



## **A.P. Pharma Reports First Quarter Results; Clinical Program for APF112 Initiated in 2002; Royalty Income Up 39% Over First Quarter 2001**

May 7, 2002

REDWOOD CITY, Calif., May 7, 2002 (BW HealthWire) -- A.P. Pharma, Inc. (Nasdaq:APPA), a specialty pharmaceutical company, today reported financial results for the three months ended March 31, 2002, reflecting increased royalty income as well as increased research and development expense as the company entered Phase I clinical trials.

### **Current Highlights:**

- Clinical development of post-surgical pain product, APF112, initiated in first quarter 2002; efficacy studies anticipated to start in second half of 2002.
- Preclinical safety and toxicology studies initiated for second Biochronomer(TM) product candidate, targeting inflammation.
- Multiple financially-reimbursed feasibility studies involving the Biochronomer system underway.
- New focus on ophthalmic applications for Biochronomer systems attracting corporate collaborators.
- Royalty income increased by 39% over first quarter 2001; significant increases for both Carac(TM) and Retin-A Micro(R).
- Direct-to-consumer advertising campaign by Ortho Neutrogena for Retin-A Micro continues in 2002; market share increased over first quarter 2001.
- Approximately \$18 million in cash at quarter-end.

In first quarter 2002, A.P. Pharma commenced its Phase I clinical program for APF112, its lead product candidate for the treatment of post-surgical pain following procedures such as open or arthroscopic knee surgery. 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. APF112 incorporates mepivacaine, a local anesthetic with analgesic properties, which has been used extensively in clinical practice for several years for short-term pain relief. In animal studies, APF112 has demonstrated prolonged analgesic effect.

In addition, A.P. Pharma has identified a second Biochronomer product candidate which will incorporate meloxicam, the well-characterized anti-inflammatory agent, to prolong its therapeutic effect over approximately a one-month period for orthopedic applications.

A.P. Pharma has also initiated several feasibility studies for other Biochronomer product applications, including ophthalmology, restenosis, fertility, osteoporosis and immune stimulation. The Company's collaborators range from Fortune 500 pharmaceutical companies to biotechnology companies. Some have multiple projects with A.P. Pharma.

### **First Quarter Financial Results**

The Company reported total revenues for the first quarter of 2002 of \$1,238,000, compared with \$971,000 for the first quarter of 2001. The increase in revenue was primarily attributable to a 39% increase in royalties, on sales of Retin-A Micro(R), marketed by Johnson & Johnson, and Carac, marketed by Dermik Laboratories, an Aventis company. Total revenues also included initial research and development fees from two of the Company's collaborators for work underway on feasibility studies.

Research and development expense for the first quarter of 2002 was \$1,497,000, compared with \$1,378,000 for the first quarter of 2001, due mainly to the initiation of Phase I clinical studies for the Company's first product candidate, APF112, for the treatment of post-surgical pain, and other new product development activities.

The net loss for the first quarter of 2002 was \$1,006,000 or \$0.05 per share, compared with a net loss for the first quarter of 2001 of \$1,121,000 or \$0.06 per share.

### **Conference Call Information**

A.P. Pharma will host a conference call to discuss first 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) 803-8275. A telephone replay will be available for 48 hours following the conclusion of the call by dialing (800) 642-1687, and entering reservation number 3987710. The conference call will be broadcast live over the Internet at [www.appharma.com](http://www.appharma.com). A replay will be available on the Company's Website for 14 days.

### **About the 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 first 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(TM). 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](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.  
Income Statement Highlights  
(in thousands, except per share data)  
(Unaudited)

	Three Months Ended March 31, 2002	March 31, 2001
	-----	-----
Royalties	\$ 904	\$ 650
Contract Revenues	48	25
Product Revenues	286	296
	-----	-----
Total Revenues	1,238	971
Cost of Product Sales	114	93
Operating Expenses:		
Research & Development	1,497	1,378
Selling, General & Administrative	837	813
	-----	-----
Total Operating Expenses	2,334	2,191
Operating Loss	(1,210)	(1,313)
Interest and Other, Net	204	350
	-----	-----
Loss from Continuing Operations	(1,006)	(963)
Loss from Discontinued Operations	--	(158)
	-----	-----
Net Loss	\$(1,006)	\$(1,121)
	=====	=====
Basic and Diluted Loss Per Share:		
Loss from Continuing Operations	(0.05)	(0.05)
	=====	=====
Net Loss	(0.05)	(0.06)
	=====	=====
Shares used in Calculating Loss Per Share:		
Basic and Diluted	20,360	20,220
	=====	=====

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

March 31,                      December 31,

	2002	2001(a)
	-----	-----
Assets		
Cash, Cash Equivalents and		
Marketable Securities	\$18,040	\$19,494
Accounts Receivable, Net	1,470	1,468
Other Current Assets	403	662
	-----	-----
Total Current Assets	19,913	21,624
Property, Plant & Equipment, Net	1,570	1,668
Other Non-Current Assets	209	215
	-----	-----
Total Assets	\$21,692	\$23,507
	=====	=====
Liabilities and Shareholders'		
Equity		
Current Liabilities	\$2,800	\$3,550
Long-Term Deferred Revenues	785	785
Shareholders' Equity	18,107	19,172
	-----	-----
Total Liabilities and Shareholders'		
Equity	\$21,692	\$23,507
	=====	=====

(a) Information derived from audited financial statements.

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