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AETERNA LABORATORIES INC

Form 6-K

August 22, 2002

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of August 2002

AETERNA LABORATORIES INC.

(Translation of registrant's name into English)

1405, boul. du Parc-Technologique
Quebec, Quebec
Canada, G1P 4P5

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F X
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Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No X
----- -----

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____

EXHIBIT INDEX

| Exhibit Description ----- | Page ---- |
|--|--------------|
| 1. AEterna's Interim Report 2002 - Second Quarter (Q2) | 1 |

Dear shareholders,

During the quarter, we reached many significant milestones. Consolidated sales of our subsidiary Atrium registered a strong increase and net profit was up 54% compared to the same period a year ago. Atrium also bought ADF Chimie S.A., its

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second acquisition in Europe within a year. Furthermore, we completed a successful private placement of \$57 million with quality partners. Finally, the Data Safety Monitoring Board (DSMB), an independent committee of experts, confirmed Neovastat's safety profile and concluded that our current phase III clinical studies in kidney and lung cancer could be pursued without any adjustments. The phase III trial in kidney cancer could represent our first opportunity to commercialize Neovastat.

SIGNIFICANT MILESTONES

ATRIUM RESULTS

During the second quarter, consolidated sales of AETerna's subsidiary, Atrium, reached \$23.4 million compared to \$2.7 million for the same period of 2001. The consolidated net earnings reached \$1.66 million during the second quarter compared to \$1.08 million last year, an increase of 54%.

ACQUISITION OF ADF CHIMIE S.A. BY ATRIUM

Atrium acquired the privately-owned French company ADF Chimie S.A. for \$3 million. ADF is a distributor of active and specialty ingredients for the French cosmetic industry to some 50 clients, including L'Oreal, L.V.M.H. and Chanel.

PRIVATE PLACEMENT

On April 9, 2002, AETerna concluded a private placement of \$57 million at a price of \$7.50 per share. SGF Sante and Solidarity Fund QFL acquired 7.3 million subordinate voting shares, at a price of \$7.50 per share, as well as 7.3 million warrants exercisable at \$13 and \$20 per share maturing on March 31 and December 31, 2003, under certain conditions. Also, Acqua Wellington Private Placement Fund, Ltd. acquired 266,667 subordinate voting shares, at a price of \$7.50 per share, as well as 133,333 warrants exercisable at \$13 per share, maturing on March 31, 2003.

NEOVASTAT'S FAVORABLE SAFETY PROFILE CONFIRMED

Independent oncology and statistical experts from the Data Safety Monitoring Board (DSMB) confirmed Neovastat's favourable safety profile.

SCIENTIFIC ARTICLES

CLINICAL CANCER RESEARCH recently published an article on the biological activities linked to Neovastat's inhibition of the Vascular Endothelial Growth Factor (VEGF), while MOLECULAR CANCER THERAPEUTICS will shortly publish an article on Neovastat's proven ability to induce apoptosis of endothelial cells. These two peer reviews are published by the American Association for Cancer Research (AACR), one of the most prominent cancer research organizations in the United States.

OUTLOOK

These developments give us continued confidence to pursue our phase III trials with Neovastat for its eventual commercialization, and to maintain our growth objectives according to the strategy already in place.

Dr. Eric Dupont

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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 six-month period ended June 30, 2002 and 2001. All figures are in Canadian dollars.

RESULTS OF OPERATIONS

REVENUES

Company revenues are generated by the subsidiary Atrium Biotechnologies Inc. (Atrium) whose consolidated sales reached \$23.4 million, compared to \$2.7 million for the corresponding quarter last year. For the six-month period ended June 30, 2002, the consolidated revenues were \$48.8 million compared to \$5.4 million in 2001. This increase for the quarter as well as for the first half of the year 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 \$17.8 million compared to \$0.4 million for the same quarter in 2001. For the six-month period ended June 30, 2002, the cost of sales has gone up from \$0.9 million to \$37.5 million, an increase of \$36.6 million. These costs are in direct proportion to corresponding revenues and the percentage of these costs against revenues has varied significantly as a result of the acquisition of Unipex.

Selling and administrative expenses amounted to \$2.4 million during this quarter compared to \$0.9 million in 2001. Regarding the six-month period, selling and administrative expenses were \$4.7 million compared to \$1.7 million in 2001. The acquisition of Unipex explains these variations compared to last year.

R&D investments amounted to \$7.7 million during this quarter in comparison with \$6.7 million last year. For the six-month period ended June 30, 2002, R&D investments reached \$15.1 million in comparison to \$13.9 million in 2001. This increase in expenses can be attributed to the costs related to the follow-up of patients enrolled in our Phase III clinical studies and also to the costs incurred for the preparation of Neovastat's Basic International Registration dossier.

R&D tax credits and grants reached \$0.6 million for this quarter compared with \$2.6 million in 2001. The decrease in the eligible expenses of current grant programs explains this situation. As of June 30, 2002, R&D tax credits and grants totalled \$1.1 million compared to \$4.6 million for the same period last year.

Interest income was \$0.8 million for the three-month period ended June 30, 2002 in comparison with \$1 million for the same period last year. For the cumulative period of six months, interest income reached \$1.3 million, compared to \$2.1 million for the same period in 2001. Cash used in R&D investments as well as for the Unipex' acquisition explains the decrease of interest income for the six-month period ended June 30, 2002.

The income tax expense for this first six-month period comes from Atrium and its

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subsidiaries. No income tax expense was recorded for the corresponding period last year.

The loss before the gain on dilution for this second quarter amounted to \$5.9 million or 15 cents per share compared to a loss before the gain on dilution of \$2.7 million or 9 cents per share for the same quarter in 2001. For the six-month period ended June 30, 2002, the loss before the gain on dilution increased by \$5.7 million and has gone up from \$5.9 million to \$11.6 million. The increase of the loss before the gain on dilution for this quarter as well as for the six-month period, is mainly due to larger investments in R&D net of grants.

LIQUIDITY AND CAPITAL RESOURCES

The cash position of the Company as at June 30, 2002 remains strong with \$92.2 million in cash and short-term investments compared with \$54.1 million as at December 31, 2001. The private placement of \$57 million concluded in this second quarter strengthens the growth objectives of the Company.

During this period of six months, an amount of \$12.4 million was used in operating activities while \$54.7 million was provided through financing activities mainly by the private placement. Regarding investment activities, \$12.5 million was invested in short-term investments whereas acquisition of long-lived assets amounted to \$4.5 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.

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.

AETERNA LABORATORIES INC.

CONSOLIDATED BALANCE SHEETS
(expressed in Canadian dollars)

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| | AS AT JUNE 30, 2002 | AS AT DECEMBER 31, 2001 |
|--|---------------------------|-------------------------------|
| ----- (UNAUDITED) | | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 37,594,495 | \$ 11,993,502 |
| Short-term investments | 54,572,735 | 42,070,976 |
| Accounts receivable | 30,060,778 | 23,361,630 |
| Income taxes recoverable | 249,760 | 154,684 |
| Research and development tax credits recoverable | 2,100,139 | 1,295,000 |
| Inventory | 8,119,562 | 8,303,697 |
| Prepaid expenses | 1,721,281 | 1,161,587 |
| | ----- | ----- |
| | 134,418,750 | 88,341,076 |
| PROPERTY, PLANT AND EQUIPMENT | 17,538,180 | 15,403,984 |
| INTANGIBLE ASSETS AND GOODWILL | 26,703,484 | 24,252,487 |
| FUTURE INCOME TAX ASSETS | 5,182,171 | 6,354,170 |
| | ----- | ----- |
| | \$183,842,585 | \$134,351,717 |
| ===== | | |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 25,045,577 | \$ 23,429,717 |
| Income taxes | 312,111 | - |
| Current portion of long-term debt | 2,893,312 | 3,447,688 |
| | ----- | ----- |
| | 28,251,000 | 26,877,405 |
| LONG-TERM DEBT | 12,054,194 | 10,400,969 |
| EMPLOYEE FUTURE BENEFITS | 140,659 | 115,952 |
| NON-CONTROLLING INTEREST | 20,487,172 | 18,338,602 |
| | ----- | ----- |
| | 60,933,025 | 55,732,928 |
| ----- | | |
| SHAREHOLDERS' EQUITY | | |
| SHARE CAPITAL | 152,323,666 | 97,513,214 |
| CONTRIBUTED SURPLUS | 853,699 | - |
| DEFICIT | (30,632,593) | (19,082,451) |
| CUMULATIVE TRANSLATION ADJUSTMENT | 364,788 | 188,026 |
| | ----- | ----- |
| | 122,909,560 | 78,618,789 |
| | ----- | ----- |
| | \$183,842,585 | \$134,351,717 |
| ===== | | |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

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AETERNA LABORATORIES INC.

CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE PERIODS ENDED JUNE 30, 2002 AND 2001
(expressed in Canadian dollars)

| UNAUDITED | QUARTERS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|---|----------------------------|--------------|------------------------------|--------------|
| | 2002 | 2001 | 2002 | 2001 |
| REVENUES | \$23,440,112 | \$2,668,278 | \$48,788,883 | \$5,434,112 |
| OPERATING EXPENSES | | | | |
| Cost of sales | 17,803,052 | 411,613 | 37,485,846 | 855,112 |
| Selling and administrative | 2,424,247 | 861,010 | 4,673,627 | 1,694,112 |
| Research and development costs | 7,688,457 | 6,675,681 | 15,131,802 | 13,889,112 |
| Research and development tax credits and grants | (603,055) | (2,528,560) | (1,100,136) | (4,570,112) |
| Depreciation and amortization | | | | |
| Property, plant and equipment | 497,455 | 305,897 | 829,185 | 597,112 |
| Intangible assets and goodwill | 102,609 | 80,717 | 203,639 | 164,112 |
| | 27,912,765 | 5,806,358 | 57,223,963 | 12,631,112 |
| OPERATING LOSS | (4,472,653) | (3,138,080) | (8,435,080) | (7,196,112) |
| INTEREST INCOME | 793,979 | 980,562 | 1,324,575 | 2,056,112 |
| INTEREST EXPENSE | (336,269) | (174,733) | (519,025) | (436,112) |
| LOSS BEFORE THE FOLLOWING ITEMS | (4,014,943) | (2,332,251) | (7,629,530) | (5,577,112) |
| INCOME TAX EXPENSE | (973,577) | - | (2,138,313) | - |
| GAIN ON DILUTION | - | 10,223,567 | - | 10,223,112 |
| NON-CONTROLLING INTEREST | (910,217) | (350,233) | (1,782,299) | (350,112) |
| NET EARNINGS (LOSS) FOR THE PERIOD | \$ (5,898,737) | \$ 7,541,083 | \$ (11,550,142) | \$ 4,296,112 |
| BASIC AND DILUTED NET EARNINGS (LOSS) PER SHARE | \$ (0.15) | \$ 0.25 | \$ (0.30) | \$ 0.07 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 40,452,019 | 30,271,295 | 38,552,019 | 30,192,112 |

CONSOLIDATED STATEMENTS OF DEFICIT
FOR THE PERIODS ENDED JUNE 30, 2002 AND 2001
(expressed in Canadian dollars)

| UNAUDITED | SIX MONTHS ENDED JUNE 30, | |
|-----------|------------------------------|------|
| | 2002 | 2001 |
| | | |

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| | | | |
|------------------------------------|--|-----------------|----------|
| BALANCE - BEGINNING OF PERIOD | | \$ (19,082,451) | \$ (15,6 |
| Net earnings (loss) for the period | | (11,550,142) | 4,2 |
| ----- | | | |
| BALANCE - END OF PERIOD | | \$ (30,632,593) | \$ (11,3 |
| ===== | | | |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

AETERNA LABORATORIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED JUNE 30, 2002 AND 2001
(expressed in Canadian dollars)

| UNAUDITED | QUARTERS ENDED | | SIX MONTHS |
|--|----------------|--------------|-----------------|
| | JUNE 30, | | JUNE 30 |
| | 2002 | 2001 | 2002 |
| ----- | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net earnings (loss) for the period | \$ (5,898,737) | \$ 7,541,083 | \$ (11,550,142) |
| Items not affecting cash and cash equivalents | | | |
| Depreciation and amortization | 600,064 | 386,614 | 1,032,824 |
| Interest expense | - | 174,733 | - |
| Future income taxes | 469,204 | (138,162) | 1,173,673 |
| Employee future benefits | 180 | - | 17,252 |
| Gain on dilution | - | (10,223,567) | - |
| Non-controlling interest | 910,217 | 350,233 | 1,782,299 |
| Stock-based compensation | 53,516 | - | 53,516 |
| Change in non-cash operating working capital items | | | |
| Accounts receivable | 3,178,002 | 60,659 | (4,276,091) |
| Income taxes recoverable | (250,221) | - | (94,919) |
| Research and development tax credits recoverable | (300,000) | (581,892) | (700,000) |
| Inventory | (655,077) | (223,758) | 600,661 |
| Prepaid expenses | (85,195) | 46,431 | (543,572) |
| Accounts payable and accrued liabilities | (2,983,521) | 457,293 | (175,274) |
| Income taxes | 177,783 | (71,127) | 294,662 |
| | (4,783,785) | (2,221,460) | (12,385,111) |
| ----- | | | |

CASH FLOWS FROM FINANCING ACTIVITIES

| | | | |
|--|------------|----------|------------|
| Repayment of long-term debt | - | (96,000) | (895,950) |
| Issuance of warrants | 746,667 | - | 746,667 |
| Issuance of share capital, net of related expenses | 54,803,518 | 768,581 | 54,863,968 |
| | 55,550,185 | 672,581 | 54,714,685 |
| ----- | | | |

CASH FLOWS FROM INVESTING ACTIVITIES

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| | | | | |
|--|--------------|--------------|--------------|------|
| Change in short-term investments | (20,522,026) | 17,841,802 | (12,501,759) | 25 |
| Purchase of shares of subsidiary less cash acquired | (1,316,396) | - | (1,316,396) | |
| Purchase of a product line | (185,644) | - | (185,644) | |
| Purchase of property, plant and equipment | (1,499,998) | (178,256) | (2,895,833) | |
| Additions to intangible assets and goodwill | (41,400) | (19,064) | (128,702) | |
| | (23,565,464) | 17,644,482 | (17,028,334) | 25 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 27,200,936 | 16,095,603 | 25,301,240 | 17 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 422,648 | - | 299,753 | |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | 9,970,911 | 8,613,227 | 11,993,502 | 7 |
| CASH AND CASH EQUIVALENTS - END OF PERIOD | \$37,594,495 | \$24,708,830 | \$37,594,495 | \$24 |
| ADDITIONAL INFORMATION | | | | |
| Interest paid | \$ 50,287 | \$ - | \$ 103,443 | \$ |
| Income taxes paid | \$ 46,836 | \$ 122,125 | \$ 248,567 | \$ |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS

AETERNA LABORATORIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIODS ENDED JUNE 30, 2002 AND 2001
(expressed in Canadian dollars)

UNAUDITED

1 BASIS OF PRESENTATION

These interim financial statements as at June 30, 2002 and for the periods ended June 30, 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.

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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 six months ended June 30, 2001 amounted to approximately \$44,000.

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 earnings (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 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 JUNE 30, 2002 AND 2001
(expressed in Canadian dollars)

UNAUDITED

3 ACQUISITION OF A COMPANY

On May 1st, 2002, Unipex Finance S.A., a subsidiary of Atrium Biotechnologies inc., acquired 100 % of the issued and outstanding common shares of ADF Chimie S.A. for a total consideration of \$2,986,493. ADF Chimie S.A. is a distributor of active and specialty ingredients for the cosmetics industry. The results of operations have been consolidated from the date of acquisition and the fair value of net assets is as follows:

| | |
|--|-------------|
| Current assets | \$1,880,533 |
| Property, plant and equipment | 7,139 |
| Current liabilities | (665,172) |
| ----- | |
| Net identifiable assets | 1,222,500 |
| Goodwill | 1,763,993 |
| ----- | |
| Purchase price | 2,986,493 |
| Less: Cash and cash equivalents acquired | (548,106) |
| Balance of purchase price | (1,121,991) |
| ----- | |
| Cash paid | \$1,316,396 |

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 The goodwill is not deductible for income tax purposes over the following years.

4 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.

| | QUARTERS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30 | |
|------------------------------------|-------------------------|--------------|--------------------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| REVENUES | | | | |
| Cosmetics and nutrition | \$ 2,972,232 | \$ 2,668,278 | \$ 6,155,565 | \$ 5,434,9 |
| Distribution | 20,539,987 | - | 42,705,425 | |
| Biopharmaceutical | - | - | - | |
| Consolidated adjustments | (72,107) | - | (72,107) | |
| | \$23,440,112 | \$ 2,668,278 | \$48,788,883 | \$ 5,434,9 |
| NET EARNINGS (LOSS) FOR THE PERIOD | | | | |
| Cosmetics and nutrition | \$ 589,323 | \$ 1,134,022 | \$ 1,381,866 | \$ 2,552,0 |
| Distribution | 459,561 | - | 789,177 | |
| Biopharmaceutical | (6,955,335) | 6,407,061 | (13,748,296) | 1,744,1 |
| Consolidated adjustments | 7,714 | - | 27,111 | |
| | \$ (5,898,737) | \$ 7,541,083 | \$ (11,550,142) | \$ 4,296,2 |

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: August 21, 2002

By: /s/ Claude Vadboncoeur

Claude Vadboncoeur
 Vice President, Legal Affairs and
 Corporate Secretary