha in the course of Chadha's employment with Company, but also information developed or learned by Chadha during the course of Chadha's employment with Company. Confidential Information is to be broadly defined.

(b) Chadha acknowledges that during Chadha's employment with Company, Chadha has had access to such Confidential Information. Chadha agrees that at all times after Chadha's employment with Company is terminated, Chadha will (i) hold in trust, keep confidential, and not disclose to any third party or make any use of the Confidential Information of Company or its other employees; (ii) not cause the transmission, removal or transport of Confidential Information of Company or its other employees; (iii) not publish, disclose, or otherwise disseminate Confidential Information of Company or its other employees.

(c) Chadha agrees to promptly inform Company of all documents and data pertaining to her employment and the Confidential Information of Company and its other employees, whether prepared by Chadha or otherwise coming into her possession or control. Chadha agrees to promptly deliver to Company all such written, electronic or other tangible material containing any information concerning or disclosing the Confidential Information of Company or its other employees or vendors.

(d) Chadha agrees to promptly deliver to Company all company property including any computer hardware or software except as otherwise provided herein, keys, books, records, credit cards, cell phones and any other tangible property which has come into her possession or control during the term of her employment, save and except for Chadha's records of her payroll and employment-related tax documents.

(e) Chadha acknowledges and agrees that the covenants contained in this Section 6 are material to this Agreement, and that a violation of this Section shall constitute a material breach of this Agreement. Company shall be entitled to receive injunctive relief to enforce these covenants, and may seek any other remedy available to it by law.

7. Confidentiality. Chadha and Company understand and agree that this Agreement and each of its terms, and the negotiations surrounding it, are confidential and shall not be disclosed by Chadha or Company to any entity or person, provided however, Chadha may disclose the terms to her tax attorney, accountant or other attorney, for any reason, at any time, without the prior written consent of Company, unless required by law.

8. No Defamation or Disparagement. The Company and Chadha agree not to make, issue, endorse, publicize, or circulate any publication or any type of communication, whether oral or written, which may reasonably be construed as disparaging toward or which is defamatory of the other Party and the Party's predecessors, successors in interest, assigns, parent and subsidiary organizations, and partners, and its past, present and future shareholders, officers, directors, agents, and employees, and their heirs and assigns, or any aspect of their operations. The Company and Chadha also agree that, if called upon to do so, each Party will cooperate with, and provide reasonable assistance to the other Party to protect and further its lawful interests in all judicial, administrative, investigative, and legislative proceedings involving Company or any aspect of its operations. This paragraph does not affect a Party's obligation to comply with all validly-issued court or administrative orders, including subpoenas. Chadha agrees to refrain from contacting Company's past, present or future employees to discuss in any negative respect any aspect of Chadha's employment with Company. The Parties each agree that the violation of this section may constitute a material breach of this Agreement.

9. Nonadmission. The parties understand and agree that this is a compromise settlement of disputed claims and that the furnishing of the consideration for this Agreement shall not be deemed or construed at any time or for any purpose as an admission of liability by Company. The liability for any and all claims is expressly denied by Company.

10. Integration. The parties understand and agree that the preceding Sections recite the sole consideration for this Agreement; that no representation or promise has been made by Company, or any other Released Party on any subject whatsoever, except as expressly set forth

in this Agreement; and that all agreements and understandings between the Parties on any subject whatsoever are embodied and expressed in this Agreement. This Agreement shall supersede all prior or contemporaneous agreements and understandings among Chadha, Company, and any other Released Party, whether written or oral, express or implied, with respect to any subject whatsoever, including without limitation, any employment-related agreement or benefit plan, except to the extent that the provisions of any such agreement or plan have been expressly referred to in this Agreement as having continued effect.

11. Amendments; Waivers. This Agreement may not be amended except by an instrument in writing, signed by each of the parties. No failure to exercise and no delay in exercising any right, remedy, or power under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, or power under this Agreement preclude any other or further exercise thereof, or the exercise of any other right, remedy, or power provided herein or by law or in equity.

12. Assignment; Successors and Assigns. Chadha agrees that she will not assign, sell, transfer, delegate, or otherwise dispose of, whether voluntarily or involuntarily, or by operation of law, any rights or obligations under this Agreement. Any such purported assignment, transfer, or delegation shall be null and void. Chadha represents that she has not previously assigned or transferred any claims or rights released by her pursuant to this Agreement. Subject to the foregoing, this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective heirs, successors, attorneys, and permitted assigns. This Agreement shall also inure to the benefit of any Released Party. This Agreement shall not benefit any other person or entity except as specifically enumerated in this Agreement.

13. Severability. If any provision of this Agreement, or its application to any person, place, or circumstance, is held by an arbitrator or a court of competent jurisdiction to be invalid, unenforceable, or void, such provision shall be enforced to the greatest extent permitted by law, and the remainder of this Agreement and such provision as applied to other persons, places, and circumstances shall remain in full force and effect.

14. Attorneys' Fees. In any legal action, arbitration, or other proceeding brought to enforce or interpret the terms of this Agreement, the prevailing Party shall be entitled to recover reasonable attorneys' fees and costs.

15. Governing Law. This Agreement shall be governed by and construed in accordance with the law of the State of California.

16. Interpretation. This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any Party. By way of example and not in limitation, this Agreement shall not be construed in favor of the Party receiving a benefit nor against the Party responsible for any particular language in this Agreement. Captions are used for reference purposes only and should be ignored in the interpretation of the Agreement.

17. Representation by Counsel. The Parties acknowledge that (i) they have had the opportunity to consult counsel in regard to this Agreement; (ii) they have read and understand the Agreement and they are fully aware of its legal effect; and (iii) they are entering into this

Agreement freely and voluntarily, and based on each Party's own judgment and not on any representations or promises made by the other Party, other than those contained in this Agreement.

The Parties have duly executed this Agreement as of the date first written above.

/s/ MONA CHADHA
Mona Chadha

WAFERGEN BIO-SYSTEMS, INC.

By /s/ IVAN TRIFUNOVICH

[On WaferGen Letterhead]

March 26, 2012

Donald D. Huffman

Re: Separation from Employment

Dear Don:

This letter confirms our discussions regarding your separation from employment with WaferGen Biosystems, Inc. (the "Company"), which will be effective today. This letter explains the details of your separation and describes the severance benefit that the Company is offering to you.

You will be paid today all outstanding salary amounts and any accrued, but unused, vacation time. You also will be eligible to continue your medical insurance coverage under COBRA, and will receive information from our plan administrator describing this conversion election. If you seek reimbursement of any business expenses, you agree to submit your final expense reimbursement statement within the next ten (10) days, along with receipts or other supporting documentation. The Company will reimburse valid business expenses in accordance with its standard expense reimbursement policies.

Although it is under no legal obligation to do so, the Company will also pay you a severance benefit in the amount of \$56,250 (equivalent to three months of your base salary), less all applicable withholdings and less \$2,346.99 (which equals the amount of taxes you currently owe the Company relating to the issuance of stock previously granted to you by the Company as additional compensation), plus reimbursement of April 2012 COBRA expense incurred by Don Huffman in the amount of \$964.21 in exchange for the general release of claims and other agreements contained in this letter. This severance benefit will be payable in the form of salary continuation on the Company's regular payroll schedule, after you have returned to me a signed copy of this letter agreement and all Company property. Except for the separation terms proposed in this letter, you will not be entitled to any compensation, benefits or other perquisites of employment after today.

In exchange for this severance benefit, you completely release the Company, its affiliated, related, parent or subsidiary entities, and its and their present and former directors, officers, and employees (the "Released Parties") from any and all claims you may now have or have ever had against any of them, including, but not limited to, any claims arising under Title VII of the Civil Rights Act of 1964, the WARN Act or any state counterpart, the California Fair Employment and Housing Act, the Age Discrimination in Employment Act ("ADEA"), or any other claims for violation of any federal, state, or municipal laws, and any and all claims for attorneys' fees and costs (the

“Released Claims”).¹ The parties intend for this release to be enforced to the fullest extent permitted by law. You understand that you are not waiving any right or claim that cannot be waived as a matter of law, such as workers’ compensation or unemployment insurance benefits. You agree not to file or initiate any lawsuit concerning the Released Claims. You understand that this paragraph does not prevent you from filing a charge with or participating in an investigation by a governmental administrative agency; provided, however, that you hereby waive any right to receive any monetary award resulting from such a charge or investigation.

You acknowledge that the payment and benefits described above exceed the amount to which you otherwise are entitled under the Company’s policies and practices. You understand and agree that this letter shall be maintained in strict confidence, and that you shall not disclose any of its terms to another person, except to your legal counsel, tax advisors or immediate family, unless required by law. You further agree not to make or publish, either orally or in writing, any disparaging statement about the Released Parties.

Please return all Company materials in your possession, including keys, as soon as reasonably possible. Also, remember that even after your employment with the Company ends, you must comply with your continuing obligation to maintain the confidentiality of the Company’s proprietary information, including your obligations under the Proprietary Information and Invention Assignment Agreement (the “Proprietary Information Agreement”) and Arbitration Agreement you signed as a condition of your employment.

This letter contains all of our agreements and understandings and fully supersedes any prior agreements or understandings that we may have had regarding your employment with the Company or its termination, with the exception of the Proprietary Information Agreement and Arbitration Agreement. This letter agreement is governed by California law and may be amended only in a written document signed by you and the Company’s Chief Executive Officer. If any term in this agreement is unenforceable, the remainder of the agreement will remain enforceable.

Please note that you have 21 days to consider this agreement (but may sign it at any time before hand if you so desire) and that you can consult an attorney in doing so. In addition, you can revoke this agreement within 7 days of signing it by sending me a certified letter to that effect. This agreement shall not become effective or enforceable and no severance payments or benefits will be provided until the 7-day revocation period has expired.

¹ You agree that because this release specifically covers known and unknown claims, you waive your rights under Section 1542 of the California Civil Code, or under any comparable law of any other jurisdiction. Section 1542 states: “A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.”

If you have any questions, please feel free to call me. We wish you the best in your future endeavors.

Very truly yours,

/s/ IVAN TRIFUNOVICH

Ivan Trifunovich
President and Chief Executive Officer

ACCEPTED AND AGREED:

Dated: _____

/s/ DONALD D. HUFFMAN
Donald D. Huffman

CERTIFICATION

I, Ivan Trifunovich, 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: August 10, 2012

/s/ IVAN TRIFUNOVICH

Ivan Trifunovich
Chief Executive Officer
(principal executive officer)

CERTIFICATION

I, John Harland, 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: August 10, 2012

/s/ JOHN HARLAND

John Harland
Interim Chief Financial Officer
(principal financial officer)

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, Ivan Trifunovich, certify that:

1. The Quarterly Report of WaferGen Bio-systems, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2012 (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: August 10, 2012

/s/ IVAN TRIFUNOVICH
Ivan Trifunovich
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.

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, John Harland, certify that:

1. The Quarterly Report of WaferGen Bio-systems, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2012 (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: August 10, 2012

/s/ JOHN HARLAND

John Harland
Interim 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.