PowerFilm, Inc.

PowerFilm Reports 2012 First Half Results

10 September 2012, LONDON, UK and AMES, IOWA – PowerFilm, Inc. (AIM: PFLM), ("PowerFilm" or "the Company"), the developer and manufacturer of thin flexible solar panels and developer of roll to roll flexible electronics, today announces its preliminary results for the six months ended 30 June 2012.

Financial Highlights

- Revenue of $4.3 million for the first half 2012 (first half 2011: $4.5 million).
- Gross Margin of 20.7% for the first half 2012 (first half 2011: 14.3%). These numbers are not directly comparable. See the Financial Review section for further explanation.
- Net Loss of $ 0.66 million for the first half 2012 (first half 2011: net loss of $0.35 million).
- $13.2 million of cash and cash equivalents, restricted cash, restricted investment securities, and cash held for property and equipment construction (June 30, 2011: $15.7 million). The cash held for property and equipment construction was a separate internally designated account only and was not contractually committed for the purchase of property and equipment, as further discussed in the Financial Review section.

Operational Highlights

- A continued diversified mix of revenues has sustained first half revenues steady at a level similar to a year ago.
- Second half 2012 product shipments to the end of August combined with purchase orders currently in house to be shipped in 2012 total $5.7 million to date.
- PowerFilm has decided to extend its building integrated product development improvement and demonstration phase prior to launching the products formally. The Company has suspended its current third-party certification activities. In the interim, ongoing demonstration projects will be made and some volume of product will be allocated to building integrated applications not requiring certification to UL or IEC standards.
- Manufacturing efficiency improvements and other cost reduction initiatives remain in place as part of the commitment to return to profitability.

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A copy of this announcement will be available on the PowerFilm website at http://www.powerfilmsolar.com. The common shares of PowerFilm, Inc. are traded on the AIM Market of the London Stock Exchange and are not registered under the US Securities Act 1933, as amended. Such shares may not be offered or sold to residents of the United States or *to persons acting on their behalf, or to other persons who are "United States Persons" within the meaning of Regulation S as promulgated under the Securities Act of 1933, unless such shares have been registered under the Securities Act or there is an available exemption from registration.*

Financial Review

For the first half of 2012 PowerFilm achieved $4,298,320 in revenue. The Company's gross profit for the period was $887,578 resulting in a 20.7% gross margin. There was a net loss of $655,847 for the first half of 2012.

The following is a comparison of the financial results for the first half of 2012 compared to the first half of 2011:

In the first half of 2012 revenues decreased 3.7% to $4,298,320 from $4,463,464 in the first half of 2011. Sales revenues increased in the first half of 2012 by 3.9% to $3,649,994 from $3,510,582 in the first half of 2011. Contract revenue decreased to $648,326 from $952,883 for the first half of 2011, a 32% decrease.

An income tax benefit of $445,000 was booked for the first half 2012 compared to a $264,703 income tax benefit that was booked in the first half of 2011. Net loss for the first half 2012 was $655,847 compared to a net loss of $354,877 for the first half of 2011.

Gross margins showed a change from 14.3% at half year for 2011 to 20.7% at half year 2012. However, these numbers are not directly comparable because many development and engineering expenses which were previously included in COGS are now moved to IR&D expenses. During 2012 a higher portion of expenses in the departments of engineering, research and development, and machine shop and design have been recorded in operating expenses instead of Cost of Revenues. During prior years, a higher portion of personnel and material costs in these departments were directly related to research and development contracts. Classification as operating expenses for 2012 is in line with the current operations of these departments within the Company.

The Company continued to have a development contract in place with the Army Research Laboratory throughout the first half of 2012, but this contract will be ending within the second half of 2012. While actual R&D expenditures dropped in this period, the internally funded component increased significantly because of reduced external support by R&D contracts. Additionally, new product development expenses, engineering expenses on new production machines, and machine shop expenses which were previously included in COGS are now included in IR&D as discussed above. These changes combined to increase the line called internal research and development in the financial statements to $775,204 for first half 2012 compared to $3,367 for the first half of 2011.

Sales, general, and administrative expenses were $1,222,206 for the first half of 2012 versus $1,214,353 for the first half of 2011, less than a 1% increase.

Cost containment measures were enacted during the second quarter of 2012 with the goal of Company profitability by the end of 2012. The Company's Management Committee conducted a comprehensive review of 2012 plans and budgets to sharpen strategic priorities and to reduce costs. As a result, reductions were made in payroll expense with the termination of nine employees and the reduction of other payroll expenses due to attrition, reduction of expenses in sales and marketing, consulting fees, R&D material usage, and consolidation of IT. The full impact of these measures was not realized in the first half of 2012, but is expected to benefit the Company's financial position going forward.

PowerFilm's balance sheet continues to have a strong position at 30 June 2012, which includes cash and cash equivalents of $7,671,271, $5,000,000 of U.S. government agency backed callable bonds and $500,000 of restricted cash. The aggregation of these accounts total $13,171,271.

The funds previously designated as cash held for property and equipment construction were not committed to any specific purchases. This internal designation indicated an estimated amount that was originally set aside to be used for future construction of equipment; however the funds were unrestricted and uncommitted. The management group, with approval from the board of directors, eliminated this internal designation as of 30 June 2012 and reclassified the funds to current assets, cash and cash equivalents in order to have more clarity as to the

Company's cash position. Based on current and expected future production levels, the Company is in a position to reduce the annual amount of funds necessary for capital expenditures. Capital expenditures will continue for next-generation equipment as the need arises, but the Company is in a good position to meet expected production demands using the existing equipment with no need for additional equipment construction in the near term.

The $500,000 of restricted cash and the $5,000,000 of U.S. government agency backed callable bonds are contractually required to be maintained as a compensating balance at the bank that issued the letter of credit on the Company's industrial revenue bonds.

Cash outflow in the first half 2012 was higher due primarily to additional expenditures on increased inventory levels (nearly $893,000 higher compared to year end 2011) in preparation of higher expected sales volumes. Other cash outflows in the first half of 2012 included higher insurance premiums, capitalized equipment, and consultant fees for improved efficiencies and engineering.

The financial statements of PowerFilm are prepared on the basis of US Generally Accepted Accounting Principles (US GAAP).

Operational Review

Competitive Landscape and Position

In addition to prospective customers the Company is proactively pursuing, PowerFilm is actively responding to unsolicited product inquiries from customers of solar companies which are no longer in existence. The solar industry remains challenged by industry dynamics and external factors including a slow recovery of the global economy. As other solar companies have gone bankrupt or have been effectively de-commissioned, PowerFilm's competitive position has improved.

Sales and Marketing

In the first half of 2012 PowerFilm maintained a diversified mix of revenues, comprised of product revenues from a mix of customers spread throughout the Company's target markets, along with some development contract revenue. Overall, revenues from sales of the broad line of foldable solar chargers to both military and consumer customers was especially strong. The Company continued to supply solar panels to the oil and gas industry exploration market. Sales of the PowerShade solar field shelter for the military and emergency/disaster relief also helped maintain traditional first half sales volumes.

Foldable Solar Chargers

PowerFilm's industry-leading line of foldable solar chargers helped set the pace for solid first half revenues and are expected to play an important part in revenue growth in the second half. Manufacturing efficiency improvements and engineering design improvements are expected to improve bottom-line profitability going forward. The Company's new 120-Watt foldable solar charger weighs an impressively light 6.5 pounds and fits comfortably in a rucksack. This new product has been developed in response to strong customer demand from the military, following their experience with the PowerFilm 60 and 90 Watt foldable solar chargers.

Original Equipment Manufacturer (OEM) Custom Panels

PowerFilm's key market continues to be custom OEM solar panels that are engineered to precise customer specifications to meet their power needs, or to solve their power problems. The core photovoltaic material is encapsulated in a variety of materials depending upon use environment, lifetime desired, and price point; adhered to a broad range of backing materials; and finished with prescribed custom attachment and electrical termination choices. Target markets range from the oil and gas exploration industry, electric golf cars, RV use, marine use, and other diverse markets.

Within the OEM space, PowerFilm has established strategic relationships with industry leaders in each segment, such as E-Z-GO for electric golf cars, Torqeedo for electric boats, Streamlight for police and emergency vehicles.

The oil and gas exploration market continues to be a strong market segment for us with steady and increasing volume coming from existing partners. We anticipate further market penetration with increased sales efforts to explore opportunities.

Our partnership with E-Z-GO continues to evolve and grow with modest increase to unit volume in the first half. Though not as brisk as anticipated sales to the golf market continue to be a focus through our partnership and we fully expect growth as additional cooperative marketing efforts increase awareness and educate customers on the value of solar.

The recreational vehicle market remains a priority with progress made with key potential partners to identify and design total solar solutions fit for their demographic. We believe this niche market provides a very good opportunity for future growth and will continue to focus on bringing real value to the consumer and our partners.

Our unique technology continues to experience a greater breadth of acceptance within the marine market with partners such as Sea Eagle and Torqeedo each releasing new products into the marketplace in the first part of 2012.

Military and Government

We have experienced significant movement within the military and government sectors in the first half of 2012. Extensive efforts over the past decade to educate stakeholders within key initiatives have culminated in the recently announced purchase orders for PowerFilm's lightweight foldable solar chargers for individual soldiers in the US Army totaling approximately $3 million, to be shipped in the second half of 2012. This is in addition to other sales of foldable chargers and PowerShade solar field shelters to the US military and NATO allies.

Consumer Chargers

PowerFilm offers a full line of durable solar chargers for the consumer and outdoor markets. Products range from a USB+AA charger to larger rollable and foldable chargers. In particular, sales to Australia for the large outdoor market were especially strong.

Building Integrated

PowerFilm has been analyzing and updating its building integrated product plans in the context of product development and market dynamics. PowerFilm has decided to extend its building integrated product development improvement and demonstration phase prior to launching the products formally. The Company has suspended its current third-party certification activities. Product improvements that have been developed since the original submission of products for testing will be incorporated into the second-generation building integrated products which will also include a number of new design improvements and manufacturing process improvements, such as automation.

In the interim, ongoing demonstration projects will be made and some volume of product will be allocated to building integrated applications not requiring certification to UL or IEC standards. The Company's commercial strategy remains clearly focused on architecturally integrated photovoltaics, with a particular emphasis on architectural fabric applications, as well as other selective applications.

Manufacturing Cost Reduction Activities

In 2012, PowerFilm has continued its emphasis on manufacturing efficiency improvements. These efforts will reduce cost per unit to help increase gross margins as part of the drive to return to profitability. The Lean Manufacturing initiative begun in 2010 has now been expanded beyond finished product assembly to also include the core unencapsulated photovoltaic roll production.

As a result of these improvement teams, PowerFilm is seeing improvements to several key metrics including on-time delivery, scrap as a percent of sales, and inventory turns. These teams will continue to focus on reducing waste in the manufacturing process while improving overall quality and product cost.

Organizational Changes

As was previously announced, there were several organization changes in the Company in the first half of 2012. Following the announcement that Tim Neugent, President and COO, would be leaving the Company to pursue other opportunities, it was announced that PowerFilm's sales efforts would be spearheaded by Ron Mason, who has been named Vice President, Sales and Marketing. Ron's sales career demonstrates an ability to achieve strong sales results and lead and build sales teams. Prior to joining PowerFilm in 2008, Ron served as Senior Vice President, Sales at Bankers Systems and as Executive Vice President, Sales at Olivetti North America. Since joining PowerFilm Ron has built important customer relationships and increased military and marine sales.

Board membership evolved with the retirement of Merlin "Mert" Hanson from the Board and the subsequently appointment of Rick Brimeyer to the Board as a non-executive director. Rick has extensive experience in process improvement of manufacturing operations. Mr. Brimeyer is the President of Brimeyer LLC, an independent management consulting firm located in Ames, Iowa, which guides organizations to higher performance by focusing on process improvement.

Following the retirement of Merlin Hanson as Chairman of the Board, Frank Jeffrey is serving as Chairman of the Board of Directors on an interim basis.

PowerFilm appreciates the service of those who have departed the Company and welcomes those who have been recently appointed to new positions.

Phicot, Inc. Subsidiary: Roll to Roll Flexible Electronics

PowerFilm through its majority-owned subsidiary Phicot continued to work with Hewlett-Packard (HP) in development of roll to roll flexible electronics focused on displays. The Company continued to have a development contract in place with the Army Research Laboratory throughout the first half of 2012, but this contract will be ending within the second half of 2012. PowerFilm and HP are exploring options for funding to bring this technology to the manufacturing stage.

Outlook

As with all businesses, the continued unpredictability of a sustained global economic recovery, the uncertainty of governmental economic policies going forward, and geopolitical instability in some regions combine to make it difficult to predict the business climate for us and our customers over the next year. This is a risk that broadens the possible range of business outcomes for our Company. We believe that maintaining a strong balance sheet with sufficient cash and only long-term debt for land and the manufacturing building is essential to our Company's future.

Second half revenues are expected to exceed first half revenues. Product sales revenue shipped in the second half through August 31 was $2.0 million. Also PowerFilm has additional purchase orders in house to be shipped in 2012 totaling $3.7 million. Combined, these numbers total $5.7 million in revenues for the second half of 2012, serving as a solid foundation for second half revenue growth. Development contract revenue is expected to be minimal in the second half of 2012.

Further improvement in gross margins is expected as volumes increase and as the benefits from the past year's (and ongoing) emphasis on manufacturing process improvements are realized.

Returning to profitability remains a top goal of the Company.

The future of this industry belongs to those companies which have a strong balance sheet with sufficient cash to weather the storm. Also important is having a differentiated product line that competes on a basis other than purely price.

An enduring company must have a technology platform which enables low-cost manufacturing.

PowerFilm is carefully riding out the uncertainty in the solar industry, making improvements internally to drive toward profitability, and is poised to strike when the fog lifts.

Financial Statements

PowerFilm, Inc.

Statements of Operations
Mid-Years 2012, 2011, Full-Year 2011

	Unaudited 6 months ending 30-Jun-12	Unaudited 6 months ending 30-Jun-11	Audited 12 months ending 31-Dec-11
Operating Revenues:			
Sales	$3,649,994	$3,510,582	$9,844,616
Development Contracts	648,326	952,882	1,760,353
	4,298,320	4,463,464	11,604,969
Cost of Revenues	3,410,742	3,825,939	10,345,656
Gross Profit	887,578	637,525	1,259,313
Operating Expenses:			
Internal Research and development	775,204	3,367	57,496
Selling, general, and administrative	1,222,206	1,214,353	2,637,280
	1,997,410	1,217,720	2,694,776
Operating (loss)	(1,109,832)	(580,195)	(1,435,463)
Other income (expense):			
Interest/Dividend income	71,471	33,671	101,272
Interest (expense)	(67,172)	(81,887)	(157,733)
Other income	4,686	8,831	1,150
	8,985	(39,385)	(55,311)
(Loss) before income tax (benefit)	(1,100,847)	(619,580)	(1,490,774)
Income tax (benefit)	(445,000)	(264,703)	(561,000)
Net (loss)	$ (655,847)	$ (354,877)	$ (929,774)
Basic (loss) per share	$ (0.02)	$ (0.01)	$ (0.03)
Diluted (loss) per share	$ (0.02)	$ (0.01)	$ (0.03)

PowerFilm Inc.
Balance Sheets

Mid-Years 2012, 2011	Unaudited	Unaudited
	30-Jun-12	30-Jun-11
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, net of cash held for equipment construction and restricted cash	$7,671,271	$2,176,516
Accounts receivable, net	1,673,047	1,571,902
Inventories	3,954,098	3,532,144
Prepaid Expenses	292,166	401,105
Income Tax Receivable	45,760	24,382
Deferred Income Taxes	106,000	1,083,221
Total current assets	13,742,342	8,789,270
RESTRICTED INVESTMENT SECURITIES	5,000,000	5,000,000
RESTRICTED CASH AND SHORT-TERM INVESTMENTS	500,000	1,000,000
CASH AND SHORT-TERM INVESTMENTS HELD FOR PROPERTY AND EQUIPMENT CONSTRUCTION	0	7,500,000
PROPERTY AND EQUIPMENT		
Machinery and equipment	9,932,062	9,539,744
Leasehold improvements	272,276	272,276
Equipment construction in progress	5,585,087	5,012,668
Land/Building	6,032,257	6,032,257
	21,821,682	20,856,945
Less accumulated depreciation	(5,586,505)	(4,532,363)
	16,235,177	16,324,582
OTHER ASSETS	177,021	181,448
DEFERRED INCOME TAXES	778,716	0
TOTAL ASSETS	$36,433,256	$38,795,300
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long term debt	$ 250,000	$ 250,000
Trade accounts payable	227,635	192,495
Other payables and accrued expenses	1,144,247	928,677
Total Current Liabilities	1,621,882	1,371,172
LONG-TERM LIABILITIES		
Revenue bonds payable, less current maturities	3,750,000	4,000,000
Deferred income taxes	0	998,000
Total Long-Term Liabilities	3,750,000	4,998,000
STOCKHOLDERS' EQUITY		
Non-controlling interest in subsidiary	3,766	3,766
Common stock	381,518	381,033
Additional paid in capital	32,697,967	32,657,895
Retained earnings (deficit)	(1,073,882)	156,863
Treasury Stock	(452,740)	(461,533)
Accumulated other comprehensive (loss)	(495,255)	(311,896)
	31,061,374	32,215,471
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$36,433,256	$38,795,300

PowerFilm, Inc.

Statements of Cash Flows

Mid-Years 2012, 2011, Full-Year 2011

	Unaudited 6 months ending 30-Jun-12	Unaudited 6 months ending 30-Jun-11	Audited 12 months ending 31-Dec-11
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss)	$ (655,848)	$ (354,877)	$ (929,774)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:			
Depreciation and amortization	544,242	469,176	987,495
Provision for doubtful accounts	0	0	64,712
Deferred Income taxes	(445,000)	(247,221)	(504,000)
Stock-based compensation expense	16,142	34,703	64,087
Changes in working capital components:			
Accounts receivable	1,348,319	(317,506)	(1,831,682)
Inventories	(892,839)	(770,165)	(299,280)
Prepaid expenses	(24,151)	(184,984)	(51,894)
Income tax receivable	0	(18,282)	(39,660)
Trade Accounts payable	(34,252)	(129,673)	(60,282)
Other payables and accrued expenses	(228,664)	(76,879)	85,854
Net cash (used in) operating activities	(372,051)	(1,595,708)	(2,514,424)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(353,887)	(594,610)	(1,205,461)
Decrease in cash and short-term investments held for property and equipment construction	6,850,000	600,000	1,250,000
Purchase of restricted securities held-to-maturity	(1,000,000)	(5,000,000)	(9,000,000)
Proceeds from calls of restricted securities held-to-maturity	1,000,000	0	4,000,000
Decrease in restricted cash	525,311	5,002,620	4,977,309
(Increase) in other assets	(1,615)	(907)	(3,281)
Net cash provided by (used in) investing activities	7,019,809	7,103	18,567
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on long-term debt	(125,000)	(125,000)	(250,000)
Proceeds from issuance of common stock, net	0	0	4,249
Net cash (used in) financing activities	(125,000)	(125,000)	(245,751)
Net Increase (decrease) in cash and cash equivalents	6,522,758	(1,713,605)	(2,741,608)
CASH AND CASH EQUIVALENTS			
Beginning	1,148,513	3,890,121	3,890,121
Ending	7,671,271	2,176,516	1,148,513

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION, cash payments for:			
Interest	$92,574	$84,671	$ 237,290
Income taxes	0	0	(17,000)

SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING ACTIVITIES			
(Loss) on interest rate swap agreement	**$ (22,694)**	**$ (7,154)**	**$ (175,535)**
Restricted shares awarded from treasury shares	**9,872**	**0**	**0**

Forward-looking Statements

This release includes forward-looking statements which are based on certain assumptions and reflect management's current expectations as contemplated under the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Some of these factors include: uncertainty as to whether our strategies, partnerships and business plans will yield the expected benefits; general global economic conditions; general industry and market conditions and growth rates; increasing competition; the ability to identify, develop and achieve commercial success for new products, services and technologies; changes in technology; changes in laws and regulations, including government incentive programs; intellectual property rights; our ability to secure and maintain strategic relationships, including key supply relationships; the availability and cost of capital; the availability of, and our ability to retain, key personnel; and the failure of the Company to effectively integrate acquisitions. Additional factors are discussed in our public disclosure materials from time to time. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.