



A.P. Pharma Reports Second Quarter Financial Results

August 12, 2004

REDWOOD CITY, Calif.--(BUSINESS WIRE)--Aug. 12, 2004--A.P. Pharma, Inc. (Nasdaq:APPA), a specialty pharmaceutical company, today reported financial results for the three months ended June 30, 2004, reflecting increased royalty income and contract revenues as well as higher research and development expense due to the company's Phase 2 trial with APF112 and Phase 1 trial with APF530.

Second Quarter Financial Highlights

- Total revenues for the second quarter increased 15% to \$1,284,000.
- Royalties from Retin-A Micro(R) grew by over 9%.
- Increased contract revenues reflect reimbursements from a new collaborator in an ophthalmic application.
- Research and development expense increased by 27% as a result of clinical trials on APF112 and APF530.
- The Company completed a financing of approximately 4.2 million shares raising net proceeds of approximately \$11.8 million.
- Cash, cash equivalents and short-term investments were \$16.7 million at June 30, 2004.

Financial Results

A.P. Pharma reported that total revenues for the second quarter of 2004 increased 15% to \$1,284,000, compared with \$1,117,000 for the second quarter of 2003. This increase was primarily due to a continuing increase in royalty income from Retin-A Micro marketed by OrthoNeutrogena, a Johnson & Johnson company, and to an increase in contract revenues for reimbursable research and development feasibility studies, primarily from a new collaborator in an ophthalmic application.

Research and development expense for the second quarter of 2004 increased to \$2,963,000 from \$2,335,000 for the second quarter of 2003. This increase was mainly due to the costs of Part 2 of the Phase 2 clinical study being conducted using APF112 for the treatment of post-surgical pain and a Phase 1 study being performed in the U.K. using APF530 for the treatment of chemotherapy-induced nausea and vomiting.

The net loss for the second quarter of 2004 was \$2,444,000, or \$0.12 per share, compared with a net loss for the second quarter of 2003 of \$1,960,000, or \$0.10 per share.

Cash, cash equivalents and marketable securities increased to \$16.7 million at June 30, 2004 as a result of the sale in June 2004 of approximately 4.2 million shares of common stock. The net proceeds from the financing, which was completed pursuant to a "shelf" registration statement, were approximately \$11.8 million.

About A.P. Pharma

A.P. Pharma is a specialty pharmaceutical company focused on the development of ethical (prescription) pharmaceuticals utilizing its proprietary polymer-based drug delivery systems. The Company's primary focus is the development and commercialization of its bioerodible injectable and implantable systems under the trade name Biochronomer. Initial target areas of application for the Company's drug delivery technology include pain management, anti-nausea, inflammation, oncology and ophthalmology applications. The Company's product development programs are funded by the sale of common stock, royalties from topical products currently marketed by pharmaceutical partners, proceeds from the divestitures of its cosmeceutical and analytical standards product lines and by fees it receives from collaborative partners. For further information visit the Company's web site at www.appharma.com.

Forward-looking Statements

Except for historical information, this news release contains certain forward-looking statements that involve risks and uncertainties including, among others, uncertainty associated with timely development, approval, launch and acceptance of new products, establishment of new corporate alliances and progress in research and development programs. Other risks and uncertainties associated with the Company's business and prospects are

identified in the Company's filings with the Securities and Exchange Commission. The Company does not undertake to revise these forward-looking statements to reflect events or circumstances occurring in the future.

A.P. Pharma, Inc.
Statement of Operations Highlights
(in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30, 2004		Six Months Ended June 30, 2004	
	2004	2003	2004	2003
Royalties	\$ 1,103	\$ 1,031	\$ 2,257	\$ 2,063
Contract Revenues	181	86	206	160
Total Revenues	1,284	1,117	2,463	2,223
Operating Expenses:				
Research & Development	2,963	2,335	5,999	4,537
General & Administrative	762	766	1,486	1,544
Total Operating Expenses	3,725	3,101	7,485	6,081
Operating Loss	(2,441)	(1,984)	(5,022)	(3,858)
Interest Income and Other, Net	49	54	79	129
Loss from Continuing Operations	(2,392)	(1,930)	(4,943)	(3,729)
Gain (Loss) from Discontinued Operations	(52)	(30)	(101)	1,802
Net Loss	(\$2,444)	(\$1,960)	(\$5,044)	(\$1,927)
Basic and Diluted Loss per Share:				
Loss from Continuing Operations	(\$0.11)	(\$0.09)	(\$0.24)	(\$0.18)
Net Loss	(\$0.12)	(\$0.10)	(\$0.24)	(\$0.09)
Shares used in Calculating Loss per Share:				
Basic and Diluted	21,048	20,535	20,850	20,505

A.P. Pharma, Inc.
Balance Sheet Highlights
(in thousands)

	June 30, 2004 (Unaudited)	December 31, 2003
Assets		
Cash, Cash Equivalents and Marketable Securities	\$ 16,657	\$ 9,484
Accounts Receivable, Net	1,287	1,340
Other Current Assets	462	434
Total Current Assets	18,406	11,258
Property, Plant & Equipment, Net	1,366	1,430
Other Non-Current Assets	282	467

Total Assets	\$	20,054	\$	13,155
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Liabilities and Shareholders' Equity

Current Liabilities	\$	1,833	\$	1,892
Shareholders' Equity		18,221		11,263

Total Liabilities and Shareholders' Equity	\$	20,054	\$	13,155
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SOURCE: A.P. Pharma, Inc.