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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2013

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File Number 001-33221

A.P. PHARMA, INC.
(Exact name of registrant as specified in its charter)

Delaware	**94-2875566**
(State or other jurisdiction of incorporation)	**(I.R.S. Employer Identification No.)**
123 Saginaw Drive, Redwood City, CA	**94063**
(Address of principal executive offices)	**(Zip Code)**

(650) 366-2626
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Small reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ☐ No ☒

As of July 31, 2013, 306,969,219 shares of the registrant's Common Stock, $0.01 par value per share, were outstanding.

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PART I. Financial Information.

Item 1. Financial Statements.

A.P. Pharma, Inc.
Condensed Balance Sheets
(in thousands)

	June 30, 2013 (Unaudited)	December 31, 2012 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 34,849	$ 53,506
Prepaid expenses and other current assets	360	584
Total current assets	35,209	54,090
Property and equipment, net	2,733	1,752
Other long-term assets	148	130
Total assets	$ 38,090	$ 55,972
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,350	$ 1,912
Accrued expenses	3,488	1,750
Convertible notes payable to related parties, net of discount	754	492
Total current liabilities	9,592	4,154
Stockholders' equity:		
Common stock	3,060	3,024
Additional paid-in capital	237,392	232,381
Accumulated deficit	(211,954)	(183,587)
Total stockholders' equity	28,498	51,818
Total liabilities and stockholders' equity	$ 38,090	$ 55,972

See accompanying notes to condensed financial statements.

A.P. Pharma, Inc.

Condensed Statements of Operations
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Operating expenses:				
Research and development	$ 10,531	$ 3,067	$ 17,303	$ 6,396
General and administrative	4,678	1,313	10,659	2,753
Total operating expenses	15,209	4,380	27,962	9,149
Operating loss	(15,209)	(4,380)	(27,962)	(9,149)
Interest expense, net	(204)	(146)	(405)	(207)
Loss from continuing operations	(15,413)	(4,526)	(28,367)	(9,356)
Loss from discontinued operations	—	(43)	—	(134)
Net loss	$ (15,413)	$ (4,569)	$ (28,367)	$ (9,490)
Basic and diluted net loss per share:				
Loss from continuing operations	$ (0.05)	$ (0.02)	$ (0.09)	$ (0.05)
Net loss	$ (0.05)	$ (0.02)	$ (0.09)	$ (0.05)
Shares used to compute basic and diluted net loss per share	305,690	200,112	305,384	200,079

See accompanying notes to condensed financial statements.

A.P. Pharma, Inc.

Condensed Statements of Cash Flows
(in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2013	2012
Cash flows from operating activities:		
Net loss	$ (28,367)	$ (9,490)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations	—	134
Depreciation and amortization	149	94
Stock-based compensation	4,238	1,793
Amortization of debt discount	261	136
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	206	(291)
Accounts payable	2,849	(74)
Accrued expenses	1,882	(380)
Net cash used in operating activities	(18,782)	(8,078)
Cash flows from investing activities:		
Purchases of property and equipment	(541)	(467)
Net cash used in investing activities	(541)	(467)
Cash flows from financing activities:		
Proceeds from convertible note financing	—	3,000
Proceeds from warrant exercise	600	—
Proceeds from stock option exercise	41	—
Proceeds from the issuance of shares under the Employee Stock Purchase Plan	25	13
Net cash provided by financing activities	666	3,013
Net decrease in cash and cash equivalents	(18,657)	(5,532)
Cash and cash equivalents, beginning of period	53,506	17,974
Cash and cash equivalents, end of period	$ 34,849	$ 12,442

See accompanying notes to condensed financial statements.

A.P. Pharma, Inc.

Notes to Condensed Financial Statements
(unaudited)

(1) BUSINESS AND BASIS OF PRESENTATION

A.P. Pharma, Inc. (the "Company," "we," "us" and "our") is a specialty pharmaceutical company developing products using its proprietary Biochronomer™ polymer-based drug delivery platform. This drug delivery platform is designed to improve the therapeutic profile of injectable pharmaceuticals by converting them from products that must be injected once or twice per day to products that need to be injected only once every one or two weeks.

The Company's lead product candidate, APF530, is being developed for the prevention of both acute chemotherapy-induced nausea and vomiting (CINV) for patients undergoing both moderately and highly emetogenic chemotherapy and for the prevention of delayed CINV for patients undergoing moderately emetogenic chemotherapy. One of the most debilitating side effects of cancer chemotherapy, CINV is a leading cause of premature discontinuations of treatment. There is only one injectable 5-HT3 antagonist approved for the prevention of delayed-onset CINV, so this indication represents an area of particular unmet medical need. APF530 contains the 5-HT3 antagonist granisetron formulated in the Company's proprietary Biochonomer drug delivery system, which allows therapeutic drug levels to be maintained for five days with a single subcutaneous injection. This five-day range is designed to cover the delayed phase of CINV. Granisetron was selected for APF530 because it is widely prescribed by physicians based on a well-established record of safety and efficacy.

In May 2009, we filed the original New Drug Application (NDA) seeking approval for APF530 with the U.S. Food and Drug Administration (FDA). The FDA issued a Complete Response Letter for the APF530 NDA in March 2010. In September 2012, we resubmitted the NDA seeking approval for APF530 with the FDA. On March 28, 2013, we announced that the FDA had issued a Complete Response Letter, which identifies several issues that preclude approval of the APF530 NDA in its current form. We believe the issues that remain are addressable, and we will work expeditiously to resubmit the APF530 NDA in the first quarter of 2014.

We own the worldwide rights to APF530 and are in the early stages of building the commercial infrastructure necessary to commercialize APF530 in the U.S. on our own.

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. All adjustments (all of which are of a normal recurring nature) considered necessary for a fair presentation have been included. We have evaluated subsequent events through the date that these financial statements were issued. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013 or for any other period. The condensed balance sheet as of December 31, 2012 has been derived from the audited financial statements as of that date, but it does not include all of the information and notes required by U.S. GAAP. These unaudited condensed financial statements and the notes thereto should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the Securities and Exchange Commission (SEC) on March 1, 2013 (2012 10-K).

Liquidity

We have incurred significant operating losses and negative cash flows from operations and have an accumulated deficit of $212.0 million as of June 30, 2013. During 2011 and 2012, we entered into three financing agreements, which provided us capital to fund operations. In April 2011, we entered into definitive agreements for a convertible note financing of up to $4.5 million. We received approximately $1.3 million, net of issuance costs, from the initial closing and an additional $3.0 million through the issuance of additional convertible notes in May 2012 as a result of the purchasers who participated in the April 2011 convertible note financing fully exercising their rights to purchase additional convertible notes (see Note 8). In June 2011, we entered into definitive agreements for a private placement of units, which were comprised of common stock and warrants (see Note 9). The unit financing, which closed in July 2011, provided the Company with approximately $22.8 million of proceeds, net of issuance costs. In July 2012, the

A.P. Pharma, Inc.

Notes to Condensed Financial Statements—(Continued)
(unaudited)

Company closed a common stock financing whereby the Company received approximately $50.5 million of proceeds, net of issuance costs (see Note 9). As of June 30, 2013, we had cash and cash equivalents of $34.8 million. The Company believes that its current working capital is sufficient to fund its operations into 2014.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. GAAP requires our management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates. We evaluate our critical accounting policies and estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies and estimates are discussed in our 2012 10-K.

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2013, as compared to the recent accounting pronouncements described in our 2012 10-K, that we believe are of significance, or potential significance, to us.

(2) CASH EQUIVALENTS

Our available-for-sale securities as of December 31, 2012 consisted of money market funds primarily containing U.S. government-backed securities, with original maturities of ninety days or less. The carrying value of our money market funds was included in cash equivalents and approximated their fair value. We have no available-for-sale securities as of June 30, 2013. The Company’s bank accounts have been placed under a control agreement in accordance with the April 2011 convertible note financing (see Note 8).

(3) FAIR VALUE MEASUREMENTS

The three-tier fair value hierarchy utilized prioritizes the inputs used in measuring fair value as follows: Level 1) observable inputs such as quoted prices in active markets; Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and Level 3) unobservable inputs in which there is little or no market data, which require us to develop our own assumptions. The hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. We measured our available-for-sale securities at fair value on a recurring basis. We used quoted prices in active markets (Level l) to measure the fair value of our cash equivalents on our Condensed Balance Sheets as of December 31, 2012. Cash equivalents consisted of highly rated money market funds with maturities of ninety days or less. Due to the high ratings and short-term nature of these funds, we consider the inputs used to value all cash equivalents as Level 1 inputs.

(4) NET LOSS PER SHARE

Basic and diluted net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding for the applicable period. Diluted net loss per share excludes the effect of outstanding potentially dilutive securities because they are anti-dilutive. The following table shows the outstanding potentially dilutive options, warrants and convertible notes for the six months ended June 30, 2013 and 2012 (in thousands):

	Six Months Ended June 30,	
	2013	2012
Options outstanding	134,941	63,662
Warrants outstanding	81,044	83,977
Common stock underlying convertible notes outstanding	122,125	115,520

A.P. Pharma, Inc.

Notes to Condensed Financial Statements—(Continued)
(unaudited)

(5) STOCK-BASED COMPENSATION

The following table summarizes the stock-based compensation expense for all awards (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Operating expenses:				
Research and development	$ 402	$ 360	$ 544	$ 664
General and administrative	2,001	655	3,694	1,129
Total stock-based compensation expense	$ 2,403	$ 1,015	$ 4,238	$ 1,793
Impact on basic and diluted net loss per common share	$ 0.01	$ 0.01	$ 0.01	$ 0.01

The following table summarizes stock option activity for the six months ended June 30, 2013:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding at January 1, 2013	86,478	$ 0.42	8.2
Granted	69,732	$ 0.40	
Exercised	(172)	$ 0.23	
Expired and forfeited	(21,097)	$ 0.56	
Outstanding at June 30, 2013	134,941	$ 0.39	8.9

Employee Stock Purchase Plan

We adopted an Employee Stock Purchase Plan (Purchase Plan) in 1997. Qualified employees may elect to have a certain percentage of their salary withheld to purchase shares of our common stock under the Purchase Plan. In June 2011, our stockholders authorized an increase in the number of shares reserved for issuance under the Purchase Plan by 500,000, for a total of 1,000,000 shares reserved at June 30, 2013. The purchase price per share is equal to 85% of the fair market value of the stock on specified dates. Sales under the Purchase Plan during the six months ended June 30, 2013 and 2012 consisted of 80,027 and 58,571 shares at an average price of $0.31 and $0.21, respectively. Shares available for future purchase under the Purchase Plan were 365,674 at June 30, 2013.

(6) COMPREHENSIVE LOSS

Comprehensive loss for the periods reported was comprised solely of our net loss. The comprehensive loss for the three and six months ended June 30, 2013 was $15.4 million and $28.4 million, respectively. The comprehensive loss for the three and six months ended June 30, 2012 was $4.6 million and $9.5 million, respectively. There were no other changes in equity that were excluded from our net loss for all reported periods.

A.P. Pharma, Inc.

Notes to Condensed Financial Statements—(Continued)
(unaudited)

(7) DISCONTINUED OPERATIONS

Cosmeceutical and Toiletry Business

On July 25, 2000, we completed the sale of certain technology rights for our cosmeceutical and toiletry business to RP Scherer Corporation (RP Scherer), a subsidiary of Cardinal Health, Inc. Under the terms of the agreement with RP Scherer, we guaranteed a minimum gross profit percentage on RP Scherer's combined sales of products to Ortho Dermatologics (Ortho) and Dermik Laboratories, Inc. (Dermik) (Gross Profit Guaranty). In July 2011, Valeant Pharmaceuticals announced it was acquiring both Ortho and Dermik. The guaranty period initially commenced on July 1, 2000 and was to end on the earlier of July 1, 2010 or the end of two consecutive guaranty periods where the combined gross profit on sales to Ortho and Dermik equals or exceeds the guaranteed gross profit (Two Period Test). The Gross Profit Guaranty expense totaled $944,000 for the first seven guaranty years and in those years profits did not meet the Two Period Test. Effective March 2007, in conjunction with a sale of assets by RP Scherer's successor company to an Amcol International subsidiary (Amcol), a new agreement was signed between us and Amcol to provide continuity of product supply to Ortho and Dermik. This new agreement potentially extended the Gross Profit Guaranty period an additional two years to July 1, 2013, unless it was terminated earlier with the Two Period Test. In February 2013, an arbitrator ruled that no additional amounts were owed under the gross profit guaranty and that the term of the gross profit guaranty has ended. We had previously recorded a liability of the $1.1 million related to the amount that Amcol asserted was due under the Gross Profit Guaranty. This event qualified as an adjusting event under ASC 855, *Subsequent Event*, and in light of the arbitrator's decision in February 2013, which was final and binding, we reversed this accrual as of December 31, 2012.

The cosmeceutical and toiletry business is reported as discontinued operations for all periods presented in our accompanying Condensed Statements of Operations.

Loss from discontinued operations primarily represents the loss attributable to changes in estimates of our cosmeceutical and toiletry business that was sold to RP Scherer on July 25, 2000, as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Cosmeceutical and Toiletry Business				
Change in estimates for gross profit guarantees	$ —	$ (43)	$ —	$ (134)

There was no material basic and diluted loss per common share resulting from discontinued operations for the three and six months ended June 30, 2013 and 2012.

(8) CONVERTIBLE NOTES TO RELATED PARTIES

In April 2011, we entered into a Securities Purchase Agreement (Purchase Agreement) with certain institutional investors (Purchasers), including a fund affiliated with Kevin C. Tang, who is the Chairman of our Board of Directors, for a private placement of up to $4.5 million in Senior Secured Convertible Notes due 2021 (Notes). The Purchase Agreement provided for the Purchasers to purchase $1.5 million aggregate principal amount of Notes at the initial closing. Pursuant to the Purchase Agreement, the Purchasers had the option to purchase an additional $3.0 million aggregate principal amount of Notes at any time until May 2, 2013 (Purchase Option). The Notes are convertible into shares of the Company's common stock at a rate of 25,000 shares for every $1,000 of principal and accrued interest due under the Notes (Conversion Shares).

The cash received from the initial closing of the Note financing, which resulted in the issuance of $1.5 million aggregate

A.P. Pharma, Inc.

Notes to Condensed Financial Statements—(Continued)
(unaudited)

principal amount of Notes, was approximately $1.3 million, net of issuance costs. In May 2012, the Purchasers exercised their Purchase Option in full, and we received $3.0 million of cash through the issuance of the remaining $3.0 million aggregate principal amount of Notes. As a result of the exercise of the Purchase Option, the Purchasers have purchased the full amount of Notes that the Company was obligated to sell under the Purchase Agreement.

The Notes are secured by substantially all of the assets of the Company, including placing our bank accounts under a control agreement. The Notes initially bore interest at 20% per annum, payable quarterly in cash or in additional principal amount of Notes at the election of the Purchasers. In June 2011, the Notes were amended to reduce the interest rate to 6% per annum effective July 1, 2011. The Notes mature on May 2, 2021; however, the holders of the Notes may require prepayment of the Notes at any time beginning on or after May 2, 2012, at each holder's option.

There is no right to convert the Notes to the extent that, after giving effect to such conversion, the holder would beneficially own in excess of 9.99% of the Company's outstanding common stock. Each holder of the Notes can increase or decrease this beneficial ownership conversion limit by written notice to the Company, which will not be effective until 61 days after delivery of the notice.

As of June 30, 2013, the Company was in compliance with all debt-related covenants under the Notes. Upon the occurrence of an event of default under the Notes, the holders of the Notes have the right to require the Company to redeem all or a portion of their Notes.

Pursuant to the Purchase Agreement, the Company filed a registration statement on Form S-1, registering for resale 69.6 million shares underlying the Notes. The registration statement was declared effective on July 29, 2011. The Purchasers have agreed to waive their right to require the Company to maintain the effectiveness of the registration statement and to register the additional shares underlying the Notes until they provide notice otherwise.

The Notes contain an embedded conversion feature that was in-the-money on both issuance dates. Based on an effective fixed conversion rate of 25,000 shares for every $1,000 of principal and accrued interest due under the Notes, the total conversion benefit at issuance exceeded the loan proceeds. Therefore, a full debt discount was recorded in an amount equal to the face value of the Notes on the issuance dates, and the Company began amortizing the resultant debt discount over the respective 10-year or remaining term of the Notes. During the three months ended June 30, 2013, accrued interest of approximately $72,000 was paid-in-kind and rolled into the principal balance of the Notes, which resulted in an additional full debt discount for the respective periods. For the three and six months ended June 30, 2013, interest expense relating to the stated rate of the Notes was approximately $73,000 and $145,000, respectively. Interest expense relating to the amortization of debt discount for the three and six months ended June 30, 2013 was approximately $132,000 and $261,000, respectively.

As of June 30, 2013, the carrying value of the Notes was approximately $754,000, which is comprised of the $4,885,000 principal amount of the Notes outstanding, less debt discount of $4,131,000. If the $4.9 million principal amount of Notes is converted, the Company would issue 122.1 million shares of its common stock. Accrued interest on the principal balance was $73,000 at June 30, 2013.

(9) STOCKHOLDERS' EQUITY

Amendments to Articles of Incorporation

In June 2011, we amended our certificate of incorporation to increase the number of shares of authorized common stock to 1,500,000,000, par value $0.01 per share. Prior to the amendment, the number of shares of authorized common stock was 100,000,000, par value $0.01 per share. The certificate of amendment was approved by a majority of our stockholders on June 29, 2011.

Stock Plans

At our annual meeting of stockholders in June 2011, our stockholders approved an amendment to our 2007 Equity Incentive Plan to increase the maximum number of shares of common stock available for grant by 90,000,000 shares of common stock, resulting in an aggregate of 95,000,000 shares of common stock authorized for issuance pursuant to awards granted under our 2007 Equity Incentive Plan. The stockholders also approved an amendment to our 1997 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance under the plan by 500,000, for a total of 1,000,000 shares reserved as of June 30, 2013.

A.P. Pharma, Inc.

Notes to Condensed Financial Statements—(Continued)
(unaudited)

2011 Private Placement

In June 2011, we entered into a Securities Purchase Agreement with certain purchasers (Securities Purchase Agreement), pursuant to which we agreed to sell 160,000,006 shares of our common stock (Shares) and warrants to purchase 80,000,005 shares of our common stock (Warrants) with an exercise price of $0.18 per share (2011 Private Placement), for an aggregate price of $24.0 million. The 2011 Private Placement closed on July 1, 2011. For each share purchased, the investors received one Warrant to purchase 0.5 shares of common stock (together with a Share, a Unit), at a purchase price of $0.15 per Unit. The Warrants were immediately exercisable and expire on the fifth anniversary of the closing date of July 1, 2011. The Warrants may be exercised for cash only or, if a registration statement is not then effective and available for the resale of the shares of common stock issuable upon exercise of the Warrants, by surrender of such Warrant, or a portion of such Warrant, by way of cashless exercise. There is no right to exercise the Warrants to the extent that after giving effect to such exercise the holder would beneficially own in excess of 9.99% of our outstanding shares of common stock or such other limit as may be designated by any particular purchaser. Each holder of the Warrants can amend or waive the foregoing limitation by written notice to the Company, with such waiver taking effect only upon the expiration of a 61-day notice period.

Under the terms of the Securities Purchase Agreement, on July 29, 2011, the Company filed a registration statement with the SEC to register for resale the Shares and the shares of common stock issuable upon the exercise of the Warrants (the Warrant Shares, and collectively with the Shares, the Registrable Securities). The registration statement was declared effective on August 4, 2011. The Company is obligated to maintain the effectiveness of the registration statement with respect to an investor's Registrable Securities until the investor is able to sell the Registrable Securities without limitation or restriction under Rule 144. There is currently only one investor who is an affiliate of the Company and is therefore not able to sell the Registrable Securities without limitation under Rule 144, and that investor has agreed to waive their right to require the Company to maintain the effectiveness of the registration statement until they provide notice otherwise. If the Company fails to keep the registration statement continuously effective for a designated time (with limited exceptions) during the period the Company is obligated to maintain the registration statement, the Company may be obligated to pay to the holders of the Registrable Securities liquidated damages in an amount equal to 1.0% per month of such holder's pro rata interest in the total purchase price of the Private Placement, capped at a total penalty of 6.0%.

The Company received total proceeds of $22.8 million from the 2011 Private Placement, which was net of issuance costs of approximately $1.2 million. During the six months ended June 30, 2013, the Company received $0.6 million for an exercise of a Warrant.

2012 Private Placement

In July 2012, the Company entered into a securities purchase agreement with certain purchasers, pursuant to which the Company agreed to sell 102,000,000 shares of its common stock (2012 Shares) at a purchase price of $0.525 per share of common stock, for an aggregate price of approximately $53.6 million (2012 Private Placement). The 2012 Private Placement closed on July 30, 2012.

In connection with entering into the securities purchase agreement, the Company also entered into a registration rights agreement. On August 24, 2012, the Company filed a registration statement with the SEC to register the 2012 Shares for resale. The registration statement was declared effective on September 6, 2012. If the Company fails to keep the registration statements continuously effective for a designated time (with limited exceptions), the Company may be obligated to pay to each holder of the 2012 Shares an amount equal to 1.5% per month of the aggregate purchase price of the unregistered 2012 Shares held by such holder, capped at a total penalty of 9.0%.

The Company received total proceeds of $50.5 million from the 2012 Private Placement, which was net of issuance costs of approximately $3.1 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

This Quarterly Report on Form 10-Q 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: the FDA's response to our NDA when resubmitted; the progress of our research, development and clinical programs; the timing of regulatory approval and commercial introduction of APF530 and future product candidates; our ability to market, commercialize and achieve market acceptance for APF530 and other future product candidates; our ability to establish collaborations for our technology, APF530 and other future product candidates; our estimates for future performance; our estimates regarding our capital requirements and our needs for and ability to obtain additional financing; our ability to protect or enforce our intellectual property rights; volatility in the trading price of our common stock; and other risks and uncertainties identified in our 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 undertake to update them except as required by law.

Overview

We are a specialty pharmaceutical company developing products using our proprietary Biochronomer™ polymer-based drug delivery platform. This drug delivery platform is designed to improve the therapeutic profile of injectable pharmaceuticals by converting them from products that must be injected once or twice per day to products that need to be injected only once every one or two weeks.

Our lead product candidate, APF530, is being developed for the prevention of acute CINV for patients undergoing both moderately and highly emetogenic chemotherapy and for the prevention of delayed CINV for patients undergoing moderately emetogenic chemotherapy. One of the most debilitating side effects of cancer chemotherapy, CINV is a leading cause of premature discontinuations of treatment. There is only one injectable 5-HT3 antagonist approved for the prevention of delayed-onset CINV, so this indication represents an area of particular unmet medical need. APF530 contains the 5-HT3 antagonist granisetron formulated in the Company's proprietary Biochronomer drug delivery system, which allows therapeutic drug levels to be maintained for five days with a single subcutaneous injection. This five-day range is designed to cover the delayed phase of CINV. Granisetron was selected for APF530 because it is widely prescribed by physicians based on a well-established record of safety and efficacy.

In May 2009, we filed the original NDA seeking approval for APF530 with the FDA. The FDA issued a Complete Response Letter for the APF530 NDA in March 2010. In September 2012, we resubmitted the NDA seeking approval for APF530 with the FDA. On March 28, 2013, we announced that the FDA had issued a Complete Response Letter which identifies several issues that preclude approval of the APF530 NDA in its current form. We believe the issues that remain are addressable, and we will work expeditiously to resubmit the APF530 NDA in the first quarter of 2014.

We own the worldwide rights to APF530 and are in the early stages of building the commercial infrastructure necessary to commercialize APF530 in the U.S. on our own.

Critical Accounting Policies and Estimates

We prepare our condensed financial statements in accordance with U.S. generally accepted accounting principles, which require management to make estimates and assumptions. Management bases these estimates and assumptions on historical results and known trends, as well as management forecasts. Actual results could differ from these estimates and assumptions. See our Annual Report on Form 10-K for the year ended December 31, 2012 (2012 10-K), Part II, Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates."

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2013, as compared to the recent accounting pronouncements described in our 2012 10-K, that we believe are of significance, or potential significance, to us.

Results of Operations for the Three and Six Months Ended June 30, 2013 and 2012

Our research and development costs consist primarily of employee salaries and other personnel-related expenses, facility-related expenses, laboratory consumables, development manufacturing, and clinical and pre-clinical related services performed by clinical research organizations, research institutions and other outside service providers.

Research and development expense for the three months ended June 30, 2013 increased by $7.4 million to $10.5 million, from $3.1 million for the three months ended June 30, 2012. Research and development expense for the six months ended June 30, 2013 increased by $10.9 million to $17.3 million, from $6.4 million for the six months ended June 30, 2012. Compared to the comparable periods in the prior year, headcount-related costs and project spending for APF530 were higher in the current year periods as we worked to validate our manufacturing processes and increase the scale of production. We expect research and development expense for the year 2013 to be higher as compared to 2012 due to manufacturing-related expenses and additional efforts required to address issues raised in the Complete Response Letter we received in March 2013.

General and administrative expenses consist primarily of salaries and related expenses, professional fees, directors' fees, investor relations costs, pre-commercialization costs, insurance expense and related overhead cost allocation.

General and administrative expense for the three months ended June 30, 2013 increased by $3.4 million to $4.7 million, from $1.3 million for the three months ended June 30, 2012. General and administrative expense for the six months ended June 30, 2013 increased by $7.9 million to $10.7 million, from $2.8 million for the six months ended June 30, 2012. The increases in the current fiscal periods were primarily due to higher headcount-related costs, including stock compensation expense, market research, consulting costs and professional fees. We expect general and administrative expense for the year 2013 to be higher as compared to 2012 due to increased support costs, including headcount-related costs, related to the NDA resubmission and a full year of pre-commercialization activities.

Interest expense, net was $0.2 million and $0.1 million for the three months ended June 30, 2013 and 2012, respectively. Interest expense, net was $0.4 million and $0.2 million for the six months ended June 30, 2013 and 2012, respectively. Interest expense, net consists primarily of interest expense and amortization of debt discount related to the convertible note financing. Compared to the prior year periods, the increases in the current fiscal periods in interest expense, net were due to a greater amount of convertible notes outstanding as a result of such convertible note holders purchasing more convertible notes pursuant to their purchase option.

Loss from discontinued operations represents the loss attributable to the gross profit guaranty associated with the sale of our cosmeceutical and toiletry business. The loss from discontinued operations was $0.0 million for the three months ended June 30, 2013 and 2012, respectively. The loss from discontinued operations was $0.0 and $0.1 million for the six months ended June 30, 2013 and 2012, respectively. See Note 7 of Notes to Condensed Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for additional information.

Capital Resources and Liquidity

We had cash and cash equivalents of $34.8 million at June 30, 2013. Cash and cash equivalents decreased by $18.7 million from December 31, 2012 to June 30, 2013, primarily due to cash used in operations.

Net cash used in operating activities for the six months ended June 30, 2013 was $18.8 million, compared to net cash used in operating activities of $8.1 million for the six months ended June 30, 2012. The $10.7 million increase in net cash used was primarily due to the increase in operating loss.

Net cash used in investing activities was $0.5 million for the six months ended June 30, 2013 and 2012. The net cash used in both periods was for purchases of property and equipment.

Net cash provided by financing activities for the six months ended June 30, 2013 was $0.7 million, compared to $3.0 million for the six months ended June 30, 2012. The decrease of $2.3 million was primarily due to $3.0 million of proceeds received from the issuance of convertible notes in the prior year period, which was partially offset by $0.7 million of proceeds in the current year from exercises of a warrant and stock options.

Historically, we have financed our operations, including technology and product research and development, primarily through sales of our common stock and other securities, royalties received on sales of Retin-A Micro and Carac, the sale of our rights to royalties on sales of Retin-A Micro and Carac, income from collaborative research and development fees, proceeds received from the sales of our Analytical Standards division and our cosmeceutical and toiletry business, and interest earned on short-term investments.

In April 2011, we entered into definitive agreements for a convertible note financing of up to $4.5 million. We received approximately $1.3 million, net of issuance costs, from the initial closing, whereby $1.5 million aggregate principal amount of convertible notes was issued. In May 2012, the purchasers exercised their rights to purchase the remaining $3.0 million aggregate principal amount of convertible notes, and we received the additional $3.0 million of proceeds. In June 2011, we entered into definitive agreements for a private placement of units comprised of common stock and warrants, for which we received proceeds of $22.8 million, net of issuance costs of approximately $1.2 million. In July 2012, we closed a common stock financing whereby the Company received approximately $50.5 million of proceeds, net of issuance costs of approximately $3.1 million.

We believe that our current cash resources are sufficient to fund planned operations into 2014. Our capital requirements going forward will depend on numerous factors, including: our efforts to respond to the FDA's March 2013 Complete Response Letter; an approval decision by the FDA with respect to APF530; the timing of and cost related to the manufacturing and the commercial launch of APF530, if approved; the technological and market developments from drugs that may compete with APF530; the degree of commercial success of APF530; the number and characteristics of product development programs we pursue and the pace of each program; the scope, rate of progress, results and costs of preclinical testing and clinical trials; the time, cost and outcome involved in seeking other regulatory approvals; scientific progress in our research and development programs; the magnitude and scope of our research and development programs; our ability to establish and maintain strategic collaborations or partnerships for research, development, clinical testing, manufacturing and marketing of our product candidates; the cost and timing of establishing sales, marketing and distribution capabilities for a specialty sales force if we commercialize other products independently; the cost of establishing clinical and commercial supplies of our product candidates and any products that we may develop; and general market conditions.

We may not be able to raise sufficient additional capital when we need it on favorable terms or at all. The sale of additional equity in the future may be dilutive to our stockholders. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unattractive terms.

Contractual Obligations

Below is a summary of fixed payments related to certain contractual obligations (in millions), consisting solely of our operating lease obligations. This table excludes amounts already recorded on our balance sheet as current liabilities as of June 30, 2013.

	Total	Less than 1 year	2 to 3 years	4 to 5 years	More than 5 years
Operating lease obligations	$2.8	$ 0.9	$1.6	$0.3	$ —

The holders of the convertible notes issued in May 2011 and May 2012 may require prepayment of such notes at any time beginning on or after May 2, 2012 at each holder's option. See Note 8 of Notes to Condensed Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

As of June 30, 2013 we did not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risk is confined to our cash and cash equivalents. We did not hold any marketable securities at June 30, 2013.

Our debt obligations consist of our convertible debt, which carries a fixed interest rate and, as a result, we are not exposed to interest rate risk on our convertible debt.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures: We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15(d)-15(e) of the Securities and Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2013, the end of period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in internal control over financial reporting: During the three months ended June 30, 2013, there have been no significant changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes to the legal proceedings described in the Company's Annual Report on Form 10-K for the period ended December 31, 2012.

Item 1A. Risk Factors

Please see the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012 (the "Annual Report"). The risk factors set forth in the Annual Report, along with those risks described above under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere herein should be reviewed carefully, in conjunction with the other information contained in this Quarterly Report on Form 10-Q and our financial statements. These factors, among others, could cause actual results to differ materially from those currently anticipated and contained in forward-looking statements made in this Quarterly Report on Form 10-Q and presented elsewhere by our management from time to time. See the discussion of forward-looking statements in Part I, Item 2—"Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On May 29, 2013, the Company and John Whelan amended certain terms of his Management Retention Agreement, dated as of April 25, 2011 (as amended, the "Management Agreement"), which was further amended on June 24, 2013. The Management Agreement, as amended, acknowledges that Mr. Whelan's removal as President and Chief Executive Officer on May 1, 2013 gives rise to his right under the agreement to voluntarily terminate his employment for good reason, and thereupon be entitled to certain severance benefits as set forth therein. The May 29, 2013 amendment extended the period of time that Mr. Whelan had to elect to resign for good reason. The June 24, 2013 amendment to the Management Agreement provided Mr. Whelan with certain incentives to remain employed with the Company as its Chief Financial Officer through August 15, 2013, which incentives consist of an extension of the period of time over which Mr. Whelan may exercise a portion of his vested stock options. A copy of the amendment to the Management Agreement is filed herewith as an exhibit, the terms of which are incorporated herein by reference.

Item 6. Exhibits

Exhibit 10-AL – Form of Non-Qualified Stock Option Agreement.

Exhibit 10-AM – Amendment to Management Retention Agreement, dated as of April 25, 2011, as amended May 29, 2013 (as amended, the "Retention Agreement")*

Exhibit 31.1 – Certification of Chief Executive Officer pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934 as amended.

Exhibit 31.2 – Certification of Chief Financial Officer pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934 as amended.

Exhibit 32.1 – Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†

Exhibit 32.2 – Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†

Exhibit 101.INS† XBRL Instance Document

Exhibit 101.SCH† XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL† XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF† XBRL Extension Definition

Exhibit 101.LAB† XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE† XBRL Taxonomy Extension Presentation Linkbase Document

† Furnished herewith.
* Management contract or compensatory plans.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

A.P. PHARMA, INC.

/S/ JOHN B. WHELAN

John B. Whelan
Chief Financial Officer

Date: August 8, 2013

A.P. PHARMA, INC.

NON-QUALIFIED STOCK OPTION AGREEMENT
TERMS AND CONDITIONS

This document (the "***Agreement***") sets forth the terms and conditions governing the non-qualified stock option grant (the "***NQO***") described in the attached Notice of Grant of Stock Options and Option Agreement (the "***Grant Notice***"). Acceptance of the NQO shall constitute the Optionee's acceptance of the following terms and conditions. For purposes of this Agreement, the following defined terms shall have the respective meanings: the "***Company***" means A.P. Pharma, Inc.; "***Optionee***" means the individual named in the Grant Notice as the recipient of the NQO; and "***Grant Date***" means the effective date of the grant of the NQO, as set forth on the Grant Notice.

1. Grant of Option. The Company hereby grants to Optionee the NQO to purchase all or any part of an aggregate of the number of shares (the "***NQO Shares***") of the Company's Common Stock as set forth in the Grant Notice on the terms and conditions set forth herein. The NQO is granted outside of the Company's 2007 Equity Incentive Plan (the "***Plan***"), but is governed in all respects as if granted under the Plan, the terms and conditions of which are hereby incorporated into this Agreement by reference. Capitalized terms not otherwise defined in this Agreement shall have the meanings ascribed to them in the Plan.

2. Exercise Price. The exercise price for purchase of each share of Common Stock covered by this NQO shall be the price set forth in the Grant Notice.

3. Term. This NQO shall expire on the expiration date set forth in the Grant Notice, or earlier following the Optionee's termination of service, as set forth in the Plan.

4. Adjustment of NQOs. The Company shall adjust the number and kind of shares and the exercise price thereof in certain circumstances in accordance with the Plan including, without limitation, the provisions of Section 14(a) of the Plan.

5. Exercise of Options.

5.1 Vesting; Time of Exercise. This NQO shall be exercisable according to the schedule set forth in the Grant Notice.

5.2 Exercise After Termination of Status as an Employee, Director or Consultant. In the event of termination of Optionee's continuous status as an employee, director or consultant, this NQO may be exercised within the applicable time periods set forth in Section 9 of the Plan (but in no event after the expiration date of this NQO pursuant to Section 3 above).

5.3 Manner of Exercise. Optionee may exercise this NQO, or any portion of this NQO, by giving written notice to the Company at its principal executive office, to the attention of the officer of the Company designated by the Plan Administrator, accompanied by payment of the exercise price and payment of any applicable withholding or employment taxes. The date the Company receives written notice of an exercise hereunder accompanied by payment will be considered as the date this NQO was exercised.

5.4 Payment. Payment may be made for NQO Shares purchased at the time written notice of exercise of the NQO is given to the Company, by delivery of cash, check or, in the exercise of the absolute discretion of the Administrator, previously owned shares of Common Stock (including constructive delivery) or through a "net exercise" resulting in the forfeiture of a number of NQO Shares with a value equal to the exercise price. Any applicable withholding taxes must be paid in cash. The proceeds of any payment shall constitute general funds of the Company.

5.5 Delivery of Certificate. Promptly after receipt of payment and written notice of exercise of the NQO, the Company shall, without stock issue or transfer taxes to the Optionee or other person entitled to exercise, deliver to the Optionee or other person a certificate or certificates for the requisite number of NQO Shares or shall register the Optionee as a shareholder on the books of the Company. An Optionee or transferee of an Optionee shall not have any privileges as a shareholder with respect to any NQO Shares covered by the option until the date of issuance of a stock certificate or, if applicable, such registration.

6. Non-assignability of NQO. This NQO is not assignable or transferable by Optionee except by will or by the laws of descent and distribution. During the life of Optionee, the NQO is exercisable only by the Optionee. Any attempt to assign, pledge, transfer, hypothecate or otherwise dispose of this NQO in a manner not herein permitted, and any levy of execution, attachment, or similar process on this NQO, shall be null and void.

7. Restriction on Transfer. Regardless whether the sale of the NQO Shares has been registered under the Securities Act or has been registered or qualified under the securities laws of any state, the Company may impose restrictions upon the sale, pledge, or other transfer of NQO Shares (including the placement of appropriate legends on stock certificates) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary or desirable in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law, or if the Company does not desire to have a trading market develop for its securities.

8. Tax Advice. The Company has made no warranties or representations to Purchaser with respect to the income tax consequences of the transactions contemplated by the agreement pursuant to which the NQO Shares will be purchased and Purchaser is in no manner relying on the Company or its representatives for an assessment of such tax consequences.

9. Assignment; Binding Effect. Subject to the limitations set forth in this Agreement, this Agreement shall be binding upon and inure to the benefit of the executors, administrators, heirs, legal representatives, and successors of the parties hereto; provided, however, that Optionee may not assign any of Optionee's rights under this Agreement.

10. Damages. Optionee shall be liable to the Company for all costs and damages, including incidental and consequential damages, resulting from a disposition of NQO Shares which is not in conformity with the provisions of this Agreement.

11. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California excluding those laws that direct the application of the laws of another jurisdiction.

12. Notices. All notices and other communications under this Agreement shall be in writing. Unless and until the Optionee is notified in writing to the contrary, all notices, communications, and documents directed to the Company and related to the Agreement, if not delivered by hand, shall be mailed, addressed as follows:

A.P. Pharma, Inc.
123 Saginaw Drive
Redwood City, CA 94063
Attention: President

Unless and until the Company is notified in writing to the contrary, all notices, communications, and documents intended for the Optionee and related to this Agreement, if not delivered by hand, shall be mailed to Optionee's last known address as shown on the Company's books. Notices and communications shall be mailed by first class mail, postage prepaid; documents shall be mailed by registered mail, return receipt requested, postage prepaid. All mailings and deliveries related to this Agreement shall be deemed received when actually received, if by hand delivery, and two business days after mailing, if by mail.

13. Arbitration. Any and all disputes or controversies relating to the Option shall be finally settled by arbitration conducted in California in accordance with the then existing rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof; provided that nothing in this Section 13 shall prevent a party from applying to a court of competent jurisdiction to obtain temporary relief pending resolution of the dispute through arbitration. The parties hereby agree that service of any notices in the course of such arbitration at their respective addresses as provided for in Section 12 shall be valid and sufficient.

14. Entire Agreement. Company and Optionee agree that this Agreement (including its attached Exhibits and the Grant Notice) is the complete and exclusive statement between Company and Optionee regarding its subject matter and supersedes all prior proposals, communications, and agreements of the parties, whether oral or written, regarding the grant of stock options or issuances of shares to Optionee.

* * *

Exhibit 10AM

123 Saginaw Drive | Redwood City, CA 94063

June 24, 2013

John Whelan
c/o AP Pharma, Inc.
123 Saginaw Dr.
Redwood City, CA 94063

Re: Amendment to Management Retention Agreement, dated as of April 25, 2011, as amended May 29, 2013 (as amended, the "Retention Agreement")

Dear John:

This letter agreement (the "Agreement") memorializes the terms of your separation with A.P. Pharma, Inc. (the "Company") and amends certain terms and conditions of the Retention Agreement. Capitalized terms that are not otherwise defined in this Agreement will have the meanings ascribed to them in the Retention Agreement.

On May 1, 2013, the Board of Directors removed you as President and Chief Executive Officer of the Company (the "Removal Action"). The Company hereby acknowledges and agrees that the Removal Action was taken without Cause, and stipulates that, as of the date hereof, no facts or circumstances exist that would permit the Company to characterize the Removal Action as having been for Cause. Notwithstanding the Removal Action, the Company wishes to retain your services as an employee and as our Chief Financial Officer through August 15, 2013, or such earlier date as may be selected by the Company. In consideration of the foregoing, the parties hereby agree as follows:

1. Your execution of this Agreement will constitute formal notice under Section 3(c) of the Retention Agreement that the Removal Action may give rise to an Involuntary Termination. The Company acknowledges and agrees that if the Removal Action is not rescinded within 30 days from the date hereof, then, notwithstanding the time periods set forth in Section 3(c) of the Retention Agreement, you will have until midnight (Pacific Time) on August 15, 2013 to resign as an officer and employee of the Company, with such resignation to be deemed to constitute an Involuntary Termination. Upon such Involuntary Termination (or your earlier termination by the Company or due to your death or disability), you will be entitled to the cash severance payments set forth on Annex I attached hereto, which payments will be in full satisfaction of the amounts owed under Section 2(a) of the Retention Agreement.

2. The following sentence shall be inserted at the end of the definition of "Cause" in Section 3(a) of the Retention Agreement, "Notwithstanding the foregoing, in no event shall "Cause" be deemed to exist unless the basis for asserting the existence of "Cause" has been communicated in writing to Employee at least 60 days prior to a termination for Cause being effected, it being understood that if Employee resigns his employment prior to the expiration of such 60-day period, then the termination shall not be deemed for "Cause."

3. Set forth on Annex II attached hereto is a schedule of your outstanding equity awards granted by the Company (the "Outstanding Awards"). As contemplated under Section 2(a) of the Retention Agreement, the vesting of the Outstanding Awards will be partially accelerated as of the effective date of an Involuntary Termination (or your earlier termination by the Company or due to your death or disability). Set forth on Annex II is the following information: (a) the vested portion of the Outstanding Awards as of the date of this Agreement (the "Effective Date"), (b) the monthly vesting schedule during your continued employment, and (c) the accelerated vesting of the Outstanding Awards to be provided to you under Section 2(a) of the Retention Agreement on an Involuntary Termination (or your earlier termination by the Company or due to your death or disability).

4. Provided that you remain employed by the Company through the earlier of 5:00 p.m. (Pacific Time) on August 15, 2013 or such time as when the Company may terminate your employment, then: (a) the period in which you will be permitted to exercise the vested portion of the Outstanding Awards following your termination

of service will be extended, as set forth on Annex III, and (b) the Company may, on a case-by-case basis, permit the "cashless" exercise of the vested portion of the Outstanding Awards (i.e., satisfying the required exercise price by surrendering a portion of the Outstanding Awards with an intrinsic value equal to the exercise price), provided, however, that unless the required tax withholding will be funded within the required time period by a broker-assisted sale, you will be required to remit in cash to the Company an amount equal to the required withholding taxes due upon exercise of the Outstanding Options (such amount to be determined by the Company in good faith at the time of each exercise). If you wish to exercise any portion of the Outstanding Awards on a cashless basis, you will be required to obtain the prior written approval of the Chief Executive Officer or the Chief Operating Officer of the Company. If you elect to resign your employment prior to August 15, 2013, then you will not be entitled to the extended vesting period set forth on Annex III and will not be permitted to exercise the Outstanding Awards on a cashless basis.

5. As contemplated in Section 4(b) of the Retention Agreement, your right to receive severance benefits upon an Involuntary Termination (or your earlier termination by the Company or due to your death or disability) shall be conditioned upon the execution and non-revocation of a release of claims (the "Release"). The parties hereby agree that the Release shall be in the form attached hereto as Exhibit A.

Except as set forth above, the terms and conditions of the Retention Agreement, which shall be deemed incorporated herein by reference, shall remain in full force and effect. To accept this Agreement, please countersign below and return an executed copy of this letter to my attention.

Sincerely,

/s/ Barry Quart

Barry Quart
Chief Executive Officer

Agreed and Accepted as of the date set forth below

/s/ John Whelan
John Whelan

June 24, 2013
Date:

Exhibit 31.1

SECTION 302 CERTIFICATIONS

I, Barry D. Quart, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A.P. Pharma, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2013

/s/ Barry D. Quart

Barry D. Quart, Pharm.D.
Chief Executive Officer

Exhibit 31.2

SECTION 302 CERTIFICATIONS

I, John B. Whelan, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A.P. Pharma, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2013

/s/ John B. Whelan

John B. Whelan
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of A.P. Pharma, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barry D. Quart, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 8, 2013

/s/ Barry D. Quart

Barry D. Quart, Pharm.D.
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of A.P. Pharma, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John B. Whelan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 8, 2013

/s/ John B. Whelan

John B. Whelan
Chief Financial Officer