



A.P. Pharma Reports Third Quarter 2001 Results; Carac Achieves 26% Topical Market Share in Second Quarter after Launch

November 6, 2001

REDWOOD CITY, Calif., Nov 6, 2001 (BW HealthWire) -- A.P. Pharma, Inc. (Nasdaq:APPA), a specialty pharmaceutical company, today reported financial results for the three months ended September 30, 2001.

Highlights of the Third Quarter Include:

- All studies required for Investigational New Drug (IND) filing for the treatment of post-surgical pain using the Biochronomer(TM) bioerodible system, now completed
- Multiple collaborative product-specific feasibility studies are ongoing
- Pre-clinical work began for a second product containing the Biochronomer delivery system
- Retin-A Micro(R) and Carac(TM) royalty stream increased by 20%
- Carac achieved 26% share of topical actinic keratoses market in second quarter after launch
- Retin-A Micro increased topical retinoid market share to over 18% with consumer advertising campaign
- New Drug Application (NDA) filed in U.S. for second formulation of Retin-A Micro; potential to increase royalties significantly
- Retin-A Micro launched in Canada after receiving marketing clearance
- \$3.6 million in earnout achieved from cosmeceutical business sold to RP Scherer

The Company is continuing to invest in its proprietary product-development programs, in conjunction with a number of collaborative feasibility studies, and intends to file the first IND for its Biochronomer bioerodible delivery system by the end of 2001. Phase I clinical trials are expected to commence in 2002, the primary focus being the treatment of post-surgical pain. A second IND filing for a different indication is also planned for 2002. Several product-specific feasibility studies are underway with prospective corporate partners, some of which are anticipated to be completed by the end of this year, with another four scheduled to start in the fourth quarter.

Using its existing cash resources, payments from corporate partners, growing royalty streams and earn-out payments from the sale of its cosmeceutical business, A.P. Pharma intends to develop and commercialize its families of bioerodible delivery systems for injectable and implantable drug delivery. These systems are designed for the controlled release of drugs into various sites including subcutaneous, intra-muscular and in the peritoneal cavity, and offer potential for use in a broad array of pharmaceutical products.

Third Quarter Financial Results

The Company reported total revenues for the third quarter of 2001 of \$969,000, compared with \$887,000 for the same period in the prior year. The increase in revenues was primarily attributable to a 20% 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 26% share of the topical actinic keratoses market since its launch earlier this year.

Research and development expense for the third quarter of 2001 was \$1,988,000, compared with \$790,000 for the third quarter of 2000, an increase of \$1,198,000, due mainly to the completion of pre-clinical studies in preparation for the filing of the IND for a treatment for post-surgical pain, and to ongoing feasibility studies in collaborations with potential corporate partners.

The loss from continuing operations for the third quarter of 2001 was \$1,707,000 or \$0.08 per share, compared with a loss from continuing operations of \$658,000, or \$0.03 per share, for the third quarter of 2000.

The Company reported net income for the third quarter of \$1,491,000, or \$0.07 per share, including earnout income of \$3.6 million from the sale of its cosmeceutical business in the prior year, less certain adjustments in accordance with the sale agreement. 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.

Earnings Conference Call Information

A.P. Pharma will host a conference call to discuss third quarter results today, beginning at 11:00 a.m. Eastern Time (8:00 a.m. Pacific). To participate in the live call via telephone, please call 800/618-9649. A telephone replay will be available for 48 hours following the conclusion of the call by dialing 800/633-8284, and entering reservation number 19950333. 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

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 proceeds from the divestiture of its cosmeceutical product lines. 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.
Income Statement Highlights
(in thousands, except per share data)
(Unaudited)

| | Three Months Ended Sept. 30, 2001 | Sept. 30, 2000 | Nine Months Ended Sept. 30, 2001 | Sept. 30, 2000 |
|---|---|-------------------|--|-------------------|
| Royalties | \$726 | \$606 | \$2,100 | \$1,595 |
| Product Revenues | 243 | 281 | 839 | 891 |
| Total Revenues | 969 | 887 | 2,939 | 2,486 |
| Cost of Sales | 88 | 117 | 293 | 304 |
| Operating Expenses: | | | | |
| Research & Development | 1,988 | 790 | 4,909 | 2,195 |
| Selling, General & Administrative | 826 | 872 | 2,504 | 2,540 |
| Total Operating Expenses | 2,814 | 1,662 | 7,413 | 4,735 |
| Operating Loss | (1,933) | (892) | (4,767) | (2,553) |
| Interest and Other, Net | 226 | 234 | 926 | 132 |
| Loss from Continuing Operations | (1,707) | (658) | (3,841) | (2,421) |
| Income from Discontinued Operations | 3,198 | 11,216 | 3,014 | 12,565 |
| Net Income (Loss) | \$1,491 | \$10,558 | (\$827) | \$10,144 |
| Basic and Diluted Loss Per Common Share: | | | | |
| Loss from Continuing Operations | (0.08) | (0.03) | (0.19) | (0.12) |
| Net Income (Loss) | 0.07 | 0.52 | (0.04) | 0.50 |

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

| | Sept. 30, 2001 | Dec. 31, 2000 |
|---|-------------------|------------------|
| Assets | | |
| Cash, Cash Equivalents and Marketable Securities | \$19,247 | \$22,523 |
| Accounts Receivable, Net | 2,848 | 1,197 |
| Other Current Assets | 854 | 1,330 |
| Total Current Assets | 22,949 | 25,050 |
| Property, Plant & Equipment, Net | 1,674 | 1,795 |
| Other Non-Current Assets | 151 | 151 |

| | | |
|---|----------|----------|
| Total Assets | \$24,774 | \$26,996 |
| | ===== | ===== |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities | \$3,141 | \$4,963 |
| Long-Term Deferred Revenues | 849 | 874 |
| Shareholders' Equity | 20,784 | 21,159 |
| | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$24,774 | \$26,996 |
| | ===== | ===== |

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