



Quarterly Report  
First Quarter 2009

### Highlights in the first three months of 2009

- Full impact of crisis in the automotive industry is felt
- Sales decline of 37% from the previous year
- Negative earnings trend
- Operating cash flow barely in the positive range

### The first three months at a glance

in EUR thousands	Q1 2009	Q1 2008	Change in %
Sales	18,580	29,403	- 37 %
EBITDA	- 285	5,552	- 105 %
Adjusted EBITDA*	103	5,891	- 98 %
EBIT	- 1,620	2,337	- 169 %
Net earnings for period	- 3,116	241	- 1,393 %
Earnings per share in EUR	- 0.76	0.06	- 1,367 %
Liquidity in millions	1,279	2,882	- 56 %
Employees	568	599	- 5 %

\* EBITDA adjusted for restructuring costs (including scrapping, consultancy costs, severance pay)

### Events after the Balance Sheet Date / Current Classification

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, 2009, 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 2009 annual report.

### Overall Economic Conditions

The global economy was in a slump of historic proportions in the winter of 2008/2009. During the first quarter of 2009 world GDP dropped for the first time since the 1930s. Industrial production in particular plummeted world-wide in response to shrinking demand and higher inventory levels. Global trade collapsed in places.

The automotive industry was marked by significant sales declines in the first quarter of 2009. As a result manufacturers reduced the volume of their release orders from suppliers.

### Business Developments in the paragon Group

paragon AG, with its predominant Automotive business segment, was unable to avoid the negative trend in the automobile economy. Consolidated sales nose-dived in the first three months by 37% to EUR 18.6 million (prior year: EUR 29.4 million).

The negative developments in the automotive industry impacted paragon in full in the first quarter of 2009, as had already become apparent at the end of 2008. As was the case with many suppliers, the Company suffered from a steep drop in release orders from carmakers. While no orders were cancelled, a considerable number were postponed.

In January of 2009 paragon took part in the important Japanese trade fair for automobile electronics "Car Ele" in Tokyo and in the famous 9th International CAR Symposium in Bochum in order to solidify and expand its position in the automotive industry. During the subsequent period, however, under the influence of the automotive crisis, the Company concentrated fully on a restructuring process that had already begun at the end of the previous fiscal year.

The goal of the restructuring measures is to adapt paragon to lower sales figures by reducing fixed costs.

The two business segments of Automotive and Electronic Solutions were affected by the global economic crisis in different degrees. The dominant segment, Automotive, experienced significant sales losses of 42.5% compared to the previous year, while the Electronic Solutions segment showed a drop of 9.5%.

### Financial Position and Net Assets

Total assets as at March 31, 2009, rose to EUR 57.3 million compared to EUR 53.5 million as at December 31, 2008.

Non-current assets dropped from EUR 26.6 million to EUR 26.0 million, due to write-offs. Current assets on the other hand rose by EUR 4.3 million to EUR 31.3 million (prior year: EUR 27.0 million), the result especially of an increase in trade receivables (EUR 10.6 million). Inventories were reduced by EUR 1.2 million, one of the results of the cost-cutting measures.

Non-current liabilities hovered at approximately the same level at EUR 52.3 million (prior year: EUR 52.6 million) year-on-year. Current liabilities showed greater movement, increasing from EUR 55.0 million to EUR 62.4 million. This rise stemmed primarily from the extension of payment terms for suppliers and postponements in payment plans, which were negotiated due to the difficult liquidity situation.

As a result of the automotive crisis operating cash flow diminished significantly from the previous year (March 31, 2008: EUR 2.4 million) to EUR 0.3 million, yet managed to remain positive.

### Results of Operations

In the most severe crisis in the industry in post-war history, paragon was abruptly confronted with a slump in release orders issued by car manufacturers, as were most other suppliers. Despite the launch of a restructuring programme at the end of 2008, some cost areas could not be reduced fast enough, especially since the Company was geared to a continuation of the dynamic growth course after developments in the first three months of 2008. This starting situation contributed to the fact that personnel costs in the period under review rose slightly by 4% to EUR 6.4 million (prior year: EUR 6.2 million). In relation to slumping sales the cost of materials ratio dropped disproportionately compared to the same quarter of the previous year by 11%.

Due to the relative lack of liquidity the paragon Managing Board implemented a variety of measures in order to increase liquidity. In addition to shortening payment terms from customers and extending payment targets for suppliers, the Company endeavoured in particular to reduce inventory levels and transform them into liquidity. These measures are reflected in inventory changes. Write-offs were 58 % lower than in the previous year. The reason for this change relates to the write-offs that were undertaken in the Group as at December 31, 2008.

EBIT changed significantly. While in the previous year positive EBIT of EUR 2.4 million could still be achieved, paragon was forced to deal with a plunge to EUR -1.6 million.

As at March 31, 2009, paragon posted a net consolidated loss of EUR 3.1 million according to IFRS. In the previous year, the net consolidated profit for the same time period was EUR 0.2 million. paragon's EBITDA figure was EUR -0.3 million, compared to EUR 5.6 million at the end of the first quarter in the previous year. Operating earnings – EBITDA adjusted for restructuring costs – were positive, although barely so, at EUR 0.1 million despite the steep decline in sales.

### Segment Report

The Automotive segment with its two divisions – Sensor/ Actuator and Cockpit Systems – suffered considerable sales losses in the first quarter of 2009. Sales revenues plunged by 42.4 % to EUR 14.0 million (prior year: EUR 24.3 million). The share in total sales was 75.4 %. The Company had to deal with a sharp drop of 195.2 % in the first quarter of 2009 – to EUR -2.0 million (prior year: EUR 2.1 million).

The Electronic Solutions segment, too, evidenced a sales slump due to the difficult overall economic conditions. Sales fell in the first three months by 9.8 % to EUR 4.6 million (prior year: EUR 5.1 million). EBIT on the other hand improved by 100.0 % to EUR 0.4 million (prior year: EUR 0.2 million).

### Research & Development

Despite the acute crisis in the industry, paragon continued activities in research and development that are of importance to its future. For instance, in the Sensor/ Actuator division paragon made impressive progress in developing various multifunction sensors (air quality, temperature, humidity and dew point). Development activities in the Cockpit Systems division included above all various on-board clocks, microphones, cradles and consoles.

In the period under review expenses for research and development totalled EUR 2.2 million (prior year: EUR 2.5 million).

### Employees

The paragon Group employed 568 people world-wide as at March 31, 2009. The number of employees has thus already decreased compared to the previous year (March 31, 2008: 599 employees). Staff numbers, however, would continue to be reduced by paragon during the course of 2009 given the auto industry crisis. 76 employees were engaged at headquarters in Delbrück and 287 at the Suhl production site. The number of contract workers was decreased considerably. While 42 temporary employees still worked at paragon at the end of 2008, this number had dropped to 11 by March 31, 2009.

### Investor Relations

The effects of the global economic crisis were felt in capital markets as well. After a brief recovery at the turn of the year 2008/2009 the German Stock Index (Deutsche Aktien Index – DAX) slid downwards. At the end of the first quarter this leading index was quoted just above 4,000 points.

The paragon share remained unaffected by the turbulence in the European and international financial markets. The share was able to maintain its starting price of EUR 2.71 on January 1, 2009, until the end of the quarter with only minor price movements. On March 30, 2009, the paragon share was quoted at EUR 2.72 (information based on XETRA).

During fiscal 2009 communication with the financial markets was marked by special events. Due to the inability to predict paragon's continued operation as a going concern, the auditor was not able to provide an audit certification on the 2008 annual report prepared by the Company within the deadline. As a result of the absence of this certification, paragon was not in a position to inform financial markets in the manner that had been customary hitherto. The Managing Board had no guarantee at any time during 2009 that the financial data published did reflect the final status at the time of publication.

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Sector:	Technology

## Risk Report

paragon AG's Managing Board always assesses risks in close coordination with the Supervisory Board. The dramatic change in release orders from car manufacturers at the turn of the year 2008/2009 had radical effects on all suppliers.

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 already relates to the years 2010 and 2011.

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. Sales of EUR 58 million and significantly positive free cash flow in the millions constitute paragon's goals. 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/EBT values for 2010 are anticipated 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, 2009

in EUR thousands	March 31, 2009	Dec. 31, 2008
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	5,710	6,061
Goodwill	0	0
Property, plant and equipment	19,690	19,898
Financial assets	180	180
Deferred taxes	421	447
<b>Total non-current assets</b>	<b>26,001</b>	<b>26,586</b>
<b>Current assets</b>		
Inventories	18,000	19,224
Trade receivables	10,559	4,375
Income tax assets	65	219
Other assets	1,366	849
Cash and cash equivalents	1,279	2,262
<b>Total current assets</b>	<b>31,269</b>	<b>26,929</b>
<b>Total assets</b>	<b>52,270</b>	<b>53,515</b>

in EUR thousands	March 31, 2009	Dec. 31, 2008
<b>Liabilities</b>		
<b>Equity</b>		
Subscribed capital	4,115	4,115
Capital reserve	7,753	7,753
Profit carried forward	- 64,141	7,695
Consolidated net income/loss	- 3,116	- 71,836
Currency translation reserve	- 2,103	- 1,905
<b>Total equity</b>	<b>- 57,492</b>	<b>- 54,178</b>
<b>Non-current provisions and liabilities</b>		
Non-current finance lease obligations	855	947
Non-current borrowings	21,864	21,659
Profit-participation certificates	22,663	22,610
Special item for investment grants	6,030	6,432
Deferred taxes	321	359
Pension provisions	600	623
<b>Total non-current provisions and liabilities</b>	<b>52,333</b>	<b>52,630</b>
<b>Current provisions and liabilities</b>		
Current portion of finance lease obligations	407	470
Current borrowings and current portion of non-current borrowings	26,549	26,550
Trade payables	19,479	13,895
Other provisions	4,057	3,277
Income tax liabilities	1,487	1,778
Other current liabilities	10,450	9,093
<b>Total current provisions and liabilities</b>	<b>62,429</b>	<b>55,063</b>
<b>Total equity and liabilities</b>	<b>57,270</b>	<b>53,515</b>

## Consolidated Income Statement of paragon AG, Delbrück, for the period from January 1 to March 31, 2009

in EUR thousands	Q-1 2009 01/01 – 31/03	Q-1 2008 01/01 – 31/03
<b>Sales revenue</b>	<b>18,580</b>	<b>29,403</b>
Other operating income	602	889
Increase or decrease in finished goods and work in progress	- 600	1,288
Other own work capitalized	129	1,861
<b>Total operating performance</b>	<b>18,711</b>	<b>33,441</b>
Cost of materials	- 9,571	- 18,506
<b>Gross profit</b>	<b>9,140</b>	<b>14,935</b>
Staff costs	- 6,428	- 6,159
Depreciation and amortization of property, plant and equipment and intangible assets	- 1,335	- 3,215
Impairment of property, plant and equipment and intangible assets	- 183	0
Other operating expenses	- 2,814	- 3,224
<b>Earnings before interest and taxes (EBIT)</b>	<b>- 1,620</b>	<b>2,337</b>
Financial income	1	70
Finance costs	- 1,491	- 1,894
<b>Net financing costs</b>	<b>- 1,490</b>	<b>- 1,824</b>
<b>Earnings before taxes</b>	<b>- 3,110</b>	<b>513</b>
Income taxes	- 6	- 272
<b>Consolidated net income/loss</b>	<b>- 3,116</b>	<b>241</b>
Earnings per share (basic)	- 0.76	0.06
Earnings per share (diluted)	- 0.76	0.06
Average number of shares outstanding (basic)	4,114,788	4,114,788
Average number of shares outstanding (diluted)	4,114,788	4,125,220

## Group Segment Reporting of paragon AG, Delbrück

in EUR thousands	Sales		Earnings before interest and taxes (EBIT)	
	Q-1 2009 01/01 – 31/03	Q-1 2008 01/01 – 31/03	Q-1 2009 01/01 – 31/03	Q-1 2008 01/01 – 31/03
Automotive	14,001	24,345	- 2,013	2,115
Electronic Solutions	4,579	5,058	392	222
<b>Total</b>	<b>18,580</b>	<b>29,403</b>	<b>-1,620</b>	<b>2,337</b>

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

in EUR thousands	01/01 - 31/03/2009		01/01 - 31/03/2008	
<b>Cash flow from operating activities</b>				
Earnings before income taxes and deferred taxes	- 3,111		513	
Depreciation and write-ups of property, plant and equipment	1,335		3,215	
Net financing costs	1,490		1,824	
Gains (-), losses (+) from the disposal of property, plant and equipment and financial assets	0		14	
Increase (+), decrease (-) in other provisions and pension provisions	758		- 76	
Income from the release of the special item or investment grants	- 402		- 522	
Other non-cash income and expense	- 206		0	
Increase (-), decrease (+) in trade receivables, other receivables	- 6,700		- 4,173	
Impairment of intangible asstes and PPE	183		0	
Increase (-), decrease (+) in inventories	1,223		- 996	
Decrease (+), Increase (-) in trade payables and other liabilities	6,329		4,661	
Interest paid	- 454		- 1,894	
Income taxes/deferred taxes paid	- 155		- 150	
<b>Net cash provided by/used in operating activities</b>		<b>290</b>		<b>2,416</b>
<b>Cash flow from investing activities</b>				
Cash receipts from disposals of property, plant and equipment	0		20	
Cash payments to acquire property, plant and equipment	- 738		- 1,131	
Cash payments to acquire intangible assets	- 17		- 1,704	
Interest received	1		70	
<b>Net cash provided by/used in investing activities</b>		<b>- 754</b>		<b>- 2,745</b>
<b>Cash flow from financing activities</b>				
Dividends paid	0		- 1,274	
Cash repayments of borrowings	- 322		1,253	
Cash proceeds from issuing borrowings	0		0	
Net cash repayments of profit participation rights	0		- 3,000	
<b>Net change in cash and cash equivalents</b>		<b>- 322</b>		<b>- 3,021</b>
Cash-effective change in liquidity		- 786		- 3,350
Effects resulting from exchange differences, changes in the basis of consolidation and remeasurement		- 197		- 211
Cash and cash equivalents at beginning of period		2,262		6,443
Cash and cash equivalents at end of period		1,279		2,882



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

in EUR thousands	Subscribed capital	Currency translation differences	Capital reserve	Profit/loss carried forward	Consolidated net income/loss	Total
Balance as of Jan. 1, 2008	4,115	- 1,824	7,553	5,642	2,464	18,150
Earnings after tax					241	241
Profit/loss carried forward				2,465	- 2,465	0
Dividends						0
Capital increase (exercise of options)						0
Currency translation differences		- 211				- 211
Balance as of March 31, 2008	4,115	- 2,035	7,753	8,107	240	18,180
Balance as of Jan. 1, 2009	4,115	- 1,905	7,753	7,695	- 71,836	- 54,178
Earnings after tax					- 3,116	- 3,116
Profit/loss carried forward				- 71,836	71,836	0
Dividends						0
Capital increase (exercise of options)						0
Currency translation differences		- 198				- 198
Balance as of March 31, 2009	4,115	- 2,103	7,753	- 64,141	- 3,116	- 57,492

## Shares held by members of the Executive and the Supervisory Board as at March 31, 2009

Capital stock: 4,114,788 shares	Shares 31/03/2009
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 2008 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 not changed in the first three months of 2009 compared to the 2008 annual financial statements.

The risk situation of paragon AG was covered in detail in the report on risks and opportunities in the 2008 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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