A.P. Pharma Completes Financing for up to $30 Million; Sells Royalty Rights to Retin-A Micro and Carac; Transaction is Non-Dilutive to Shareholders

January 18, 2006

REDWOOD CITY, Calif., Jan 18, 2006 (BUSINESS WIRE) -- A.P. Pharma, Inc. (NASDAQ:APPA) today announced that it has sold rights to future royalties on sales of Retin-A Micro(R) and Carac(R) to an affiliate of the Paul Royalty Fund ("Paul Royalty") for up to $30 million.

Proceeds of $25 million were received upon the closing of this transaction and will be used primarily to fund pivotal clinical development of APF530, A.P. Pharma's drug candidate for the prevention of acute and delayed chemotherapy-induced nausea and vomiting (CINV). The remaining $5 million will be paid based on the satisfaction of certain predetermined milestones over the next four years.

"This financing is non-dilutive to our shareholders and generates considerable cash to fund pivotal clinical trials with APF530. APF530 has demonstrated very promising data in a Phase 2 trial and potentially has significant advantages over the currently available therapy for the prevention of acute and delayed CINV, approximately a $1 billion annual market in the U.S. While our strategy remains to secure a corporate partner for APF530, these funds will allow us to continue development of the product and to negotiate from a position of strength in seeking favorable partnership terms," said Michael O'Connell, A.P. Pharma's President and Chief Executive Officer.

"Retin-A Micro and Carac demonstrate our ability to develop commercially successful products. The sale of these future royalties to Paul Royalty supports the development of our higher-value pharmaceutical products based on our proprietary Biochronomer(TM) bioerodible polymer delivery systems, having moved our focus away from the Microsponge(R) system-based topical dermatology business," he added.

A.P. Pharma is entitled to receive royalties on the sales of Retin-A Micro(R) and Carac(R) based on the terms of its license agreements with Ortho Neutrogena (formerly Ortho Dermatological), a member of the Johnson & Johnson family of companies, and Dermik Laboratories, a Sanofi-Aventis company, respectively.

"We're pleased to provide A.P. Pharma with a non-dilutive source of capital. This type of transaction represents an alternative source of growth capital for companies and we believe that this form of financing will not only be increasingly sought after but that Paul Royalty will continue to be the leading provider of capital in this sector," said Clarke B. Futch, Partner, Paul Royalty Fund.

About APF530

APF530, which contains the anti-nausea drug granisetron formulated with the Company's proprietary Biochronomer(TM) bioerodible drug delivery system, is being developed for the prevention of both acute and delayed CINV. As reported, the Phase 2 study was completed in September 2005 in patients undergoing moderately and highly emetogenic chemotherapy for cancer. The primary endpoints, which included an evaluation of safety, tolerability and pharmacokinetics, were successfully met. In addition, efficacy endpoints were evaluated relating to emetic events and the use of rescue medication in patients receiving either highly or moderately emetic chemotherapy regimens.

There were no serious adverse events attributed to the APF530 formulation, and injections of APF530 were well tolerated. The pharmacokinetic evaluation of granisetron in all three dose groups clearly indicated that measurable plasma levels of granisetron were evident over a seven day period.

Analysis of the open label efficacy data from the Phase 2 patient groups receiving either moderately or highly emetogenic chemotherapy indicated that the percentage of complete responders in the moderately emetogenic group was 90% in the acute phase and 78% in the delayed phase. In the group receiving highly emetogenic chemotherapy, the percentage of complete responders was 81% in the acute phase and 80% in the delayed phase. "Complete response" was defined as no emetic episodes and no use of rescue medication.

Based on the data generated from the Phase 2 study, two dose levels of APF530 have been selected and preparations are well underway to initiate Phase 3 clinical trials.

About Retin-A Micro

Retin-A Micro 0.04% and Retin-A Micro 0.1% are leading prescription topical acne treatments formulated with the active ingredient tretinoin incorporated in A.P. Pharma's patented Microsponge delivery system.

About Carac

Carac is a leading once-daily topical prescription product for the treatment of actinic keratoses, or pre-cancerous skin lesions, which is licensed to Sanofi-Aventis and currently marketed by Dermik Laboratories, Inc.

About Paul Capital Partners and Paul Royalty Fund:

Paul Capital Partners manages close to $5 billion in equity capital commitments for its three investment platforms and has offices in New York, San Francisco, Paris, and London. The Paul Royalty Fund comprises one of the largest dedicated healthcare funds globally, with approximately $1 billion in equity capital commitments. The Paul Royalty Fund has made investments in the pharmaceutical, biotechnology, and medical device sectors valued at

more than $600 million. These investments are focused on commercial stage companies and products, and consist of investments in the form of royalties, revenue interests and equity. For more information on Paul Capital Partners and the Paul Royalty Fund visit www.paulcapital.com.

About A.P. Pharma and the Biochronomer Drug Delivery Platform

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 target areas of application for the Company's drug delivery technology include anti-nausea, pain management, inflammation and DNA/RNAI applications. 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, 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.

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