



A.P. Pharma Reports Second Quarter Financial Results; Royalty Income Continues to Increase; Clinical Programs Advance with Additional Corporate Collaborators

August 5, 2002

REDWOOD CITY, Calif., Aug 5, 2002 (BW HealthWire) -- A.P. Pharma, Inc. (Nasdaq:APPA), a specialty pharmaceutical company, today reported financial results for the three months ended June 30, 2002. Highlights include:

- Royalty income increased 34% compared with the second quarter of last year and increased 36% versus the first half of last year;
- The Company's third U.S. FDA-approved product, a low-dose version of Retin-A Micro(R), was launched in July by Ortho Neutrogena (Johnson & Johnson);
- Phase II clinical studies for the Biochronomer(TM) post-surgical pain product APF112 are targeted to commence in the second half of 2002;
- Preclinical studies continue with the Company's second Biochronomer product candidate APF328, a localized anti-inflammatory product. Clinical trials with APF328 are expected to commence in 2003;
- Six reimbursed feasibility studies involving the Biochronomer system have been initiated;
- Two funded feasibility projects moved into in vivo testing, setting the stage for possible long-term licensing arrangements;
- Approximately \$16.3 million in cash and cash equivalents at quarter end.

In 2002, A.P. Pharma commenced its clinical program with APF112, its lead product candidate for the treatment of post-surgical pain. Phase II clinical trials in patients following arthroscopic knee surgery are targeted to commence in the second half of 2002. Using the company's Biochronomer bioerodible drug delivery system, APF112 is designed to provide 24-36 hours of post-surgical pain relief and to minimize the use of morphine-like drugs (opioids), which are used extensively in post-surgical pain management. Opioids are associated with a wide range of side effects, such as nausea, sedation, dizziness, constipation, vomiting, urinary retention, and in some situations, life-threatening respiratory depression.

Additional products including APF328 for localized anti-inflammatory relief are in various stages of preclinical development.

A.P. Pharma has also initiated several feasibility studies with third parties for other Biochronomer product applications in areas such as ophthalmology, restenosis, osteoporosis and immune stimulation. The Company's collaborators range from Fortune 500 pharmaceutical companies to biotechnology companies.

Second Quarter Financial Results

A.P. Pharma reported total revenues for the second quarter of 2002 of \$1,249,000, compared with \$1,000,000 for the second quarter of 2001. The increase in revenues for the second quarter of 2002 was primarily attributable to a 34% increase in total royalties on sales of both Retin-A Micro, marketed by Johnson & Johnson, and Carac(TM), marketed by Dermik Laboratories, an Aventis company. Total revenues also included research and development fees earned from collaborators for work underway on feasibility studies.

Research and development expense for the second quarter of 2002 was \$1,872,000, compared with \$1,544,000 for the second quarter of 2001, due mainly to the cost of clinical studies associated with the Company's APF112 product.

The net loss for the second quarter of 2002 was \$1,493,000, or \$0.07 per share, compared with a net loss for the second quarter of 2001 of \$1,197,000, or \$0.06 per share.

Conference Call Information

A.P. Pharma will host a conference call to discuss second quarter results today, beginning at 11:00 a.m. ET (8:00 a.m. PT). To participate in the live call via telephone, please call 888/803-8290 or 706/645-9291. A telephone replay will be available for 48 hours following the conclusion of the call by dialing 800/642-1687 or 706/645-9291, and entering reservation number 4979246. The conference call will be broadcast live over the Internet at www.appharma.com. A replay will be available on the Company's Website 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 to provide delivery of drugs over periods from hours to months. The second generation of this family has been designed for the short-term release of pharmacologically active compounds for periods up to one month. This generation of polymers has been the focus of the Company for the development of its products and is incorporated as an injectable gel in the Company's APF112.

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 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 divestiture of its cosmeceutical product lines as well as 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 June 30, 2002	June 30, 2001	Six Months Ended June 30, 2002	June 30, 2001
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Royalties	\$930	\$695	\$1,833	\$1,343
Contract Revenues	38	4	86	31
Product Revenues	281	301	566	597
Total Revenues	1,249	1,000	2,485	1,971
Cost of Product Revenues	108	113	221	207
Operating Expenses:				
Research & Development	1,872	1,544	3,369	2,922
Selling, General & Administrative	937	865	1,773	1,678
Total Operating Expenses	2,809	2,409	5,142	4,600
Operating Loss	(1,668)	(1,522)	(2,878)	(2,836)
Interest Income and Other, Net	175	350	379	701
Loss from Continuing Operations	(1,493)	(1,172)	(2,499)	(2,135)
Loss from Discontinued Operations	--	(25)	--	(184)
Net Loss	(\$1,493)	(\$1,197)	(\$2,499)	(\$2,319)
Basic and Diluted Loss per Share:				
Loss from Continuing Operations	(\$0.07)	(\$0.06)	(\$0.12)	(\$0.11)
Net Loss	(\$0.07)	(\$0.06)	(\$0.12)	(\$0.11)
Shares used in Calculating Loss Per Share:				
Basic and Diluted	20,403	20,278	20,381	20,249

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

	June 30, 2002	December 31, 2001(a)
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Assets		
Cash, Cash Equivalents and Marketable Securities	\$16,325	\$19,494
Accounts Receivable, Net	1,472	1,468
Other Current Assets	683	662
Total Current Assets	18,480	21,624
Property, Plant & Equipment, Net	1,782	1,668
Other Non-Current Assets	203	215
Total Assets	\$20,465	\$23,507
Liabilities and Shareholders' Equity		

Current Liabilities	\$2,940	\$3,550
Long-Term Deferred Revenues	835	785
Shareholders' Equity	16,690	19,172
Total Liabilities and		
Shareholders' Equity	\$20,465	\$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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