FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended June 30, 2001

[ ] 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

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

Delaware	94-2875566
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

123 Saginaw Drive, Redwood City, CA 94063
(Address of principal executive offices)

(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

At July 31, 2001, the number of outstanding shares of the Company's common stock, par value $.01, was 20,278,474.

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Signatures

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited):

AP PHARMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,155,903	$ 6,493,336
Marketable securities	15,882,058	16,029,320
Trade accounts receivable, net	362,770	490,578
Receivables for royalties and other	899,424	1,200,554
Inventory	79,947	71,079
Advances to employees	--	34,018
Prepaid expenses and other	664,640	730,964
Total current assets	22,044,742	25,049,849
Property and equipment, net	1,727,157	1,795,313
Other long-term assets	151,000	151,000
Total assets	$ 23,922,899	$ 26,996,162
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 666,756	$ 329,305
Accrued expenses	2,730,158	3,987,794
Taxes payable	237,398	255,358
Deferred revenue	404,907	390,201
Total current liabilities	4,039,219	4,962,658
Deferred revenue - long-term	732,107	874,250
Total liabilities	4,771,326	5,836,908
Shareholders' equity:		
Common stock and common stock warrants	86,413,010	86,102,083
Accumulated deficit	(67,261,437)	(64,942,829)
Total shareholders' equity	19,151,573	21,159,254
Total liabilities and shareholders' equity	$ 23,922,899	$ 26,996,162

See accompanying notes.

AP PHARMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Royalties	$ 699,138	$ 563,556	$ 1,374,400	$ 989,242
Product revenues	301,079	305,483	596,552	610,045
Total revenues	1,000,217	869,039	1,970,952	1,599,287
Expenses:				
Cost of sales	113,319	131,885	206,639	187,494
Research & development	1,543,972	850,631	2,922,202	1,404,515
Selling & marketing	113,981	147,561	238,408	276,804
General & administration	750,781	752,718	1,439,171	1,391,452
Operating loss	(1,521,836)	(1,013,756)	(2,835,468)	(1,660,978)
Interest income	274,918	53,958	623,087	119,051
Interest expense	--	(109,907)	--	(228,039)
Other income, net	74,863	4,189	77,547	6,515
Loss before taxes	(1,172,055)	(1,065,516)	(2,134,834)	(1,763,451)
Taxes	--	(39,667)	--	--
Loss from continuing operations	(1,172,055)	(1,025,849)	(2,134,834)	(1,763,451)
(Loss) income from discontinued operations	(25,418)	392,167	(183,774)	1,350,066
Net loss	$(1,197,473)	$ (633,682)	$(2,318,608)	$ (413,385)
Basic and diluted loss per common share:				
Continuing operations	$ (0.06)	$ (0.05)	$ (0.11)	$ (0.09)
Net loss	$ (0.06)	$ (0.03)	$ (0.11)	$ (0.02)
Weighted average common shares outstanding-basic	20,278,474	20,187,190	20,249,257	20,160,437

See accompanying notes.

AP PHARMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the six months ended June 30,	
	2001	2000
Net cash used in operating activities	(2,408,477)	(694,158)
Cash flows from investing activities:		
Purchase of property and equipment	(126,994)	(5,621)
Purchase of intangibles	--	(100,000)
Purchase of marketable securities	(10,769,360)	--
Maturities and sales of marketable securities	10,938,764	--
Net cash provided by (used in) investing activities	42,410	(105,621)
Cash flows from financing activities:		
Proceeds from the exercise of common stock options and warrants	--	120,000
Proceeds from issuance of shares under the Employee Stock Purchase Plan	28,634	75,595
Repayment of debt	--	(430,200)
Net cash provided by (used in) financing activities	28,634	(234,605)
Net decrease in cash and cash equivalents	(2,337,433)	(1,034,384)
Cash and cash equivalents, beginning of the period	6,493,336	3,705,194
Cash and cash equivalents, end of the period	$ 4,155,903	$ 2,670,810
Cash paid for interest	$ --	$ 216,600

See accompanying notes.

AP PHARMA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000 (UNAUDITED)

(1) Basis of Presentation

On May 9, 2001, the Company's shareholders approved a change in the Company name to AP Pharma, Inc.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position of AP Pharma, Inc. and subsidiaries ("the Company" or "APP") as of June 30, 2001 and the results of their operations and cash flows for the three and six months ended June 30, 2001 and 2000.

These condensed consolidated statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2000 included in the Company's Annual Report on Form 10-K.

The condensed consolidated financial statements include the financial statements of the Company and its subsidiaries, Premier, Inc. ("Premier") and APS Analytical Standards, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company considers 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 longer than three months are classified as marketable securities in the accompanying balance sheets.

Certain reclassifications have been made to the prior period financial statements to conform with the presentation in 2001.

(2) Common Shares Outstanding and Earnings Per Share Information

Common stock outstanding as of June 30, 2001 is as follows:

	Number of Shares
Common stock outstanding as of December 31, 2000	20,206,064
Shares issued to Directors after December 31, 2000	60,590
Shares issued under the Employee Stock Purchase Plan	11,820
Total shares	20,278,474

(3) Revenue Recognition

Licensing agreements that generally provide for the Company to receive periodic minimum payments, royalties, and/or non-refundable licenses fees typically allow customers to develop, use or sell the Company's proprietary products in a specific field or territory. The license agreements provide for APP to earn future revenue through royalty payments. The license fees are non-refundable even if the agreements are terminated before their term. These license fees are amortized on a straight-line basis over the appropriate period.

(4) Comprehensive Loss

Comprehensive loss for the three and six months ended June 30,

2001 and 2000 consists of the following:

	Three Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Net loss	$(1,197,473)	$ (633,682)	$(2,318,608)	$ (413,385)
Unrealized holding (losses) gains arising during the period	(58,671)	--	65,903	--
Comprehensive loss	$(1,256,144)	$ (633,682)	$(2,252,705)	$ (413,385)

(5) Inventory

The major components of inventory are as follows:

	June 30, 2001	December 31, 2000
Raw materials	$ 45,490	$ 43,387
Finished goods	34,457	27,692
Total inventory	$ 79,947	$ 71,079

(6) Discontinued Operations

On July 25, 2000, the Company completed the sale of certain technology rights for topical pharmaceuticals and its cosmeceutical product lines and other assets ("cosmeceutical and toiletry business") to R.P. Scherer Corporation, a subsidiary of Cardinal Health, Inc. The Company received $25 million on closing and could receive additional amounts over the next three years relating to the performance milestones of the cosmeceutical and toiletry business. In accordance with Accounting Principles Board Opinion No. 30 "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," the cosmeceutical and toiletry business is reported as a discontinued operation for all periods presented in the accompanying Condensed Consolidated Statements of Operations.

Basic and diluted loss per common share from discontinued operations was ($0.00) and ($0.01) for the three and six months ended June 30, 2001, respectively.

Basic and diluted income per common share from discontinued operations was $0.02 and $0.07 for the three and six months ended June 30, 2000, respectively.

(7) Legal Proceedings

In February 2000, Douglas Kligman and Albert Kligman filed a complaint against the Company in the U.S. District Court for the Eastern District of Pennsylvania. The complaint alleges that the plaintiffs entered into a partnership with the Company to pursue development and sales of a product developed by the plaintiffs. The complaint states various claims, dissolution of partnership, implied-in-law contract and other claims. The complaint alleges damages in excess of $75,000, but otherwise makes no specific damage claim.

The Company has denied liability and is vigorously defending the claims, basing its defense on the assertion that its rights to the product are governed by a binding license agreement that was executed in November 1995 and amended in September 1996 and that there are no partnership agreements entered into by the parties.

The Company expects that the outcome of this legal proceeding will not have a material adverse effect on the consolidated financial statements.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (all dollar amounts rounded to the nearest thousand)

Results of Operations for the Three Months Ended June 30, 2001 and 2000

Except for statements of historical fact, the statements herein are forward-looking and are subject to a number of risks and uncertainties that could cause actual results to differ materially from the statements made. These include, among others, uncertainty associated with timely development, approval, launch and acceptance of new products, establishment of new corporate alliances, progress in research and development programs and other risks described below or identified from time to time in the Company's Securities and Exchange Commission filings.

The Company's revenues are derived principally from royalties, license fees, R&D fees and product sales. Under strategic alliance arrangements entered into with certain corporations, APS can receive non-refundable upfront fees, future milestone payments and royalties based on third party product sales. Until July 25, 2000, the Company manufactured and sold Microsponge(R) and Polytrap (R) delivery systems for use by customers in approximately 100 different personal care and cosmetic products. On July 25, 2000, the Company completed the sale of certain technology rights for topical pharmaceuticals and its cosmeceutical product lines and other assets to R.P. Scherer Corporation, a subsidiary of Cardinal Health, Inc.

Royalties for the second quarter of 2001 increased by 24% to $699,000 from $564,000 in the corresponding quarter of the prior year. This increase was primarily due to royalties earned following the launch of Carac(TM), a topical prescription treatment for actinic keratoses which received FDA marketing clearance in October 2000. It is being marketed by the Company's partner, Dermik Laboratories, an Aventis company.

Product revenues relating to sales of analytical standards decreased slightly by 1% to $301,000 from $305,000 in the corresponding quarter of the prior year.

Gross profit on sales of analytical standards increased from 57% to 62% due mainly to sales mix as the year-ago quarter included higher sales of low-margin instruments.

Research and development expense for the second quarter of 2001 totaled $1,544,000, an increase of $693,000 or 81% over the corresponding quarter of the prior year. The increase is mainly due to the cost of pre-clinical trials associated with the Company's bioerodible Biochronomer(TM) system for implantable and injectable drug delivery applications.

Selling and marketing expense relating to analytical standards for the second quarter of 2001 decreased by 23% to $114,000 from $148,000 in the corresponding quarter of the prior year due mainly to lower overhead allocations.

General and administrative expense for the quarter ended June 30, 2001 of $751,000 was essentially flat with the reported $753,000 in the corresponding quarter of the prior year.

Interest income for the second quarter of 2001 increased by $221,000 to $275,000 due mainly to interest earned from the cash received in July 2000 as proceeds from the sale of the Company's cosmeceutical and toiletries product lines to R.P. Scherer Corporation.

Interest expense for the quarter ended June 30, 2001 decreased to $0 from $110,000 in the corresponding quarter of the prior year due to the repayment of all outstanding debt on the receipt of the $25 million from R.P. Scherer.

Loss or income from discontinued operations represents the net expense or contribution associated with the cosmeceutical product lines which were sold to R.P. Scherer. The loss from discontinued

operations of $25,000 in the second quarter of 2001 relates primarily to legal fees associated with the Kligman lawsuit. The income of $392,000 in the second quarter of 2000 represents the net contribution earned in the year-ago quarter.

Results of Operations for the Six Months Ended June 30, 2001 and 2000

Royalties for the six months ended June 30, 2001 totaled $1,374,000 representing an increase of $385,000 or 39% over the corresponding period of the prior year. This increase was primarily due to royalties earned following the launch of Carac(TM), a topical prescription treatment for actinic keratoses which received FDA marketing clearance in October 2000. It is being marketed by the Company's partner, Dermik Laboratories, an Aventis Company. Product revenues from sales of analytical standards totaled $597,000, a decrease of $13,000 or 2% over the corresponding period of the prior year.

As a percentage of sales, gross profit on product revenues for the six months ended June 30, 2001 of $390,000 represented 65% of product revenues compared with 69% in the corresponding period of the prior year.

Research and development expenses for the six months ended June 30, 2001 totaled $2,922,000, an increase of $1,518,000 or 108% over the corresponding period of the prior year. This increase was due mainly to increased preclinical study costs for the Company's new bioerodible Biochronomer(TM) system for implantable and injectable drug delivery applications.

Selling and marketing expenses for the six months ended June 30, 2001 decreased by $39,000 or 14% from the corresponding period of the prior year, mainly due to lower overhead allocation.

General and administrative expenses for the six months ended June 30, 2001 increased by $48,000 or 3% over the second half of the prior year mainly due to increased investor relations expenses.

Interest income for the six months ended June 30, 2001 totaled $623,000, an increase of $504,000 or 423% over the corresponding period of the prior year. This increase is due mainly to interest earned from the $25 million cash received in July 2000 as proceeds from the sale of the Company's cosmeceutical and toiletries product lines to R.P. Scherer Corporation. Interest expense for the six months ended June 30, 2001 was $0, a decrease of $228,000 from the same period of the prior year due to the repayment of all outstanding debt on the receipt of $25 million from R.P. Scherer.

Loss from discontinued operations for the six months ended June 30, 2001 totaled $184,000 compared with income from discontinued operations of $1,350,000 in the corresponding period of the prior year.

Capital Resources and Liquidity

Total assets as of June 30, 2001 were $23,923,000 compared with $26,996,000 at December 31, 2000. Working capital decreased to $18,006,000 from $20,087,000 at December 31, 2000. Cash, cash equivalents and marketable securities decreased to $20,038,000 at June 30, 2001 from $22,523,000 at December 31, 2000. During the first six months of 2001, the Company's operating activities used $2,408,000 compared with $694,000 in the first half of 2000. In the first six months of 2001, the Company invested approximately $2,922,000 in research and development.

Capital expenditures for the six months ended June 30, 2001 totaled $127,000, an increase from the amount spent in the corresponding period of the prior year of $121,000.

The Company has financed its operations, including technology and product research and development, from the proceeds from the sale of its cosmeceutical and toiletries product lines and certain technology rights to topical pharmaceuticals to R.P. Scherer, Inc. for $25 million in July 2000, the sale of analytical standard products, payments received under licensing agreements, and interest earned on short-term investments.

Cash is being expended with regard to pre-clinical trials associated with the Company's bioerodible Biochronomer System for implantable and injectable pharmaceutical applications. The Company's existing cash and cash equivalents, marketable securities, collections of trade accounts receivable, together with interest income and other revenue-producing activities including royalties, license fees and R&D fees, are expected to be sufficient to meet the Company's working capital requirements for the foreseeable future, assuming no changes to existing business plans.

New Accounting Standards

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets."

SFAS No. 141 addresses the accounting for and reporting of business combinations and requires that all business combinations be accounted for using the purchase method of accounting for acquisitions and eliminates the use of the pooling method. This Statement applies to all business combinations initiated after June 30, 2001. The Company does not expect that the adoption of SFAS No. 141 will have a material effect on its consolidated financial statements.

SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets. This Statement changes the accounting for goodwill from an amortization method to an impairment-only method. The amortization of goodwill, including goodwill recorded in past business combinations will cease upon adoption of this Statement, which will begin with the Company's fiscal year beginning January 1, 2002. However, goodwill and intangible assets acquired after June 30, 2001 will be subject to immediate adoption of the Statement. The Company does not expect that the adoption of SFAS No. 141 will have a material effect on its consolidated financial statements. If in a future period the Company determines that goodwill or another intangible asset is impaired, the impairment could have a material impact on earnings for that period.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Since December 31, 2000, there have been no material changes in the Company's market risk exposure.

PART II. OTHER INFORMATION

ITEM 4. Submission of Matters to a Vote of Security Holders

The Company's annual shareholder's meeting was held on May 9, 2001, at which the following proposals were approved:

Proposal I: Election for the following directors:

	Votes For	Votes Withheld
Paul Goddard Chairman of the Board	18,007,514	124,926
Stephen Drury	18,005,994	126,446
Michael O'Connell	15,170,421	2,962,019
Peter Riepenhausen	17,937,294	195,146
Toby Rosenblatt	17,942,279	190,161
Gregory Turnbull	17,938,614	193,826
Dennis Winger	17,974,414	158,026

Proposal II: Amendment to Advanced Polymer Systems' Certificate of Incorporation to change the name of the Company to AP Pharma, Inc.

Votes For	Votes Against	Abstain
17,997,813	99,267	35,360

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.

AP PHARMA, INC.

Date: August 14, 2001

By: /S/ Michael O'Connell

Michael O'Connell
President and Chief
Executive Officer

Date: August 14, 2001

By: /S/ Gordon Sangster

Gordon Sangster
Chief Financial Officer