



Quarterly Report  
from 06/01 to 08/31/2010

## Highlights for the Period from June 1 to August 31, 2010

- Growth continues in automotive sector
- 16% increase in sales over prior year
- Restructuring effective as planned
- Earnings continue to rise

## Three Months from June 1 to August 31, 2010, at a Glance

in EUR thousands	06/01/2010 – 08/31/2010	06/01/2009 – 08/31/2009	Change in %
Sales	14,436	12,412	16 %
EBITDA	4,272	797	436 %
Adjusted EBITDA*	3,360	1,184	184 %
EBIT	2,999	- 446	772 %
Adjusted EBIT*	2,087	- 59	3,637 %
Net income for period	2,983	- 1,487	301 %
Earnings per share in EUR	0.72	- 0.36	300 %
Liquidity	18,183	1,763	931 %
Employees**	252	265	- 5 %

\* EBITDA/EBIT adjusted for restructuring gains and insolvency costs.

\*\* Information relates to paragon AG excluding contract workers.

### General economic conditions

The recovery of the world economy has been more rapid than expected in 2010. However, according to estimates of the Institut für Weltwirtschaft in Kiel, Germany (ifw), the risks associated with the upswing have increased. For one thing, the economic expansion in developing and emerging countries appears to be losing momentum as the year progresses. Meanwhile, a confidence crisis in the eurozone has had a dampening effect on the economy. The ifw therefore anticipates a slowdown in the expansion.

In the automotive sector, the dynamic growth outside of Europe weakened only slightly. In the Western European passenger car markets, the phasing out of several government subsidy programs is having a noticeable effect as expected. In general, export remains the growth driver for German manufacturers. Since the beginning of the year, the production of German passenger cars has risen by more than 17% over the prior year to just under 3.6 million units.

### Business Development at paragon AG

The recovery at paragon AG in 2010 has proven to be sustainable. In the first quarter after the end of the insolvency as of June 1, 2001, the Company continued the positive trend that started at the beginning of the year. In the period from June 1, 2010, to August 31, 2010, sales rose 16% over the prior year to EUR 14.4 million (prior year: EUR 12.4 million).

After the end of the worldwide automotive crisis, the emphasis at the beginning of 2010 was initially on replenishing inventories at manufacturers. In the first five months of the year, paragon profited significantly from this trend. Thanks to the fact that the number of new vehicles had risen again, demand for paragon products subsequently stabilized at a high level. The number of employees at paragon AG has risen slightly since the end of the short fiscal year on May 31, 2010, but at the end of the reporting period it was still 5% lower than in the prior year.

Due to the highly satisfactory operational trend and a significant reduction in debt, paragon AG was able to noticeably improve on prior-year results. The first eight months fully confirm the projections of the Managing Board.

### Financial Position and Net Assets

Total assets increased from EUR 41.2 million on August 31, 2009, to EUR 46.2 million on the period-end reporting date August 31, 2010.

Non-current assets decreased from EUR 21.3 million to EUR 17.7 million due to customary wear and tear. Current assets rose by EUR 8.6 million to EUR 28.5 million (prior year: EUR 19.9 million), in particular as a result of an increase in cash and cash equivalents from EUR 1.8 million to EUR 18.2 million. The increase predominantly resulted from the payout of the settlement loan in the amount of EUR 12.7 million and the escrow account generated over the insolvency period in the amount of EUR 7.1 million. EUR 7.6 million of the settlement loan referred to above had already been paid out by August 31, 2010. Inventories declined by another EUR 4.7 million to EUR 5.5 million from the prior year.

Non-current provisions and liabilities increased from EUR 13.7 million to EUR 27.4 million. Essentially, the rise from EUR 13.7 million resulted from the payout of the settlement loan in the amount of EUR 12.7 million and the security payoff loan. The implementation of the insolvency plan effective May 31, 2010, and the related derecognition of loans, profit-sharing rights, and trade liabilities led to a significant reduction in non-current provisions and liabilities to EUR 14.5 million (prior year: EUR 106.4 million).

The payoff of the insolvency dividend in the amount of EUR 7.6 million resulted in negative operating cash flow in the amount of EUR 5.0 million for period from June 1 to August 31, 2010. After making adjustments for this major special effect related to the insolvency, the Company had positive operating cash flow of EUR 2.6 million, which c

confirms the favorable development of paragon AG's operational business. The cash flow from financing activities reflects the payment of the settlement loan (EUR 12.7 million) and the security payoff loan (EUR 2.0 million).

### Financial Performance

In the period from June 1, 2010, to August 31, 2010, the financial performance of paragon AG was characterized by strong growth in sales (up 16%), a relatively moderate increase in the cost of materials (+7%), and a significant decrease in personnel costs (down 19%). As a consequence, the Company was able to substantially increase the key earnings figures over the prior-year period. But even more importantly, an increasingly positive earnings trend was recorded in the course of the year.

Among other factors, the rise in the cost of materials from EUR 6.9 million to EUR 7.4 million was significantly lower than the growth in sales. At the same time, personnel costs decreased from EUR 3.1 million to EUR 2.5 million despite the double-digit increase in sales.

EBIT improved from negative EUR 0.4 in the prior-year period to EUR 3.0 million. However, as in the case of EBITDA, which rose from EUR 0.8 million to EUR 4.3 million, special effects need to be taken into consideration here. Taking into account these special effects involving additional restructuring gains and insolvency-related costs of EUR 0.9 million, adjusted EBIT was EUR 2.1 million and adjusted EBITDA was EUR 3.4 million.

paragon AG recorded net income under IFRS of EUR 3.0 million in the reporting period (prior year: EUR 1.5 million net loss). Taking into account the special effects mentioned above, net income was EUR 2.1 million. These figures demonstrate that paragon AG took advantage of the insolvency as an opportunity to restructure and achieve a sustainable trend reversal.

### Research & Development

In the period from June 1 to August 31, 2010, research & development focused on the continued development of several display instruments and control elements as well as the AQI air quality improver. At our Delbrück facility, developers also worked on a neutral position sensor and a reversing monitor. In Nuremberg, activities in the reporting period involved an innovative production concept for faces for onboard clocks, the signal processing technology for the belt-mic seatbelt microphone, and a new infotainment system for the international market. From June 1 to August 31, 2010, research and development expenses amounted to EUR 0.7 million (prior year: EUR 1.1 million).

### Employees

On the reporting date August 31, 2010, paragon AG had 252 employees and 23 contract workers, all of whom worked in Germany. This means the headcount at paragon AG remained at the same level as in the prior year, with a reduction in the number of employees (August 31, 2009: 265) and an increase in the number of contract workers (August 31, 2009: 7). In comparison to the end of the short fiscal year from January 1, 2010, to May 31, 2010 (the insolvency period), the number of employees rose from 247 to 252 and the number of contract workers from 19 to 23. This rise was related to the pleasing operational development of paragon AG. Broken down by location, 51 employees worked at headquarters in Delbrück, 193 in Suhl, and eight in Nuremberg.

### Investor Relations

The capital markets reflect the fact that the upward trend of the economy is not yet stable. In the period from June 1 to August 31, 2010, the DAX hovered around the 6,000-point mark without settling on a uniform trend. The index opened at 5,981 points on the first day of the reporting period and subsequently frequently surpassed the 6,000-point

threshold. On August 9, 2010, it reached its highest at 6,352 points, then dropped to 5,925 points on August 31, 2010.

The paragon share price exhibited a similarly volatile development in the reporting period. On June 1, 2010, it was EUR 4.30 and three days later it rose to EUR 5.43. Then, by July 29, 2010, it dropped to EUR 3.85. Finally, on August 31, 2010, the paragon share price listed at EUR 4.23, nearly the same level as at the beginning of the reporting period.

After the dismissal of the insolvency by the Paderborn District Court effective June 1, 2010, paragon AG resumed its practice of comprehensive information exchange with investors, analysts, journalists, and the interested public. In close dialogue with the German Stock Exchange, on August 12, 2010, the Company published complete annual and quarterly reports for fiscal years 2008 and 2009 as well as for the insolvency period from January 1, 2010, to May 31, 2010. On August 16, 2010, the Managing Board organized an analyst conference at headquarters of the German Society for Investment Professionals (DVFA) in Frankfurt, Germany, followed by one-on-one sessions with representatives of the capital market.

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

## Risk Report

The Managing Board of paragon AG assesses risks in close coordination with the Supervisory Board. Following the successful conclusion of the insolvency and its dismissal by the Paderborn District Court on June 1, 2010, the Managing Board believes that in consideration of rising demand among automotive manufacturers and significantly reduced debt paragon has very good prospects to perform favorably after the most serious crisis in the Company's history. At the time

of publication of this report, no additional risks have been identified that might jeopardize the Company's continued existence.

## Outlook

The Institut für Weltwirtschaft (ifw – Kiel Institute for the World Economy) forecasts that after a robust recovery the world economy will enter another difficult period. While the projection for a rise in the global gross domestic product in 2010 was increased from 3.7% to 4.4%, only a moderate increase in world production of 3.7% is expected for 2011. The ifw anticipates that unemployment in industrial nations will remain high while inflation will stay at a low level. In Germany, the strong export momentum will probably lose some of its steam and likely result in a slowdown in expansion.

The German Association of the Automotive Industry (VDA) considers the dynamics pleasing for the industry, but not without challenges. It says the development of the international markets can only be persistently positive if there is no major turbulence on the financial markets and currencies remain stable. It also notes that because government stimulus packages in Western European markets have by now almost all been phased out, there has been a decline in new car registrations as expected.

The development of paragon AG in the first three months after the end of the insolvency confirms the assessment of the Managing Board that the Company has excellent prospects for the future. In addition to a significant decrease in indebtedness, this expectation is based on the favorable operational trend. In this context, the Managing Board confirms that sales for the year 2010 as a whole will reach EUR 58 million while the operating result (EBITDA adjusted for the costs of restructuring and the insolvency) will be well in the positive range at EUR 7.5 million. In consideration of extraordinary expenditures as well, the Managing Board is confident that positive EBIT/EBT could be possible as early as 2010.

With the acquisition of the assets of the former subsidiary paragon finesse GmbH effective September 1, 2010, paragon AG has now successfully concluded its realignment. Due to its favorable development, paragon AG was able to pay the purchase price with funds from its cash flow. In addition to headquarters in Delbrück, North Rhine Westphalia (administration, marketing & sales, research & development for the product groups air quality, power trains, and

acoustics), the three other locations are now operated as branches. Sensor elements, electronics, and display instruments are produced in Suhl, Thuringia. Nuremberg is responsible for research & development for the media interface and cockpit product groups, while St. Georgen handles the development and production of stepper motors. This lean structure guarantees short decision channels and quick reaction times.

## Consolidated Balance Sheet of paragon AG, Delbrück, as of August 31, 2010

in EUR thousands	08/31/2010	08/31/2009
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible asset	3,631	5,020
Property, plant and equipment	13,317	15,763
Financial assets	180	180
Deferred taxes	613	367
<b>Total non-current assets</b>	<b>17,741</b>	<b>21,330</b>
<b>Current assets</b>		
Inventories	5,449	10,056
Trade receivables	4,235	4,640
Income tax assets	0	61
Other assets	595	3,325
Cash and cash equivalents	18,183	1,763
<b>Total current assets</b>	<b>28,462</b>	<b>19,845</b>
<b>Total asset</b>	<b>46,203</b>	<b>41,175</b>

in EUR thousands	08/31/2010	08/31/2009
<b>Liabilities</b>		
<b>Equity</b>		
Subscribed capital	4,115	4,115
Capital reserve	7,753	7,753
Loss carried forward	- 10,574	- 87,749
Consolidated net income/loss	2,984	- 3,004
<b>Total equity</b>	<b>4,278</b>	<b>- 78,885</b>
<b>Non-current provisions and liabilities</b>		
Non-current finance lease obligation	484	700
Non-current borrowings	21,908	7,223
Special item for investment grants	3,888	5,177
Deferred taxes	62	233
Pension provisions	1,091	334
<b>Total non-current provisions and liabilities</b>	<b>27,433</b>	<b>13,667</b>
<b>Current provisions and liabilities</b>		
Current portion of finance lease obligations	255	388
Current borrowings and current portion of non-current borrowing	838	36,427
Profit-participation certificates	0	22,738
Trade payables	4,923	8,462
Other provisions	1,720	3,312
Income tax liabilities	0	787
Other current liabilities	6,756	34,279
<b>Total current provisions and liabilities</b>	<b>14,492</b>	<b>106,393</b>
<b>Total equity and liabilities</b>	<b>46,203</b>	<b>41,175</b>

Consolidated Income Statement of paragon AG, Delbrück,  
for the Period from June 1, 2010, to August 31, 2010

in EUR thousands	08/31/2010	08/31/2009
<b>Sales revenue</b>	14,436	12,412
Other operating income	2,008	487
Increase or decrease in finished goods and work in process	134	- 158
Other own work capitalized	54	20
<b>Total operating performanc</b>	<b>16,632</b>	<b>12,761</b>
Cost of materials	- 7,444	- 6,942
<b>Gross profit</b>	<b>9,188</b>	<b>5,819</b>
Staff costs	- 2,500	- 3,088
Depreciation and amortization of property, plant and equipment	- 1,273	- 1,243
Other operating expenses	- 2,416	- 1,934
<b>Earnings before interest and taxes (EBIT)</b>	<b>2,999</b>	<b>- 446</b>
Financial income	68	200
Finance costs	- 85	- 1,236
<b>Net financing costs</b>	<b>- 17</b>	<b>- 1,036</b>
<b>Earnings before taxes</b>	<b>2,982</b>	<b>- 1,482</b>
Income taxes	1	- 5
<b>Consolidated net income</b>	<b>2,983</b>	<b>- 1,487</b>
Earnings per share (basic)	0.72	- 0.36
Earnings per share (diluted)	0.72	- 0.36
Average number of shares outstanding (basic)	4,114,788	4,114,788
Average number of shares outstanding (diluted)	4,114,788	4,114,788

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

in EUR thousands	06/01 - 08/31/2010		06/01 - 08/31/2009	
<b>Cash flow from operating activities</b>				
Earnings before income taxes and deferred taxes	2,982		- 1,482	
Depreciation and write-ups of property, plant and equipment	1,273		1,243	
Net financing costs	17		1,036	
Gains (-), losses (+) from the disposal of property, plant and equipment and financial assets	52		0	
Increase (+), decrease (-) in other provisions and pension provisions	- 275		1,126	
Income from the release of the special item or investment grants	- 316		- 335	
Other non-cash income and expense	- 21		5	
Increase (-), decrease (+) in trade receivables, other receivables	1,389		3,064	
Insolvency dividend paid	- 7,563		0	
Increase (-), decrease (+) in inventories	- 42		335	
Decrease (+), Increase (-) in trade payables and other liabilities	- 2,363		- 3,848	
Interest paid	- 85		- 6	
Income taxes/deferred taxes paid	- 8		- 510	
<b>Net cash provided by/used in operating activities</b>		<b>- 4,960</b>		<b>628</b>
<b>Cash flow from investing activities</b>				
Cash receipts from disposals of property, plant and equipment	- 287		- 228	
Payments for investments in intangible non-current assets	3		0	
Interest received	68		200	
<b>Net cash provided by/used in investing activities</b>		<b>- 216</b>		<b>- 28</b>
<b>Cash flow from financing activities</b>				
Cash repayments of borrowings	0		- 34	
Cash proceeds from issuing borrowings	14,700		0	
<b>Net change in cash and cash equivalents</b>		<b>14,700</b>		<b>- 34</b>
Cash-effective change in liquidity		9,524		566
Cash and cash equivalents at beginning of period		8,685		1,197
Cash and cash equivalents at end of period		18,183		1,763

### Consolidated Statement of Changes in Equity of paragon AG, Delbrück

in EUR thousands	Subscribed capital	Capital reserve	Profit- / loss carried forward	Accumulate income statement	Total
Balance as of 01/01/2010	4,115	7,753	- 64,141	- 46,687	- 98,960
Consolidated net income				100,254	100,254
Profit-/loss carried forward			- 46,687	46,687	0
Balance as of 05/31/2010	4,115	7,753	- 110,828	100,254	1,294
in EUR thousands	Subscribed capital	Capital reserve	Profit- / loss carried forward	Accumulate income statement	Total
Balance as of 06/01/2010	4,115	7,753	- 110,828	100,254	1,294
Consolidated net income				2,984	2,984
Profit-/loss carried forward			100,254	- 100,254	0
Balance as of 08/31/2010	4,115	7,753	- 10,574	2,984	4,277

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

Capital stock: 4.114.788 shares

	Shares 08/31/2010
Management Board, total	2,111,730
Supervisory Board, total	6,000
Boards, total	2,117,730
as % of share capital	51.47

## Additional Comments

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This three-month report has been prepared in accordance with the uniform accounting principles of the International Financial Reporting Standards (IFRS), which were also used for the report for the short fiscal year from January 1, 2010, to May 31, 2010. The standards of the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) valid on the balance sheet date have been applied. The form and content of the interim report correspond to the reporting obligations of the German Stock Exchange. The three-month report represents an update of the annual report. Its focus is on the current reporting period and it should be read in connection with the annual report and the additional information on the Company contained therein.

The scope of consolidation did not change since the short fiscal year from June 1, 2010, to August 31, 2010.

The individual risk situation of paragon AG was reported in detail in the report on risks and opportunities for the short fiscal year from June 1, 2010, to August 31, 2010. The statements made therein with respect to the overall risks remain valid.



**paragon AG**

Schwalbenweg 29

33129 Delbrück · Germany

Phone: + 49 (0) 52 50-97 62-0

Fax: + 49 (0) 52 50-97 62-60

E-Mail: [investor@paragon-online.de](mailto:investor@paragon-online.de)

Internet: [www.paragon-online.de](http://www.paragon-online.de)