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Aeterna Interim Report 2002 - Q1

Dear Shareholders,

This quarter was marked by repeated support from our financial and strategic partners and by sales from our subsidiary, Atrium, that exceeded our expectations. The private placements of SGF Sante, Solidarity Fund QFL and Acqua Wellington will enable us to accelerate the realization of our acquisition projects and the further development of Neovastat. Our pharmaceutical partner, Grupo Ferrer, extended its network to cover Latin America in preparation for the market development of Neovastat.

I am also proud to entrust the Company's presidency to Gilles Gagnon, a seasoned executive with the experience and expertise needed to ensure smooth functioning of the company's business, while simultaneously continuing to maintain relations with present and future pharmaceutical partners. Furthermore, Dr. Claude Hariton, has been appointed Chief Medical Officer (CMO) and will oversee the management of our future clinical projects. While still assuming my role as both Chairman and Chief Executive Officer of AETerna, this new corporate structure will enable me to invest all my energy in our acquisition plan that will turn AETerna into a powerhouse in the development of multiple innovative cancer therapies, at the international level.

OVERVIEW

ATRIUM RESULTS

Atrium's sales increased from \$2.8 million to \$25.3 million, in comparison to the same quarter last year. The consolidated profits of Atrium before income tax and non-controlling interest reached \$3.2 million, an increase of 89%.

PRIVATE PLACEMENTS OF \$57 MILLION

Initial investment of \$57 million, accompanied by warrants exercisable at \$13 and \$20 per share, with SGF Sante, Solidarity Fund QFL and Acqua Wellington, Ltd. From this amount, approximately \$35 million will be used for the acquisition of innovative technologies or companies in cancer, \$20 million for further development of Neovastat, which has reached the final stage of clinical studies in kidney and lung cancer, and \$2 million for general corporate purposes. This initial \$57 million investment, combined with the full exercise of warrants, could represent a total investment of approximately \$180 million over the next 20 months.

STRATEGIC ALLIANCE

The strategic alliance with Grupo Ferrer Internacional of Barcelona, which already covered Southern Europe, has been extended. The Spanish pharmaceutical company has been granted the additional territories of France and Belgium, together with all of Central and South America. Our strategic partnerships with Grupo Ferrer and Medac now represent more than 30% of the worldwide market and more than \$45 million in milestone payments, not to mention double-digit royalties on sales of Neovastat.

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APPOINTMENTS

- o Gilles Gagnon, AEterna's Vice President and Chief Operating Officer has been appointed President of the Company and member of AEterna's Board of Directors.
- o Dr. Eric Dupont remains Chairman of the Board of Directors and Chief Executive Officer of AEterna.
- o Dr. Claude Hariton, Vice President, Clinical and Regulatory Affairs, has been named Chief Medical Officer (CMO).
- o Lee S. Rosen, MD, assistant professor of the Department of Medicine at the University of California, Los Angeles (UCLA), has joined AEterna's Scientific Advisory Board.
- o Alain Bouchard, Chairman of the Board, President and Chief Executive Officer of Alimentation Couche-Tard, has been elected member of Atrium's Board of Directors.
- o Dr. Francis Bellido, President and Chief Operating Officer of SGF Sante, was appointed to AEterna's Board of Directors

OUTLOOK

On the clinical side, we are still expecting to complete our Phase III trial in renal cell carcinoma by early 2003. This study represents the last clinical step before Neovastat may be approved for commercial production.

Our growth strategy will be dedicated to the diversification of our product portfolio and the pursuit of other alliances with pharmaceutical partners.

Dr. Eric Dupont
Chairman of the Board and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

The following analysis explains the variations in the Company's results of operations, financial condition and cash flow. This discussion should be read in conjunction with the information contained in AEterna Laboratories Inc.'s interim consolidated financial statements and related notes for the three month period ended March 31, 2002. All figures are in Canadian dollars.

RESULTS OF OPERATIONS

REVENUES

Company revenues come from the subsidiary Atrium Biotechnologies Inc. (Atrium) whose consolidated sales reached \$25.3 million, compared to \$2.8 million for the corresponding quarter last year. This increase can be primarily attributed to the sales generated by Unipex Finance S.A. (Unipex), a French company acquired by Atrium in July 2001.

OPERATING EXPENSES

The cost of sales during this quarter amounted to \$19.7 million compared to \$0.4 million for the same quarter in 2001. These costs are in direct proportion to corresponding revenues and the percentage of these costs against revenues

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varied significantly, as a result of the operations in which Unipex operates.

Selling and administrative expenses amounted to \$2.2 million during this quarter compared to \$0.8 million in 2000. Again the acquisition of Unipex explains these variations with last year.

Research and Development (R&D) investments amounted to \$7.4 million during this quarter in comparison with \$7.2 million last year. This slight increase in expenses can be attributed to the costs related to the follow-up of patients enrolled in our clinical studies and also to the costs incurred in undertaking preliminary steps required for the registration of Neovastat with regulatory authorities.

R&D tax credits and grants reached \$0.5 million for this quarter compared with \$2 million in 2001. The decrease of the eligible expenses of current grant programs explain this situation.

Interest income was \$0.5 million for the three months period ended March 31, 2002 in comparison with \$1.1 million for the same period last year. Cash used in R&D investments and for the Unipex acquisition explains the decrease of interest income for this quarter.

The income tax expense for this first quarter came from Atrium and its subsidiaries. No income tax expense was recorded for the corresponding quarter last year.

The net loss for this quarter amounted to \$5.7 million or \$0.17 per share in 2002 compared to a net loss of \$3.2 million or \$0.11 per share for the same quarter in 2001. This increase is mainly due to the reduction of grants related to R&D expenses. Furthermore, following the amendment to the shareholder's agreement of Atrium in May 2001 and the acquisition of 70.2 % of Unipex shares, we have to record a non-controlling interest in Atrium which amounted to \$0.9 million for this quarter.

LIQUIDITY AND CAPITAL RESOURCES

The cash position of the Company as at March 31, 2002 remains strong with \$44 million in cash and short-term investments compared with \$54.1 million as at December 31, 2001. Moreover, in taking into account the private placements of \$57 million realized on April 9, 2002, the Company has \$101 million in liquid assets. From this amount, about \$55 million are earmarked for the development of Neovastat, \$35 million for AETERNA's acquisition program, and \$11 million for Atrium's acquisition program and general corporate purposes.

During this quarter, an amount of \$7.6 million was used in operating activities while \$0.8 million was used in financing activities mainly to reimburse the long-term debt. Regarding the investments activities, the fluctuation in short-term investments provided \$8 million whereas acquisition of long-lived assets amounted to \$1.5 million.

RISK FACTORS

Economic and sector related risks are the same as those identified in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in the Company's 2001 Annual Report.

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Dennis Turpin, CA
Vice President and Chief Financial Officer

This report contains forward-looking statements, which are made pursuant to the safe harbor provisions of the U.S. Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks and uncertainties which could cause the Company's actual results to differ materially from those in the forward-looking statements. Such risks and uncertainties include, among others, the availability of funds and resources to pursue R&D projects, the successful and timely completion of clinical studies, the ability of the Company to take advantage of the business opportunities in the pharmaceutical industry, uncertainties related to the regulatory process and general changes in economic conditions. Investors should consult the Company's ongoing quarterly and annual filings with the Canadian and U.S. securities commissions for additional information on risks and uncertainties relating to the forward-looking statements. Investors are cautioned not to rely on these forward-looking statements. The Company does not undertake to update these forward-looking statements.

GENERAL INFORMATION

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Fax : (418) 652-0881
E-mail : aeterna@aeterna.com
Web site : www.aeterna.com

STOCK SYMBOL

TXE : AEL
NASDAQ : AELA
Share outstanding: 32.9 millions

AETERNA LABORATORIES INC.

CONSOLIDATED BALANCE SHEETS

(expressed in Canadian dollars)

| | AS AT MARCH 31, 2002 | AS AT DECEMBER 31, 2001 |
|---|----------------------------|-------------------------------|
| ----- | | |
| | (unaudited) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 9,970,911 | \$ 11,993,502 |
| Short-term investments | 34,050,709 | 42,070,976 |
| Accounts receivable | 30,437,503 | 23,361,630 |
| Income taxes recoverable | - | 154,684 |
| Research and development tax credits recoverable | 1,710,000 | 1,295,000 |
| Inventory | 6,929,185 | 8,303,697 |
| Prepaid expenses | 1,617,796 | 1,161,587 |

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| | | |
|--|---------------|---------------|
| | 84,716,104 | 88,341,076 |
| PROPERTY, PLANT AND EQUIPMENT | 16,443,526 | 15,403,984 |
| INTANGIBLE ASSETS AND GOODWILL | 24,176,481 | 24,252,487 |
| FUTURE INCOME TAX ASSETS | 5,649,054 | 6,354,170 |
| | \$130,985,165 | \$134,351,717 |
| ===== | | |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 25,915,741 | \$ 23,429,717 |
| Income taxes | 114,648 | - |
| Current portion of long-term debt | 2,497,052 | 3,447,688 |
| | 28,527,441 | 26,877,405 |
| LONG-TERM DEBT | 10,263,789 | 10,400,969 |
| EMPLOYEE FUTURE BENEFITS | 130,409 | 115,952 |
| NON-CONTROLLING INTEREST | 19,088,436 | 18,338,602 |
| | 58,010,075 | 55,732,928 |
| ----- | | |
| SHAREHOLDERS' EQUITY | | |
| SHARE CAPITAL | 97,573,664 | 97,513,214 |
| DEFICIT | (24,733,856) | (19,082,451) |
| CUMULATIVE TRANSLATION ADJUSTMENT | 135,282 | 188,026 |
| | 72,975,090 | 78,618,789 |
| | \$130,985,165 | \$134,351,717 |
| ===== | | |

THE ACCOMPANYING NOTES ARE INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

AETERNA LABORATORIES INC.

CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE PERIODS ENDED MARCH 31, 2002 AND 2001
(expressed in Canadian dollars)

| | QUARTERS ENDED MARCH 31, | |
|-----------|--------------------------|--------------|
| UNAUDITED | 2002 | 2001 |
| ----- | | |
| REVENUES | \$ 25,348,771 | \$ 2,766,625 |
| ----- | | |

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| | | |
|--|----------------|----------------|
| OPERATING EXPENSES | | |
| Cost of sales | 19,682,794 | 443,653 |
| Selling and administrative | 2,249,380 | 833,648 |
| Research and development costs | 7,443,345 | 7,214,218 |
| Research and development tax credits and grants | (497,081) | (2,042,000) |
| Depreciation and amortization | | |
| Property, plant and equipment | 331,730 | 291,816 |
| Intangible assets and goodwill | 101,030 | 83,651 |
| | 29,311,198 | 6,824,986 |
| OPERATING LOSS | (3,962,427) | (4,058,361) |
| INTEREST INCOME | 530,596 | 1,075,599 |
| INTEREST EXPENSE | (182,756) | (262,100) |
| LOSS BEFORE INCOME TAXES | (3,614,587) | (3,244,862) |
| INCOME TAX EXPENSE | (1,164,736) | - |
| NON-CONTROLLING INTEREST | (872,082) | - |
| NET LOSS FOR THE PERIOD | \$ (5,651,405) | \$ (3,244,862) |
| BASIC AND DILUTED NET LOSS PER SHARE | \$ (0.17) | \$ (0.11) |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | \$ 32,851,019 | \$30,114,062 |

CONSOLIDATED STATEMENTS OF DEFICIT
FOR THE PERIODS ENDED MARCH 31, 2002 AND 2001
(expressed in Canadian dollars)

| UNAUDITED | QUARTERS ENDED MARCH 31, | |
|-------------------------------|--------------------------|-----------------|
| | 2002 | 2001 |
| BALANCE - BEGINNING OF PERIOD | \$ (19,082,451) | \$ (15,613,749) |
| Net loss for the period | (5,651,405) | (3,244,862) |
| BALANCE - END OF PERIOD | \$ (24,733,856) | \$ (18,858,611) |

THE ACCOMPANYING NOTES ARE INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

AETERNA LABORATORIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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FOR THE PERIODS ENDED MARCH 31, 2002 AND 2001
(expressed in Canadian dollars)

| UNAUDITED | QUARTERS ENDED MARCH 31, | |
|--|--------------------------|----------------|
| | 2002 | 2001 |
| <hr/> | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss for the period | \$ (5,651,405) | \$ (3,244,862) |
| Items not affecting cash and cash equivalents | | |
| Depreciation and amortization | 432,760 | 375,467 |
| Interest expense | - | 262,100 |
| Future income taxes | 704,469 | (67,375) |
| Employee future benefits | 17,072 | - |
| Non-controlling interest | 872,082 | - |
| Change in non-cash operating working capital items | | |
| Accounts receivable | (7,454,093) | (2,044,705) |
| Income taxes recoverable | 155,302 | - |
| Research and development tax credits recoverable | (400,000) | (278,000) |
| Inventory | 1,255,738 | (69,715) |
| Prepaid expenses | (458,377) | (560,394) |
| Accounts payable and accrued liabilities | 2,808,247 | (360,864) |
| Income taxes | 116,879 | (533,000) |
| | <hr/> | <hr/> |
| | (7,601,326) | (6,521,348) |
| <hr/> | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of long-term debt | (895,950) | (122,953) |
| Issuance of share capital, net of related expenses | 60,450 | 439,232 |
| | <hr/> | <hr/> |
| | (835,500) | 316,279 |
| <hr/> | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Change in short-term investments | 8,020,267 | 7,788,698 |
| Purchase of property, plant and equipment | (1,395,835) | (119,972) |
| Additions to intangible assets and goodwill | (87,302) | (111,012) |
| | <hr/> | <hr/> |
| | 6,537,130 | 7,557,714 |
| <hr/> | | |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (1,899,696) | 1,352,645 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (122,895) | - |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | 11,993,502 | 7,260,582 |
| <hr/> | | |
| CASH AND CASH EQUIVALENTS - | | |

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| | | |
|------------------------|--------------|--------------|
| END OF PERIOD | \$ 9,970,911 | \$ 8,613,227 |
| ===== | | |
| ADDITIONAL INFORMATION | | |
| Interest paid | \$ 53,156 | - |
| ===== | | |
| Income taxes paid | \$ 201,731 | \$ 600,375 |
| ===== | | |

AETERNA LABORATORIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2002 AND 2001
(expressed in Canadian dollars)

UNAUDITED

1 BASIS OF PRESENTATION

These unaudited interim financial statements as at March 31, 2002 and for the periods ended March 31, 2001 and 2002, are unaudited. They have been prepared by the Company in accordance with Canadian generally accepted accounting principles for interim financial information. In the opinion of management, all adjustments necessary to present fairly the financial position, results of operations and cash flows for these periods have been included.

The accounting policies and methods of computation adopted in these financial statements are the same as those used in the preparation of the Company's most recent annual consolidated financial statements. All disclosures required for annual financial statements have not been included in these financial statements. These consolidated financial statements should be read in conjunction with the Company's most recent annual consolidated financial statements. These interim results of operations are not necessarily indicative of the results for the full year.

2 NEW ACCOUNTING STANDARDS

The Company adopted on January 1st, 2002, section 3062 issued by the CICA "Goodwill and Other Intangible Assets". This section broadens criteria for recording intangible assets separately from goodwill. Section 3062 requires the use of a non-amortization approach to account for purchased goodwill and indefinite-lived intangibles. Under the non-amortization approach, goodwill and indefinite-lived intangibles will not be amortized, but instead would be reviewed annually for impairment, and writedowns are charged to earnings in the period in which the recorded value of goodwill and indefinite-lived intangibles exceeds their fair value. The amortization of the goodwill for the three months ended March 31, 2001 amounted approximately to \$22,000.

The Company also adopted on January 1st, 2002, section 3870 issued by the CICA "Stock-Based Compensation and Other Stock-Based Payments". The new section applies to awards granted on or after the date of adoption, and requires that stock-based payment to non-employees be accounted for using a fair value-based method. For awards to employees, the CICA recommends their accounting using a fair value-based method without rendering it mandatory. The Company not having adopted this method is nevertheless required to make pro-forma disclosures of net earning (loss), basic net earnings (loss) per share and diluted net earnings (loss) per share as if the fair value based method of accounting had been

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applied. The adoption of this standard does not have a significant impact on the Company's financial statements and that is why the pro-forma information is not provided.

AETERNA LABORATORIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED MARCH 31, 2002 AND 2001
(expressed in Canadian dollars)

UNAUDITED

3 SEGMENT INFORMATION

The company manages its business and evaluates performance based on three operating segments, which are the biopharmaceutical segment, the cosmetics and nutrition segment and the distribution segment. The accounting principles used for these three segments are consistent with those used in the preparation of these consolidated financial statements.

| | QUARTER ENDED MARCH 31 | |
|------------------------------------|------------------------|---------------|
| | 2002 | 2001 |
| REVENUES | | |
| Cosmetics and nutrition | \$ 3 183 333 | \$ 2 766 625 |
| Distribution | 22 165 438 | - |
| Biopharmaceutical | - | - |
| Consolidated adjustments | - | - |
| | \$ 25 348 771 | 2 766 625 |
| NET EARNINGS (LOSS) FOR THE PERIOD | | |
| Cosmetics and nutrition | \$ 792 543 | 1 418 056 |
| Distribution | 329 616 | - |
| Biopharmaceutical | (6 792 961) | (4 662 918) |
| Consolidated adjustments | 19 398 | - |
| | \$ (5 651 405) | \$(3 244 862) |

4 SUBSEQUENT EVENT

On April 9, 2002, the company issued under private placements 7.6 million subordinate voting shares for a total cash consideration of \$57 million. The company also issued 7.5 million warrants with the following conditions: 3.8 million exercisable at \$13 per share maturing on March 31, 2003 and 3.7 million exercisable at an initial price of \$20 per share maturing initially on December 31, 2003, subject to certain conditions.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AETERNA LABORATORIES INC.

Date: May 30, 2000

By: /s/ Claude Vadboncoeur

Claude Vadboncoeur
Vice President, Legal Affairs and
Corporate Secretary