



Quarterly Report
First Quarter 2010

Highlights in the first three months of 2010

- Automotive industry again in a strong upswing
- Sales growth of 20 % from the previous year
- Clearly positive earnings trend
- Net earnings for the period up by 198 %

The first three months at a glance

In EUR thousands	Q1 2010	Q1 2009**	Change in %
Sales	15,759	13,091	20 %
EBITDA	3,433	387	885 %
Adjusted EBITDA*	3,685	828	445 %
EBIT	2,202	- 945	333 %
Net earnings for period	2,183	- 2,236	198 %
Earnings per share in EUR	0.53	- 0.54	198 %
Liquidity in millions	7,845	1,085	723 %
Employees***	249	289	- 14 %

* EBITDA adjusted for restructuring costs (including consultancy costs) and insolvency costs.

** AG figures only were used to enhance comparability. The figures below use March 31, 2009, as a comparison (Group prior to deconsolidation) for purposes of consistency.

*** Information relates to paragon AG excluding temporary workers.

Events after the Balance Sheet Date / Current Status

Since this quarterly report is only being published in August of 2010, we have elected to present it in a form that on the one hand traces the course of business from January 1 to March 31, 2010, and on the other takes into consideration the events in the subsequent period. As a result the outlook for the future refers to the years 2010 and 2011. More detailed comments in this respect and on the later insolvency, that lasted from January 1, 2010, to May 31, 2010, can be found in the Group management report of the annual report covering the insolvency period (partial fiscal year from January 1, 2010, to May 31, 2010).

Note on the comparison with previous years: Since January 1, 2010, paragon's financial reports have concentrated on paragon AG due to the deconsolidation of the subsidiaries as at December 31, 2009. As a result the figures of the first quarter of 2010 are compared to the individual financial statements of paragon AG for the first quarter of 2009.

Overall Economic Conditions

The global economic recovery varies from region to region. Economic growth has been greater in developing countries and emerging markets than in industrialized countries at the beginning of the year. Adjustment processes, often resulting in a higher inclination to save and more pronounced risk awareness, have hampered economic activity.

On the other hand international passenger car markets are continuing to experience an upswing. Due to their strong exports German manufacturers are benefiting from the global recovery of the industry to a disproportionate degree.

Business Developments at paragon AG

paragon evidenced a significant upwards trend in the first three months of 2010. Despite the insolvency initiated as at January 1, 2010, the Company was able to raise its sales revenues in the first quarter by 20% to EUR 15.8 million (prior year: EUR 13.1 million).

Demand for paragon products rose significantly in the course of the global recovery in the automotive industry in the period under review. Capacity utilization in the two

production sites in Suhl and St. Georgen was excellent, so that staff cutbacks appear to a great extent to be over. In addition during the first quarter paragon increased the number of temporary workers to the level of the end of 2008 based on healthy order levels.

In the creditor meeting of February 19, 2010, creditors gave their support to the restructuring process aimed at maintaining the Company as a going concern. At this meeting the corroboration of the insolvency administrator, Dr. Frank Kebekus, that the most important customers had shown a clear commitment to paragon was obviously persuasive.

Financial Position and Net Assets

Total assets as at March 31, 2010, dipped to EUR 39.4 million compared to EUR 45.2 million as at December 31, 2009.

Non-current assets decreased from EUR 23.2 million to EUR 19.3 million due to customary wear and tear. Current assets were also down by EUR 1.9 million to EUR 20.1 million (prior year: EUR 22.0 million), the result in particular of a reduction in inventories (from EUR 11.2 million to EUR 5.2 million). The broad-based restructuring program bore fruit in this area as well.

Non-current liabilities decreased considerably against the backdrop of the insolvency to EUR 14.1 million (prior year: EUR 46.0 million). The reclassification of non-current liabilities to current financing elements was also noted in current liabilities, which rose from EUR 77.3 million to EUR 122.0 million.

Due to higher demand paragon evidenced significant growth in operating cash flow, which rose steeply compared to the previous year (March 31, 2009: EUR 0.02 million) to EUR 1.2 million.

Results of Operations

Two parallel developments favored paragon's results of operations in the first quarter of 2010. On the one hand the impact of the comprehensive cost reduction measures introduced by the Company since the end of 2008 became ever more apparent. On the other hand paragon benefited in great measure from the recovery in the automotive

industry, so that a considerable increase was seen in manufacturers' release orders. This starting situation contributed to the fact that personnel costs in the period under review dropped consistently by 27 % to EUR 2.6 million (prior year: EUR 3.6 million). In relation to the higher level of sales the cost of materials ratio rose more by only 1 %.

Measures to enhance the liquidity position, which had been called into being by the paragon Managing Board in 2009, continued to bring positive effects to bear. In addition to shortening payment terms from customers and extending payment targets for suppliers, the Company endeavored in particular to reduce inventory levels and transform them into liquidity. These measures are also reflected in the changes in inventory in the first quarter of 2010. Write-offs were 10 % lower than in the previous year.

EBIT underwent an especially positive change. While paragon was still forced to accept a negative EBIT figure of EUR 0.9 million in the same quarter of the previous year, this figure rose to EUR 2.2 million in the first quarter of 2010.

As at March 31, 2010, paragon posted net consolidated profit for the period of EUR 2.2 million according to IFRS. During the previous year this figure showed a loss of EUR 2.2 million. Here, too, it is obvious that the Company has managed a turnaround. paragon attained EBITDA of EUR 3.4 million after EUR 0.4 million at the end of the first quarter of the previous year. Operating earnings – EBITDA adjusted for restructuring costs – also grew considerably to EUR 3.7 million (prior year: EUR 0.8 million).

Research & Development

Final work on numerous products, ranging from air quality sensor variants through climate control components to on-board clocks, dominated research and development activities in the first three months of 2010. At the same time paragon made significant progress in the development of a novel start-stop sensor that can be used in hybrid vehicles. In the period under review expenses for research and development totaled EUR 1.2 million (prior year: EUR 2.2 million).

Employees

As at March 31, 2010, paragon AG employed 249 of its own workers and 24 temporary workers, all of whom were active in Germany alone. At the same cut-off date in the previous year paragon AG had 289 of its own employees and no temporary workers. As at March 31 a total of 568 employees were working for the paragon Group, eleven of whom were temporary workers. The number of employees is thus down considerably compared to the previous year; this is due in large part to the changed levels of release orders from carmakers as a result of the industry crisis. Since the crisis appears to be on the wane, paragon is planning to recruit again. As at March 31, 2010, 51 employees were engaged at the headquarters in Delbrück and 214 (of which 24 are temporary workers) at the Suhl production site.

Investor Relations

Uneven developments in the economy had an effect on the capital markets as well. The German Stock Index (Deutscher Aktien Index – DAX) for instance slipped from 6,150 points down to almost 5,400 points in the first quarter of 2010, only to recover to just under 6,050 points as at March 31, 2010.

The paragon share, which started trading on January 4, 2010, at EUR 1.15, trended in the opposite direction. Due to positive news in the first three months of the insolvency period the share rose to EUR 3.95 by the middle of February. The paragon share price softened to EUR 2.20, however, as at the end of the first quarter (information based on XETRA).

During the insolvency period starting on January 1, 2010, communication in the financial markets continued to center around special events. The Managing Board, working closely with the insolvency administrator, Dr. Kebekus, informed the shareholders and the public at large on the current situation and the justified hope that the insolvency process would be successful. Now that the insolvency has been suspended, the outstanding financial reports should be prepared as quickly as possible and an Annual General Meeting convened.

Securities Identification Number:	555 869
ISIN:	DE 000 555 8696
Ticker symbol:	PGN
Trading segment:	Prime Standard
Sector:	Technology

Risk report

paragon AG's Managing Board always assesses risks in close coordination with the Supervisory Board. During the course of 2009 the situation - due to the failure of the banks to come to an agreement - came to a head to such an extent that the Managing Board initiated insolvency proceedings with the goal of implementing an insolvency plan process. Given the positive outcome of these proceedings and the end of the insolvency as at June 1, 2010, as well as rising demand from automobile manufacturers and a clear drop in debt, the Managing Board believes there is a very good chance that the Company's history will take a positive turn after this most difficult crisis. At the time of publication of this report, no additional risks have been identified that might jeopardize the Company's continued existence.

Outlook

Given the context of the August 2010 publication period the outlook relates to the years 2010 and 2011. Interim findings are incorporated so as to provide an up-to-date and qualified forecast.

The Institut für Weltwirtschaft (ifw - Kiel Institute for the World Economy) forecasts recovery for the economy during 2010, but only at a moderate rate. The financial and economic crisis of the years 2008 and 2009 is gradually being overcome. The pace of expansion, however, differs greatly in individual regions around the world. While in some emerging markets there is even a risk of the economy overheating, the utilization of economic capacities on the whole in industrial countries continues to be low.

The Verband der Automobilindustrie (VDA - German Association of the Automotive Industry) presents a positive assessment of developments in the international markets and economy. The global automobile market is expected to increase by approximately 4% to over 57 million passenger cars in 2010. China will initially play a decisive role, even though it is unlikely that the country can maintain the high growth rates of the first quarter - with a rise of more than three quarters to almost 2.8 million units - throughout the whole year. German manufacturers are superbly positioned in the growth markets of China and the US. The majority of automotive suppliers can anticipate double-digit growth rates this year according to VDA information.

The Managing Board of paragon AG envisions a future with excellent business prospects now that the insolvency has been suspended. These forecasts are bolstered not only by significantly lower debt, but also, in particular, by the gratifying operational developments in the Company. The Managing Board anticipates positive financial results for all of fiscal 2010. paragon's goals are now to achieve sales of EUR 58 million and significantly positive free cash flow in the millions. Operating earnings (EBITDA adjusted for the costs of restructuring and the insolvency) of EUR 7.5 million are anticipated. Even taking into account extraordinary expenses positive EBIT is a possibility already in 2010 according to information from the Managing Board.

paragon will concentrate fully on automotive electronics in future. paragon also sees opportunities in the area of New Drives in addition to its tried and true product portfolio. Electronic solutions for hybrid cars and, especially, for electric mobility play a key role in this domain. The departure from the divisional structure and the new breakdown into product groups minimizes complexity and creates additional clarity. This will create the conditions for paragon to optimally exploit the opportunities offered in the automotive industry.

Consolidated Balance Sheet of paragon AG, Delbrück, as of March 31, 2010

in EUR thousands	paragon AG March 31, 2010	paragon AG March 31, 2009	Consolidated Balance Sheet Dec. 31, 2009
Assets			
Non-current assets			
Intangible assets	4,189	5,610	4,539
Property, plant and equipment	14,284	16,954	14,943
Financial assets	180	180	180
Deferred taxes	638	407	653
Total non-current assets	19,291	23,151	20,315
Current assets			
Inventories	5,225	11,239	4,427
Trade receivables	6,420	6,347	4,307
Income tax assets	0	65	36
Other assets	571	3,308	457
Cash and cash equivalents	7,845	1,085	9,360
Total current assets	20,061	22,044	18,587
Total assets	39,352	45,195	38,902

in EUR thousands	paragon AG March 31, 2010	paragon AG March 31, 2009	Consolidated Balance Sheet Dec. 31, 2009
Liabilities			
Equity			
Subscribed capital	4,115	4,115	4,115
Capital reserve	7,753	7,753	7,753
Profit carried forward	- 110,828	- 87,749	- 64,141
Consolidated net income/loss	2,183	- 2,236	- 46,687
Currency translation reserve	0	0	0
Total equity	- 96,777	- 78,117	- 98,960
Non-current provisions and liabilities			
Non-current finance lease obligations	496	947	673
Non-current borrowings	7,841	16,031	7,840
Profit-participation certificates	0	22,663	0
Special item for investment grants	4,415	5,735	4,731
Deferred taxes	108	292	141
Pension provisions	1,236	373	1,259
Total non-current provisions and liabilities	14,096	46,041	14,644
Current provisions and liabilities			
Current portion of finance lease obligations	359	471	315
Current borrowings and current portion of non-current borrowings	37,733	26,549	40,396
Profit-participation certificates	22,852	0	22,807
Trade payables/Leistungen	9,121	11,166	8,958
Other provisions	5,823	2,318	4,192
Income tax liabilities	2,228	1,271	2,228
Other current liabilities	43,917	35,496	44,322
Total current provisions and liabilities	122,033	77,271	123,218
Total equity and liabilities	39,352	45,195	38,902

Consolidated Income Statement of paragon AG, Delbrück,
for the period from January 1 to March 31, 2010

in EUR thousands	paragon AG 01/01 – 31/03/2010	pargon AG 01/01 – 31/03/2010	paragon Group 01/01 – 31/03/2010
Sales revenue	15,759	13,091	18,580
Other operating income	580	469	602
Increase or decrease in finished goods and work in process	337	- 370	- 600
Other own work capitalized	66	129	129
Total operating performance	16,742	13,320	18,711
Cost of materials	- 8,574	- 6,958	- 9,571
Gross profit	8,168	6,362	9,140
Staff costs	- 2,639	- 3,619	- 6,428
Depreciation and amortization of property, plant and equipment and intangible assets	- 1,231	- 1,332	- 1,335
Impairment of property, plant and equipment and intangible assets	0	0	- 183
Other operating expenses	- 2,096	- 2,355	- 2,814
Earnings before interest and taxes (EBIT)	2,202	- 945	- 1,620
Financial income	0	45	1
Finance costs	- 37	- 1,343	1,491
Net financing costs	- 37	- 1,298	- 1,490
Earnings before taxes	2,165	- 2,243	- 3,110
Income taxes	18	7	- 6
Consolidated net income/loss	2,183	- 2,236	- 3,116
Earnings per share (basic)	0.53	- 0.54	- 0.76
Earnings per share (diluted)	0.53	- 0.54	- 0.76
Average number of shares outstanding (basic)	4,114,788	4,114,788	4,114,788
Average number of shares outstanding (diluted)	4,114,788	4,114,788	4,114,788

Consolidated Cash Flow Statement of paragon AG, Delbrück, in accordance with IFRS

in EUR thousands	paragon AG 01/01 - 31/03/2010	pargon AG 01/01 - 31/03/2010	paragon Group 01/01 - 31/03/2010
Cash flow from operating activities			
Earnings before income taxes and deferred taxes	2,165	- 2,243	- 3,111
Depreciation and write-ups of property, plant and equipment	1,231	1,333	1,335
Net financing costs	37	1,298	1,490
Gains (+), losses (-) from the disposal of property, plant and equipment and financial assets	468	173	758
Income from the release of the special item or investment grants	- 316	- 397	- 402
Other non-cash income and expense	- 66	44	- 206
Increase (-), decrease (+) in trade receivables, other receivables	- 2,227	- 4,403	- 6,700
Impairment of intangible asstes and PPE	0	0	183
Increase (-), decrease (+) in inventories	- 798	510	1,223
Decrease (+), Increase (-) in trade payables and other liabilities	688	4,165	6,329
Interest paid	- 37	- 454	- 454
Income taxes/deferred taxes paid	36	- 6	- 155
Net cash provided by/used in operating activities	1,180	20	290
Cash receipts from disposals of property, plant and equipment	- 155	- 597	- 738
Cash receipts from disposals of intangible assets			
Auszahlungen für Investitionen in das immaterielle Anlagevermögen	0	- 7	- 17
Cash receipts from disposals of financial assets			
Interest received	0	45	1
Cash flow from investing activities	- 155	- 559	- 754
Cash repayments of borrowings	- 2,540	- 322	- 322
Cash flow from financing activities	- 2,540	- 322	- 322
Cash-effective change in liquidity	- 1,515	- 862	- 786
Effects resulting from exchange differences, changes in the basis of consolidation and remeasurement	0	0	- 197
Cash and cash equivalents at beginning of period	9,360	1,947	2,262
Cash and cash equivalents at end of period	7,845	1,085	1,279

Consolidated Statement of Changes in Equity of paragon AG, Delbrück

in EUR thousands	Subscribed capital	Capital-reserve	Accumulate other comprehensive income Currency translation differences	Consolidated net income/loss	Total
Balance as of Jan. 1, 2009	4,115	7,753	- 1,905	- 64,178	- 54,178
Net loss für the year	0	0	0	- 46,687	- 46,687
Other comprehensive income	0	0	2,284	0	2,284
Comprehensive income	0	0	2,284	- 46,687	- 44,403
Deconsolidation	0	0	- 379	0	- 379
Balance as of Dec. 31, 2009	4,115	7,753	0	- 110,828	- 98,960
Balance as of Jan. 1, 2010	4,115	7,753	0	- 110,828	- 98,960
Net loss für the year	0	0	0	2,183	2,183
Other comprehensive income	0	0	0	0	0
Comprehensive income	0	0	0	0	0
Deconsolidation	0	0	0	0	0
Balance as of March 31, 2010	4,115	7,753	0	- 108,645	- 96,777

Shares held by members of the Executive and the Supervisory Board as at March 31, 2010

Capital stock: 4,114,788 shares	Shares 31/03/2010
Management Board, total	2,111,730
Supervisory Board, total	6,000
Boards, total	2,117,730
as % of share capital	51.47

Additional comments

The quarterly report has been prepared using the uniform accounting principles of the International Financial Reporting Standards (IFRS), which were also used for the 2009 annual report. The standards of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) apply. The form and content of the report comply with the reporting requirements of the German stock exchange. The quarterly report represents an update of the annual report. Its emphasis is on the current reporting period and it should be read in conjunction with the annual report and the additional information contained therein.

The scope of consolidation has changed considerably in the first three months of 2009 compared to the 2009 annual financial statements. As at December 31, 2009, paragon deconsolidated its subsidiaries, so that financial reports from January 1, 2010, focus fully on paragon AG.

The risk situation of paragon AG was covered in detail in the report on risks and opportunities in the 2009 annual report. Statements made in the report regarding the delayed date of publication and overall risk continue to apply.



Neue Kraft, bewegende Ideen

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