



A.P. Pharma Reports Third Quarter Results; APF112 Phase II Clinical Trial Initiated; Royalty Income Increases 23% Over Q3 2002

November 7, 2003

REDWOOD CITY, Calif.--(BUSINESS WIRE)--Nov. 7, 2003--A.P. Pharma, Inc. (Nasdaq:APPA), a specialty pharmaceutical company, today reported financial results for the three months ended September 30, 2003, reflecting increased royalty income and contract revenues.

Current Highlights

- Phase II study using APF112 for the treatment of pain following inguinal hernia procedures has been initiated.
- IND for surgical/orthopedic indication follow-on product candidate targeted to be filed in early 2004.
- Third quarter royalty income increased 23% to \$1,149,000 over the year-ago period, driven primarily by continued growth of Retin-A Micro(R).
- Carac formulation patent extended to 2021, increasing expected life of royalty stream.
- Feasibility studies continue in the areas of ophthalmology, device coatings and DNA; new studies being initiated.
- Cash, cash equivalents and short-term investments were \$11 million at September 30, 2003, compared with \$14 million at December 31, 2002.

Third Quarter Financial Results

A.P. Pharma reported that total revenues for the third quarter of 2003 increased 22% to \$1,268,000, compared with \$1,041,000 for the third quarter of 2002. This was primarily due to a continuing increase in royalty income from Retin-A Micro, marketed by Neutrogena, a Johnson and Johnson company, and Carac, marketed by Dermik Laboratories, an Aventis company. Total revenues also included an increase in contract revenues for research and development work performed in connection with feasibility studies conducted for corporate collaborators.

Research and development expense for the third quarter of 2003 decreased to \$1,854,000 from \$1,874,000 for the third quarter of 2002. The Company has completed extensive preclinical studies for APF112, its product candidate for post-surgical pain, and work relating to Phase II clinical trials is now underway at several sites, including patient enrollment. The Company is also planning to file an IND for a second product candidate early in 2004.

The loss from continuing operations for the third quarter of 2003 was \$1,015,000, or \$0.05 per share, compared with a loss from continuing operations of \$1,339,000, or \$0.07 per share, in the third quarter of 2002. The net loss for the third quarter of 2003 was \$1,058,000, or \$0.05 per share, compared with a net loss for the third quarter of 2002 of \$1,052,000, or \$0.05 per share.

Conference Call Information

Management will be hosting an investment community conference call beginning at 11:00 a.m. Eastern Time (8:00 a.m. Pacific Time) today to discuss this announcement and to answer questions.

To participate in the live call by telephone, please dial 888-803-8275 from the U.S., and 706-634-1287 from outside the U.S. A telephone replay will be available for 48 hours by dialing 800-642-1687 from the U.S., or 706-645-9291 from outside the U.S., and entering reservation number 3414626.

Individuals interested in listening to the conference call via the Internet may do so by visiting www.appharma.com. A replay will be available on the Company's web site.

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(TM). 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 royalties from topical products currently marketed by pharmaceutical partners, by 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.
Income Statement Highlights
(in thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
Royalties	\$ 1,149	\$ 935	\$ 3,211	\$ 2,768
Contract Revenues	119	106	279	193
Total Revenues	1,268	1,041	3,490	2,961
Operating Expenses:				
Research & Development	1,854	1,874	6,391	5,243
General & Administrative	649	644	2,193	2,217
Total Operating Expenses	2,503	2,518	8,584	7,460
Operating Loss	(1,235)	(1,477)	(5,094)	(4,499)
Interest Income and Other, Net	220	138	350	516
Loss from Continuing Operations	(1,015)	(1,339)	(4,744)	(3,983)
Gain (Loss) on Disposition of Discontinued Operations	(43)	287	1,759	432
Net Loss	(\$1,058)	(\$1,052)	(\$2,985)	(\$3,551)
Basic and Diluted Loss per Share:				
Loss from Continuing Operations	(\$0.05)	(\$0.07)	(\$0.23)	(\$0.20)
Net Loss	(\$0.05)	(\$0.05)	(\$0.15)	(\$0.17)
Shares used in Calculating Loss per Share:				
Basic and Diluted	20,571	20,417	20,527	20,393

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

	September 30,	December 31,
	2003	2002(1)
	(Unaudited)	
Assets		
Cash, Cash Equivalents and Marketable Securities	\$11,093	\$14,121
Accounts Receivable, Net	1,267	1,340
Assets Held for Sale	--	225
Other Current Assets	393	280
Total Current Assets	12,753	15,966
Property, Plant & Equipment, Net	1,454	1,626
Other Non-Current Assets	472	189

Total Assets	\$14,679	\$17,781
Liabilities and Shareholders' Equity		
Current Liabilities	\$ 2,027	\$ 1,977
Long-Term Deferred Revenues	75	345
Shareholders' Equity	12,577	15,459
Total Liabilities and Shareholders' Equity	\$14,679	\$17,781

(1) Information derived from audited financial statements.

CONTACT: Company Contact:
A.P. Pharma, Inc.
Gordon Sangster, 650-366-2626
or
Investor Relations Contacts:
Lippert/Heilshorn & Associates
Jody Cain (jcain@lhai.com)
Bruce Voss (bvoss@lhai.com)
310-691-7100

SOURCE: A.P. Pharma, Inc