Aeterna Zentaris Inc.
Form 6-K
May 03, 2007

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 May 2007

ÆTERNA ZENTARIS INC.

1405, boul. du Parc-Technologique
Québec, Québec
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 o Form 40-F x

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 o No x

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

DOCUMENTS INDEX

Documents Description

1. Æterna Zentaris Interim Report First Quarter 2007 (Q1)

2

May 2, 2007

To Our Stockholders,

As the new President and Chief Executive Officer of Æterna Zentaris, I am thrilled with this opportunity and am very much looking forward to leading the Company to even greater success in the future, based on a strategy of realizing the full potential of our flagship product candidate in BPH, cetrorelix, as well as the rest of our pipeline.

2007 marks the beginning of a new era for Æterna Zentaris. We have emerged as a pure play biopharmaceutical company with an enviable product development pipeline and a sound financial position.

During the first quarter of 2007, we reached a significant milestone in the clinical development of our lead luteinizing hormone-releasing hormone (LHRH) antagonist compound, cetrorelix, as we initiated our vast Phase 3 program in benign prostatic hyperplasia (BPH) by launching the first study of this program in the United States and Canada. Patient dosing has commenced, recruitment is ongoing and the vast majority of our 40 centers are currently up and running.

We have seen additional progress regarding cetrorelix in BPH. After announcing positive Phase 2a results with cetrorelix for BPH in Japan, our partner Shionogi initiated a Phase 2b study to assess primarily the efficacy of cetrorelix in Japanese patients.

As part of our risk-adverse drug development strategy targeting earlier-stage compounds with high potential, in early January 2007, we initiated a 50-patient Phase 1 trial with ZEN-012 for solid tumors and lymphoma in the United States. We believe this compound which is part of an internally developed new class of oral compounds in oncology, has the potential to be a novel, promising multi-targeted oral intermittent cancer therapy.

We are quite proud of all of these clinical achievements as they reflect our commitment to aggressively move our product candidates through the pipeline and bring our lead compounds closer to market.

As of January 2, 2007, we successfully spun off Atrium Biotechnologies by completing the special distribution of our remaining shares in our former subsidiary to our shareholders as a return on investment, representing nearly US$138 million. Following the spin-off, our efforts are now even more focused on building solid endocrinology and oncology franchises.

Over the past few months, we have successfully achieved major milestones at the drug development level as well as from a corporate evolution perspective. We now look forward to continuing this momentum throughout the year in an effort to further unlock value for our shareholders.

In closing, on behalf of my colleagues and our Board of Directors, I thank you for your continued interest and support and look forward to communicating with you regularly regarding our progress over the year.

Sincerely,

/s/ Dave J. Mazzo
Dave J. Mazzo, PhD
President and Chief Executive Officer

First Quarter 2007

Management s Discussion and Analysis
of Financial Condition and Results of Operations

The following analysis provides a review of the Company s results of operations, financial condition and cash flows for the three-month period ended March 31, 2007. In this Management`s Discussion and Analysis (MD&A), the Company , we , us , and our mean Æterna Zentaris Inc. and its subsidiaries. This discussion should be read in conjunction with the information contained in Æterna Zentaris Inc. s interim consolidated financial statements and related notes for the three-month periods ended on March 31, 2007 and 2006. Our consolidated financial statements are reported in United States dollars and have been prepared in accordance with generally accepted accounting principles in Canada, or Canadian Generally Accepted Accounting Principals (GAAP). *All amounts are in US dollars unless otherwise indicated.*

Company Overview

Æterna Zentaris Inc. (TSX: AEZ, NASDAQ: AEZS) is a global biopharmaceutical company focused on endocrine therapy and oncology with proven expertise in drug discovery, development and commercialization.

Our strategy is to aggressively advance our robust product development pipeline with a focus on our lead product candidates, cetrorelix, ozarelix and perifosine, as well as our promising, targeted earlier-stage programs with high potential.

With a focused strategy, management s expertise and depth, the strategic partnerships in place and current solid financial position, it is the Company s goal to emerge as a fully-integrated, global specialty biopharmaceutical company with a strategic focus on endocrine therapy and oncology.

Completion of the Special Distribution of our remaining interest in Atrium as of January 2, 2007

On December 15, 2006, Æterna Zentaris shareholders approved the reduction of the stated capital of the Company to give effect to the special distribution of the Company`s remaining interest in Atrium, representing 11,052,996 subordinate voting shares of Atrium or 36.1% of Atrium s issued and outstanding shares, to all Æterna Zentaris shareholders. This special distribution was completed on January 2, 2007. For each common share held as of the Record Date of December 29, 2006, Æterna Zentaris shareholders received 0.2079 subordinate voting shares of Atrium.

As a result, in the first quarter of 2007, the Company`s long-term investment in Atrium was removed from the balance sheet, the fair value of the distributed interest reduced our share capital and the difference between the fair value and the book value of this interest, taking into account the related income taxes and cumulative translation adjustment, has been presented as Other Capital.

The decision by Æterna Zentaris to sell a portion of its ownership interest in Atrium by way of secondary offering, and to distribute its remaining interest to its shareholders represented the culmination of a lengthy and detailed review process in which the Company examined a number of strategic alternatives for how best to pursue and implement its business plan of becoming a pure play biopharmaceutical Company. The transaction was integral to the evolution of Æterna Zentaris as it affords the Company the necessary financial resources to execute a very focused strategy and continue to set the stage to emerge as a fully-integrated, global specialty biopharmaceutical company with a focus on endocrine therapy and oncology.

Key Development for the Quarter Ended March 31, 2007

Corporate Developments

Appointment of new President and Chief Executive Officer Late in the quarter, the Company appointed David J. Mazzo, Ph.D., as President and Chief Executive Officer (CEO), effective on April 9, 2007. Dr. Mazzo succeeds Gilles Gagnon who left his position, effective March 26, as President and CEO and as a member of the Board of Directors.

Dr. Mazzo has spent more than 20 years in the pharmaceutical industry and is recognized for his leadership and strong scientific and regulatory expertise. He joins the Company from Chugai Pharma USA where he had been President and CEO since April 2003. Dr. Mazzo has broad experience working in a variety of multi-cultural environments in the USA, Europe and Asia where he amassed a track record of successful global product development, registration and launch. He has held positions of increasing responsibility with Merck, Baxter, Rhône-Poulenc Rorer, Hoechst Marion Roussel and Schering-Plough. Dr. Mazzo holds a B.A. in Honors (Interdisciplinary Humanities) and a B.S. in Chemistry from Villanova University, as well as an M.S. in Chemistry and a Ph.D. in Analytical Chemistry from the University of Massachusetts (Amherst). He further complemented his American education as a Research Fellow at the *École Polytechnique Fédérale de Lausanne*, Switzerland.

Spin-off of Atrium Biotechnologies In early January, Æterna Zentaris completed the special distribution in kind of all of the 11,052,996 subordinate voting shares of the capital of Atrium Biotechnologies Inc. (TSX: ATB) previously held by Æterna Zentaris by way of return of capital that was approved at the Company s special meeting of shareholders held on December 15, 2006.

Advancing the Pipeline

Cetrorelix Early in the year, the Company initiated an extensive, 1,500-patient Phase 3 program in Benign Prostatic Hyperplasia (BPH) for its flagship product candidate with the first of three studies, a 600-patient efficacy study conducted in the U.S. and Canada under the supervision of Lead Investigator, Herbert Lepor, M.D., Professor at NY University School of Medicine, New York.

Most recently, the Company, along with its Japanese partner Shionogi & Co., Ltd. (Shionogi), announced positive results for a Phase 2a trial with cetrorelix in BPH that was initiated in 2005 in Japan. Results showed that cetrorelix was safe and well tolerated at all dosage regimens. Furthermore, Japanese patients responded to cetrorelix with a transient reduction of testosterone concentration in blood, which did not reach or remain at the castration level. Additionally, none of the dosage regimens tested caused a suppression of PSA levels. Finally, data generated with Japanese patients showed that the bioavailability of cetrorelix was similar to what was observed in non-Japanese patients.

On the basis of this study, Shionogi has initiated a 300-patient Phase 2b study to assess primarily the efficacy of cetrorelix in BPH in Japanese patients.

AEZS-112 (ZEN-012) In January 2007, the Company initiated a Phase 1 trial with its novel, oral anti-cancer drug, AEZS-112 (ZEN-012), in patients with solid tumors and lymphoma. This 50-patient open-label, dose-escalation, multi-center, intermittent treatment Phase 1 trial is being conducted in the U.S. under the supervision of Lead Investigator, Daniel D. Von Hoff, MD, Senior Investigator at the Translational Genomics Research Institute in Phoenix, Arizona.

During the quarter, the Company presented an abstract outlining new *in vivo* data for AEZS-112 (ZEN-012), at the 7th Joint Conference of the American Association for Cancer Research and the Japanese Cancer Association. Given orally once or twice weekly, AEZS-112 (ZEN-012) proved to be a potent inhibitor of *in vivo* tumor growth in mammary, lung, renal, colon, melanoma xenograft models as well as in leukemia cancer models at well tolerated doses (16-40mg/kg). Furthermore, AEZS-112 (ZEN-012) showed good safety and toxicity profiles in a series of rodent and non-rodent studies. No findings with respect to cardiovascular or neurotoxicology parameters could be observed during the toxicological evaluation in mice, rats and dogs.

Consolidated Results of Operations

For the quarter ended March 31, 2007, previously consolidated revenues and expenses of Atrium, representing the former Active Ingredients & Specialty Chemicals Segment as well as the Health & Nutrition Segment, have been reclassified as discontinued operations.

The following table sets forth certain Canadian GAAP consolidated financial data in thousands of US dollars, except per share data.

	Quarters ended March 31,	
	2007	**2006**
	$	**$**
Revenues		
Sales and royalties	**7,921**	6,573
License fees	**1,912**	2,172
Other	**117**	3
	9,950	8,748
Operating expenses		
Cost of sales	**3,463**	2,642
Research and development (R&D) costs, net of tax credits and grants	**8,184**	6,804
Selling, general and administrative (SG&A)	**5,096**	3,845
Depreciation and amortization (D&A)	**1,464**	1,563
	18,207	14,854
Loss from operations	**(8,257)**	(6,106)
Other revenues (expenses)	**612**	(974)
Income tax recovery	**2,535**	1,179
Net loss from continuing operations	**(5,110)**	(5,901)
Net earnings from discontinued operations		3,321
Net loss for the period	**(5,110)**	(2,580)
Net loss per share from continuing operations		
Basic and diluted	**(0.10)**	(0.12)
Net loss per share		
Basic and diluted	**(0.10)**	(0.05)

Consolidated Revenues

Consolidated revenues are derived from sales and royalties and license fees. Sales are derived from the manufacturing of Cetrotide® (cetrorelix), Impavido® (miltefosine), reagents and active pharmaceutical ingredients. Royalties are derived from Cetrotide® (cetrorelix) actually sold by Merck Serono in reproductive health assistance for *in vitro* fertilization. Furthermore, license fees are derived from non-periodic milestone payments, R&D contract fees and amortization of upfront payments received to date from our licensing partners.

Sales and royalties increased to $7.9 million in the first quarter of 2007 compared to $6.6 million for the same period in 2006. The increase in sales and royalties is related to the additional new sales of Cetrotide®, following the September 2006 launch in Japan, as well as organic growth from the reagents sales.

License fees revenues slightly decreased to $1.9 million in the first quarter of 2007 compared to $2.2 million for the same period in 2006.

Consolidated Operating Expenses

Consolidated cost of sales increased to $3.5 million in the first quarter of 2007 compared to $2.6 million for the same period in 2006. The increase in the cost of sales is directly related to additional generated sales.

Consolidated R&D costs, net of tax credits and grants were $8.2 million in the first quarter of 2007 compared to $6.8 million for the same period in 2006. The increase in R&D expense of $1.4 million was related to the additional expenses incurred in the first quarter of 2007 for the Phase 3 program with cetrorelix in BPH, as well as for further advancement of targeted, earlier-stage development programs.

Consolidated selling, general and administrative (SG&A) expenses increased to $5.1 million in the first quarter of 2007 compared to $3.8 million for the same period in 2006. The increase in SG&A expenses is mainly due to additional expenses related to the appointment of the Company`s new President and CEO, Dr. David J. Mazzo, and the departure of Gilles Gagnon as President and CEO and as a member of the Board of Directors.

Consolidated loss from operations increased to $8.3 million for the quarter ended March 31, 2007 compared to $6.1 million for the same period in 2006. The increase in loss from operations is attributable to a combination of additional R&D and SG&A expenses partly offset by increased revenues.

Consolidated other revenues for the first quarter ended March 31, 2007 were $0.6 million. For the same period in 2006, we recorded other expenses, mainly related to convertible term loans, amounting to $1 million. The variation between 2006 and 2007 is mainly attributable to the conversion in February 2006 of the convertible term loans into Common Shares.

Consolidated income tax recovery for the first quarter ended March 31, 2007 was $2.5 million compared to $1.2 million for the same period in 2006. The increase in the income tax recovery is mainly attributable to increased taxable loss.

Net loss from continuing operations for the first quarter ended March 31, 2007 was $5.1 million compared to $5.9 million for the same period in 2006. This decrease in net loss is attributable to a combination of increased revenues and income tax recovery, as well as the elimination of interest expenses partly offset by increased R&D and SG&A expenses.

Net earnings from discontinued operations recorded in the first quarter of 2006 were completely attributable to our former subsidiary Atrium which operations were excluded from consolidation effective on October 18, 2006.

Discontinued operations include the following items:

(in thousands of US dollars)	**Quarter ended March 31, 2006 $**
Revenues	76,009
Earnings before the following items:	9,004
Income tax expense	(2,070)
Loss on dilution of investments	(54)
Earnings before non-controlling interest	6,880
Non-controlling interest	(3,560)
Net earnings from discontinued operations	3,321
Net earnings per share from discontinued operations	
Basic and diluted	0.07

Consolidated net loss for the first quarter ended March 31, 2007 was $5.1 million or $0.10 per basic and diluted share, compared to $2.6 million or $0.05 per basic and diluted share for the same period in 2006. The increase of the net loss for the three-month period ended March 31, 2007, is directly attributable to nearly $3.3 million of net earnings from discontinued operations related to our former subsidiary, Atrium, recorded in 2006, partly offset by reduced net loss from continuing operations.

The weighted average number of shares outstanding used to calculate the basic and diluted net loss per share for the quarter ended March 31, 2007 was 53.2 million shares compared to 50.3 million shares for the same period in 2006. This increase reflects the

issuance of Common Shares following the conversion of the convertible term loans in February 2006, the acquisition of a patent, as well as the exercise of stock options over the last twelve months.

Total Consolidated Assets and Long-Term Liabilities

CONSOLIDATED BALANCE SHEET DATA

(in thousands of US dollars)	**As at March 31, 2007 $**	**As at December 31, 2006 $**
Total assets	**139,332**	223,491
Long-term liabilities	**19,127**	28,302

The decrease in total assets and in long-term liabilities is mainly attributable to the special distribution to our shareholders of our long-term investment in Atrium, effective on January 2, 2007.

Critical Accounting Policies and Estimates

There have been no significant changes in Æterna Zentaris accounting policies and estimates since December 31, 2006, with the exception of the application of new accounting standards as described below. Please refer to the corresponding section in our 2006 Annual Report for a complete description of our critical accounting policies and estimates. Access to a summary of differences between Canadian and US GAAP is referenced in Note 24 of our annual 2006 financial statements.

New Accounting Standards

In January 2005, the CICA issued four new accounting standards in relation with financial instruments: Section 3855 Financial Instruments Recognition and Measurement , Section 3865 Hedges , section 1530 Comprehensive Income and Section 3251 Equity .

Sections 3855, 3865 and 1530 have been adopted by the Company on January 1, 2007. Adoption of these standards did not have any material impact on the Company s consolidated balance sheet as described in note 2 of our interim consolidated financial statements for the first quarter ended March 31, 2007.

Liquidity, Cash Flows and Capital Resources

Our operations and capital expenditures are mainly financed through cash flows from operating activities, the use of our liquidity, as well as the issuance of debt and common shares.

Our cash and short-term investments position reached more than $55 million as of March 31, 2007, compared to $61 million as of December 31, 2006. We believe that these liquidities will be adequate to meet operating cash requirements for the foreseeable future. However, possible additional operating losses and/or possible investments in the acquisition of complementary businesses or products may require additional financing.

The variation of our liquidity by activities is explained below, not considering any cash flows used or provided by discontinued operations in the comparative period.

Operating Activities

Cash flows used by our continuing operating activities were $5.6 million for the three-month period ended March 31, 2007 compared to $3.8 million during the same three-month period in 2006. The additional cash flows used in the first quarter of 2007 compared to the same quarter in 2006 were primarily for additional spending in R&D, related to the initiation of a Phase 3 program in BPH for cetrorelix, as well as to further advancement of targeted, earlier-stage development programs, and to additional SG&A. New sales of Cetrotide®, recently launched on the Japanese market, contributed to lower these additional cash outflows. We expect cash flows used by our operating activities to increase in the next quarters of 2007, as we will pursue our Phase 3 clinical program with cetrorelix in BPH and will further advance targeted, earlier-stage development programs.

Investing Activities

Cash flows used in continuing investing activities (excluding the change in short-term investments) remained steady at $0.4 million for the quarters ended March 31, 2006 and 2007. Cash flows were mainly used for the purchase of property, plant and equipment.

Contractual Obligations

There has been no significant change in contractual obligations and commercial commitments facing Æterna Zentaris, as described in the Company s 2006 annual MD&A.

Outstanding Share Data

As of May 1, 2007, there were 53,179,470 common shares issued and outstanding and there were 4,220,092 stock options outstanding.

Quarterly Summary Financial Information

(in thousands of US dollars, except per share data)

Unaudited	Quarters ended March 31, 2007 $	December 31, 2006 $	September 30, 2006 $	June 30, 2006 $
Revenues	9,950	12,631	10,630	9,383
Loss from operations	(8,257			