A.P. Pharma Reports Third Quarter Financial Results; Third Quarter Royalty Income Increases 30%

November 7, 2002

REDWOOD CITY, Calif.--(BUSINESS WIRE)--Nov. 7, 2002--A.P. Pharma, Inc. (Nasdaq:APPA), a specialty pharmaceutical company, today reported financial results for the three months ended September 30, 2002. Highlights include:

- Royalty income increased 30% compared with the third quarter of last year, and increased 34% versus the first nine months of last year.
- Royalties from Johnson & Johnson sales of Retin-A Micro(R) increased 44% compared with the third quarter of last year as a result of the launch of a low-dose formulation.
- Comprehensive proposal to continue clinical development on APF112 submitted to FDA.
- Eight reimbursed feasibility studies underway, an increase of two compared with last quarter. Studies are focused on cardiovascular applications (stent coatings), ophthalmology (glaucoma and age-related macular degeneration) and DNA delivery.
- In vivo programs underway with two collaborative partners.
- Approximately $15 million in cash at quarter end.

The Company is aggressively pursuing its plan to resume Phase II clinical studies for its product candidate, APF112, for post-operative pain management. Informal discussions with the FDA have taken place and a comprehensive proposal on the scope of animal studies required for the resumption of human clinical studies has been submitted. The Company has considerable data documenting the safety of the Biochronomer systems, and believes that the therapeutic and commercial value of APF112 are significant.

Third Quarter Financial Results

A.P. Pharma reported an increase of 39% in total revenues for the third quarter of 2002 of $1,343,000, compared with $969,000 for the third quarter of 2001. The increase in revenues for the third quarter of 2002 was primarily attributable to a 30% increase in total royalties on sales of Retin-A Micro, marketed by Ortho Neutrogena, a Johnson & Johnson company, and Carac(TM), marketed by Dermik Laboratories, an Aventis company. Retin-A Micro royalties for the third quarter of 2002 increased by 44% over the year-ago quarter due mainly to the July launch of a new low-dose formulation which received FDA approval in May 2002.

Contract revenues were $106,000, an increase of $102,000 compared with the third quarter last year. This increase was the result of an increase in research and development fees earned from a variety of collaborative partners for feasibility studies, particularly in the areas of coated stents for cardiovascular applications, and ophthalmology. Product revenues also increased during the third quarter by 24% to $302,000 from $243,000 in the third quarter of the prior year.

Research and development expense for the third quarter of 2002 was $1,874,000, compared with $1,988,000 for the third quarter of 2001, due mainly to lower spending on pre-clinical studies, partially offset by increased payroll expense as the Company increased its resources to meet the growing demands of its collaborative feasibility studies.

The net loss from continuing operations for the third quarter was $1,262,000 or $0.06 per share, compared with a net loss from continuing operations for the third quarter of 2001 of $1,707,000 or $0.08 per share.

Income from discontinued operations for the third quarter represented earnout income of $210,000 from the sale in July 2000 of the Company's cosmeceutical and toiletries product lines, compared with $3,000,000 in the year-ago period, as a result of a 40% decline in revenues generated by the product lines sold.

Conference Call Information

Management will be hosting an investment community conference call beginning at 11:00 a.m. Eastern Daylight Time (8:00 a.m. PDT) on Thursday, November 7, 2002 to discuss the results and to answer questions.

To participate in the live call by telephone, please dial (888) 803-8290 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 6433506.

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 for 14 days.

About A.P. Pharma's Proprietary Biochronomer System

The Biochronomer system is a unique and versatile family of injectable and implantable drug delivery systems specifically designed for the release of pharmacologically active compounds for periods ranging from hours to days, weeks or months. The polymer's mechanical properties can be adjusted to produce materials ranging from injectables, to strands or rods, wafers or films and microspheres. A.P. Pharma's patented bioerodible polymers are simple to synthesize, and are reproducible, scalable and stable at room temperature. As the Company builds the Biochronomer system database, studies continue to demonstrate significant advantages compared with other bioerodible polymer systems.

About A.P. Pharma

A.P. Pharma is a specialty pharmaceutical company focused on the development and commercialization of prescription pharmaceuticals utilizing its proprietary polymer-based drug delivery systems under the trade name Biochronomer. The Company's initial targeted areas of application for its bioerodible injectable and implantable systems include pain management, inflammation, oncology and ophthalmology. A.P. Pharma's product development programs are funded by royalties from topical products marketed by pharmaceutical partners, by proceeds from the divestiture of its cosmeceutical product lines, and by fees it receives from collaborative partners. For further information visit 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.

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

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2002	Sept. 30, 2001	Sept. 30, 2002	Sept. 30, 2001
Royalties	$935	$722	$2,768	$2,066
Contract Revenues	106	4	192	35
Product Revenues	302	243	869	839
Total Revenues	1,343	969	3,829	2,940
Cost of Product Revenues	109	87	331	294
Operating Expenses:				
Research & Development	1,874	1,988	5,243	4,910
Selling, General & Administrative	804	826	2,577	2,504
Total Operating Expenses	2,678	2,814	7,820	7,414
Operating Loss	(1,444)	(1,932)	(4,322)	(4,768)
Interest Income and Other, Net	182	225	561	926
Loss from Continuing Operations	(1,262)	(1,707)	(3,761)	(3,842)
Income from Discontinued Operations	210	3,198	210	3,015
Net (Loss) Income	($1,052)	$1,491	($3,551)	($827)
Basic and Diluted Loss per Share:				
Loss from Continuing Operations	($0.06)	($0.08)	($0.18)	($0.19)
Net (Loss) Income	($0.05)	$0.07	($0.17)	($0.04)
Shares used in Calculating (Loss) Income Per Share:				
Basic and Diluted	20,417	20,278	20,393	20,259

AP Pharma, Inc.
Balance Sheet Highlights
(in thousands)

	Sept. 30, 2002 (Unaudited)	Dec. 31, 2001(a)
Assets		
Cash, Cash Equivalents and Marketable Securities	$15,123	$19,494
Accounts Receivable, Net	1,378	1,468
Other Current Assets	479	662
Total Current Assets	16,980	21,624
Property, Plant & Equipment, Net	1,736	1,668
Other Non-Current Assets	197	215
Total Assets	$18,913	$23,507
Liabilities and Shareholders' Equity		
Current Liabilities	$2,505	$3,550
Long-Term Deferred Revenues	760	785
Shareholders' Equity	15,648	19,172
Total Liabilities and Shareholders' Equity	$18,913	$23,507

(a) Information derived from audited financial statements included in the Company's Form 10-K for the year ended December 31, 2001.

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