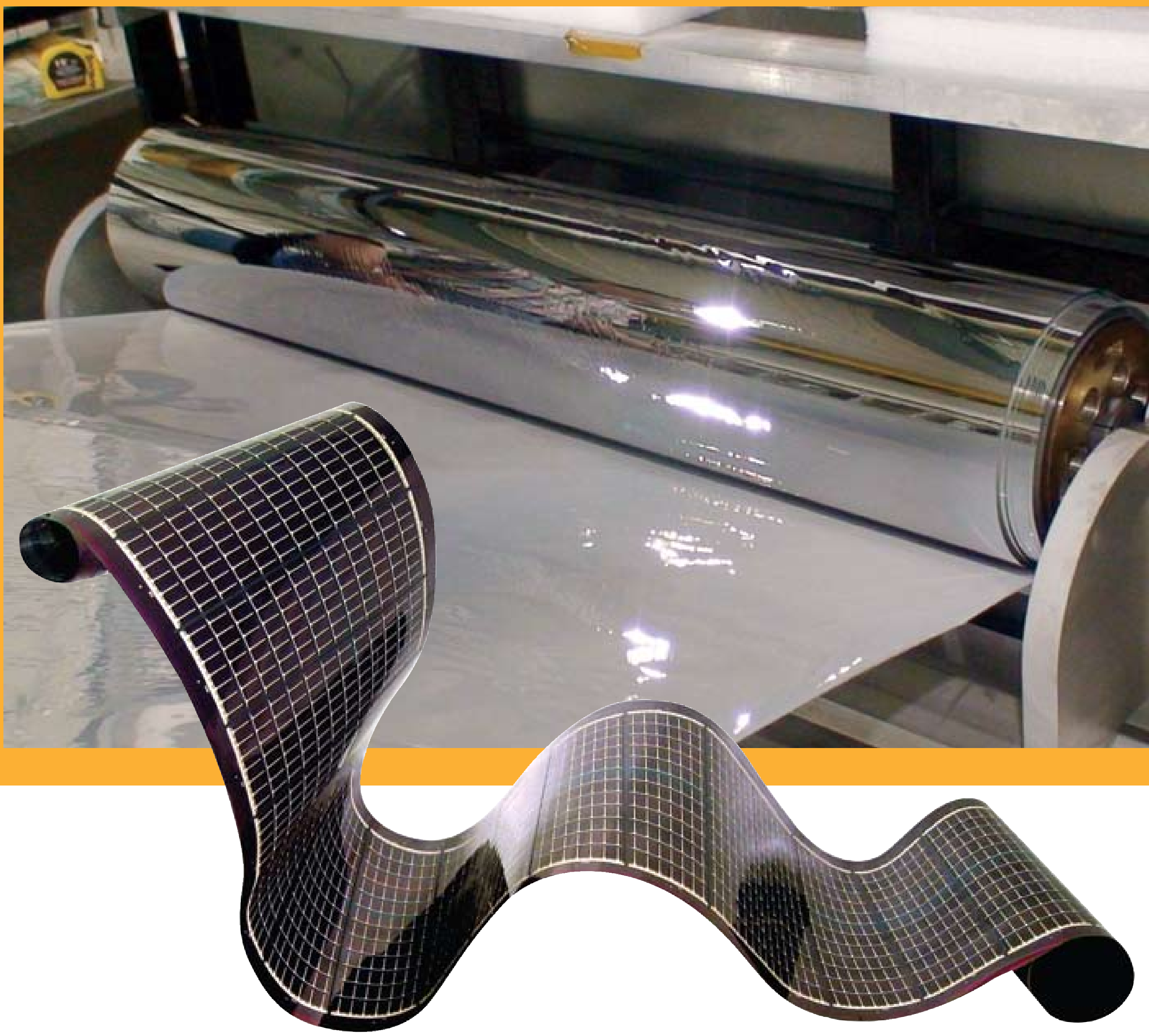
PowerFilm®

Thin Flexible Solar Panels



PowerFilm, Inc.
2008 Annual Report

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Highlights

- Revenue of $8,604,514 for the year ended 31 December 2008 (2007: $8,312,994)

- Net income of $135,826 for the year ended 31 December 2008 (2007: $1,885,565)

- As of 31 December 2008, the Company had $23,314,345 in cash and cash equivalents and cash held for property and equipment construction. The Company continues to be fully funded for its expansion plans.

- Gross margin for the year ended 31 December 2008 of 20% (2007: 36%). The decrease in gross margin is attributable to higher cost of sales due primarily to higher depreciation expense for new machines placed into service, higher insurance and utility costs, and higher labor costs and fringe benefits with an increase in employee count at the end of 2008 of 94 compared to 64 at year end 2007.

- In 2008, PowerFilm recovered from the decline of the GPS asset tracking market which had been especially strong in 2007 before fuel prices for the trucking industry peaked. The strong market response to the foldable portable solar chargers bolstered 2008 revenue and diversified the Company's revenue base.

- Significant progress made in the development of the initial meter-wide silicon deposition machine with sellable material currently expected by mid-2009.

- The new meter-wide manufacturing facility building is now essentially complete. Product assembly operations are moving into the new facility.

- Expanded distribution is expected to support revenue growth for 2009, including additional new international distributors and a major OEM distribution partner in the US.

Chairman and CEO's Statement

PowerFilm, Inc. has had a solid year. We recovered from the 2007 loss of a large GPS asset tracking customer with the addition of new customers generated by an expanded tradeshow exhibition schedule. Market demand was especially strong for our foldable chargers in the military market. In the latter part of the year, the slowdown in consumer spending limited revenue growth. The Company remains committed to its strategy to have a targeted yet diversified customer revenue base and the Company has begun to see this pay off.

To bring a clearer focus to the Company's strategic planning in terms of marketing, research and development, operational, and financial goals, Tim Neugent has joined PowerFilm as President and COO and the following management team has been established: Frank Jeffrey, CEO and CTO; Tim Neugent, President and COO; Linda Borst, CFO; Mike Coon, VP, Sales, Marketing, and Public Information Officer; Steve Martens, VP, Manufacturing; Steve Braymen, VP, Research and Development; and Brad Scandrett, VP, Engineering. Tim Neugent brings extensive experience in developing and building entrepreneurial companies, which include his own companies as well as serving as Chief Executive of a number more. Previously he was Director at Pioneer Hi-Bred where he co-developed the added-value Specialty Plant Products Division, served as CEO of CST, a computer and alcohol interlock device company, served as COO of JD Publishing and acted as a consultant at a number of other companies in strategic planning and targeted focus.

The meter-wide manufacturing technology was advanced significantly in the year and sellable material currently is expected from the initial machine by mid-2009. At that time we expect that the subsequent 11 meter-wide production lines will be added sequentially to bring the additional production capacity online.

Supplying the building integrated products for the architectural fabric and metal roofing industry remains an essential top priority for the Company. We continue to work with partners in these areas to tune products to meet their specific requirements.

This year, PowerFilm formed a majority-owned subsidiary, Phicot, Inc., to further develop the Company's thin film technology for low-cost manufacturing of roll-based thin film electronics on a flexible plastic substrate. PowerFilm is developing the thin film electronics through a subsidiary to bring a distinct parallel emphasis to this technology and its financial potential that will allow the Company to continue its existing focus on the development of thin film solar products.

PowerFilm's outlook for 2009 is for a year in which the sellable material from the meter-wide manufacturing lines is realized. Sales revenue is expected to be driven by demand for products for the military market, expansion of international distribution, ongoing diverse custom OEM products, and some sales revenue from intensified marketing of the Company's line of portable solar chargers for the consumer market. In 2009, PowerFilm does plan for several building integrated solar demonstration projects in which our products are bonded to metal roofing and architectural fabric.

With the progress made with our meter-wide technology and building integrated product development, along with the development of our sales and marketing program, we remain more convinced than ever that the technology choices PowerFilm has made position the Company well for significant growth over the next five years. The Company's strong balance sheet, leading technology platform, diversified revenue base, and enhanced focus on strategic direction and execution give us an enduring foundation on which to continue to expand PowerFilm's position as a global leader in thin film solar.

Merlin Hanson — Chairman
Frank R. Jeffrey — CEO

Mission Statement, Vision Statement, and Corporate Profile

Mission Statement

PowerFilm was founded with the purpose of producing affordable solar and semiconductor solutions using its unique thin film proprietary technology. Our mission is to be the partner of choice for the world's leading providers, governments and enterprises by helping them create the most innovative, reliable and cost-effective solar and semiconductor devices. We will grow and become a market leader by consistently exceeding our Customer's expectations; providing them with the best of technology solutions for their specific needs.

To realize this mission, we will foster a corporate culture that attracts and retains creative, practical, and energetic employees who as a Team are driven to "make it happen."

Vision Statement

PowerFilm, Inc. during the next five years will continue to develop unique solar solutions and thin film semiconductor devices on plastic utilizing its proprietary thin film, lightweight, and flexible core technology and grow its revenues beyond $100 million through strategic customer alignment, that results in providing solar power throughout the planet, universe, and beyond.

Corporate Profile

PowerFilm, Inc., founded in 1988 by Frank Jeffrey and Derrick Grimmer, is a leading global developer and manufacturer of thin, flexible solar panels. The company's proprietary low-cost manufacturing platform combines roll-to-roll manufacturing, a printed interconnect, amorphous silicon, and a flexible plastic substrate. PowerFilm's products are marketed and sold into the military, commercial/industrial, and consumer markets. The company plans to enter the building integrated solar market, integrating its low-profile panels with architectural fabric, metal roofing, and membrane roofing.

Customer Service
We are focused on delivering reliability, dependability, fair prices, and exceptional service to our customers around the globe.

Employee Commitment
We equip our employees with the resources and training they need to be successful. We encourage teamwork throughout the organization and provide a safe, rewarding environment.

Financial Strength
We are excellent stewards of our financial resources. We invest in hard assets and focus on long-term opportunities that will contribute to the future strength of the company.

Operational Excellence
Together with our employees, we pride ourselves on excellence in every aspect of our work, which allows us to meet and exceed our customers' expectations, perform our work safely, and preserve our assets.

Company Strengths

Our strengths are in our core technology combined with our unique ability to engineer and design the most innovative, reliable and cost-effective solar solutions in a partnering way for our customer. We will grow and become a market leader by consistently exceeding our customers' expectations; providing them with the best of technology solutions for their specific needs.

Efforts in 2008 were all about positioning and strategy:

- Organizationally aligned for more intense business approach
- Hired two sales professionals and a marketing manager to focus on targeted markets:
  - Defense & Aerospace Contractors
  - Emergency Responders
  - GSA & Other Military Resellers
  - Oil & Gas Exploration
  - GPS & Asset Tracking

Established a network of independent sales reps to sell our rollable and foldable chargers to:

- Outdoor Retail
- Sporting Goods
- Big Box Retailers
- Boat Dealers
- RV Dealers

- Manufacturing Process (Down-web vs. Cross-web) for lower cost production.
- Manufacturing Machine Capacity (Meter Wide) for efficiencies and lower cost production.
- Completed 80,000 sq. ft. state-of-the-art production facility.
- BIPV: Top priority that gained significant advancement in terms of the technology and manufacturing capabilities. We fully expect to deliver test/demo products to key customers by the end of the 4th quarter in 2009 that will position us for full production of BIPV in the first quarter of 2010.

So, bottom line is 2008 was a great staging year for us to be more competitive with increased lower cost production to go after targeted market segments.

PowerFilm Solar Product Advantages

PowerFilm Solar products have many advantages versus competitors.

- Lightweight: Truly effective portable power solutions, especially important for our target markets. Can be taken anywhere.
- Rugged & durable: Trusted by the US military. Shot at, blow torched, run over by a tractor/trailer, and submerged in water; it keeps on ticking, especially important for the military, industrial, and rugged outdoor customers.
- Rollable: For easy storage.
- Weatherproof: For long life in harsh environments.
- Flexible
- No glass to break: Unlike many other solar chargers.
- Thin profile: Enables integrated design for mainstream use.

Operational Review

In 2008, PowerFilm strengthened the commercial arm of the organization with the hiring of two technical sales professionals and a product marketing manager. Investment in marketing was increased with a significant tradeshow schedule that was aligned with target markets.

The company has a diversified revenue base and is marketing and selling products into the military, commercial/industrial, and consumer markets. Within each of these, specific target markets have been identified and a marketing plan developed. Target markets include defense contractors for a variety of portable and remote applications in the military market; marine, recreational vehicle, outdoor, and portable consumer electronics recharging in the consumer market; and oil and gas exploration, golf cart recharging, GPS vehicle tracking, transportation, and lighting in the industrial market.

A key component of the commercial plan has been to expand distribution significantly. For the consumer market, a nationwide network of manufacturer rep firms has been established to sell our products into national outdoor retail, sporting goods, and big box electronics retailers. Marine and recreational vehicle retailers also are being added.

In the military market, distribution has been expanded with US Government Services Administration (GSA) listings for easy purchase by governmental agencies.

PowerFilm has ongoing involvement with its strategic partners in the building integrated solar market and plans demonstration projects in 2009. We fully expect to deliver test/demo products to key customers by the end of the fouth quarter in 2009 that will position us for full production of BIPV the first quarter of 2010. Given the thin, lightweight, and flexible nature of PowerFilm Solar products, they offer strong advantages for integration with architectural fabric, metal roofing, and membrane roofing.

Meter-Wide Manufacturing

The Company's current manufacturing process uses a one-third meter-wide (13 inch) web and is moving toward meter-wide manufacturing. This 3-times web width increase is expected to further reduce the Company's direct manufacturing cost by reducing equipment and labor costs per unit.

Significant progress has been made in the shake down of the initial meter-wide silicon deposition machine. We are identifying processing issues and optimizing the machine design as needed to realize sellable material by addressing the following:

- Uniformity of deposition
- Mechanical web motion
- Deposition chamber isolation
- Improved management of gas phase dust nucleation

Sellable material is currently expected from the initial machine by mid-2009.

Production Capacity Expansion Project

Production capacity is being expanded to meet expected future sales growth. Additional manufacturing capacity will leverage the Company's meter-wide manufacturing technology which is expected to lower unit manufacturing cost.

The new 80,000 sq. ft. state-of-the-art production facility for meter-wide manufacturing is now complete. Product assembly operations are moving into the new facility.

Infrastructure items such as the bulk gas supply systems are being installed.

Operational Review, cont.

Building Integrated Solar Update

The Company's top product development priority is the development of the building integrated solar products. During the course of adapting product and expanding production to fit building integrated solar customers' needs, some unexpected issues arose. It took some time to identify the source of these problems and to develop solutions. While this has slowed the introduction of the building integrated products and delayed bringing some of the new machines on line, it has also led to manufacturing processes which we believe will allow significant improvement in performance and manufacturing throughput.

The previously announced roll lamination process and equipment for the building integrated products is being used for fabric-based products such as tents and awnings.

Sales and Marketing Investments

After the loss of a major GPS asset tracking customer in 2007, the Company made a concerted effort to diversify and expand its sales pipeline in 2008. PowerFilm more than doubled its tradeshow schedule by exhibiting at multiple military, solar, oil and gas, outdoor retail, lighting, and wireless tradeshows. The results has been the development of a significantly expanded list of customers and qualified leads for the Company's standard and custom OEM products.

The hiring of a separate military sales person and a product marketing person has further enhanced the potential to realize additional sales revenues.

Military Products Update

The military market demand for the Company's products remains reasonably strong and is expected to remain so. PowerFilm offers a complete line of solar charging products ranging from portable foldable chargers to solar tents. A robust military tradeshow schedule is generating a significant number of new leads.

Sales of PowerFilm's lightweight foldable solar chargers for the military were especially strong in 2008. The chargers easily fit in a backpack and generate power immediately upon deployment, giving them a clear competitive advantage versus competitors using copper indium gallium selenide (CIGS) technology.

The military solar tent market is gaining momentum, as is the interest in the USB and AA solar chargers.

Distribution of the military products is being expanded to increase market penetration.

PowerFilm continues to have contracts with the US Army for technology improvements and product development and is developing lightweight recharging products for the individual soldier.

Portable and Remote Power Update

PowerFilm's complete line of compact, lightweight solar chargers for the consumer market includes foldable solar chargers, rollable solar chargers, a USB+AA charger, and a AA charger. These products can charge iPods, cell phones, laptops, handheld GPS units, etc. Twelve volt batteries are also able to be recharged. The company has developed a nationwide network of manufacturer reps to sell the products to major outdoor and consumer electronics retailers, leveraging retail buyer relationships already developed by the established rep firms. There is strong product interest but product adoption and sales are tempered by reduced consumer spending.

Operational Review, cont.

OEM Market Update

Tradeshow leads have generated a significant number of diversified OEM relationships that are now in the small quantity product testing and evaluation phase. These companies have the potential to become growing long-term customers.

In spite of the loss of more than $2 million of revenue from the GPS asset tracking and oil and gas exploration markets, replacement revenue was achieved with new customers. As a result, 2008 was a great staging year for us to be more focused and competitive to go after clear target market segments.

Expanded distribution will give increased access to specifying engineers at OEM companies.

Thin Film Electronics Update

PowerFilm, Inc. has formed a majority-owned subsidiary, Phicot, Inc. Phicot, Inc. will further develop the Company's thin film technology for low-cost manufacturing of roll-based thin film electronics on a flexible plastic substrate.

As noted in the announcement of 6 October 2008, the initial development area for this technology is a flexible display for the US Army partially funded by a $1.4 million cooperative agreement with the Army Research Laboratory, but subsequent development of products for the commercial flexible display market is anticipated.

Advances in film deposition, device structure, lithography, and scaling have been made in preparation for possible commercialization of the results of the Company's development activity on thin film electronics with Hewlett Packard, from whom the Company has licensed the Self Aligned Imprint Lithography (SAIL) technology.

PowerFilm is developing thin film electronics through a subsidiary to bring a distinct parallel emphasis to this technology and its financial potential that will allow the Company to continue its existing focus on the development of thin film solar products.

PowerFilm, Inc. will remain the majority owner of Phicot, Inc. but it is anticipated that part of the equity will be held by Phicot, Inc. employees as well as certain financial investors, should additional funding be required.

Financial Review

Financial Results

Revenue of $8,604,514 was realized for the year ended 31 December 2008, compared with $8,312,994 for the year ended 31 December 2007.

Gross margin for the year ended 31 December 2008 was 20%, compared with 36% for the year ended 31 December 2007. The decrease in gross margin is attributable to higher cost of sales due primarily to higher depreciation expense for new machines placed into service, higher insurance and utility costs, and higher labor costs and fringe benefits with an increase in employee count at the end of 2008 of 94 compared to 64 at year end 2007. This increase of 30 employees was made to ramp up to meet our growth expectations. This, combined with the fact that our interest and dividend income suffered due to the global economic decline directly affected our net income in 2008.

Net income was $135,826 for the year ended 31 December 2008, compared with $1,885,565 for the year ended 31 December 2007.

The Company's balance sheet as at 31 December 2008 includes cash and cash equivalents of $11,584,345 and cash held for property and equipment construction of $11,730,000. These accounts total $23,314,345.

Cash proceeds from the tax-exempt bond fundraising of $5,000,000 were applied to land and building costs for the new meter-wide facility in 2008. The building is in Construction in Progress as of 31 December 2008. The building was placed in service in early 2009. An offsetting long-term liability of $4,625,000 for the tax-exempt bond is shown on the balance sheet. In addition, there is $250,000 of current bond payable.

The Company has significant development contracts in place which support the majority of the research and development, thus reducing internally funded research and development to $40,027. Selling, general, and administrative expenses were $1,686,903 for 2008, compared to $1,256,387 for the previous year. The increase in sales expense was primarily the cost of an additional sales person, a product marketing person, and an expanded tradeshow exhibition schedule, which has resulted in increased leads and is expected to help drive sales revenue in 2009 and 2010.

Interest and dividend income for the year ended 31 December 2008 was $722,239, compared to $1,063,209 for the previous year.

The financial statements of PowerFilm are prepared on the basis of current US generally accepted accounting principles (US GAAP).

Accounts Audited

The financial information in this announcement is from the Company's audited accounts for the years ended 31 December 2008 and 2007.

The information presented herein has been prepared on the basis of current US generally accepted accounting principles (US GAAP).

Independent Auditor's Report

McGladrey & Pullen
Certified Public Accountants

Independent Auditor's Report

The Board of Directors and Stockholders
PowerFilm, Inc.

We have audited the accompanying consolidated balance sheets of PowerFilm, Inc. and subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PowerFilm, Inc. and subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Des Moines, Iowa
March 23, 2009

Balance Sheets

31 December 2008 and 2007

	2008 US $	2007 US $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, net of cash held for equipment construction	**11,584,345**	4,928,212
Accounts receivable, less allowance for doubtful accounts 2008 $11,213; 2007 none	**1,557,265**	1,017,247
Securities available-for-sale	**-**	12,650,000
Inventories	**2,474,851**	1,492,523
Prepaid expenses	**122,929**	74,555
Income tax receivable	**103,000**	193,000
Deferred income taxes	**249,000**	60,000
Total current assets	**16,091,390**	20,415,537
CASH HELD FOR EQUIPMENT CONSTRUCTION	**11,730,000**	15,000,000
PROPERTY AND EQUIPMENT		
Machinery and equipment	**7,282,273**	3,726,204
Leasehold improvements	**272,276**	206,409
Equipment construction in progress	**8,607,056**	3,327,076
	16,161,605	7,259,689
Less accumulated depreciation	**(2,104,017)**	(1,468,661)
	14,057,588	5,791,028
OTHER ASSETS	**184,427**	166,524
	42,063,405	41,373,089

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See Notes to Consolidated Financial Statements

Balance Sheets, cont.

31 December 2008 and 2007

	2008 US $	2007 US $
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	**$250,000**	125,000
Trade accounts payable	**514,107**	311,090
Other payables and accrued expenses	**624,402**	531,143
Total current liabilities	**1,388,509**	967,233
LONG-TERM LIABILITIES		
Revenue bonds payable, less current maturities	**4,625,000**	4,875,000
Subordinated debentures	**-**	300,000
Deferred income taxes	**236,000**	187,000
Derivative financial instrument, interest rate swap	**757,224**	167,015
Total long-term liabilities	**5,618,224**	5,362,000
COMMITMENTS (Note 11)		
NONCONTROLLING INTEREST IN SUBSIDIARY	**3,766**	-
STOCKHOLDERS' EQUITY		
Common stock	**373,717**	365,404
Additional paid-in capital	**32,329,012**	31,762,286
Retained earnings	**2,994,992**	2,859,166
Treasury stock, at cost	**(144,591)**	-
Accumulated other comprehensive (loss)	**(500,224)**	(110,015)
	35,052,906	34,876,841
	42,063,405	41,373,089

See Notes to Consolidated Financial Statements

Statements of Income

Years Ended 31 December 2008 and 2007

	2008 US $	2007 US $
Operating revenues		
Sales	**5,742,166**	5,792,047
Development contracts	**2,862,348**	2,520,947
	8,604,514	8,312,994
Cost of revenues	**6,867,381**	5,301,424
Gross profit	**1,737,133**	3,011,570
Operating expenses		
Research and development	**40,027**	-
Selling, general and administrative	**1,686,903**	1,256,387
	1,726,930	1,256,387
Operating income	**10,203**	1,755,183
Other income (expense)		
Interest income	**722,239**	1,063,209
Interest (expense)	**(187,839)**	(20,100)
Other income (expense)	**(265,401)**	36,273
	268,999	1,079,382
Income before noncontrolling interest in net (loss) of subsidiary and income taxes	**279,202**	2,834,565
Noncontrolling interest in net (loss) of subsidiary	**(624)**	-
Income before income taxes	**279,826**	2,834,565
Income taxes	**144,000**	949,000
Net income	**135,826**	1,885,565
Basic earnings per share	**0.00**	0.05
Diluted earnings per share	**0.00**	0.05

See Notes to Consolidated Financial Statements

Statements of Stockholders' Equity

Years Ended 31 December 2008 and 2007

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss)	Total
	US $	US $	US $	US $	US $	US $
Balance, December 31, 2006	**330,092**	**16,176,343**	**973,601**	**-**	**-**	**$17,480,036**
Net income	**-**	**-**	**1,885,565**	**-**	**-**	**1,885,565**
Unrealized derivative loss, net of tax benefit of $57,000	-	-	-	-	(110,015)	(110,015)
Issuance of 2,633,333 shares of common stock, net of offering costs of $447,248	26,333	15,072,829	-	-	-	15,099,162
Stock awards exercised for 721,368 common shares	7,214	131,651	-	-	-	138,865
Stock-based compensation expense, including tax benefit of $34,000	-	155,228	-	-	-	155,228
Issuance of 31,139 common shares to directors as compensation, including tax benefit of $38,000	311	66,856	-	-	-	67,167
Subordinated debentures converted to 145,446 common shares	1,454	118,546	-	-	-	120,000
7,046 committed shares to be issued	-	40,833	-	-	-	40,833
Balance, December 31, 2007	**365,404**	**31,762,286**	**2,859,166**	**-**	**(110,015)**	**34,876,841**
Net income	-	-	135,826	-	**-**	**135,826**
Unrealized derivative loss, net of tax benefit of $200,000	-	-	-	-	(390,209)	(390,209)
Stock awards exercised for 434,933 common shares	4,350	56,758	-	-	-	61,108
Acquisition of 257,200 share for the treasury	-	-	-	(144,591)	-	(144,591)
Stock-based compensation expense, including tax benefit of $7,302	-	157,025	-	-	-	157,025
Issuance of 32,694 common shares, including 7,046 committed shares to be issued from 2007 to directors as compensation, less tax expense of $14,165	327	50,746	-	-	-	51,073
Subordinated debentures converted to 363,615 common shares	3,636	296,364	-	-	-	300,000
3,437 committed shares to be issued	-	5,833	-	-	-	5,833
Balance, December 31, 2008	**373,717**	**32,329,012**	**2,994,992**	**(144,591)**	**(500,224)**	**35,052,906**

See Notes to Consolidated Financial Statements

Statements of Comprehensive Income

Years Ended 31 December 2008 and 2007

	2008	2007
	US $	US $
Net Income	**135,826**	1,885,565
Other comprehensive (loss), unrealized derivative loss, net of tax	**(390,209)**	(110,015)
Comprehensive Income (loss)	**(254,383)**	1,775,550

See Notes to Consolidated Financial Statements

Statements of Cash Flows

Years Ended 31 December 2008 and 2007

	2008 US $	2007 US $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	**135,826**	1,885,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**649,930**	312,437
Provision for doubtful accounts	**57,295**	-
Deferred taxes	**60,000**	(15,000)
Stock-based compensation expense	**(624)**	-
Stock-based compensation expense	**170,931**	191,228
Tax benefit resulting from stock awards exercised	**43,000**	72,000
Changes in working capital components		
(Increase) in accounts receivable	**(597,313)**	(140,862)
(Increase) in inventories	**(982,328)**	(1,038,292)
(Increase) in prepaid expenses	**(48,374)**	(12,806)
(Increase) in income tax receivable	**90,000**	(193,000)
Increase (decrease) in accounts payable	**8,439**	(111,360)
Increase in other payables and accrued expenses	**93,259**	181,156
Increase (decrease) in income tax payable	**-**	(211,000)
Net cash provided by operating activities	**(319,959)**	920,066
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	**(8,709,012)**	(3,089,964)
Purchase of securities available-for-sale	**-**	(16,150,000)
Proceeds from sale of securities available-for-sale	**12,650,000**	3,500,000
(Increase) in cash held for property and equipment construction	**3,270,000**	(7,000,000)
(Increase) in other assets	**(26,413)**	(4,240)
Net cash (used in) investing activities	**(7,184,575)**	(22,744,204)

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See Notes to Consolidated Financial Statements

Statements of Cash Flows, cont.

Years Ended 31 December 2008 and 2007

	2008 US $	2007 US $
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	**-**	5,000,000
Payment of deferred revenue bond issuance costs	**-**	(142,298)
Principal payments on long-term debt	**(125,000)**	-
Cash received on committed shares	**(144,591)**	-
Proceeds from issuance of common stock, net	**61,108**	15,238,027
Net cash provided by financing activities	**(208,483)**	20,095,729
Net increase (decrease) in cash and cash equivalents	**6,656,133**	(1,728,409)
CASH AND CASH EQUIVALENTS		
Beginning	**4,928,212**	6,656,621
Ending	**11,584,345**	4,928,212
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest paid	**209,939**	28,500
Income taxes	**37,000**	1,368,000
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES		
Conversion of subordinated debentures to common stock	**300,000**	120,000
(Loss) on interest rate swap agreement	**(390,209)**	(110,015)
Purchase of property and equipment on account	**194,578**	-

See Notes to Consolidated Financial Statements

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of business: PowerFilm, Inc. was incorporated on October 13, 1988 for the purpose of research and development of thin film technologies. PowerFilm, Inc.'s focus is now the use of such developed technologies to manufacture solar modules. PowerFilm, Inc. sells its solar modules throughout the world and continues to enter into research contracts to further develop the thin film technology for use in the manufacturing of solar cells. Phicot, Inc. was incorporated as a new subsidiary during 2008 for the purpose of conducting further research and development under these research contracts.

Principles of consolidation: The consolidated financial statements include the accounts of PowerFilm, Inc. and its 92% owned subsidiary, Phicot, Inc. (collectively, the Company). All intercompany balances and transactions have been eliminated in consolidation.

Use of estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair value measurements: The Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157), effective January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. The adoption of SFAS 157 did not have a material impact on the consolidated financial statements or results of the operations of the Company. In accordance with Financial Accounting Standards Board Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*, the Company will delay application of SFAS 157 for nonfinancial assets and nonfinancial liabilities such as intangible assets until January 1, 2009. The adoption of the remaining provisions of SFAS 157 is not expected to have a material impact on the Company's financial position, results of operations, or cash flows. SFAS 157 applies to all assets and liabilities that are measured and reported on a fair value basis. See Note 14 for additional information.

The Company also adopted SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115* (SFAS 159), as of January 1, 2008. SFAS 159 provides companies the option to report select financial assets and liabilities at fair value. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. After the initial adoption, the election is made at the acquisition of a financial asset or financial liability and it may not be revoked. The Company has not elected the fair value option for any financial assets or liabilities.

Cash and cash equivalents: The Company considers all cash accounts which are not subject to restrictions and all highly liquid investments with a maturity of three months or less to be cash equivalents. At December 31, 2008 and 2007, approximately $466,000 and $738,000, respectively, of cash is denominated in a foreign currency. During the years ended December 31, 2008 and 2007, approximately ($178,000) of foreign currency (loss) and $19,000 of foreign currency gain, respectively, were recognized in other income (expense) on the consolidated statements of income.

Securities: Securities available for sale are reported at fair value, with unrealized gains and losses reported as separate components of accumulated other comprehensive income, net of deferred income taxes. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in market interest rates, changes in the maturity of the Company's assets and liabilities, liquidity needs, and other similar factors. Realized gains and losses on sales are computed on a specific identification basis based on amortized cost.

Interest income on securities is recognized using the interest method according to the terms of the security. Declines in the fair value of individual securities below their amortized cost, that are determined to be other than temporary, result in write-downs of the individual securities to their fair value with the resulting write-downs included in current earnings as realized losses. In estimating other-than-temporary impairment losses on securities, management considers (a) the length of time and the extent to which the fair value has been less than cost, (b) the financial condition and near-term prospects of the issuer, and (c) the intent and ability of the Company to retain the security for a period of time sufficient to allow for an anticipated recovery in fair value.

Notes to Financial Statements, cont.

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate for doubtful receivables based on a review of outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Inventories: Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out (FIFO) basis.

Property and equipment: Property and equipment is recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets.

Revenue recognition: Revenue from product sales is recognized upon shipment of the product to the customer. Revenue from development contracts is recognized as services are performed. Shipping and handling charges to customers are included in operating revenue. Shipping and handling costs incurred by the Company are included in cost of revenues.

Foreign sales: During the years ended December 31, 2008 and 2007, sales to customers located in foreign countries (primarily Hong Kong during 2008 and the United Arab Emirates during 2007) totaled approximately $2,064,000 and $1,870,000, respectively.

Concentration of credit risk: The Company's financial instruments that are subject to concentrations of credit risk consist primarily of cash and accounts receivable. The Company's policy is to place its cash with high credit quality financial institutions in order to limit the amount of credit exposure. The Company maintains cash in bank accounts that at times may exceed federally insured limits. The Company has not experienced any losses in such accounts.

Cash held for equipment construction: The estimated amount of cash that will be used for construction of equipment has been classified as long term according to its estimated use.

Income taxes: Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

On January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). The interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. Adoption of FIN 48 did not have a significant impact on the Company's financial statements.

Earnings per share: Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares and potential common shares outstanding during the period.

Derivative financial instruments: The Company has adopted hedge accounting for an interest rate swap contract in connection with borrowings on variable rate long-term debt. On the date the contract was entered into, the Company designated the derivative as a hedge of the variability of cash flows to be received or paid related to a recognized liability ("cash flow" hedge). Changes in the fair value of a derivative that are highly effective and that are designated and qualify as a cash flow hedge are recorded in other comprehensive income (loss) until earnings are affected by the variability of cash flows (e.g., when periodic settlements on a variable-rate liability are recorded in earnings).

Notes to Financial Statements, cont.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific liabilities on the balance sheet. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively. No ineffectiveness was recognized on the interest rate swap for the year ended December 31, 2008.

The fair value of the interest rate swap was a liability of approximately $757,000 and $167,000 respectively, at December 31, 2008 and 2007. The notional amount of the interest rate swap at December 31, 2008 is $4,875,000, and the interest rate swap agreement expires June 1, 2028. Under the swap agreement, the Company pays interest at a fixed rate of 3.6% and receives interest at a variable rate equal to 70% of 1-month LIBOR (approximately 0.31% at December 31, 2008).

<u>Other comprehensive income:</u> Other comprehensive income consists of the effective portion of net gains or losses on derivative instruments designated as qualifying cash flow hedges.

<u>Stock-based compensation:</u> The Company accounts for stock-based compensation in accordance with SFAS No. 123 (revised), *Share-Based Payment*. SFAS No. 123 (revised) requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation expense over the requisite service period for awards expected to vest. The Company's consolidated statements of income include stock-based compensation expense of approximately $171,000 and $191,000 for the years ended December 31, 2008 and 2007, respectively.

<u>Operating segment:</u> The Company uses the "management approach" for reporting information in financial statements. The management approach is based on the way the chief operating decision maker organizes segments within a company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure and any other manner in which management disaggregates a company. Based on the management approach model, the Company has determined that its business is comprised of a single operating segment.

<u>Pending accounting pronouncements:</u> In December 2007, FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51*. The Statement establishes accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. Minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. It also establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary and requires expanded disclosures. This Statement is effective for fiscal years beginning on or after December 15, 2008. Accordingly, this Statement is effective for the Company beginning on January 1, 2009. The Company does not expect the adoption of this Statement will have a material impact on its financial position or results of operations.

In March 2008, the FASB issued SFAS 161, ***Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133***. FAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. This Statement is effective for financial statements issued for periods beginning after November 15, 2008. The Company will adopt the Standard as of January 1, 2009. FAS 161 requires only additional disclosures concerning derivatives and hedging activities, and therefore the adoption of FAS 161 will not have an impact on the Company's financial position or results of operations.

<u>Reclassifications:</u> Certain amounts previously reported have been reclassified to conform to the presentation in these consolidated financial statements. These reclassifications did not affect previously reported net income or equity.

Notes to Financial Statements, cont.

Note 2. Securities Available for Sale

As of December 31, 2007, securities available for sale consisted entirely of auction rate debt securities whose underlying assets were primarily student loans which were substantially backed by the federal government. Maturity dates for these securities ranged from 2028 to 2045. The Company accounted for these investments as marketable securities, and classified them as available for sale. During 2008, the Company divested its entire auction rate security portfolio with no recognized gains or losses..

Note 3. Inventories

Inventories were composed of the following at December 31:

		2008		2007
Raw materials	$	**1,076,961**	$	970,260
Work in process		**1,039,172**		222,040
Finished products		**358,718**		300,223
	$	**2,474,851**	$	1,492,523

Note 4. Convertible Debentures

The Company previously issued convertible debentures to investors in $20,000 units with amounts outstanding of $300,000 at December 31, 2007. During 2008, all $300,000 of debentures outstanding at December 31, 2007 were converted into 363,315 shares of common stock. The debentures paid interest at rates ranging from 6.5% to 7.0%. All debentures were due from stockholders or family members of stockholders. Interest expense related to these debentures totaled none and approximately $20,000 during the years ended December 31, 2008 and 2007, respectively. At December 31, 2008, there are no debentures remaining outstanding.

Note 5. Revenue Bonds Payable and Subsequent Event

The Company has $4,875,000 tax exempt industrial revenue bond issued by the Iowa Finance Authority. Interest payments, at a variable interest rate calculated weekly based on adjustable rates, are due monthly. Principal payments of $125,000 are due June 1 and December 1 of each year through June 1, 2028, when all remaining principal and interest are due. Future bond maturities as of December 31, 2008 total $250,000 for each of the years ending 2009, 2010, 2011, 2012 and 2013 and $3,625,000 thereafter.

The Bonds are secured by a first lien on real estate, including improvements thereon, together with the machinery and equipment purchased with the proceeds of the bond issue. Proceeds from the bond were restricted for use in construction of a new facility. As of December 31, 2008, all of the proceeds have been used for the new facility; therefore, no restriction remains on the balance sheet.

In connection with the related bond agreement, the Company is required to maintain certain financial covenants. At December 31, 2008, the Company was in violation of one of the financial covenants. Subsequent to year-end the lender has agreed to waive the covenant violation. To provide additional security for payment, the Company has entered into a letter of credit agreement with a bank in the amount of the outstanding principal and interest payable on the related bonds. The letter of credit expires December 15, 2010. No amounts are outstanding on the letter of credit as of December 31, 2008 or 2007.

Notes to Financial Statements, cont.

Note 6. Income Taxes

Income tax expense consists of the following for the years ended December 31, 2008 and 2007:

		2008		2007
Current	$	84,000	$	907,000
Deferred		60,000		42,000
	$	144,000	$	949,000

Income tax expense differs from the amount expected by applying the statutory federal tax rate to income before taxes as a result of the following:

		2008		2007
Tax expense at the statutory tax rate	$	95,000	$	960,000
Increase in tax resulting from:				
Nondeductible incentive stock option expense		33,000		33,000
Other, net		16,000		(44,000)
Tax expense at effective tax rate	$	144,000	$	949,000

The tax effects of significant items comprising the Company's net deferred tax assets (liabilities) as of December 31, 2008 and 2007 are as follows:

		2008		2007
Deferred tax assets:				
Interest rate swap agreements	$	257,000	$	57,000
Restricted stock grants		19,000		8,000
Accrued expenses		44,000		25,000
Foreign currency		38,000		-
Inventory		112,000		-
Other		56,000		-
		526,000		90,000
Deferred tax liabilities:				
Property and equipment		(513,000)		(195,000)
Other		-		(22,000)
		(513,000)		(217,000)
Net deferred tax (liabilities)	$	13,000	$	(127,000)

Notes to Financial Statements, cont.

Note 7. Leases

The Company leases its offices and manufacturing facility from a stockholder under a five-year operating lease that runs through January 1, 2010 with monthly lease payments of $7,500. Rent expense under this lease totaled $90,000 for each of the years ended December 31, 2008 and 2007. Future lease commitments total $90,000 for the year ending 2009.

Note 8. 401(k) Plan

The Company has a 401(k) profit sharing plan which covers substantially all employees of the Company. The Company may make annual contributions to the plan at the discretion of the Board of Directors. The Company contributed approximately $340,000 and $281,000 during the years ended December 31, 2008 and 2007, respectively.

Note 9. Major Customers

Net sales for the years ended December 31, 2008 and 2007 include sales to the following major customers, together with the approximate accounts receivable due from those customers:

	Net Sales December 31,		Accounts Receivable December 31,	
	2008	2007	**2008**	2007
Customer A	**36%**	33%	**$ 523,000**	$ 839,000
Customer B*	**2%**	17%	**227,000**	47,000
Customer C	**1%**	25%	**17,000**	-
Customer D*	**17%**	-	**307,000**	-

* These sales are to customers located in a foreign country.

Note 10. Components of Common Stock

Information regarding components of $0.01 per value common stock at December 31, 2008 and 2007 is as follows:

	Voting Common Stock		
	Authorized Shares	Issued Shares	Committed to be Issued Shares
2008	**60,000,000**	**37,371,694**	**3,437**
2007	60,000,000	36,540,452	7,046

During the year ended December 31, 2008, the Company acquired 248,000 treasury shares at a cost of $144,591. An additional 9,200 shares previously issued under the restricted stock plan discussed in Note 12 were forfeited during 2008 prior to vesting. Per the terms of the restricted stock plan, these shares are to be held in treasury and are available for future grant under the plan.

As of December 31, 2008, there were 42,885 issued shares held in an escrow account subject to certain restrictions as discussed in Note 12.

Notes to Financial Statements, cont.

Note 11. Commitments

The Company has historically entered into research and development contracts, for further development of the Company's technology, which are funded directly and indirectly through governmental agencies. The contract terms range from cost to cost plus a 5% fee. Revenue is earned as cost is incurred. Costs and any related fees included under such contracts are billed monthly for the costs incurred for the current month ending.

As of December 31, 2008, the Company had future research and development contractual commitments of approximately $1,592,000.

Note 12. Stock-Based Compensation

The Company's Board of Directors adopted the 2005 Incentive Stock Option Plan (2005 Plan) during October 2005. Under the 2005 Plan, options may be granted to officers, directors and employees to purchase up to an aggregate of 3,030,150 shares of the Company's common stock. Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant. Under the 2005 Plan, the term of the options may not exceed ten years. Incentive stock options granted under the 2005 Plan vest 20% immediately and then 20% annually thereafter for the following four years. At December 31, 2008, there were 339,383 common shares available for future grant under the 2005 Plan. No option awards were granted during the years ended December 31, 2008 and 2007.

The following table summarizes stock option activity for the year ended December 31, 2008:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Term
Outstanding options, December 31, 2007	1,729,535	$0.59	
Exercised	(395,433)	0.15	
Forfeited	(12,120)	2.40	
Outstanding options, December 31, 2008	1,321,982	$0.70	7 years
Exercisable at December 31, 2008	638,382	$0.49	7 years

The intrinsic value of options exercised during the years ended December 31, 2008 and 2007 totaled approximately $1,088,000 and $2,934,000, respectively.

Cash received for option exercises for the years ended December 31, 2008 and 2007 totaled $61,000 and $139,000, respectively.

As of December 31, 2008, unrecognized compensation cost for stock options, net of forfeitures, totaled approximately $155,000, which is expected for be recognized over a weighted average remaining period of 1.5 years.

The Company's Board of Directors adopted the 2007 Restricted Stock Plan (2007 Plan) during October 2007. Under the 2007 Plan, restricted shares may be granted to any full-time employee of the Company, except officers and directors. Common shares issued under the 2007 Plan may not be sold or otherwise transferred until restrictions have lapsed. During the vesting period, participants have voting rights and receive dividends on the restricted shares. The 2007 Plan authorized a total of 100,000 shares to be available for grant. At December 31, 2008, there were 41,700 common shares remaining available for future grant under the 2007 Plan.

Notes to Financial Statements, cont.

The fair value of restricted stock awards, based on the fair value of the Company's common stock on the date of grant, is being amortized as compensation expense on a straight-line basis over the period restrictions lapse. Compensation expense related to restricted share awards of approximately $52,000 and $23,000 is included in selling, general and administrative expenses on the consolidated statements of income for the year ended December 31, 2008 and 2007, respectively.

The following table presents information regarding the Company's restricted stock as of December 31, 2008:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock, beginning of year	56,190	$ 4.20
Granted	5,500	4.31
Vested	(11,905)	4.21
Forfeited	(9,200)	4.21
Restricted stock, end of year	40,585	$ 4.20

As of December 31, 2008, unrecognized compensation cost for restricted stock totaled approximately $171,000, which is expected to be recognized over a weighted average remaining period of 3.7 years.

Note 13. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the years ended December 31, 2008 and 2007.

	2008	2007
Net income, basic and diluted	**$ 135,826**	$ 1,885,565
Average outstanding shares – basic	**37,153,995**	35,081,507
Add: effect of dilutive stock options	**1,028,362**	1,707,137
Add: effect of dilutive convertible debentures	**-**	363,615
Add: effect of dilutive restricted stock	**-**	43,651
Average outstanding shares – diluted	**38,182,357**	37,195,910
Basic earnings per share	**$ -**	$ 0.05
Diluted earnings per share	**$ -**	$ 0.05

There were 393,218 and none, for the years ended December 31, 2008 and 2007, respectively, of antidilutive stock options and restricted stock outstanding. Accordingly, the dilutive effect of these options and restricted shares has been excluded from the calculation of diluted earnings per share above.

Notes to Financial Statements, cont.

Note 14. Fair Value Measurements

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 157, Fair Value Measurements, for assets and liabilities measured and reported at fair value. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In the regard, SFAS 157 establishes a fair value hierarchy for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2008 are as follows:

	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities, interest rate swap agreement	$757,224	-	$757,224	-

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. The level to which an asset or liability is classified is based upon the lowest level of input that is significant to the fair value measurements Interest Rate Swap Agreement.

The interest rate swap is valued using a discounted cash flow model that uses verifiable yield curve inputs to calculate the fair value and is classified within Level 2 of the valuation hierarchy. This method is not dependent on the input of any significant judgments for assumptions by management.

Notes to Financial Statements, cont.

SFAS 107, Disclosures about Fair Value of Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. Fair value is determined under the framework established by SFAS 157. SFAS 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. The Company's financial instruments consist primarily of cash and cash equivalents, accounts receivable, trade accounts payable, revenue bonds payable and an interest rate swap. The carrying amounts of cash, accounts receivable and trade accounts payable approximate fair value due to the short maturities of those instruments. The carrying values of revenue bonds payable approximate fair values since they include variable interest rates which are not significantly different than current market rates. The fair value of the interest rate swap is estimated as described above.

Notice of Annual General Meeting

TO THE STOCKHOLDERS OF POWERFILM, INC.:

Notice is hereby given of the Annual Meeting of Stockholders of PowerFilm, Inc. (the "Company") which will be held at 2337, 230th Street, Ames, Iowa, 50014, USA, on June 29, 2009, commencing at 3:00 p.m. Central Time (US) for the following purposes:

1. To elect Frank Jeffrey, Merlin Hanson and David Lindop to the Board of Directors to serve for a term ending at the Annual Meeting in 2010 and until their successors have been elected and qualified;

2. To ratify the appointment of McGladrey & Pullen, LLP as our independent registered public accounting firm for the year ending December 31, 2009;

3. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Notes:-

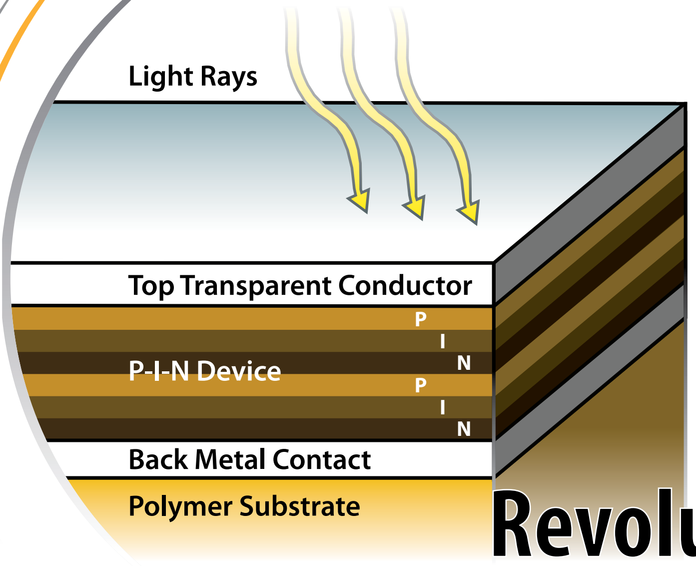
1. The record date for determining those stockholders, who will be entitled to notice of, and vote at, the Annual Meeting, or any adjournment thereof, is May 29, 2009. The stock transfer books of the Company will not be closed between the record date and the date of the Annual Meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at the offices of the Company.

2. You are cordially invited to attend the meeting in person. Whether or not you plan to attend the meeting, please execute the enclosed proxy and mail it promptly. Should you attend the meeting, you may revoke your proxy and vote in person. A return envelope, which requires no postage, if mailed in the United States, is enclosed for your convenience.

POWERFILM, INC.

By:

Frank R. Jeffrey
Chief Executive Officer
Ames, Iowa



Solar Panel Cross Section

PowerFilm®

Starts on a roll

13 Inches Wide
Up to 2,400 Feet Long

Revolutionary Technology

Proprietary Low Cost Manufacturing Process

PowerFilm has developed a proprietary thin film manufacturing process which consists of roll-to-roll manufacturing of solar cells using an amorphous silicon sunlight absorber layer deposited on a flexible plastic substrate. Individual solar cells are isolated by a laser scribing process. Full panels are formed from the isolated cells through the laser welding interconnects which are printed onto the surface of the material and are encapsulated and combined with various backing materials to create solar panels. The roll-to-roll production line is composed of vacuum deposition, printing, laser scribing, and welding machines custom-designed and assembled by PowerFilm.

Roll-to-Roll Manufacturing - Low substrate handling costs. Starts on a roll. Ends on a roll. The resulting roll of solar panels is 13 inches wide and can be up to 2,400 feet long, which brings material handling, during production, closer to that of the printing industry rather than the smaller batch-based approach of rigid crystalline solar panel production. Our company was the first and remains the only company in the world that manufactures and sells solar panels on plastic using a true roll-to-roll manufacturing process.

Flexible Plastic Substrate - Allows roll-to-roll manufacturing and printed interconnects. Flexible yet durable polyimide substrate results in enhanced flexibility, paper thinness, and lighter weight. The substrate is as thin as 1 mil (0.025 mm) thick. In addition, the use of an insulating plastic substrate allows for the laser welding of printed interconnects.

Amorphous Silicon - Low materials costs. The sunlight absorber layer in PowerFilm solar panels is a low cost, environmentally friendly (cadmium free) and commercially viable technology. The amount of silicon used in the production of PowerFilm's solar panels is as low as 1% of the amount used in rigid crystalline solar panels. Furthermore, PowerFilm extracts the silicon required for its production process from silane gas and is therefore not subject to the silicon wafer supply constraints of the crystalline solar industry.

Printed Interconnects - Low cost cell connection process. Laser scribing, printing, and laser welding on-roll enables the automated interconnection of individual solar cells into panels to be carried out in an automated process. Producing 2,400 sq ft of material at a time instead of 4,800 individual cells reduces cost while improving quality and enhancing the durability of PowerFilm solar panels by eliminating the need to cut and connect solar cells manually.

Encapsulation - Low cost automated process. PowerFilm solar panels can be encapsulated in a variety of laminate materials to meet the requirements of diverse applications and usage environments. A variety of materials can provide the optimal protection depending on the required product functionality, level and type of protection (moisture / heat / UV), laminate lifetime, and cost. PowerFilm's roll-to-roll manufacturing process using thin plastic film also allows the encapsulation step to be carried out in a roll-to-roll process.

Bonding and Backing Materials - Low cost installation. Our company's technology enables the integration of PowerFilm solar panels with several different backing materials including metal, membrane, and architectural fabric. Through our relationships with suppliers, PowerFilm can utilize new materials to produce optimal combinations enhancing product functionality and reducing cost.

Ends on a roll.

www.powerfilmsolar.com

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PowerFilm®
Thin Flexible Solar Panels