



## **A.P. Pharma Reports First Quarter Results; Royalty Income Increases by 14% Over Q1 2002**

May 5, 2003

REDWOOD CITY, Calif.--(BUSINESS WIRE)--May 5, 2003--A.P. Pharma, Inc. (Nasdaq:APPA), a specialty pharmaceutical company, today reported financial results for the three months ended March 31, 2003. Results for the first quarter of 2003 reflect increased royalty income, as well as increased research and development expense as the Company prepares to enter Phase II clinical trials with APF112, its product candidate for the treatment of post-operative pain.

### **First Quarter Highlights**

- Royalty income increased 14% to \$1,032,000.
- Preclinical studies with APF112 are being completed and we intend to submit a full package to the FDA by mid-year.
- Phase II clinical trial protocol has been agreed upon with our Principal Investigator.
- Reimbursed feasibility studies involving the Biochronomer(R) system continued in the areas of ophthalmology, stent coatings and DNA delivery. Two new studies were initiated in Q1 2003.
- Gross proceeds of \$2.1 million on the sale of the Company's Analytical Standards division, a non-core asset, were received.
- Cash, cash equivalents and short-term investments were \$14.5 million at March 31, 2003 compared to \$14.1 million at December 31, 2002.

### **First Quarter Financial Results**

A.P. Pharma reported that total revenues for the first quarter of 2003 increased 16% to \$1,106,000, compared to \$952,000 for the first quarter of 2002. The increase in revenues was primarily attributable to a continuing increase in royalty income. Total revenues also included an increase in contract revenues for research and development work performed in connection with feasibility studies.

Research and development expense for the first quarter of 2003 increased to \$2,202,000 from \$1,497,000 for the first quarter of 2002, due mainly to the cost of preclinical studies using the modified APF112 formulation, as agreed with the U.S. Food and Drug Administration (FDA). The Company is preparing a full package for submission to the FDA prior to initiation of Phase II human clinical trials with its APF112 formulation for the treatment of post-surgical pain.

The gain on disposition of discontinued operations represents the net gain on the sale of the Analytical Standards division, a non-core asset, of \$1,886,000.

Net income for the first quarter of 2003 was \$34,000, or \$0.00 per share, compared with a net loss for the first quarter of 2002 of \$1,006,000, 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 for international callers, please dial 706/634-1287. A telephone replay will be available for 48 hours by dialing 800/642-1687 from the U.S., or 706/645-9291 for international callers, and entering reservation number 9898094.

Individuals interested in listening to the conference call via the Internet may do so by visiting [www.appharma.com](http://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) pharmaceutical products 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 targeted areas of application for the Company's drug delivery technology include pain management, inflammation, oncology and ophthalmology applications. The Company's product development programs are funded by royalties from topical products currently marketed by pharmaceutical partners and by proceeds from the divestitures of its cosmeceutical and analytical standards product lines, as well as by fees it receives from collaborative partners. For further information visit the Company's web site at [www.appharma.com](http://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.  
Statements of Operations Highlights  
(in thousands, except per share data)  
(Unaudited)

	Three Months Ended	
	March 31, 2003	March 31, 2002
Royalties	\$ 1,032	\$ 904
Contract Revenues	74	48
Total Revenues	1,106	952
Operating Expenses:		
Research & Development	2,202	1,497
General & Administrative	778	760
Total Operating Expenses	2,980	2,257
Operating Loss	(1,874)	(1,305)
Interest and Other, Net	76	204
Loss from Continuing Operations	(1,798)	(1,101)
Income (Loss) from Discontinued Operations	(54)	95
Gain on Disposition of Discontinued Operations	1,886	--
Net Income (Loss)	\$ 34	\$ (1,006)
Basic and Diluted Loss Per Share:		
Loss from Continuing Operations	\$ (0.09)	\$ (0.05)
Net Income (Loss)	\$ 0.00	\$ (0.05)
Shares used in Calculating Loss Per Share:		
Basic	20,475	20,360
Diluted	20,516	20,360

A.P. PHARMA, INC.  
Balance Sheet Highlights  
(in thousands)

	March 31, 2003 (Unaudited)	December 31, 2002(1)
Assets		
Cash, Cash Equivalents and Marketable Securities	\$ 14,468	\$ 14,121
Accounts Receivable, Net	1,386	1,339
Assets Held for Sale	--	225
Other Current Assets	215	280
Total Current Assets	16,069	15,965

Property, Plant & Equipment, Net	1,527	1,627
Other Non-Current Assets	481	189
Total Assets	\$ 18,077	\$ 17,781

Liabilities and Shareholders' Equity

Current Liabilities	\$ 2,419	\$ 1,977
Long-Term Deferred Revenues	145	345
Shareholders' Equity	15,513	15,459
Total Liabilities and Shareholders' Equity	\$ 18,077	\$ 17,781

(1) Information derived from audited financial statements.

CONTACT:

A.P. Pharma, Inc. Gordon Sangster, 650/366-2626

or

Investor Relations Contacts:

Lippert/Heilshorn & Associates

310/691-7100

Jody Cain (jcain@lhai.com)

Bruce Voss (bvoss@lhai.com)

SOURCE: A.P. Pharma, Inc.