



## A.P. Pharma Reports Results for the Fourth Quarter and Full Year 2007

March 13, 2008

### APF530 Phase 3 Trial Enrollment Nears Completion

REDWOOD CITY, Calif., Mar 13, 2008 (BUSINESS WIRE) -- A.P. Pharma, Inc. (NASDAQ: APPA), a specialty pharmaceutical company, today reported financial results for its fourth quarter and full year ended December 31, 2007.

#### Highlights

##### Operational:

- APF530 (Prevention of chemotherapy-induced nausea and vomiting, or CINV)
  - Patient enrollment nearing completion
  - Announcement of trial results targeted for Q3 2008
  - NDA submission planned for late 2008
- APF112 (Post-surgical pain relief)
  - Preclinical work proceeding currently
  - Anticipate initiation of Phase 2b trial in Q2 2008
- APF580 (Intense pain relief)
  - Progressing towards IND submission
  - Plan initiation of Phase 1 trial in Q2 2008
- CEO Succession Program
  - Active candidate screening and recruitment underway

##### Financial:

- Cash, cash equivalents and marketable securities of \$35.1 million as of December 31, 2007
- Sufficient capital to complete APF530 clinical trial and initiate new clinical programs

#### Results of Operations

Our net loss for the fourth quarter was \$7.7 million, or \$0.25 per share, compared with a net loss of \$5.7 million, or \$0.90 per share, for the fourth quarter of 2006. The greater net loss for the fourth quarter of 2007 was principally due to increased activity in the Phase 3 clinical study for our lead product APF530, as well as the recognition of contractual severance costs associated with the departure of our former chief executive officer.

For the full year 2007, our net loss was \$20.2 million, or \$1.04 per share, compared with 2006 net income of \$5.3 million, or \$0.83 per share. The primary factor contributing to this difference was the recognition in 2006 of a \$23.4 million gain upon the sale of our royalty rights from two out-licensed products; in 2007 we recorded a gain of \$2.5 million upon attainment of a performance milestone related to that same royalty sale transaction. The differential between the two years also reflects higher 2007 expenditure levels for the APF530 trial and executive severance costs, as described above.

Contract revenues related to the ongoing development program utilizing our proprietary Biochronomer(TM) technology with a major animal healthcare company were \$131,000 in the fourth quarter of 2007, and \$412,000 for the full year 2007. No such third party development programs were active in 2006.

#### About APF530

Our lead product candidate using our proprietary Biochronomer technology is APF530, which contains granisetron, a drug approved for the prevention of CINV. We selected granisetron because it is a potent drug that blocks a specific receptor found in the gut that is responsible for triggering CINV. Additionally, the applicable granisetron U.S. patent expired on December 29, 2007. APF530 is designed to provide at least five days' prevention of CINV. In September 2005, we completed a Phase 2 clinical trial of APF530 that achieved all of its primary and secondary endpoints. In May 2006, we initiated our pivotal Phase 3 clinical trial of APF530. We believe that results from this clinical trial will lead to regulatory approval of APF530 for the

prevention of acute and delayed onset CINV for patients undergoing both moderately and highly emetogenic, or vomit-inducing, chemotherapy.

Our pivotal Phase 3 clinical trial, initiated in May 2006, is a multi-center, randomized, observer-blind, actively-controlled, double-dummy, parallel group study that will compare the efficacy of APF530 with Aloxi(R). The trial will include approximately 1,350 patients, stratified in two groups, one receiving moderately and the other receiving highly emetogenic chemotherapeutic agents. In each group, the patients are randomized to receive in the first chemotherapy treatment cycle either APF530 high dose (10 mg), APF530 low dose (5 mg) or the currently approved dose of Aloxi. In subsequent treatment cycles (up to three additional cycles), the patients are re-randomized to either of the two APF530 doses.

#### About APF112

APF112 utilizes our Biochronomer delivery technology to target post-surgical pain relief. The product is designed to provide up to 36 hours of localized pain relief by delivering mepivacaine directly to the surgical site. Mepivacaine is a well-known, short-acting local anesthetic with an excellent safety profile. APF112 is designed to prolong the anesthetic effect of mepivacaine, thereby minimizing or eliminating the use of opiates.

We intend to complete additional preclinical work in the second quarter of 2008 on a protocol that is revised compared with the protocol utilized in our 2004 Phase 2 trial. The previous Phase 2 trial indicated excellent safety and tolerability, but did not demonstrate a significant difference between APF112 and the standard of care, wherein the latter showed significantly lower pain scores than exhibited in previously published studies. Our plan is to initiate a Phase 2b clinical trial of APF112 in the second quarter of 2008 utilizing this revised protocol.

#### About APF580

APF580 incorporates an opiate into our Biochronomer technology, and is designed to provide analgesia lasting up to seven days by a single injection. It is targeted for situations where the intensity and duration of pain require use of an opiate rather than a local anesthetic. APF580 may find use in acute and chronic pain settings, improve patient compliance and reduce the risk of drug abuse.

Animal studies with APF580 are currently being conducted, and data from those studies are being supplemented with additional preclinical data from an ongoing research and development agreement with a major animal health company, which is evaluating APF580 for use in cats and dogs. We plan to initiate a Phase 1 clinical trial of APF580 in the second quarter of 2008, and to initiate a Phase 2 clinical trial in the fourth quarter of 2008.

#### Conference call

Management will host an investment-community conference call today beginning at 11:00 a.m. Eastern time (8:00 a.m. Pacific time) to discuss the financial results, to provide a business update and to answer questions.

To participate in the live call by telephone, please dial (888) 803-8275 from the U.S. or (706) 634-1287 from outside the U.S. A telephone replay will be available for 48 hours by dialing (800) 642-1687 from the U.S. or (706) 645-9291 from outside the U.S., and entering reservation number 38668203. The call will also be broadcast live on A.P. Pharma's website, [www.appharma.com](http://www.appharma.com). A replay will be available for 30 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. Initial target areas of application for the Company's drug delivery technology include anti-nausea, pain management, anti-inflammation and DNA/RNAi applications. For further information visit the Company's website at [www.appharma.com](http://www.appharma.com).

#### Forward-looking Statements

This news release contains "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties, including uncertainties associated with timely development, approval, launch and acceptance of new products, satisfactory completion of clinical studies, establishment of new corporate alliances, progress in research and development programs and other risks and uncertainties identified in the Company's filings with the Securities and Exchange Commission. We caution investors that forward-looking statements reflect our analysis only on their stated date. We do not intend to update them except as required by law.

A.P. PHARMA, INC.  
Income Statement Highlights  
(in thousands, except per share data)  
(Unaudited)

	Three Months Ended		Twelve Months Ended	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Royalties	\$ 0	\$ 0	\$ 0	\$ 0
Contract Revenues	131	0	412	0
Total Revenues	131	0	412	0
Operating Expenses:				
Research & Development	6,020	4,792	19,364	15,236

General & Administrative	1,928	933	4,681	3,628
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Total Operating Expenses	7,948	5,725	24,045	18,864
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Operating Loss	(7,817)	(5,725)	(23,633)	(18,864)
Interest Income	459	213	1,326	1,006
Gain on Sale of Interest in Royalties	0	0	2,500	23,429
Other Income (Expense)	9	6	7	(54)
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Income (Loss) from Continuing Operations	(7,349)	(5,506)	(19,800)	5,517
Loss from Discontinued Operations	(357)	(59)	(342)	(188)
Gain on Disposition of Discontinued Operations	1	18	20	56
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Income (Loss) before Income Taxes	(7,705)	(5,547)	(20,122)	5,385
Tax Provision	4	(119)	(41)	(119)
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Net Income (Loss)	\$(7,701)	\$(5,666)	\$(20,163)	\$ 5,266
	=====	=====	=====	=====
Basic Earnings (Loss) Per Common Share:				
Income (Loss) from Continuing Operations	(\$0.24)	(\$0.87)	(\$1.02)	\$ 0.87
	=====	=====	=====	=====
Net Income (Loss)	(\$0.25)	(\$0.90)	(\$1.04)	\$ 0.83
	=====	=====	=====	=====
Diluted Earnings (Loss) Per Common Share:				
Income (Loss) from Continuing Operations	(\$0.24)	(\$0.87)	(\$1.02)	\$ 0.87
	=====	=====	=====	=====

Net Income				
(Loss)	(\$0.25)	(\$0.90)	(\$1.04)	\$ 0.83
	=====	=====	=====	=====
Shares used in Calculating Earnings (Loss) Per Share:				
Basic	30,754	6,327	19,358	6,316
	=====	=====	=====	=====
Diluted	30,754	6,327	19,358	6,359
	=====	=====	=====	=====

AP PHARMA, INC.  
Balance Sheet Highlights  
(in thousands)

	December 31, 2007 (Unaudited)	December 31, 2006 (1)
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Assets		
Cash, Cash Equivalents and Marketable Securities	\$35,062	\$ 15,522
Accounts Receivable, Net	152	75
Other Current Assets	582	609
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Total Current Assets	35,796	16,206
Property and Equipment, Net	1,079	958
Other Non-Current Assets	75	87
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Total Assets	\$36,950	\$ 17,251
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Liabilities and Stockholders' Equity		
Total Liabilities	\$ 7,476	\$ 5,192
Stockholders' Equity	29,474	12,059
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Total Liabilities and Stockholders' Equity	\$36,950	\$ 17,251
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(1) Derived from our audited financial statements for the year ended December 31, 2006 included in the Company's 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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