



A.P. Pharma Reports Second Quarter 2001 Results; Royalty Income Increases, Proprietary Product-Development Programs Underway

August 7, 2001

REDWOOD CITY, Calif.--(BW HealthWire)--Aug. 7, 2001--A.P. Pharma Inc. (Nasdaq:APPA), a specialty pharmaceutical company, today reported financial results for the three months ended June 30, 2001.

Second Quarter Highlights Include:

- Toxicology studies indicate safety of first-generation Biochronomer(TM) -- Phase I clinical trials planned for first half of 2002 -- Royalty stream increases -- Retin-A Micro(R) continues as a leading acne treatment, Carac(TM) gains sales momentum
- Scaled-up manufacturing processes successfully completed in collaboration with Sigma-Aldrich
- Feasibility studies utilizing the company's technology in progress with several pharmaceutical and biotech companies
- V.P. Business Development appointed to develop partnerships and research collaborations
- Retin-A Micro(R) receives marketing clearance in Canada
- Anticipated filing of a New Drug Application (NDA) for Retin-A Micro line extension
- \$20 million in cash and equivalents at June 30, 2001

Michael O'Connell, president and chief executive officer, commented: "We are very pleased with our continued progress in the second quarter of 2001. Our strategic focus is paying off -- we are building the company's royalty stream, preserving cash and directing our research and development efforts toward our proprietary product-development programs in parallel with a number of collaborative feasibility studies.

"A.P. Pharma successfully completed its safety studies with the company's first-generation Biochronomer system, taking us a step closer to Phase I clinical trials, planned for the first half of 2002. The results of our safety studies have also allowed us to make progress with our feasibility studies, underway with several pharmaceutical companies."

Using its existing cash resources and growing royalty streams, A.P. Pharma intends to develop and commercialize its families of bioerodible delivery systems for injectable and implantable drug delivery.

Known as Biochronomer(TM) systems, they are designed for the controlled release of drugs into various sites such as under the skin, in muscle or in the peritoneal cavity and offer potential for use in a broad array of pharmaceutical products.

Q2 Results

The company reported total revenues for the 2001 second quarter of \$1,000,000, compared with \$869,000 for the same period in the prior year. The increase in revenues was primarily attributable to increased royalties from the company's two FDA-approved products: Retin-A Micro(R), a prescription treatment for acne, marketed by Johnson and Johnson, and the newly launched Carac(TM) for actinic keratoses, marketed by Aventis.

Research and development expense for the second quarter of 2001 was \$1,544,000, compared with \$851,000 for the second quarter of 2000, an increase of \$693,000, due mainly to now-completed toxicology studies, manufacturing scale-up and to ongoing feasibility studies in collaborations with potential corporate partners.

The loss from continuing operations for the second quarter of 2001 was \$1,172,000, compared with a loss from continuing operations of \$1,026,000 for the second quarter of 2000.

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 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		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Royalties	\$ 699	\$ 564	\$1,374	\$ 989
Product Revenues	301	305	597	610
Total Revenues	1,000	869	1,971	1,599
Cost of Sales	113	132	207	187
Operating Expenses:				
Research & Development	1,544	851	2,922	1,405
Selling, General & Administrative	865	900	1,678	1,668
Total Operating Expenses	2,409	1,751	4,600	3,073
Operating Loss	(1,522)	(1,014)	(2,836)	(1,661)
Interest and Other, Net	350	(12)	701	(102)
Loss from Continuing Operations	(1,172)	(1,026)	(2,135)	(1,763)
(Loss) Income from Discontinued Operations	(25)	392	(184)	1,350
Net Loss	(\$1,197)	(\$634)	(\$2,319)	(\$413)
Basic and Diluted Loss per Common Share:				
Loss from Continuing Operations	(0.06)	(0.05)	(0.11)	(0.09)
Net Loss	(0.06)	(0.03)	(0.11)	(0.02)

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

	June 30, 2001	Dec. 31, 2000
Assets		
Cash, Cash Equivalents and Marketable Securities	\$20,038	\$22,523
Accounts Receivable, Net	1,262	1,691
Other Current Assets	745	836
Total Current Assets	22,045	25,050
Property, Plant & Equipment, Net	1,727	1,795

Other Non-Current Assets	151	151
Total Assets	\$23,923	\$26,996

Liabilities and Shareholders' Equity

Current Liabilities	\$ 4,039	\$ 4,963
Long-Term Deferred Revenues	732	874
Shareholders' Equity	19,152	21,159
Total Liabilities and Shareholders' Equity	\$23,923	\$26,996

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