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

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2007

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 0-16109

A.P. PHARMA, INC.

(Exact name of registrant as specified in its charter)

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

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes [ ] No [X]

At October 31, 2007, the number of outstanding shares of the Company's common stock, par value $.01, was 30,779,798.

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Part I. **Financial Information**

Item 1: **Financial Statements**:

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

	September 30, 2007 (unaudited)		December 31, 2006 (Note 1)	
Assets				
Current assets:				
Cash and cash equivalents	$	37,873	$	2,333
Marketable securities		1,916		13,189
Accounts receivable		125		75
Prepaid expenses and other current assets		853		609
Total current assets		40,767		16,206
Property and equipment, net		794		958
Other long-term assets		75		87
Total assets	$	41,636	$	17,251
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	$	500	$	772
Accrued expenses		2,992		3,085
Accrued disposition costs		66		335
Total current liabilities		3,558		4,192
Deferred revenue		1,000		1,000
Total liabilities		4,558		5,192
Stockholders' equity:				
Common stock		137,325		99,835
Accumulated deficit		(100,226)		(87,763)
Accumulated other comprehensive loss		(21)		(13)
Total stockholders' equity		37,078		12,059
Total liabilities and stockholders' equity	$	41,636	$	17,251

See accompanying notes to condensed financial statements.

A.P. Pharma, Inc.
Condensed Statements of Operations (unaudited)
(in thousands, except per share amounts)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Contract revenue	$ 121	$ -	$ 280	$ -
Operating expenses:				
Research and development	4,595	3,118	13,344	10,443
General and administrative	762	830	2,753	2,695
Total operating expenses	5,357	3,948	16,097	13,138
Operating loss	(5,236)	(3,948)	(15,817)	(13,138)
Interest income, net	561	244	865	786
Gain on sale of interest in royalties	-	-	2,500	23,429
Other income (expense), net	(3)	(49)	1	(53)
Income (loss) from continuing operations	(4,678)	(3,753)	(12,451)	11,024
Income (loss) from discontinued operations	1	(64)	33	(92)
Income (loss) before income taxes	(4,677)	(3,817)	(12,418)	10,932
Tax provision	(8)	-	(44)	-
Net income (loss)	$ (4,685)	$ (3,817)	$ (12,462)	$ 10,932
Basic income (loss) per share:				
Income (loss) from continuing operations	$ (0.15)	$ (0.59)	$ (.80)	$ 1.75
Net income (loss)	$ (0.15)	$ (0.60)	$ (.80)	$ 1.73
Diluted income (loss) per share:				
Income (loss) from continuing operations	$ (0.15)	$ (0.59)	$ (.80)	$ 1.73
Net income (loss)	$ (0.15)	$ (0.60)	$ (.80)	$ 1.72
Weighted average common shares Outstanding-basic	30,736	6,319	15,553	6,312
Weighted average common shares Outstanding-diluted	30,736	6,319	15,553	6,359

See accompanying notes to condensed financial statements.

A.P. Pharma, Inc.
Condensed Statements of Cash Flows (unaudited)
(in thousands)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash flows from operating activities:		
Net income (loss)	$ (12,462)	$ 10,932
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loss (gain) from discontinued operations	(33)	92
Loss on sale of marketable securities	-	1
Depreciation and amortization	271	299
Stock-based compensation expense	253	357
Amortization of discount and accretion of premium on marketable securities	(70)	(22)
Changes in operating assets and liabilities:		
Accounts receivable	(104)	1,388
Prepaid expenses and other current assets	(244)	(423)
Other long-term assets	17	56
Accounts payable	(272)	(257)
Accrued expenses	(93)	(117)
Net cash provided by (used in) continuing operating activities	(12,737)	12,306
Net cash used in discontinued operations	(186)	(11)
Cash flows from investing activities:		
Purchases of property and equipment	(108)	(88)
Purchases of marketable securities	-	(14,701)
Maturities of marketable securities	4,875	1,800
Sales of marketable securities	6,460	3,628
Net cash provided by (used in) investing activities	11,227	(9,361)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance cost	37,198	-
Proceeds from the exercise of stock options	-	11
Proceeds from issuance of shares under Employee Stock Purchase Plan	38	34
Net cash provided by financing activities	37,236	45
Net increase in cash and cash equivalents	35,540	2,979
Cash and cash equivalents, beginning of the period	2,333	790
Cash and cash equivalents, end of the period	$ 37,873	$ 3,769

See accompanying notes to condensed financial statements.

A.P. Pharma, Inc.
Notes to Condensed Financial Statements
September 30, 2007 and 2006 (unaudited)

(1) BUSINESS AND BASIS OF PRESENTATION

A.P. Pharma, Inc. (the "Company", "we", "our", or "us") is a specialty pharmaceutical company focused on developing pharmaceutical products using our proprietary Biochronomer polymer-based drug delivery technology. Our product development philosophy is based on incorporating approved therapeutics into our proprietary bioerodible drug delivery technology to create controlled release pharmaceuticals to improve treatments for diseases or conditions. Our lead product candidate, APF530, is currently in a pivotal Phase III clinical trial for the prevention of acute and delayed onset chemotherapy-induced nausea and vomiting, or CINV.

Our primary focus is to advance our proprietary Biochronomer technology, consisting of bioerodible polymers designed to release drugs over a defined period. We have completed over 100 in vivo and in vitro studies demonstrating that our Biochronomer technology is potentially applicable to a range of therapeutic areas, including prevention of nausea and vomiting, pain management, control of inflammation and treatment of ophthalmic diseases. We have also completed comprehensive animal and human toxicology studies that have established that our Biochronomer polymers are safe and well tolerated. Furthermore, our Biochronomer technology can be designed to deliver drugs over periods varying from days to several months.

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. Operating results for the three and nine months ended September 30, 2007 are not indicative of the results that may be expected for the year ending December 31, 2007 or for any other period. The condensed balance sheet as of December 31, 2006 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 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, 2006 filed with the Securities and Exchange Commission (the "SEC") on March 30, 2007 (our "2006 10-K").

Summary of Significant Accounting Policies

Use of Estimates

The preparation of our financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Estimates were made relating to useful lives of fixed assets, valuation allowances, impairment of assets, accrued clinical and preclinical expenses, and assumptions for valuing options and other stock-based compensation. Actual results could differ materially from those estimates.

Revenue Recognition

Our revenue arrangements with multiple deliverables are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered elements. The consideration we receive is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are considered separately for each of the separate units. Advance payments received in excess of amounts earned are classified as deferred revenue until earned.

Royalties
Royalties from licensees are based on third-party sales of licensed products or technologies and recorded as earned in accordance with contract terms when third-party results can be reliably determined and collectability is reasonably assured.

Generally, contractually required minimum royalties are recorded ratably throughout the contractual period. Royalties in excess of minimum royalties are recognized as earned when the related product is shipped to the end customer by our licensees based on information provided to us by our licensees. No such royalties were recorded in any period presented.

License Fees
Licensing agreements generally provide for periodic minimum payments, royalties, and/or non-refundable license fees. These licensing agreements typically require a non-refundable license fee and allow partners to sell our proprietary products in a defined field or territory for a defined period. License agreements provide for the Company to earn future revenue through royalty payments. These non-refundable license fees are initially reported as deferred revenue and recognized as revenue over the estimated life of the product to which they relate as we have continuing involvement with licensees until the related product is discontinued or the related patents expire, whichever is earlier. Revenue recognized from deferred license fees is classified as license fees in the accompanying statements of operations. License fees received in connection with arrangements where we have no continuing involvement are recognized as license fees when the amounts are received or when collectability is reasonably assured, whichever is earlier. No such fees were recorded in any period presented.

A milestone payment is a payment made by a third party or corporate partner to us upon the achievement of a predetermined milestone as defined in a legally binding contract. Milestone payments relating to licensing agreements are recognized as license fees when the milestone event has occurred and we have completed all milestone related services such that the milestone payment is currently due and is non-refundable. No milestone payment relating to licensing agreements was recorded in any period presented.

Contract Revenue
Contract revenue relates to research and development arrangements that generally provide for the Company to invoice research and development fees based on full-time equivalent hours for each project. Revenue from these arrangements are recognized as the related development services are rendered. This revenue approximates the costs incurred. For the three and nine months ended September 30, 2007, we recorded contract revenue of $121,000 and $280,000 respectively. There were no contract revenue recorded for the three and nine months ended September 30, 2006.

Sale of Royalty Revenue

In January 2006, we completed the sale of our rights to royalties on sales of Retin-A Micro® and Carac® for up to $30 million. We received proceeds of $25 million upon the closing of the transaction and received a $2.5 million milestone payment in June 2007. We may receive up to an additional $2.5 million based on the satisfaction of certain predetermined milestones. The royalty interest agreement was entered into by the parties in January 2006, but the effective date of the sale of the royalty interest was October 1, 2005. The royalties recognized by the Company from October 1, 2005 through December 31, 2005 were accounted for as an offset against the $25 million gain.

Cash Equivalents and Short-term Investments

We consider all short-term investments in debt securities which have original maturities of less than three months at date of purchase to be cash equivalents. Investments which have original maturities of three months or longer are classified as marketable securities in the accompanying condensed balance sheets. Marketable securities are classified as available for sale at the time of purchase and carried at fair value. Unrealized gains or losses, if any, are recorded as other comprehensive income or loss in stockholders' equity. Our marketable securities at September 30, 2007 include certain debt securities with remaining maturities of less than 6 months.

We invest excess cash in a variety of high grade short-term, interest-bearing securities. The fair value of these investments approximate their cost at September 30, 2007.

Segment and Geographic Information

Our operations are confined to a single business segment, the design and commercialization of polymer technologies for pharmaceutical and other applications. Substantially all of our revenue have been derived from domestic customers.

Stock-Based Compensation

On January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" (SFAS 123R). Under SFAS 123R we measure and recognize compensation expense for all employee and non-employee share-based payments at fair value over the service period underlying the arrangement. The fair value of options was estimated at the date of grant using the Black-Scholes option pricing model. The assumptions used for the three and nine months ended September 30, 2007 and 2006 are as follows:

	Three Months Ended September 30,		Nine months Ended September 30,	
	2007	2006	2007	2006
Employee Stock Options				
Dividend yield	0.0%	0.0%	0.0%	0.0%
Volatility factor	240%	240%	240%	240%
Risk-free interest rate	4.1%	5.0%	4.6%	4.8%
Expected life (years)	6.25	6.25	6.25	6.25
Forfeiture	38.1%	4.2%	14.9%	3.5%
Employee Stock Purchase Plan				
Dividend yield	0.0%	0.0%	0.0%	0.0%
Volatility factor	67%	71%	72%	83%
Risk-free interest rate	4.8%	5.0%	4.8%	4.4%
Expected life (years)	1.25	1.25	1.25	1.25

The following table shows the stock-based compensation expense (credit) for all awards (in thousands except per share amount):

	Three Months Ended September 30,		Nine months Ended September 30,	
	2007	2006	2007	2006
Operating expenses:				
Research and development	$ (31)	$ 31	$ 73	$ 110
General and administrative	8	61	180	247
Total stock-based compensation expense (credit)	$ (23)	$ 92	$ 253	$ 357
Impact on basic and diluted net income (loss) per common share	*	$ (0.01)	$ (0.02)	$ (0.06)

* Impact on basic and diluted net loss per common share was less than $0.01 per share.

There was no capitalized stock-based employee compensation cost as of September 30, 2007. Since the Company had cumulative net losses as of September 30, 2007, there was no recognized tax benefit associated with stock-based compensation expense.

During the three months ended September 30, 2007 we granted 5,000 options to one employee to purchase our common stock. The following table summarizes option activity for the nine months ended September 30, 2007:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2007	547,305	$ 10.68		
Granted	46,250	$ 5.12		
Expired and Forfeited	(3,356)	$ 6.68		
Outstanding at March 31, 2007	590,199	$ 10.28	5.79	$ 5,133
Granted	12,500	$ 3.00		
Expired and Forfeited	(60,610)	$ 16.06		
Outstanding at June 30, 2007	542,089	$ 9.26	5.85	$ -
Granted	5,000	$ 2.10		
Expired and Forfeited	(24,961)	$ 16.09		
Outstanding at September 30, 2007	522,128	$ 8.96	5.71	$ -
Options exercisable at September 30, 2007	401,685	$ 10.12	4.74	$ -

As of September 30, 2007 there was approximately $340,000 of total unrecognized compensation expense for all awards. This expense is expected to be recognized over a weighted-average period of 2.47 years.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109* ("FIN 48"), which provides clarification related to the process associated with accounting for uncertain tax positions recognized in consolidated financial statements. FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 also provides guidance related to, among other things, classification, accounting for interest and penalties associated with tax positions, and disclosure requirements. We adopted FIN 48 on January 1, 2007 and the impact on our financial statements was not material.

In September 2006, the FASB issued FASB Statement ("SFAS") No. 157, *Fair Value Measurement*, ("SFAS 157"). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The guidance clarifies the principle for assessing fair value based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the guidance establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data such as companies' own data. Under this guidance, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently evaluating SFAS 157 and expects to adopt this guidance beginning on January 1, 2008.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We have not decided if we will choose to measure any eligible financial assets and liabilities at fair value.

On June 27, 2007, the EITF 07-3 *"Accounting for Advance Payments for Goods and Services to be Received for Use in Future Research and Development Activities,"* was ratified which requires companies to defer and capitalize prepaid nonrefundable research and development payments to third parties over the period that the research and development activities are performed or the services are provided, subject to an assessment of recoverability. The guidance is effective for new contracts entered into in fiscal years beginning after December 15, 2007, including interim periods within those fiscal years. As required by EITF 07-3, companies should report the effects of applying the consensus prospectively for new contracts entered into on or after the effective date of this issue.

(2) INCOME (LOSS) PER SHARE INFORMATION

Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding. Because the Company is in a net loss position for the three months ended September 30, 2007 and 2006 and nine months ended September 30, 2007, diluted loss per share is also calculated using the weighted average number of common shares outstanding excluding the effect of potentially dilutive securities because they are antidilutive. Such potentially dilutive securities at September 30, 2007 include outstanding stock options for 522,128 common shares and unearned restricted stock awards for 33,750 common shares. For the nine months ended September 30, 2006, diluted earnings per share is calculated using the weighted average number of common shares outstanding and other dilutive securities.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the nine months ended September 30, 2006 (in thousands):

Numerator:	
Net income	$ 10,932
Denominator:	
Weighted average shares outstanding used to compute Basic earnings per share	6,312
Effect of dilutive stock options and restricted stock awards	47
Weighted average shares outstanding and dilutive securities used to compute diluted earnings per share	6,359

(3) COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) for the three and nine months ended September 30, 2007 and 2006 consists of the following (in thousands):

	Three Months Ended September 30,		Nine months Ended September 30,	
	2007	2006	2007	2006
Net income (loss)	$ (4,685)	$ (3,817)	$ (12,462)	$ 10,932
Unrealized gains (losses) on available-for-sale marketable securities	(20)	33	(8)	(9)
Comprehensive income (loss)	$ (4,705)	$ (3,784)	$ (12,470)	$ 10,923

(4) INCOME TAXES

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*, or FIN 48, on January 1, 2007. Upon adoption of FIN 48, we commenced a review of our tax positions taken in our tax returns that remain subject to examination. Based upon our review, we do not believe we have any unrecognized tax benefits or that there is material impact on our financial condition or results of operations as a result of implementing FIN 48.

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. We are subject to U.S. federal or state income tax examinations by tax authorities for all years in which we reported net operating loss carry forwards. We do not believe there will be any material changes in our unrecognized tax positions over the next 12 months.

We recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, we did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor was any related interest expense recognized for the period ended September 30, 2007.

(5) STOCKHOLDERS' EQUITY

On May 25, 2007, we effected a one-for-four reverse stock split based on our stockholders' approval of such action at the annual stockholder meeting held on May 23, 2007. All share and per share amounts for all periods presented have been retroactively adjusted to reflect the reverse stock split.

On June 19, 2007, we sold 24,393,939 shares of common stock at a price of $1.65 per share, for net proceeds of approximately $37.2 million after deducting placement agent fees and costs associated with the offering. The shares were offered under our registration statement on Form S-1, as amended (Registration No. 333-14-1918).

During the nine months ended September 30, 2007, 11,254 shares of common stock were issued to employees under the employee stock purchase plan and 15,000 shares of restricted common stock were awarded to directors.

(6) DISCONTINUED OPERATIONS

We completed the sale of certain assets of our Analytical Standards division as well as certain technology rights for our topical pharmaceutical and cosmeceutical product lines and other assets ("cosmeceutical and toiletry business") in February 2003 and July 2000, respectively.

The Analytical Standards division and cosmeceutical and toiletry business are reported as discontinued operations for all periods presented in the accompanying Condensed Statements of Operations.

Income (loss) from discontinued operations represents the income (loss) attributable to our Analytical Standards division that was sold to GFS Chemicals on February 13, 2003, and changes in estimates for our cosmeceutical and toiletry business that was sold to RP Scherer on July 25, 2000, as follows (in thousands):

	Three Months Ended September 30,		Nine months Ended September 30,	
	2007	2006	2007	2006
Analytical Standards Division				
Royalties earned in excess of minimum amount recorded	$ 1	$ 16	$ 18	$ 38
Cosmeceutical and Toiletry Business				
Change in estimates for gross profit guarantees	-	(80)	15	(130)
Total income (loss) from discontinued operations	$ 1	$ (64)	$ 33	$ (92)
Impact on basic and diluted income (loss) per share	*	$ 0.01	*	$ 0.01

* Impact on basic and diluted loss per common share from discontinued operations was less than $0.01 per share.

Liabilities related to the discontinued operations at September 30, 2007 in the amount of $66,000 include severance costs and accruals for gross profit guarantees. These liabilities are reported as accrued disposition costs in the accompanying condensed balance sheets.

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 Neutrogena and Dermik ("Gross Profit Guaranty"). The guaranty period commenced on July 1, 2000 and ends 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. Effective March of 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 extends the gross profit guaranty period an additional three years to July 1, 2013 unless it is terminated earlier via the two period test. We expect the annual Gross Profit Guaranty payments to range from approximately $100,000 to $150,000 for the remainder of the guaranty period. As the minimum amount of Gross Profit Guaranty due is based on sales by RP Scherer and cannot be estimated, no accrual has been recorded relating to sales in future periods.

Cash used in discontinued operations primarily relates to royalty payments received from GFS Chemicals for the sale of certain products offset by a payment of $252,000 relating to the Gross Profit Guaranty.

Below is a summary of activity for liabilities related to the discontinued operations for the nine months ended September 30, 2007 (in thousands):

Accrual at December 31, 2006	$ 335
Adjustment for gross profit guaranty accrual	(14)
Payment for gross profit guaranty	(252)
Payment under severance agreement	(3)
Accrual at September 30, 2007	$ 66

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

Forward-looking Statements

This Form 10-Q contains "forward-looking statements" as defined by the Private Securities 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.

Critical Accounting Policies and Estimates

We believe that there have been no significant changes in our critical accounting policies during the nine months ended September 30, 2007 as compared to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

Results of Operations for the Three and Nine months Ended September 30, 2007 and 2006 (in thousands unless otherwise indicated)

Contract revenue, which is derived from work performed under collaborative research and development arrangements, increased $121 and $280 in the three and nine months ended September 30, 2007, respectively. The amount of contract revenue varies from period to period depending on the level of activity requested of us by our collaborators. Therefore, we cannot predict the amount of contract revenue in future periods.

Our revenue has been derived principally from contract revenue. In January 2006, we completed the sale of our rights to royalties on sales of Retin-A Micro® and Carac® for up to $30 million. We received proceeds of $25 million upon the closing of the transaction and received a $2.5 million milestone payment in June 2007 which were recorded as gain on sale of interest in royalties. We may receive up to an additional $2.5 million based on the satisfaction of certain predetermined milestones. The royalty interest agreement was entered into by the parties in January 2006, but the effective date of the sale of the royalty interest was October 1, 2005. The royalties recognized by the Company from October 1, 2005 through December 31, 2005 were accounted for as an offset against the $25 million gain. As a result of this transaction, there were no royalties for the third quarter of 2007 and 2006. We will not record additional royalty revenue on sales of Retin-A Micro® and Carac® in future periods.

Research and development expense for the three months ended September 30, 2007 increased by $1,477 from $3,118 for the three months ended September 30, 2006 to $4,595 due mainly to increased expenditures on our Phase 3 study for APF530, our product candidate for the prevention of chemotherapy-induced nausea and vomiting. Research and development expense for the nine months ended September 30, 2007 increased by $2,901 from $10,443 for the nine months ended September 30, 2006 to $13,344 due mainly to increased expenditures on our Phase 3 study for APF530. We expect research and development expense to increase in the last quarter of 2007 reflecting the increased number of patients enrolled in our Phase 3 study for APF530 together with the costs associated with the renewed development and clinical programs for other product candidates.

General and administrative expense decreased for the three months ended September 30, 2007 by $68 from $830 for the three months ended September 30, 2006 to $762 due primarily to decreased outside consultant fees. General and administrative expense for the nine months ended September 30, 2007 increased by $58 from $2,695 for the nine months ended September 30, 2006 to $2,753 due mainly to increased legal fees. We expect general and administrative expense in the last quarter of 2007 to remain relatively constant with the first three quarters of the year.

We expect our non-cash operating expenses for employee share-based compensation for the last quarter of 2007 to remain relatively constant with the first three quarters of the year.

Net interest income increased for the three months ended September 30, 2007 by $317 to $561 from $244 for the three months ended September 30, 2006 and increased for the nine months ended September 30, 2007 by $79 to $865 from $786 for the nine months ended September 30, 2006 due to higher average balance of cash, cash equivalents and marketable securities.

Income/loss from discontinued operations represents the net income/loss attributable to the Analytical Standards division which was sold to GFS Chemicals, Inc. in February 2003 and the cosmeceutical and toiletries business which was sold to RP Scherer Corporation in July 2000. Net income from discontinued operations totaled $1 for the three months ended September 30, 2007, compared with a net loss of $64 in the three months ended September 30, 2006. For the nine months ended September 30, 2007, net income from discontinued operations totaled $33 compared with a net loss of $92 in the nine months ended September 30, 2006.

Capital Resources and Liquidity

Cash, cash equivalents and marketable securities increased by $25 million to $40 million at September 30, 2007 from $15 million at December 31, 2006 due primarily to the sale of 24,393,939 shares of common stock in an underwritten public offering in June 2007 at a price of $1.65 per share for net proceeds of approximately $37.2 million less the cash used in continuing operating activities since that date.

Net cash used in continuing operating activities for the nine months ended September 30, 2007 was $12 million, compared to net cash of $12 million provided by continuing operating activities for the nine months ended September 30, 2006. The decrease in net cash provided by operating activities from 2006 to 2007 was mainly due to the one-time payment from the sale of our interest in royalties in January 2006.

Net cash provided by investing activities for the nine months ended September 30, 2007 was $11 million, compared to net cash of $9 million used in investing activities for the nine months ended September 30, 2006. The decrease in the cash used in investing activities was primarily due to the purchases of $15 million of marketable securities in the nine months ended September 30, 2006.

To date, we have financed our operations including technology and product research and development through the sale of common stock in June 2004 and 2007, royalties received on sales of Retin-A Micro® and Carac®, income from collaborative research and development fees, the proceeds received from the sales of our Analytical Standards division and our cosmeceutical and toiletry business, interest earned on short-term investments and the sale of our interest in

the royalty income from Retin-A Micro® and Carac®. Our existing cash, cash equivalents and marketable securities, together with interest income will be sufficient to meet our cash needs for at least one year.

Our future capital requirements will depend on numerous factors including, among others, our ability to enter into collaborative research and development and licensing agreements; progress of product candidates in preclinical and clinical trials; investment in new research and development programs; time required to gain regulatory approvals; resources that we devote to self-funded products; potential acquisitions of technology, product candidates or businesses; and the costs of defending or prosecuting any patent opposition or litigation necessary to protect our proprietary technology.

Below is a summary of fixed payments related to certain contractual obligations (in thousands). This table excludes amounts already recorded on our condensed balance sheet as current liabilities at September 30, 2007.

	Total	Less than 1 year	2 to 3 years	4 to 5 years	More than 5 years
Operating Leases	$ 1,907	$ 545	$ 1,096	$ 266	$ -

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Since December 31, 2006, there have been no material changes in the Company's market risk exposure.

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 the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operations of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15(d)-15(e) of the Exchange Act. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2007, the end of period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level to alert them in a timely manner to material information relating to the Company required to be included in our Exchange Act filings.

Changes in internal controls: During the three months ended September 30, 2007, 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 1A. Risk Factors

There have been no material changes to the risk factors set forth in the "RISK FACTORS" section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

ITEM 5. Other Matters

In March 2005 we entered into an amended and restated retention and non-competition agreement with Mr. O’Connell and a change of control agreement with Dr. Barr. Mr. O’Connell’s agreement was amended twice in 2007, most recently in August 2007, without affecting any of its economic provisions, to conform with the newly-promulgated technical provisions of the Treasury Regulations under Section 409A of the Internal Revenue Code. Dr. Barr’s agreement was amended on November 8, 2007 to become a management retention agreement. This amended agreement provides that if Dr. Barr’s employment is terminated by us without good cause or by him for good reason, as such terms are defined in his agreement, he shall receive his annual base salary in effect on the date of termination, the average of any bonus paid during each of the three 12-month periods prior to termination, and the continued vesting of his unvested stock options, all for a 12-month period following such termination, and the lapse of all remaining forfeiture and transfer restrictions on restricted stock previously granted to him. Such salary and bonus payments shall be paid in twelve equal monthly increments. In addition, upon a change of control, all of his unvested stock options shall immediately vest, and all restrictions on his restricted stock shall lapse.

ITEM 6. Exhibits

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rules 13A-15(e) Promulgated under the Securities Exchange Act of 1934 as amended.

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Rules 13A-15(e) Promulgated under the Securities Exchange Act of 1934 as amended.

Exhibit 32 Certifications of Chief Executive Officer and 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 10.14* Amended & Restated Retention and Non-Competition Agreement with Michael O'Connell effective August 23, 2007.

Exhibit 10.15* Management Retention Agreement with Dr. John Barr effective November 8, 2007.

Exhibit 10.16* Amendments to Advanced Polymer Systems, Inc. Non-Qualified Stock Option Plan

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* Previously filed

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.
Date: November 13, 2007	/S/ Gregory Turnbull Gregory Turnbull President and Chief Executive Officer
Date: November 13, 2007	/S/ Michael O’Connell Michael O’Connell Chief Operating Officer and Chief Financial Officer

Exhibit 31.1

SECTION 302 CERTIFICATIONS

Certifications:

I, Gregory H. Turnbull, certify that:

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

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;

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;

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)) for the registrant and have:

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;

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

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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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 registrant's board of directors:

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

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: November 13, 2007

/s/ Gregory H. Turnbull
Gregory H. Turnbull
President and Chief Executive Officer

Exhibit 31.2

SECTION 302 CERTIFICATIONS

Certifications:

I, Michael O’Connell, certify that:

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

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;

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;

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)) for the registrant and have:

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;

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

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 that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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 registrant's board of directors:

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

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: November 13, 2007

/s/ Michael O’Connell
Michael O’Connell
Chief Operating Officer and Chief Financial Officer

Exhibit 32

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 September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory H. Turnbull, President and 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 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Gregory H. Turnbull
Gregory H. Turnbull,
President and Chief Executive Officer

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 September 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael O'Connell, Chief Operating Officer and 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 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Michael O'Connell
Michael O'Connell,
Chief Operating Officer and Chief Financial Officer

Exhibit 10.14

AMENDED AND RESTATED

RETENTION AND NON-COMPETITION AGREEMENT

A.P. Pharma, Inc. (the "Company" or "APP"), and Michael P.J. O'Connell ("Executive") entered into a Retention and Non-Competition Agreement (the "Retention Agreement"), effective the 23rd day of March, 2005 (the "Effective Date") in full substitution for the Retention and Non-Competition Agreement originally entered into between the parties effective May 12, 1999 and amended in its entirety effective August 1, 2000. The Retention Agreement is hereby revised, effective August 23, 2007, so as to fully comply with the applicable provisions of Section 409A of the Internal Revenue Code of 1986, as amended, and the final treasury regulations and any guidance promulgated thereunder ("Section 409A"). The rights and obligations of Executive and the Company remain in full force and effect as set forth below.

WHEREAS, the Company desires to retain the services of Executive as set forth in this Agreement and Executive desires to provide services to the Company, upon the terms and conditions set forth herein; and

WHEREAS, the Company desires to ensure that Executive does not compete with and is available to provide services to the Company for the period of time set forth herein;

NOW, THEREFORE, in consideration of the covenants and agreements hereinafter set forth, the parties hereto agree as follows:

1. Term of Agreement. This Agreement shall commence on the Effective Date and shall end on (i) December 31, 2006, and shall be automatically renewed for additional one-year periods without any action required of either party unless not later than four months prior to the end of any calendar year either party gives to the other party notice in writing that it intends to terminate the Agreement at the end of the calendar year. The Company and Executive agree that this Agreement shall govern the terms and conditions of Executive's provision of services to the Company during the term of this Agreement.

2. Title and Responsibilities. From and after the Effective Date until the commencement of any Supplemental Employment Term (as defined in Section 6 of this Agreement) (the "CEO Employment Period"), the Company shall employ Executive as the President and Chief Executive Officer of the Company reporting to the Board of Directors. As President and Chief Executive Officer of the Company, Executive shall have the duties and responsibilities customarily associated with such position and as determined from time to time by the Board of Directors of the Company. It is understood and agreed that Executive will be considered an employee of the Company for tax withholding purposes for the duration of both the CEO Employment Period and the Supplemental Employment Term. Executive acknowledges that as a supplemental Employee he shall not have the power to bind the Company.

3. Obligations. Executive agrees, during the CEO Employment Period, not to actively engage in any other employment, occupation or consulting activity for any direct or indirect remuneration without the prior approval of the Board; provided, however, that Executive may serve in any capacity with any civic, educational, or charitable organization.

4. Employee Benefits. During the CEO Employment Period and Supplemental Employment Period, Executive shall be eligible to participate in (i) all employee benefit plans currently and hereafter maintained by the Company for senior management according to their terms, and (ii) such other employee benefits as are set forth in this Agreement.

5. CEO Employment Period Compensation.

(a) Base Salary. During the CEO Employment Period, and during certain Supplemental Employment Terms, as specified in Section 6 hereof, the Company shall pay Executive as compensation for his services a base salary at an initial annualized rate recommended by the Compensation Committee of the Board and approved by the Board (which rate shall in no event be less than Executive's base salary on the Effective Date as adjusted from time to time by the Board or its Compensation Committee (the "Base Salary"). The Base Salary shall be paid periodically in accordance with normal Company payroll practices and subject to the usual required withholding. Notwithstanding the foregoing, during the CEO Employment Period, Executive's Base Salary shall be reviewed annually for possible adjustments in light of Executive's performance of his duties, as determined by the Board or its Compensation Committee.

(b) Bonus. During the CEO Employment Period and during Supplemental Employment Terms as specified in Section 6 hereof, Executive shall be eligible to receive bonuses as determined by the Board or its Compensation Committee.

6. Transition to Supplemental Employment.

(a) Supplemental Employment Term Definition; Obligations. The periods of employment specified in this Section 6 shall be defined as the "Supplemental Employment Term" for the purposes of this Agreement. During any Supplemental Employment Term, Executive shall be required to devote such time in rendering services to the Company as shall be reasonably agreed upon and acceptable to the Executive and the Company. During the Supplemental Employment Term, Executive shall be free to serve as a director, employee, consultant or advisor to any other corporation or other business enterprise without the prior written consent of the Company so long as such activities do not interfere with his duties and obligations under this Agreement, including without limitation, Executive's obligations under Section 8 hereof. In consideration of Executive's not working for a

"Drug Delivery Company" (as such term is defined in Section 8) and being available to provide the mutually agreed upon services required hereunder during the Supplemental Employment Term, the Executive shall receive the compensation specified in this Section 6.

(b) Termination of CEO Employment for Cause. The Company may at any time terminate Executive's employment hereunder for "Cause." For the purposes of this Agreement, "Cause" shall mean (i) Executive's gross negligence or willful misconduct in connection with the performance of his duties, (ii) Executive's conviction of, or plea of nolo contendere to, any felony in a court of competent jurisdiction, or (iii) Executive's embezzlement or misappropriation of Company property.

(c) Termination of CEO Employment by Company Other than for Cause. If the Company desires to terminate Executive's CEO employment with the Company other than for Cause, then the Company shall provide Executive with written notice of such termination. If the Executive's CEO employment is terminated by the Company other than for Cause, then, subject to Executive entering into a Release, the Executive shall remain employed by the Company as a supplemental employee for a period of 24 months from the date upon which the Executive is given such written notice from the Company, after which period Executive's employment with the Company shall terminate.

In connection with the Supplemental Employment Term arising in connection with termination of Executive's CEO employment by Company other than for Cause, Executive shall be paid (i) Base Salary, payable 50% at time of commencement of Supplemental Employment and the balance in accordance with the Company's normal payroll practices and (ii) an annual bonus for the 24-month period (prorated for any partial year) equal to the bonus paid to Executive during the immediately preceding 12-month period.

(d) Voluntary Termination of CEO Employment by Executive for Good Reason. If Executive desires to voluntarily terminate his CEO employment with the Company for Good Reason, then Executive shall provide the Company with written notice of such termination within ninety (90) days of the occurrence of the event that provides Good Reason under this Agreement, provided however that Executive shall provide the Company the opportunity to remedy the event within 30 days after receipt of notice thereof given by the Executive. Subject to Executive entering into a release in usual form of the Company and its directors and officers, the Executive shall remain employed by the Company as a supplemental employee for a period of 24 months from the date upon which the Company is given such written notice from Executive, after which period Executive's employment with the Company shall terminate. For the purposes of this Agreement, "Good Reason" shall mean, during the CEO Employment Period, the occurrence of one of the following events without the prior written consent of Executive: (i) a material reduction in Executive's authority or responsibility which (x) is inconsistent with his position and/or title with the Company, or (y) diminishes or changes the Executive's substantive authority or responsibility relative to Executive's authority and responsibility immediately prior to such reduction, (ii) a material reduction in Executive's Base Salary (a reduction of more than ten percent (10%) in any one year), (iii) a material reduction in the kind or level of employee benefits to which the Executive is entitled which is different from the level of benefits to which other similar employees are entitled or any action taken that materially and adversely affects the Executive's participation in any employee benefit plan on a basis different from that applicable to other employees of similar rank, or (iv) Executive's notification in writing from the Company that his principal place of work will be relocated by a distance of 40 miles or more from the Company's present headquarters.

The Parties acknowledge that Executive has recently been on a medical leave of absence from his position as President and Chief Executive Officer of the Company. For the avoidance of doubt, if at such time as Executive is ready and able to assume all of the duties and responsibilities of the position of President and Chief Executive Officer of the Company, the Company does not return him to that position, such action shall constitute Good Reason under this Agreement.

In connection with the Supplemental Employment Term arising in connection with a termination of employment by the Executive for Good Reason, Executive shall be paid (i) Base Salary for the 24-month period, payable 50% at time of commencement of Supplemental Employment and the balance in equal installments in accordance with the Company's normal payroll practices and (ii) an annual bonus for the 24-month period (prorated for any partial year) equal to the bonus paid to Executive during the immediately preceding 12-month period.

(e) Stock Option Vesting During Supplemental Employment Term or upon Change of Control.

(i) During any Supplemental Employment Term provided for in this Agreement, stock options that were granted to Executive by the Company ("Options") shall continue to vest in accordance with the terms and conditions of the original option agreements relating to such Options.

(ii) Upon a Change of Control of the Company followed by termination of the Executive's employment by the Company without Cause or by the Executive for Good Reason, all outstanding stock options previously granted to Executive shall become 100% vested.

(f) Lapse of Restrictions on Restricted Stock. Upon a Change in Control provided for in this Agreement, all forfeiture and transfer restrictions on shares of restricted stock awarded to Executive by the Company ("Restricted Stock") shall lapse in accordance with the terms and conditions of the original restricted stock award agreements relating to such Restricted Stock.

(g) For purposes of this Agreement, "Change of Control": shall be deemed to have occurred if (i) any person or group (within the meaning of Rule 13d-3 of the rules and regulations promulgated under the Securities Exchange Act of 1934, as

amended) shall acquire, in one or a series of transactions, whether through sale of stock or merger, ownership of stock of APP that possesses fifty percent or more of the total fair market value or total voting power of the stock of APP or any successor to APP; (ii) a merger in which APP is a party after which merger the stockholders of APP immediately before the sale do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the surviving company; or (iii) the sale, exchange or transfer of all or substantially all of APP's assets (other than a sale, exchange or transfer to one or more corporations where the stockholders of APP immediately before and after such sale, exchange or transfer, directly or indirectly, are the beneficial owners of at least a majority of the voting stock of the corporation(s) to which the assets were transferred).

7. Termination of Employment Relationship. Executive's supplemental employment relationship with the Company may not be terminated by the Company prior to the end of the Supplemental Employment Term, except by written agreement between both of the parties hereto; provided, however, that Executive's employment with the Company, shall immediately and automatically terminate upon Executive's breach of Section 8 hereof or for Cause. No additional benefits or payments will become payable to Executive hereunder upon a termination

8. Covenant Not to Compete.

(a) Covenant Not to Compete. During the CEO Employment Period and the Supplemental Employment Term, Executive will not render services as an employee or as a consultant providing more than an average of 20 hours per month, or participate as more than a 5% owner in, any Drug Delivery Company in the Restricted Territory, as such terms are defined immediately below.

(b) Drug Delivery Company. "Drug Delivery Company" shall mean each company listed on Exhibit A hereto so long as such company is engaged in the development or application of drug delivery technology. For purposes of this definition, "drug delivery technology" shall mean technology designed to deliver pharmacologically active substances into an organism in a manner that is controlled as to time and/or location of release as compared with bolus injections or standard oral nasal or rectal dosage forms. In no event shall delivery of genetic materials be considered delivery for purposes of this Section 8.

(c) Restricted Territory. "Restricted Territory" means any county in the State of California, each state in the United States and each country in the world.

9. Assignment. Executive's rights and obligations under this Agreement shall not be assignable by Executive. The Company's rights and obligations under this Agreement shall not be assignable by the Company except as incident to the transfer, by merger, liquidation, or otherwise, of all or substantially all of the business of the Company.

10. Notices. Any notice required or permitted under this Agreement shall be given in writing and shall be deemed to have been effectively made or given if personally delivered, or if sent by facsimile, or mailed or sent via overnight courier to the other party at its address may designate by written notice to the other party hereto. Any effective notice hereunder shall be deemed given on the date personally delivered or on the date sent by facsimile or deposited in the United States mail (sent by certified mail, return receipt requested), as the case may be, at the following addresses:

(i) If to the Company:

A.P. Pharma, Inc.
123 Saginaw Drive
Redwood City, California 94063
Attn: Chairman of the Board

(ii) If to the Executive:

Michael P.J. O'Connell
13621 Pierce Road
Saratoga, California 95070

11. Arbitration. The parties hereto agree that any dispute or controversy arising out of, relating to, or in connection with this Agreement, or the interpretation, validity, construction, performance, breach, or termination thereof, shall be finally settled by binding arbitration to be held in San Mateo County, California under the Employment Dispute Resolution Rules of the American Arbitration Association as then in effect (the "Rules"). The arbitrator(s) may grant injunctions or other relief in such dispute or controversy. The decision of the arbitrator(s) shall be final, conclusive and binding on the parties to the arbitration, and judgment may be entered on the decision of the arbitrator(s) in any court having jurisdiction.

The arbitrator(s) shall apply California law to the merits of any dispute or claim, without reference to rules of conflicts of law, and the arbitration proceedings shall be governed by federal arbitration law and by the Rules, without reference to state arbitration law.

The parties shall each pay one-half of the costs and expenses of such arbitration, and each party shall pay its own counsel fees and expense.

EXECUTIVE HAS READ AND UNDERSTANDS THIS SECTION 12, WHICH DISCUSSES ARBITRATION. EXECUTIVE UNDERSTANDS THAT BY SIGNING THIS AGREEMENT, EXECUTIVE AGREES TO SUBMIT ANY CLAIMS ARISING OUT OF, RELATING TO, OR IN CONNECTION WITH THIS AGREEMENT, OR THE INTERPRETATION, VALIDITY, CONSTRUCTION, PERFORMANCE, BREACH OR TERMINATION THEREOF TO BINDING ARBITRATION, AND THAT THIS ARBITRATION CLAUSE CONSTITUTES A WAIVER OF EXECUTIVE'S RIGHT TO A JURY TRIAL AND RELATES TO THE RESOLUTION OF ALL DISPUTES RELATING TO EXECUTIVE'S EMPLOYMENT RELATIONSHIP WITH THE COMPANY.

12. Withholding. The Company shall be entitled to withhold, or cause to be withheld, from payment any amount of withholding taxes required by law with respect to payments made to Executive in connection with his employment hereunder.

13. Section 409A.

(a) Distributions. Notwithstanding anything to the contrary in this Agreement, if Executive is a "specified employee" within the meaning of Section 409A at the time of Executive's termination of CEO Employment, and the benefits payable to Executive, if any, pursuant to this Agreement, when considered together with any other payments or separation benefits which may be considered deferred compensation under Section 409A (together, the "Deferred Compensation Separation Benefits") will not and could not under any circumstances, regardless of when such termination occurs, be paid in full by March 15 of the year following Executive's termination, then only that portion of the Deferred Compensation Separation Benefits which do not exceed the Section 409A Limit (as defined below) may be made within the first six (6) months following Employee's termination of employment in accordance with the payment schedule applicable to each payment or benefit. For these purposes, each severance payment is hereby designated as a separate payment and will not collectively be treated as a single payment. Any portion of the Deferred Compensation Separation Benefits in excess of the Section 409A Limit shall accrue and, to the extent such portion of the Deferred Compensation Separation Benefits would otherwise have been payable within the first six (6) months following Executive's termination of CEO employment, will become payable on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of Executive's termination of CEO employment. All subsequent Deferred Compensation Separation Benefits, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit.

(b) Amendment. This provision is intended to comply with the requirements of Section 409A so that none of the payments and separation benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. The Company and Executive agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Executive under Section 409A.

(c) Section 409A Limit. For purposes of this Agreement, "Section 409A Limit" will mean the lesser of two (2) times: (i) Executive's annualized compensation based upon the annual rate of pay paid to Executive during the Company's taxable year preceding the Company's taxable year of Executive's termination of Full-Time employment as determined under Treasury Regulation 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which Executive's Full-Time employment is terminated.

14. Severability. If any term or provision of this Agreement shall to any extent be declared illegal or unenforceable by arbitrator(s) or by a duly authorized court of competent jurisdiction, then the remainder of this Agreement or the application of such term or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, each term and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law and the illegal or unenforceable term or provision shall be deemed replaced by a term or provision that is valid and enforceable and that comes to expressing the intention of the invalid or unenforceable term of provision.

15. Entire Agreement. This Agreement and the agreements relating to the Options and Restricted Stock represent the entire agreement of the parties with respect to the matters set forth herein, and to the extent inconsistent with other prior contracts, arrangements or understandings between the parties, supersedes all such previous contracts, arrangements or understandings between the Company and the Executive. The Agreement may be amended at any time only by mutual written agreement signed by the parties hereto.

16. Headings. The headings of sections herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

17. Counterparts. This Agreement may be executed by either of the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

EXECUTIVE	A.P. Pharma, Inc.
	By:
Name:	Name:

EXHIBIT A

3M Pharmaceuticals

Alcon

Alkermes, Inc.

Alza Corporation

Andrx Corporation

Aradigm Corporation

Biovail Corporation International

Cardinal Health

Cima Labs, Inc.

Dura Pharmaceuticals, Inc.

Durect Corporation

Eurand

Faulding Inc.

Inhale Therapeutic Systems, Inc.

K-V Pharmaceutical Company

Lohmann Therapie Systeme GmbH

Noven Pharmaceuticals, Inc.

Penwest Pharmaceuticals Co.

Research Triangle Pharmaceuticals

SkyePharma plc

Teva Pharmaceuticals

Watson Pharmaceuticals, Inc.

Yamanouchi Pharmaceutical Co., Ltd.

1. Including any and all successors and divisions or subsidiaries of such Persons.

A.P. PHARMA, INC.

MANAGEMENT RETENTION AGREEMENT

This Management Retention Agreement (the "Agreement") is dated as of November 8, 2007, by and between Dr. John Barr ("Employee") and A.P. Pharma, Inc., a Delaware corporation (the "Company"). This Agreement is intended to provide Employee with certain benefits described herein upon the occurrence of specific events and supercedes an earlier Change of Control Agreement dated March 23, 2005 between the Company and Employee.

RECITALS

A. The Company's Board of Directors believes it is in the best interests of the Company and its shareholders to retain Employee and provide incentives to Employee to continue in the service of the Company.

B. The Board of Directors further believes that it is imperative to provide Employee with certain benefits upon certain termination of Employee's employment in connection with an Involuntary Termination or with a Change of Control, which benefits are intended to provide Employee with financial security and provide sufficient income and encouragement to Employee to remain with the Company, notwithstanding the possibility of a Change of Control.

D. To accomplish the foregoing objectives, the Board of Directors has directed the Company, upon execution of this Agreement by Employee, to agree to the terms provided in this Agreement.

It is therefore agreed as follows

1. **At-Will Employment**. The Company and Employee acknowledge that Employee's employment is and shall continue to be at-will, as defined under applicable law, and that Employee's employment with the Company may be terminated by either party at any time for any or no reason. If Employee's employment terminates for any reason, Employee shall not be entitled to any payments, benefits, damages, award or compensation other than as provided in this Agreement or otherwise agreed to by the Company. The terms of this Agreement shall terminate upon the earliest of: (i) the date on which Employee ceases to be employed as a corporate officer of the Company, other than as a result of an Involuntary Termination; (ii) the date that all obligations of the parties hereunder have been satisfied. A termination of the terms of this Agreement pursuant to the preceding sentence shall be effective for all purposes, except that such termination shall not affect the payment or provision of compensation or benefits on account of a termination of employment occurring prior to the termination of the terms of this Agreement. The rights and duties created by this Section 1 are contingent upon the Employee's release of claims against the Company (at the time of termination in a form reasonably satisfactory to the Company) and may not be modified in any way except by a written agreement executed by an officer of the Company upon direction from the Board of Directors.

2. **Benefits Upon Termination of Employment.**

(a) **Severance.** In the event that Employee suffers an Involuntary Termination at any time Employee will be entitled to receive severance benefits as follows: (i) severance payments during the period from the date of Employee's termination until the date twelve months after the effective date of the termination (the "Severance Period") equal to the base salary which Employee was receiving immediately prior to the Involuntary Termination together with (ii) the average bonus paid by the Company to the Employee for services during each of the three 12- month periods prior to Involuntary Termination date, which payments shall be paid during the Severance Period in accordance with the Company's standard payroll practices; and (iii) continuation of payment by the Company of its portion of the health insurance benefits provided to Employee immediately prior to the Involuntary Termination pursuant to the terms of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") or other applicable law through the earlier of the end of the Severance Period or the date upon which Employee is no longer eligible for such COBRA or other benefits under applicable law.

(b) **Treatment of Stock Options Upon Involuntary Termination**. In the event that Employee suffers an Involuntary Termination under circumstances other than as covered in paragraph 2(c) below, the Employee's unvested Company stock options shall continue to vest for the 12 month Severance Period following the Involuntary Termination date in accordance with the provisions of the option agreement and plan pursuant to which such option was granted.

(c) **Treatment of Stock Options Upon a Change of Control**. In the event that Employee suffers an Involuntary Termination in connection with or within twelve months following the effective date of a Change of Control, 100% of Employee's unvested Company stock options shall become immediately vested on such termination date. Except for the accelerated vesting provided by this paragraph 2(c), each such option shall be exercisable in accordance with the provisions of the option agreement and plan pursuant to which such option was granted.

(d) **Lapse of Restrictions on Restricted Stock Upon Involuntary Termination**. In the event that Employee suffers an Involuntary Termination under circumstances other than in connection with or within twelve months following the effective date of a Change of Control, relinquishment of all forfeiture and transfer restrictions on stock previously awarded to the Employee will continue, solely for the duration of the twelve month Severance Period, in accordance with the provisions of the restricted stock agreement relating to such restricted stock.

(e) **Lapse of Restrictions on Restricted Stock Upon a Change of Control**. Upon a Change of Control all forfeiture and transfer restrictions on shares of restricted stock previously awarded to Employee shall lapse in their entirety.

(f) **Termination for Cause**. Notwithstanding any other provision of this Agreement, if Employee's employment is terminated for Cause at any time, then Employee shall not be entitled to receive payment of any severance benefits or any continuation or acceleration of stock option vesting or relinquishment of forfeiture and transfer restrictions on restricted stock awards. Employee will receive payment(s) for all salary, bonuses and unpaid vacation accrued as of the date of Employee's termination of employment.

(g) **Voluntary Resignation**. If Employee voluntarily resigns from the Company under circumstances which do not constitute an Involuntary Termination, then Employee shall not be entitled to receive payment of any severance benefits, or option acceleration, or relinquishment of forfeiture and transfer restrictions. Employee will receive payment(s) for all salary, bonuses and unpaid vacation accrued as of the date of Employee's termination of employment.

3. **Definition of Terms**. The following terms referred to in this Agreement shall have the following meanings:

(a) **"Cause"** means any of the following: (i) Employee's theft, dishonesty, willful misconduct, breach of fiduciary duty for personal profit, or falsification of any Company or Affiliate documents or records; (ii) Employee's material failure to abide by a Company's or Affiliate's code of conduct or other policies (including without limitation, policies relating to confidentiality and reasonable workplace conduct); (iii) Employee's unauthorized use, misappropriation, destruction or diversion of any tangible or intangible asset or corporate opportunity of the Company or an Affiliate (including, without limitation, Employee's improper use or disclosure of confidential or proprietary information); (iv) any intentional act by Employee which has a material detrimental effect on the Company or an Affiliate's reputation or business; (v) Employee's repeated failure or inability to perform any reasonable assigned duties after written notice from the Company or an Affiliate (including, without limitation, habitual absence from work for reasons other than illness), and a reasonable opportunity to cure, such failure or inability; (vi) any material breach by Employee of any employment or service agreement between Employee and the Company or an Affiliate, which breach is not cured pursuant to the terms of such agreement; or (vii) Employee's conviction (including any plea of guilty or nolo contendere) of any criminal act involving fraud, dishonesty, misappropriation or moral turpitude, or which impairs Employee's ability to perform his or her duties with the Company or an Affiliate.

(b) **"Change in Control"** means the occurrence of any of the following:

(i) an Ownership Change Event or a series of related Ownership Change Events (collectively, a "**Transaction**") in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or such surviving entity immediately outstanding after the Transaction, or, in the case of an Ownership Change Event the entity to which the assets of the Company were transferred (the "**Transferee**"), as the case may be; or

(ii) the liquidation or dissolution of the Company.

For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Board shall have the right to determine whether multiple sales or exchanges of the voting securities in the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive. The Board may also, but need not, specify that other transactions or events constitute a Change in Control.

(c) **"<u>Involuntary Termination</u>"** shall include any termination by the Company other than for Cause and Employee's voluntary termination within sixty days following the occurrence of any of the following events without Employee's written consent: (i) a material reduction or change in job duties, responsibilities and requirements inconsistent with Employee's position with the Company and Employee's prior duties, responsibilities and requirements or a change in Employee's reporting relationship; (ii) a material reduction of Employee's base compensation (other than in connection with a general decrease in base salaries for most officers of the successor corporation); or (iii) Employee's refusal to relocate to a facility or location more than forty miles from the Company's current location, provided that Employee will not resign due to such change, reduction or relocation without first providing the Company with written notice of the event or events constituting the grounds for his voluntary resignation within thirty days of the initial existence of such grounds and a reasonable cure period of not less than thirty days following the date of such notice.

(d) "**Ownership Change Event**" means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than fifty percent (50%) of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company.

4. **Limitation and Conditions on Payments.**

(a) **<u>Parachute Payments</u>**. In the event that the severance and other benefits provided for in this Agreement to the Employee: (i) constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "<u>Code</u>"); and (ii) but for this Section, would be subject to the excise tax imposed by Section 4999 of the Code, then the Employee's severance benefits under Sections 2(a) and 2(b) shall be payable either:

(i) in full; or

(ii) as to such lesser amount which would result in no portion of such severance benefits being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by the Employee on an after-tax basis, of the greatest amount of severance benefits under Section 2(a) and 2(b), notwithstanding that all or some portion of such severance benefits may be taxable under Section 4999 of the Code. Unless the Company and the Employee otherwise agree in writing, any determination required under this Section 4 shall be made in writing by independent public accountants selected by the Company (the "<u>Accountants</u>"), whose determination shall be conclusive and binding upon the Employee and the Company for all purposes. For purposes of making the calculations required by this Section 4, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Section 280G and 4999 of the Code. The Company and the Employee shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 4.

(b) **<u>Release Prior to Receipt of Benefits</u>**. Prior to the receipt of any benefits under this Agreement, Employee shall execute a release of claims agreement (the "<u>Release</u>") in the form provided by the Company. Such Release shall specifically relate to all of Employee's rights and claims in existence at the time of such execution and shall confirm Employee's obligations under the Company's standard form of proprietary information agreement.

5. **<u>Section 409A</u>**. Notwithstanding any provision of this Agreement to the contrary, if, at the time of Employee's termination of employment with the Company, Employee is a "specified employee" (as defined in Section 409A of the Code) and the deferral of the commencement of any severance payments or benefits otherwise payable pursuant to this Agreement as a result of such termination of employment is necessary in order to prevent any

accelerated income recognition or additional tax under Section 409A of the Code, then the Company will not commence any payment of any such severance payments or benefits otherwise required hereunder (but without any reduction in such payments or benefits ultimately paid or provided to Employee) that (a) will not and may not under any circumstances, regardless of when such termination occurs, be paid in full by March 15 of the year following Employee's termination of employment, and (b) are in excess of the lesser of (i) two times Employee's then annual compensation or (ii) two times the limit on compensation then set forth in Section 401(a)(17) of the Code and will not be paid by the end of the second calendar year following the year in which the termination occurs, *until* the first payroll date that occurs after the date that is six months following Employee's "separation of service" with the Company (as defined under Code Section 409A). If any payments are delayed due to such requirements, such amounts will be paid in a lump sum to Employee on the earliest of (x) the Employee's death following the date of Employee's termination of employment with the Company or (y) the first payroll date that occurs after the date that is six months following Employee's "separation of service" with the Company. For these purposes, each severance payment or benefit is designated as a separate payment or benefit and will not collectively be treated as a single payment or benefit. This paragraph is intended to comply with the requirements of Section 409A of the Code so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A of the Code and any ambiguities herein will be interpreted to so comply. Employee and the Company agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to Employee under Section 409A of the Code. Notwithstanding anything to the contrary contained herein, to the extent that any amendment to this Agreement with respect to the payment of any severance payments or benefits would constitute under Code Section 409A a delay in a payment or a change in the form of payment, then such amendment must be done in a manner that complies with Code Section 409A(a)(4)(C).

6. **Conflicts.** Employee represents that Employee's performance of all the terms of this Agreement will not breach any other agreement to which Employee is a party. Employee has not, and will not during the term of this Agreement, enter into any oral or written agreement in conflict with any of the provisions of this Agreement. Employee further represents that Employee is entering into or has entered into an employment relationship with the Company of Employee's own free will and that Employee has not been solicited as an employee in any way by the Company.

7. **Successors**. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume the obligations under this Agreement and agree expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. The terms of this Agreement and all of Employee's rights hereunder and thereunder shall inure to the benefit of, and be enforceable by, Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

8. **Notice**. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. Mailed notices to Employee shall be addressed to Employee at the home address which Employee most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

9. **Miscellaneous Provisions**.

(a) **No Duty to Mitigate**. Employee shall not be required to mitigate the amount of any payment contemplated by this Agreement (whether by seeking new employment or in any other manner), nor shall any such payment be reduced by any earnings that Employee may receive from any other source.

(b) **Waiver**. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by Employee and by an authorized officer of the Company (other than Employee). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) **Whole Agreement**. No agreements, representations or understandings (whether oral or written and whether express or implied) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter hereof. This Agreement supersedes any agreement of the same title and concerning similar subject matter dated prior to the Effective Date, and by execution of this Agreement both parties agree that any such predecessor agreement shall be deemed null and void.

(d) **Choice of Law**. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California without reference to conflict of laws provisions.

(e) **Severability**. If any term or provision of this Agreement or the application thereof to any circumstance shall, in any jurisdiction and to any extent, be invalid or unenforceable, such term or provision shall be ineffective as to such jurisdiction to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable the remaining terms and provisions of this Agreement or the application of such terms and provisions to circumstances other than those as to which it is held invalid or unenforceable, and a suitable and equitable term or provision shall be substituted therefore to carry out, insofar as may be valid and enforceable, the intent and purpose of the invalid or unenforceable term or provision.

(f) **Arbitration**. Any dispute or controversy arising under or in connection with this Agreement may be settled at the option of either party by binding arbitration in the County of San Mateo, California, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. Punitive damages shall not be awarded.

(g) **Legal Fees and Expenses**. The parties shall each bear their own expenses, legal fees and other fees incurred in connection with this Agreement.

(h) **No Assignment of Benefits**. The rights of any person to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this Section 8(h) shall be void.

(i) **Employment Taxes**. All payments made pursuant to this Agreement will be subject to withholding of applicable income and employment taxes.

(j) **Assignment by Company**. The Company may assign its rights under this Agreement to an affiliate, and an affiliate may assign its rights under this Agreement to another affiliate of the Company or to the Company. In the case of any such assignment, the term "Company" when used in a section of this Agreement shall mean the corporation that actually employs the Employee.

(k) **Counterparts**. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

(l) **Renewal**. This Agreement shall remain in effect until December 31, 2008 and shall be automatically renewed for additional one year periods unless not later than three months prior to December 31st of any year either party gives written notice to the other party of the intention to terminate the Agreement effective December 31st of that year.

The parties have executed this Agreement on the date first written above.

A.P. PHARMA, INC.

By:
Name:
Title:

EMPLOYEE

Signature:
Dr. John Barr
Address:

Exhibit 10.16

AMENDMENTS TO ADVANCED POLYMER SYSTEMS, INC.

NON-QUALIFIED STOCK PLAN

The Advanced Polymer Systems, Inc., Non-Qualified Stock Plan (the "Plan") is hereby amended as follows:

(i) Section 2(b) is hereby amended by deleting therefrom "or (ii) are employees, but not officers and directors of the Company".

(ii) Section 3 is hereby amended by confirming the provision by the Company's Board of Directors that the total number of shares of the Company's Common Stock reserved and available for issuance pursuant to awards under the Plan shall be 1,062,500 shares.

(iii) Section 5(b)(iii) is hereby amended by changing 85% to 100%.

(iv) Section 7 is hereby deleted in its entirety and there is substituted for it a new Section 7 as follows:

"SECTION 7. STOCK APPRECIATION RIGHTS.

(a) *General* Stock Appreciation Rights may be granted either alone, in addition to, or in tandem with other Awards granted under the Plan. The Administrator may grant Stock Appreciation Rights to eligible participants subject to terms and conditions not inconsistent with this Plan and determined by the Administrator. The specific terms and conditions applicable to the participant shall be provided for in the Stock Award Agreement. Stock Appreciation Rights shall be exercisable, in whole or in part, at such times as the Administrator shall specify in the Stock Award Agreement.

(b) *Exercise of Stock Appreciation Right*. Upon the exercise of a Stock Appreciation Right, in whole or in part, the participant shall be entitled to a payment in an amount equal to the excess of the Fair Market Value on the date of exercise of a fixed number of shares of Stock covered by the exercised portion of the Stock Appreciation Right, over the Fair Market Value on the Grant Date of the Stock covered by the exercised portion of the Stock Appreciation Right (or such other amount calculated with respect to Stock subject to the Award as the Administrator may determine). The amount due to the participant upon the exercise of a Stock Appreciation Right shall be paid in such form of consideration as determined by the Administrator and may be in cash, shares of Stock or a combination thereof, over the period or periods specified in the Stock Award Agreement. A Stock Award Agreement may place limits on the amount that may be paid over any specified period or periods upon the exercise of a Stock Appreciation Right, on an aggregate basis or as to any participant. A Stock Appreciation Right shall be considered exercised when the Company receives written notice of exercise in accordance with the terms of the Stock Award Agreement from the person entitled to exercise the Stock Appreciation Right.

(c) *Nonassignability of Stock Appreciation Rights.* Except as determined by the Administrator, no Stock Appreciation Right shall be assignable or otherwise transferable by the participant, except by will or by the laws of descent and distribution."

(v) Section 1(xx) is hereby amended by changing "Stock Purchase Right" to "Stock Appreciation Right".

IN WITNESS WHEREOF, pursuant to authority granted by the Board of Directors of Advanced Polymer Systems, Inc., the Compensation and Stock Option Committee hereby adopts the above amendments on November 12, 2007.

ADVANCED POLYMER SYSTEMS, INC.

Compensation and Stock Option Committee

By:
Toby Rosenblatt, Chairman