A.P. Pharma Reports Fourth Quarter and Year-End 2001 Results; Substantial Progress for the Biochronomer Drug Delivery System in 2001

March 5, 2002

REDWOOD CITY, Calif., Mar 5, 2002 (BW HealthWire) -- A.P. Pharma, Inc. (Nasdaq: APPA), a specialty pharmaceutical company, today reported financial results for the three months and full-year ended December 31, 2001, reflecting increased royalty income as well as increased research and development expense relating to the filing of its first Investigational New Drug application (IND).

"The Company made substantial progress during 2001," commented Dr. Paul Goddard, A.P Pharma's Chairman. "In particular the new Biochronomer(TM) drug delivery system, discovered and developed by A.P. Pharma, was characterized in over 60 in vivo and in vitro studies. Moreover, the first product incorporating the Biochronomer technology, APF112 for the treatment of post-surgical pain, entered the clinic early in 2002."

Fourth Quarter Highlights:

- FDA clearance was received in December, 2001 for first IND for APF112. Initial Phase I study was completed in January, 2002.
- 12 feasibility studies involving the Biochronomer system are underway with various companies targeting a wide array of clinical states.
- Two of the feasibility studies are financially supported by third parties.
- Ophthalmology animal biocompatibility studies have been successfully completed.
- Royalty income increased by 92% over fourth quarter 2000.
- Dermatology market share of Carac for topical actinic keratoses market exceeded 30% in third quarter after launch.
- Retin-A Micro increased topical retinoid market share with direct-to-consumer advertising campaign.
- Approximately $20 million in cash at year-end.

In January, 2002 A.P. Pharma reported the successful commencement of its Phase I clinical program with APF112, its lead product candidate for the treatment of post-surgical pain. 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 incorporating the Biochronomer bioerodible drug delivery system, has demonstrated prolonged analgesic effect.

Michael O'Connell, President and Chief Executive Officer, commented, "The Phase II program for APF112 is expected to start in the second half of 2002, with clinical studies evaluating efficacy in treating post-surgical pain following procedures such as open or arthroscopic knee surgery. If we are successful in demonstrating the efficacy of APF112 in post-surgical pain, we believe that there will be substantial potential for this product especially for people undergoing out-patient surgery."

A.P Pharma has also initiated feasibility studies for other Biochronomer product applications. The company's collaborators range from biotechnology companies to Fortune 500 companies, and some have multiple projects with A.P. Pharma.

Fourth Quarter Financial Results

The Company reported total revenues for the fourth quarter of 2001 of $1,448,000, compared with $880,000 for the fourth quarter of 2000. The increase in revenues was primarily attributable to a 92% increase in royalties, due mainly to sales of Carac(TM), a new treatment for actinic keratoses, marketed by Dermik Laboratories, an Aventis company. Carac has achieved a significant share of the topical actinic keratoses market since its launch in 2001. The increase in royalties was also attributable to increased sales of Retin-A Micro(R), the prescription acne treatment marketed by Johnson & Johnson, resulting from its direct-to-consumer advertising program.

Research and development expense for the fourth quarter of 2001 was $2,439,000, compared with $1,518,000 for the fourth quarter of 2000, an increase of $921,000, due mainly to the pre-clinical toxicology and safety studies required for the filing of the IND in the fourth quarter, and the Company's ongoing product development programs with collaborative partners.

The loss from continuing operations for the fourth quarter of 2001 was $1,669,000, or $0.08 per share, compared with a loss from continuing operations of $1,336,000, or $0.07 per share, for the fourth quarter of 2000.

Total revenues from continuing operations for full-year 2001 were $4,387,000, an increase of 30%, compared with $3,366,000 for the year 2000. This increase was due mainly to a 48% increase in royalties earned on sales of Carac and Retin-A Micro. Research and development expense for the

full-year 2001 was $7,348,000, an increase of $3,635,000 or 98%, compared with the year 2000. This increase was due mainly to the pre-clinical toxicology and safety studies required for the filing of the IND for APF112 in the fourth quarter and the Company's product development programs with collaborative partners.

The net loss for full-year 2001 was $2,513,000 or $0.12 per share, which included earnout income from discontinued operations of $3.6 million from the sale of the company's cosmeceutical business in the prior year, less certain adjustments in accordance with the sale agreement. This compared with net income of $8,552,000, or $0.42 per share, for the year 2000, which included a gain of $11.1 million arising from the sale of the Company's cosmeceutical business in July 2000. The earnout income is the first of three contractual annual payments, the amounts of which are dependent on the performance of the cosmeceutical business, which was sold to RP Scherer in July 2000.

Conference Call Information

A.P. Pharma will host a conference call to discuss fourth quarter results today, beginning at 11:00 a.m. Eastern Time (8:00 a.m. Pacific Time). To participate in the live call via telephone, please call (888) 214-7571. A telephone replay will be available for 48 hours following the conclusion of the call by dialing (800) 633-8284, and entering reservation number 20390375. 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 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 potential fees it anticipates receiving from collaborative partners. For further information visit the Company's Website 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.
Statement of Operations
(in thousands, except per share data)

	Three Months Ended		Twelve Months Ended	
	Dec. 31, 2001 (Unaudited)	Dec. 31, 2000 (Unaudited)	Dec. 31, 2001 (Unaudited)	Dec. 31, 2000 (1)
Royalties	$1,165	$608	$3,265	$2,203
Product Revenues	283	272	1,122	1,163
Total Revenues	1,448	880	4,387	3,366
Cost of Sales	146	192	440	497
Operating Expenses:				
Research & Development	2,439	1,518	7,348	3,713
Selling, General & Administrative	797	923	3,302	3,463
Total Operating Expenses	3,236	2,441	10,650	7,176
Operating Loss	(1,934)	(1,753)	(6,703)	(4,307)
Interest and Other, Net	265	417	1,192	549
Loss from Continuing Operations	(1,669)	(1,336)	(5,511)	(3,758)
Income (Loss) from Discontinued Operations	(17)	(256)	2,998	12,310
Net Income (Loss)	($1,686)	($1,592)	($2,513)	$8,552
Basic and Diluted Loss				

Per Share: Loss from Continuing Operations	(0.08)	(0.07)	(0.27)	(0.19)
Net Income (Loss)	(0.08)	(0.08)	(0.12)	0.42
Shares Used in Calculating Loss Per Share:				
Basic	20,327	20,206	20,276	20,179
Diluted	20,327	20,206	20,276	20,213

(1) Information derived from audited financial statements.

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

	December 31, 2001 (Unaudited)	December 31, 2000 (1)
Assets		
Cash, Cash Equivalents and Marketable Securities	$19,494	$22,523
Accounts Receivable, Net	1,468	1,197
Other Current Assets	662	1,330
Total Current Assets	21,624	25,050
Property, Plant & Equipment, Net	1,668	1,795
Other Non-Current Assets	215	151
Total Assets	$23,507	$26,996
Liabilities and Shareholders' Equity		
Current Liabilities	$3,550	$4,963
Long-Term Deferred Revenues	785	874
Shareholders' Equity	19,172	21,159
Total Liabilities and Shareholders' Equity	$23,507	$26,996

(1) Information derived from audited financial statements.

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