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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported) July 25, 2012

A.P. Pharma, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

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

001-33221
(Commission
File Number)

94-2875566
(I.R.S. Employer
Identification No.)

94063
(Zip Code)

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

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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ITEM 1.01 Entry into a Material Definitive Agreement.

On July 25, 2012, A.P. Pharma, Inc., a Delaware corporation (the "Company"), entered into a Securities Purchase Agreement with the purchasers set forth on Schedule A thereto (the "Securities Purchase Agreement"), pursuant to which the Company agreed to sell 102,000,000 shares of its common stock (the "Shares") for an aggregate price of approximately \$53.6 million, at a purchase price of \$0.525 per Share (the "Private Placement"). The Private Placement is expected to close on July 30, 2012, subject to customary closing conditions. The proceeds to the Company from the offering, net of selling commissions, are approximately \$50.7 million.

In connection with entering into the Securities Purchase Agreement, the Company also entered into a Registration Rights Agreement, dated July 25, 2012, with the purchasers named on the signature pages thereto. Under the terms of the Registration Rights Agreement, the Company has agreed to file, within 30 days after the closing of the Private Placement, a registration statement with the Securities and Exchange Commission (the "Commission") to register for resale the Shares. The Company agreed to use reasonable best efforts to have the registration statement declared effective within 90 days of the closing of the Private Placement (or 120 days in the event the registration statement is reviewed by the Commission). If the Company fails to meet certain filing or effectiveness deadlines with respect to the registration statement or fails to keep the registration statement continuously effective for a designated time (with limited exceptions), the Company may be obligated to pay to the holders of the Shares an amount equal to 1.5% per month of such holder's pro rata interest in the total purchase price of the Private Placement.

The foregoing is a summary of the terms of the Securities Purchase Agreement and the Registration Rights Agreement and does not purport to be complete and is qualified in its entirety by reference to the full text of the Securities Purchase Agreement and the Registration Rights Agreement, copies of which are attached hereto as Exhibits 10.1 and 10.2, respectively, and are incorporated by reference herein.

In connection with Standard Pacific Capital Holdings LLLP's ("Standard Pacific") investment in the Company pursuant to the terms of the Securities Purchase Agreement, Standard Pacific will have the right to appoint a director to the Company's Board of Directors.

ITEM 3.02 Unregistered Sales of Equity Securities

The Shares have not been registered under the Securities Act of 1933, or the Securities Act, or any state securities laws. The Company relied on the exemption from the registration requirements of the Securities Act by virtue of Section 4(2) thereof and Rule 506 of Regulation D as promulgated by the Commission under the Securities Act. Each of the purchasers represented that it was an accredited investor and that it was acquiring the Shares for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof.

As described in Item 1.01 above, which is incorporated by reference into this Item 3.02, the Company has agreed to file a registration statement for the resale of the Shares. The Shares may not be offered or sold in the United States absent registration or exemption from registration under the Securities Act and any applicable state securities laws. Neither this Current Report on Form 8-K nor the exhibits attached hereto is an offer to sell or the solicitation of an offer to buy shares of common stock or other securities of the Company.

ITEM 8.01 Other Events.

On July 25, 2012, the Company issued the press release attached hereto as Exhibit 99.1 regarding the Private Placement described herein.

An updated copy of the Company's corporate presentation is attached hereto as Exhibit 99.2.

ITEM 9.01. Financial Statements and Exhibits.

(d) Exhibits.

<u>Exhibit</u>	<u>Description</u>
10.1	Securities Purchase Agreement, dated July 25, 2012, among A.P. Pharma, Inc. and the purchasers named therein.
10.2	Registration Rights Agreement, dated July 25, 2012, among A.P. Pharma, Inc. and the purchasers named therein.
99.1	Press Release, dated July 25, 2012.
99.2	Corporate Presentation.

SIGNATURE

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 hereunto duly authorized.

A.P. Pharma, Inc.

Date: July 25, 2012

/s/ John B. Whelan

John B. Whelan
President and Chief Executive Officer

EXHIBIT INDEX

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SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this "**Agreement**") is made and entered into as of July 25, 2012, among A.P. Pharma, Inc., a Delaware corporation (the "**Company**") and each entity that is listed on the signature page hereto. Each such entity, together with its successors and permitted assigns, is referred to herein as a "**Purchaser**," and all such entities, together with their successors and permitted assigns, are collectively referred to herein as the "**Purchasers**."

A. The Company proposes to issue and sell to the Purchasers and the Purchasers desire to purchase from the Company 102,000,000 shares (the "**Shares**") of Common Stock, par value \$0.01 per share (the "**Common Stock**"), of the Company in accordance with the terms and provisions of this Agreement. The Shares will be offered and sold to the Purchasers in a private placement (the "**Placement**") without being registered under the Securities Act of 1933, as amended, and the rules and regulations of the Securities and Exchange Commission (the "**Commission**") thereunder (collectively, the "**Securities Act**"), in reliance upon Section 4(2) ("**Section 4(2)**") thereof and/or Regulation D ("**Regulation D**") thereunder.

B. Holders of the Shares will be entitled to the benefits of a Resale Registration Rights Agreement (the "**Resale Registration Rights Agreement**") to be entered into between the Company and the Purchasers pursuant to which the Company will agree, among other things, to file with the Commission a registration statement pursuant to Rule 415 under the Securities Act (the "**Resale Registration Statement**") covering the resale of the Shares, subject to any applicable limits, and to use its reasonable best efforts to cause the Resale Registration Statement to be declared effective within the time periods specified in the Resale Registration Rights Agreement.

C. This Agreement and the Resale Registration Rights Agreement are referred to herein collectively as the "**Transaction Documents**," and the transactions contemplated hereby and thereby are referred to herein collectively as the "**Transactions**."

The Company hereby confirms its agreement with each Purchaser as follows:

Section 1. Purchase and Sale of Shares.

(a) *Closing; Closing Date.* Upon the terms herein and subject to the satisfaction or waiver of the conditions set forth in Sections 5 and 6 below, at the closing (the "**Closing**"), the Company shall issue and sell to the Purchasers, and each Purchaser severally and not jointly agrees to purchase from the Company on the Closing Date (as defined below), the amount of Shares set forth on Schedule A hereto. The date and time of the Closing (the "**Closing Date**") shall be 11:00 a.m., New York City time, on July 30, 2012 (or, subject to Section 7 hereof, such later date as is mutually agreed to by the Company and any individual Purchaser); *provided, however*, that if the Closing has not taken place on the Closing Date because of a failure to satisfy one or more of the conditions specified in Sections 5 or 6 hereof, "**Closing Date**" shall mean 11:00 a.m., New York City Time, on the first Business Day following satisfaction or waiver of all such conditions) after notification of satisfaction or waiver of the conditions to the Closing set forth in Sections 5 and 6 below at the offices of Ropes & Gray, LLP, 3 Embarcadero Center, San Francisco, California, 94111. "**Business Day**" means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

(b) *Form of Payment.* On or prior to the Closing Date, (i) the Company shall deliver to each Purchaser certificates (the “**Certificates**”) representing such aggregate number of Shares to the address and in the manner as is set forth on such Purchaser’s signature page hereto, duly executed on behalf of the Company and registered in the name of such Purchaser in the manner as is set forth on such Purchaser’s signature page hereto and (ii) upon confirmation that the Certificates have been received by each Purchaser’s respective custodian, each Purchaser shall pay its respective Investment Amount to the Company for the Shares to be issued and sold to such Purchaser at the Closing, by wire transfer of immediately available funds in accordance with the Company’s written wire instructions.

(c) *Closing Mechanics.*

(i) One Business Day prior to the Closing, Jefferies & Company, Inc., as placement agent (in such capacity, the “**Placement Agent**”) will contact the contact person for each Purchaser listed on Schedule B hereto to confirm the closing mechanics set forth herein.

(ii) On or before 11:00 a.m., New York City time, on the Closing Date, or at such other time as may be mutually agreed by the Company and an individual Purchaser, the Placement Agent or Company will deliver or cause to be delivered to the address and in the manner as is set forth on such Purchaser’s signature page hereto the Certificate(s) representing the Shares purchased by such Purchaser and, upon confirmation of receipt of such Certificates, each Purchaser will deliver its Investment Amount in cash to an account designated by the Company.

(iii) The receipt of funds by the Company from a Purchaser shall be deemed to be irrevocable acknowledgement from such Purchaser to the Placement Agent that the conditions to the Closing have been satisfied.

Section 2. Representations and Warranties of Each Purchaser.

Each Purchaser severally represents and warrants to, and agrees with, in each case as to itself only, the Company that the statements contained in this Section 2 are true and complete as of the date of this Agreement and will be true and complete as of the day of Closing:

(a) *No Public Sale or Distribution.* Such Purchaser is acquiring the Shares for its own account and not with a view towards, or for resale in connection with, the public sale or distribution thereof in a manner that would violate the Securities Act or any applicable state securities laws; *provided, however*, that by making the representations herein, such Purchaser does not agree to hold any of the Shares for any minimum or other specific term and reserves the right to dispose of the Shares at any time in accordance with or pursuant to a registration statement or an exemption under the Securities Act. Such Purchaser is acquiring the Shares hereunder in the ordinary course of its business. Such Purchaser does not presently have any agreement or understanding, directly or indirectly, with any Person to distribute any of the Shares. As used in this Agreement, “**Person**” means an individual, a limited liability company, a partnership, a joint venture, a corporation, a trust, an unincorporated organization, a government or any department or agency thereof, or any entity of any kind.

(b) *Purchaser Status.* Each of the Purchasers acknowledges that: (i) (A) it is an institutional “**accredited investor**” as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and/or meets the definition of “**qualified institutional buyers**” as defined in Rule 144A(a)(1) under the Securities Act; and (B) is not an entity formed for the sole purpose of acquiring the Shares; or (ii) it is not purchasing the Shares as a result of any “**directed selling efforts**,” within the meaning of Rule 902(k) of Regulation S and that such Purchaser is not a “**U.S. Person**,” within the meaning of Rule 902(k) of Regulation S and it is purchasing the Shares pursuant to an offshore transaction, as such terms are used in Regulation S (it being understood that the issuance of the Shares is being made in reliance on Section 4(2), Regulation D or Regulation S, and not Rule 144A), in either case which such knowledge and experience in financial and business matters as are necessary in order to evaluate the merits and risks of an investment in the Shares.

(c) *No General Solicitation or Advertising.* Such Purchaser acknowledges that it is not purchasing the Shares as a result of any “**general solicitation**” or “**general advertising**,” as such terms are used in Regulation D under the Securities Act, including advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over radio or television, or any seminar or meeting whose attendees have been invited by general solicitation or general advertising.

(d) *Independent Evaluation.* Such Purchaser confirms and agrees that: (i) it has independently evaluated the merits of its decision to purchase the Shares; (ii) it has not relied on the advice of, or any representations by, the Placement Agent or any affiliate thereof or any representative of the Placement Agent or its affiliates in making such decision; and (iii) neither the Placement Agent nor any of its representatives has any responsibility with respect to the completeness or accuracy of any information or materials furnished to such Purchaser in connection with the transactions contemplated hereby.

(e) *Information.* Such Purchaser acknowledges that the Company has offered the Purchaser and its advisors, if any, access to all the materials set forth on Annex 1 and any other materials relating to the business, finances and operations of the Company or relating to the offer and sale of the Shares specifically requested by such Purchaser. Such Purchaser and its advisors, if any, have been afforded the opportunity to ask questions of the Company. Neither such inquiries nor any other due diligence investigations conducted by such Purchaser or its advisors, if any, or its representatives shall modify, amend or affect such Purchaser’s right to rely on the Company’s representations and warranties contained herein. Such Purchaser understands that its investment in the Shares involves a high degree of risk and is able to bear the economic risk of such investment. Such Purchaser has sufficient knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Shares and has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to its acquisition of the Shares.

(f) *No Governmental Review.* Such Purchaser understands that no United States agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Shares or the fairness or suitability of the investment in the Shares nor have such authorities passed upon or endorsed the merits of the offering of the Shares.

(g) *Transfer or Resale.* Such Purchaser understands that: (i) the Shares have not been and may not be registered under the Securities Act or any U.S. state or non-U.S. securities laws; (ii) such Purchaser agrees that if it decides to offer, sell or otherwise transfer any of the Shares, such Shares may be offered, sold or otherwise transferred only: (A) pursuant to an effective registration statement under the Securities Act; (B) to the Company; (C) outside the United States in accordance with Regulation S under the Securities Act and in compliance with local laws; or (D) within the United States: (1) in accordance with the exemption from registration under the Securities Act provided by Rule 144A thereunder, if available, and in compliance with any applicable state securities laws; or (2) in a transaction that does not require registration under the Securities Act or applicable state securities laws.

(h) *Legend(s).* Such Purchaser understands that upon the original issuance thereof, and until such time as the same is no longer required under applicable requirements of the Securities Act or applicable state securities laws, the Certificates or other instruments representing the Shares, and all certificates or other instruments issued in exchange therefor or in substitution thereof, shall bear the legend(s) set forth below, and that the Company will make a notation on its records and give instructions to any transfer agent of the Common Stock in order to implement the restrictions on transfer set forth and described herein.

“THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY APPLICABLE STATE SECURITIES LAWS. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT OR APPLICABLE STATE SECURITIES LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A OF SUCH ACT.”

(i) *Unlegended Certificates.* The Company shall be obligated to use commercially reasonable efforts to reissue unlegended certificates at the request of any holder as promptly as practicable following such request if: (a) the holder shall have obtained an opinion of counsel reasonably acceptable to the Company to the effect that, or the Company is otherwise satisfied that, the securities proposed to be disposed of may lawfully be so disposed of without registration, qualification or legend; or (b) the securities represented by the certificate containing the foregoing legend have been registered for resale as contemplated in Section 10 of this Agreement, in which case the removal shall be predicated on the undertaking by such Purchaser that the securities will only be sold pursuant to such registration statement(s) or an available exemption from registration. As used herein “*Trading Day*” means any day on which the Common Stock is traded on the Trading Market; provided that “*Trading Day*” shall not include

any day on which the Common Stock is scheduled to trade on such exchange or market for less than 4.5 hours or any day that the Common Stock is suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York time).

(j) *Organization; Authority.* Such Purchaser is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization with the requisite power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents to which it is a party and otherwise to carry out its obligations carry out its obligations hereunder and thereunder.

(k) *Validity; Enforcement.* This Agreement and the Resale Registration Rights Agreement have been authorized by all necessary corporate action of, and duly and validly executed and delivered on behalf of, such Purchaser and constitute the legal, valid and binding obligations of such Purchaser enforceable against such Purchaser in accordance with their respective terms, except as such enforceability may be limited by general principles of equity or to applicable bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws relating to, or affecting generally, the enforcement of applicable creditors' rights and remedies.

(l) *Brokers.* There is no broker, investment banker, financial advisor, finder or other Person who has been retained by or is authorized to act on behalf of the Purchaser who might be entitled to any fee or commission for which the Company will be liable in connection with the execution of this Agreement and the consummation of the transactions contemplated hereby.

(m) *No Conflicts.* The execution, delivery and performance by such Purchaser of this Agreement and the Resale Registration Rights Agreement and the consummation by such Purchaser of the transactions contemplated hereby and thereby will not: (i) result in a violation of the organizational documents of such Purchaser; (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any material agreement, indenture or instrument to which such Purchaser is a party; or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws) applicable to such Purchaser, except in the case of clauses (ii) and (iii) above, for such conflicts, defaults, rights or violations which would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the ability of such Purchaser to perform its obligations hereunder.

(n) *Residency.* For purposes of U.S. securities laws, such Purchaser is a resident of that jurisdiction specified on Schedule B hereto.

(o) *United States Federal Taxation.* Such Purchaser acknowledges that it has sought advice concerning the tax aspects of and tax considerations involved in acquiring and holding the Shares from an independent tax adviser that it has considered necessary to make an

informed investment decision with respect to the U.S. federal income tax consequences, as well as with respect to the laws of any state, local or foreign jurisdiction that are applicable to such Purchaser, of owning and disposing of the Shares.

(p) *Short sales, etc.* Such Purchaser represents, warrants and covenants to the Company that Purchaser has not, either directly or indirectly through an affiliate, agent or representative of the Company, engaged in any transaction in the securities of the Company during the thirty days prior to the date that the Purchaser first learned of the proposed offering of the Securities. Purchaser represents and warrants to and covenants with the Company that Purchaser will not engage in any short sales of the Company's Common Stock prior to the earlier of: (i) the effectiveness of the Registration Statement (either directly or indirectly through an affiliate, agent or representative); and (ii) the date as of which the Purchaser may sell any Securities pursuant to Rule 144 promulgated under the Securities Act, to the extent permitted under the Securities Act.

Section 3. Representations and Warranties of the Company.

Except as set forth in the periodic reports filed by the Company with the Commission since January 1, 2009 (the "**SEC Reports**") or as may be disclosed by the Company in a written Disclosure Schedule provided by the Company to the Purchasers dated the date hereof (the "**Disclosure Schedule**"), the Company represents and warrants to the Purchasers that the statements contained in this Section 3 are true and complete as of the date of this Agreement and will be true and complete as of the date of the Closing, as the case may be and hereby represents, warrants to, and agrees with, each of the Purchasers as follows:

(a) *No Material Misstatement or Omission.* The SEC Reports do not, as of their respective date, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) *Exchange Act Compliance.* The documents incorporated or deemed to be incorporated by reference in the SEC Reports, at the time they were or hereafter are filed with the Commission, complied and will comply in all material respects with the requirements of the Exchange Act. There are no contracts or other documents required to be described in such incorporated documents or to be filed as exhibits to such incorporated documents which have not been described or filed as required.

(c) *The Transaction Documents.* The Company has all necessary power and authority to execute and deliver the Transaction Documents and to perform its obligations thereunder; each of the Transaction Documents has been duly authorized by the Company and, when executed and delivered by the Company, will constitute a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms.

(d) *The Shares.* The Company has all necessary power and authority to issue and deliver the Shares; the Shares have been duly authorized, and, when issued and paid for pursuant to this Agreement, the Shares will be duly and validly issued, fully paid and non-

assessable and will be issued in compliance with federal and state securities laws. None of the Shares will be issued in violation of any preemptive rights, rights of first refusal or other similar rights to subscribe for or purchase Shares of the Company.

(e) *No Applicable Registration or Other Similar Rights.* There are no persons with registration or other similar rights to have any equity or debt securities of the Company or any affiliate (as defined in Rule 501(b) of Regulation D) registered for sale under a registration statement, except for rights (i) contained in the Resale Registration Rights Agreement or (ii) as have been duly waived.

(f) *Independent Accountants.* OUM & Co. LLP, who have expressed their opinion with respect to the financial statements (which term as used in this Agreement includes the related notes thereto) included in the SEC Reports, are: (i) independent public or certified public accountants as required by the Exchange Act; (ii) in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X; and (iii) a registered public accounting firm as defined by the Public Company Accounting Oversight Board whose registration has not been suspended or revoked and who has not requested such registration to be withdrawn.

(g) *Preparation of the Financial Statements.* As of the date hereof, the financial statements included in the SEC Reports present fairly in all material respects the consolidated financial position of the Company as of and at the dates indicated and the results of their operations and cash flows for the periods specified. Such financial statements have been prepared in conformity in all material respects with generally accepted accounting principles as applied in the United States ("**GAAP**") applied on a consistent basis throughout the periods involved, except as may be expressly stated in the financial statements or related notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP. As of the date hereof, the financial data set forth in the SEC Reports fairly present the information set forth therein on a basis consistent with that of the audited financial statements contained in the SEC Reports. No person who has been suspended or barred from being associated with a registered public accounting firm, or who has failed to comply with any sanction pursuant to Rule 5300 promulgated by the PCAOB, has participated in or otherwise aided the preparation of, or audited, the financial statements, supporting schedules or other financial data included in the SEC Reports.

(h) *Incorporation and Good Standing of the Company.* The Company has been duly incorporated and is validly existing as a corporation, in good standing under the laws of the jurisdiction of its incorporation or organization and has the corporate power and authority to own, lease and operate its properties and to conduct its business as described in the SEC Reports and to enter into and perform its obligations under the Transaction Documents. The Company is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on the financial position or business of the Company (a "**Material Adverse Effect**"). As of the date hereof, the Company does not own or control, and as of the Closing Date, the Company will not own or control, directly or indirectly, any corporation, association or other entity. The Company has no subsidiaries other than APS Analytical Standards, Inc., which has no assets or operations.

(i) *Capitalization and Other Capital Stock Matters.* As of the date hereof, the authorized capital stock of the Company consists of 1,500,000,000 shares of Common Stock, par value \$0.01 per share, and 2,500,000 shares of preferred stock, par value \$0.01 per share (“**Preferred Stock**”). As of June 30, 2012, without giving effect to the Closing, there were: (i) 200,205,555 shares of Common Stock issued and outstanding, (ii) no shares of Preferred Stock issued and outstanding, (iii) up to 115,520,037 shares of Common Stock may be issued upon conversion of the outstanding principal amount owed under the Company’s Senior Secured Convertible Notes due 2021 (the “**Notes**”), and (iv) 147,639,392 shares of Common Stock reserved for issuance upon exercise of options, warrants and other convertible securities outstanding (excluding the Notes). The foregoing does not include additional shares of Common Stock potentially issuable upon conversion of any principal balance that may be added to the Notes as a result of the payment in kind of interest due under the Notes. As of the date hereof, the Shares conform, and as of the Closing Date, will conform, in all material respects to the description thereof contained in the Company’s registration statement on Form 8-A filed under the Exchange Act. All of the issued and outstanding shares of Common Stock have been duly authorized and validly issued, are fully paid and non-assessable and have been issued in compliance with federal and state securities laws. None of the outstanding shares of Common Stock were issued in violation of any preemptive rights, rights of first refusal or other similar rights to subscribe for or purchase Shares of the Company. There are no authorized or outstanding options, warrants, preemptive rights, rights of first refusal or other rights to purchase, or equity or debt securities convertible into or exchangeable or exercisable for, any capital stock of the Company other than those accurately described in the Company’s periodic filings under the Exchange Act. As of the date hereof and as of the Closing Date, the description of the Company’s stock option, stock bonus and other stock plans or arrangements, and the options or other rights granted thereunder, as set forth in the Company’s periodic filings under the Exchange Act constitutes and will constitute an accurate summary of the material terms and related issuances with respect to such plans, arrangements, options and rights.

(j) *Stock Exchange Listing.* The shares of Common Stock are registered pursuant to Section 12(g) of the Exchange Act and are not listed on any national stock exchange, and the Company has taken no action designed to, or likely to have the effect of, terminating the registration of the shares of Common Stock under the Exchange Act, nor has the Company received any notification that the Commission is contemplating terminating such registration.

(k) *Non-Contravention of Existing Instruments; No Further Authorizations or Approvals Required.* The Company is not: (i) in violation of its charter or bylaws; (ii) in default (or, with the giving of notice or lapse of time, would be in default or constitute a default) (“**Default**”) under any indenture, mortgage, loan or credit agreement, note, contract, franchise, lease or other instrument to which the Company is a party or by which it may be bound, or to which any of the property or assets of the Company is subject (each, an “**Existing Instrument**”); or (iii) in violation of any law, administrative regulation or administrative or court decree applicable to the Company except with respect to clauses (ii) and (iii) of this sentence, for such Defaults or violations as would not, individually or in the aggregate, result in a Material Adverse

Effect. The Company's execution, delivery and performance of the Transaction Documents and the consummation of the Transactions, including the issuance and sale of the Shares: (i) will not result in any violation of the provisions of the charter or bylaws of the Company; (ii) will not conflict with or constitute a breach of, or Default or a Debt Repayment Triggering Event (as defined below) under, or result in the creation or imposition of any security interest, mortgage, pledge, lien, charge, encumbrance or adverse claim upon any property or assets of the Company pursuant to, or require the consent of any other party to any Existing Instrument or other third party; and (iii) will not result in any violation of any law, administrative regulation or administrative or court decree applicable to the Company except with respect to clauses (ii) and (iii) of this sentence, for such conflicts, breaches, Defaults, Debt Repayment Triggering Events or violations as would not, individually or in the aggregate, result in a Material Adverse Effect. No consent, approval, authorization or other order of, or registration or filing with, any court or other governmental or regulatory authority or agency, is required for the Company's execution, delivery and performance of the Transaction Documents and consummation of the Transactions, except: (i) with respect to the transactions contemplated by the Resale Registration Rights Agreement or the filing of a Current Report on Form 8-K with the Commission as may be required under the Securities Act and the Exchange Act, as the case may be; (ii) as required by the state securities or "blue sky" laws; (iii) for such consents, approvals, authorizations, orders, filings or registrations that have been obtained or made and are in full force and effect. As used herein, a "Debt Repayment Triggering Event" means any event or condition that gives, or with the giving of notice or lapse of time would give, the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company.

(l) *No Material Actions or Proceedings.* There are no legal or governmental actions, suits or proceedings pending or, to the best of the Company's knowledge, threatened: (i) against or affecting the Company; (ii) which has as the subject thereof any officer or director of, or property owned or leased by, the Company; or (iii) relating to environmental or discrimination matters, where in any such case: (A) there is a reasonable possibility that such action, suit or proceeding might be determined adversely to the Company or such officer or director; (B) any such action, suit or proceeding, if so determined adversely, would reasonably be expected to result in a Material Adverse Effect or adversely affect the consummation of the transactions contemplated by this Agreement; or (C) any such action, suit or proceeding is or would be material in the context of the sale of Shares. No material labor dispute with the employees of the Company, or, to the Company's knowledge, with the employees of any principal supplier of the Company, exists or, to the Company's knowledge, is threatened or imminent.

(m) *Material Contracts.* Each Material Contract is the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, and any other laws of general application affecting enforcement of creditors' rights generally, and as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies. The Company is in compliance with all material terms of the Material Contracts, and there has not occurred any breach, violation or default or any event that, with the lapse of time, the giving of notice or the election of any Person, or any combination thereof, would constitute a breach, violation or

default by the Company under any such Material Contract or, to the knowledge of the Company, by any other Person to any such contract except where such breach, violation or default would not have a Material Adverse Effect. To the knowledge of the Company, it has not been notified that any party to any Material Contract intends to cancel, terminate, not renew or exercise an option under any Material Contract, whether in connection with the transactions contemplated hereby or otherwise.

(n) *Consents.* Other than: (1) the filing of a Form D with respect to the Shares as required under Regulation D; (2) such filings required under applicable securities or “**Blue Sky**” laws of the states of the United States; (3) such filings contemplated by the Resale Registration Rights Agreement; and (4) such filings as may be required under any rule or regulation promulgated by any U.S. regulatory authority (all of the foregoing, the “**Required Approvals**”), the Company is not required to obtain any consent, approval, authorization or order of, or make any filing or registration with, any court, governmental agency or any regulatory or self-regulatory agency or any other Person in order for the Company to execute, deliver or perform any of its obligations under or contemplated by the Transaction Documents, in each case, in accordance with the terms hereof or thereof or to consummate the Transactions.

(o) *No General Solicitation.* Neither the Company, nor any of its affiliates, nor any Person acting on its behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with the offer or sale of the Shares.

(p) *No Integrated Offering.* Neither the Company, nor any of its affiliates, or any Person acting on its behalf, has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would require registration of any of the Shares under the Securities Act or cause this offering of the Shares to be integrated with prior offerings by the Company for purposes of the Securities Act. None of the Company, its affiliates, or any Person acting on its behalf, will take any action or steps referred to in the preceding sentence that would require registration of the offer, issuance or sale of any of the Shares under the Securities Act or cause the offering of the Shares to be integrated with other offerings.

(q) *No Directed Selling Efforts.* None of the Company, its affiliates nor any person acting on its or their behalf (other than the Placement Agent in connection with this Agreement) has engaged or will engage in any directed selling efforts (as that term is defined in Regulation S) with respect to the Shares and each of the Company, its affiliates and any person acting on its or their behalf (other than the Placement Agent in connection with this Agreement) has complied and will comply with the offering restrictions requirement of Regulation S.

(r) *No Registration.* Assuming the accuracy of the representations and warranties of the Purchaser contained in Section 2 hereof and each Purchaser’s compliance with their agreements set forth in the Transaction Documents, it is not necessary in connection with the offer, issuance, sale and delivery of the Shares in the manner contemplated by this Agreement and the other Transaction Documents to register the offer or sale of any of the Shares under the Securities Act.

(s) *QIBs; Accredited Investor or Non-U.S. Person.* The Company will not offer or sell any of the Shares to any person whom it reasonably believes is not: (i) a “**qualified institutional buyer**” as defined in Rule 144A (“**QIBs**”); (ii) an institutional “**accredited investor**” (as defined in clauses (1), (2), (3) and (7) of Rule 501(a) of Regulation D); or (iii) a non-U.S. person as defined under Regulation S of the Securities Act.

(t) *Application of Takeover Protections; Rights Agreement.* The Company and its Board of Directors have taken all necessary action, if any, in order to render inapplicable any control share acquisition, business combination, poison pill (including any distribution under a rights agreement) or other similar anti-takeover provision under its certificate of incorporation or the laws of the jurisdiction of its formation or otherwise which is or could become applicable to any Purchaser as a result of the transactions contemplated by this Agreement or any Transaction Document, including, without limitation, the Company’s issuance of the Shares and any Purchaser’s ownership of the Shares. The Company has not adopted a stockholder rights plan or similar arrangement relating to accumulations of beneficial ownership of any of its common stock or a change of control of the Company, respectively.

(u) *All Necessary Permits, etc.* The Company possesses all material certificates, authorizations or permits issued by the appropriate state, federal or other applicable regulatory agencies or bodies necessary to conduct its business as it is currently being conducted, and the Company has not received, and does not have any reason to believe that it has received or will receive, any notice of proceedings relating to the revocation or modification of, or non-compliance with, any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, could result in a Material Adverse Effect.

(v) *Transactions With Affiliates.* There have not been any material transactions or loans (including guarantees of any kind) between other persons that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the Company.

(w) *Absence of Litigation.* There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company: (i) threatened against or affecting the Company or any of the officers or directors of the Company in their capacities as such; or (ii) that questions the validity of the Transaction Documents or the right of the Company to enter into or perform the Transaction Documents, nor is there any litigation pending or, to the Company’s knowledge, threat thereof, against the Company by reason of the activities presently conducted or proposed to be conducted by the Company, nor, to the Company’s knowledge, is there any basis therefor.

(x) *Insurance.* The Company is insured by institutions believed to be recognized, financially sound and reputable, with policies in such amounts and with such deductibles and covering such risks as are generally deemed adequate and customary for its business including, but not limited to, policies covering real and personal property owned or leased by the Company against theft, damage, destruction and acts of vandalism. The Company

has no reason to believe that it will not be able: (i) to renew its existing insurance coverage as and when such policies expire; or (ii) to obtain comparable coverage from similar institutions as may be necessary or appropriate to conduct its business as now conducted and at a cost that would not result in a Material Adverse Effect. The Company has not been denied any insurance coverage which it has sought or for which it has applied.

(y) *Foreign Corrupt Practices Act.* Neither the Company nor its subsidiary nor, to the knowledge of the Company, any director, officer, agent, employee, affiliate or other person acting on behalf of the Company or its subsidiary is aware of or has taken any action, directly or indirectly, that has resulted or would result in a violation of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the “*FCPA*”), including, without limitation, making use of the mails or any means or instrumentality of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give, or authorization of the giving of anything of value to any “foreign official” (as such term is defined in the FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA; and the Company and its subsidiary and, to the knowledge of the Company, the Company’s affiliates have conducted their respective businesses in compliance with the FCPA and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith.

(z) *Disclosure Controls and Procedures; Deficiencies in or Changes to Internal Control Over Financial Reporting.* The Company has established and maintains disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), which: (i) are designed to ensure that material information relating to the Company is made known to the Company’s principal executive officer and its principal financial officer by others within those entities, particularly during the periods in which the periodic reports required under the Exchange Act are being prepared; (ii) have been evaluated for effectiveness as of a date within 90 days prior to the date that the Company filed its most recent annual or quarterly report with the Commission; and (iii) are effective in all material respects to perform the functions for which they were established. Based on the most recent evaluation of its disclosure controls and procedures, the Company is not aware of: (a) any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting. The Company is not aware of any change in its internal control over financial reporting that has occurred during its most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

(aa) *Employee Relations.* The Company is not a party to any collective bargaining agreement and does not employ any member of a union. The Company is in compliance with all federal, state, local and foreign laws and regulations respecting labor, employment and employment practices and benefits, terms and conditions of employment and wages and hours, except where the failure to comply would not have a Material Adverse Effect.

No strike, work stoppage or material work slowdown by employees of the Company exists or, to the knowledge of the Company, is contemplated or threatened. The Company believes that its relations with its employees are good. No executive officer of the Company has notified the Company that such officer intends to leave the Company or otherwise terminate such officer's employment with the Company. To the Company's knowledge, no executive officer of the Company is in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement, non-competition agreement, or any other contract or agreement or any restrictive covenant, with any Person other than the Company, and the continued employment of each such executive officer does not subject the Company to any liability with respect to any of the foregoing matters.

(bb) *Title to Properties.* The Company has good and marketable title to all of the real and personal property and other assets reflected as owned in the financial statements referred to in Subsection h above, in each case free and clear of any security interests, mortgages, pledges, liens, charges, encumbrances, adverse claims and other defects, except Permitted Liens and such as do not materially and adversely affect the value of such property and do not materially interfere with the use made or proposed to be made of such property by the Company. The real property, improvements, equipment and personal property held under lease by the Company are held under valid and enforceable leases, with such exceptions as are not material and do not materially interfere with the use made or proposed to be made of such real property, improvements, equipment or personal property by the Company.

"Permitted Liens" means any Lien disclosed in an SEC Report and: (1) any Lien for taxes not yet due or delinquent or being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with GAAP; (2) any statutory Lien arising in the ordinary course of business by operation of law with respect to a liability that is not yet due or delinquent; (3) any Lien created by operation of law, such as materialmen's liens, mechanics' liens and other similar liens, arising in the ordinary course of business with respect to a liability that is not yet due or delinquent or that are being contested in good faith by appropriate proceedings; (4) Liens: (a) upon or in any equipment acquired or held by the Company to secure the purchase price of such equipment or indebtedness incurred solely for the purpose of financing the acquisition or lease of such equipment; or (b) existing on such equipment at the time of its acquisition, provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such equipment; (5) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (1) through (4) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the Indebtedness being extended, renewed or refinanced does not increase; (6) leases, subleases, licenses and sublicenses granted to others in the ordinary course of the Company's business, not interfering in any material respect with the business of the Company and its Subsidiaries taken as a whole; and (7) Liens in favor of customs and revenue authorities arising as a matter of law to secure payments of custom duties in connection with the importation of goods. **"Lien"** means any mortgage, lien, pledge, charge, security interest or other similar encumbrance upon or in any property or assets (including accounts and contract rights).

(a) “**Intellectual Property**” means any and all of the following arising under the laws of the United States, any other jurisdiction or any treaty regime: (i) all inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereon, and all patents, patent applications and patent disclosures, together with all reissues, continuations, continuations-in-part, revisions, extensions and reexaminations thereof; (ii) all trademarks, service marks, trade dress, logos, trade names and corporate names, together with all translations, adaptations, derivations and combinations thereof and including all goodwill associated therewith, and all applications, registrations and renewals in connection therewith; (iii) all copyrightable works, all copyrights and all applications, registrations and renewals in connection therewith; (iv) all trade secrets and confidential business information (including, without limitation, ideas, research and development, know-how, formulas, compositions, manufacturing and production processes and techniques, technical data, designs, drawings, specifications, customer and supplier lists, pricing and cost information and business and marketing plans and proposals); (v) all computer software (including, without limitation, data and related documentation and except for any commercial “*shrink-wrapped*” software) and source codes (other than open source codes); (vi) all other proprietary rights; (vii) all copies and tangible embodiments of the foregoing (in whatever form or medium); and (viii) all licenses or agreements in connection with the foregoing. “**Company Intellectual Property**” means all Intellectual Property which is used in connection with, and is material to, the business of the Company and all Intellectual Property owned by the Company, provided that any Intellectual Property that is licensed by the Company shall be included within the meaning of Company Intellectual Property only within the scope of use by the Company or in connection with the Company’s business.

(b) With respect to each item of Company Intellectual Property that is material to the Company’s business:

(i) The Company possesses all rights, titles and interests in and to the item if owned by the Company, as applicable, free and clear of any Encumbrance, license or other restriction, and possesses all rights necessary in the case of a licensed item to use such item in the manner in which it presently uses the item or reasonably contemplates using such item, and the Company has taken or caused to be taken reasonable and prudent steps to protect its rights in and to, and the validity and enforceability of, the item owned by the Company;

(ii) the item if owned by the Company is not, and if licensed, to the knowledge of the Company is not, subject to any outstanding injunction, judgment, order, decree, ruling or charge naming the Company;

(iii) no action, suit, proceeding, hearing, investigation, charge, complaint, claim or demand is pending that challenges the legality, validity, enforceability, use or ownership of the item;

(iv) to the knowledge of the Company, the item if owned by the Company does not infringe upon any valid and enforceable Intellectual Property right or other right of any third party;

(v) to the knowledge of the Company, no third party has infringed upon or misappropriated the Company's intellectual property rights in the item;

(vi) the Company is not party to any option, license, sublicense or agreement of any kind covering the item that it is in breach or default thereunder, and to the knowledge of the Company no event has occurred which, with notice or lapse of time, would constitute such a breach or default or permit termination, modification or acceleration thereunder; and

(vii) each option, license, sublicense or agreement of any kind covering the item is legal, valid, binding, enforceable and in full force and effect.

(c) All registered patents, copyrights, trademarks and service marks included in the Company Intellectual Property: (a) if owned by the Company; and (b) if licensed, to the knowledge of the Company, are valid and subsisting and are not subject to any claims, Encumbrances, taxes or other fees except for periodic filing, annuity and maintenance fees and Permitted Liens.

(d) None of the Key Employees are obligated under any contract (including, without limitation, licenses, covenants, or commitments of any nature) or other agreement, or subject to any judgment, decree, or order of any court or administrative agency, that would interfere with the use of his or her reasonable diligence to promote the interests of the Company or that would conflict with the Company's business as presently conducted. Neither the execution, delivery or performance of this Agreement, nor the carrying on of the Company's business by the employees of the Company, nor the conduct of the Company's businesses as presently conducted, will violate or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant, or instrument under which any such Key Employee is obligated, and which violation, breach or default would be materially adverse to the Company. "**Key Employees**" means the Company's executive officers who are subject to Section 16 of the Exchange Act.

(e) The Company has entered into confidentiality and proprietary information and assignment of inventions agreements, substantially in the form previously provided to the Purchaser, with the executive officers of the Company. The Company is not aware of any violation by any such executive officers of such agreements.

(f) No stockholder, member, director, officer or employee of the Company has any right, title or interest in any of the Company Intellectual Property.

(g) To the knowledge of the Company, it is not, nor will it be, necessary to utilize any inventions, trade secrets or proprietary information of any of its employees made prior to their employment by the Company, except for valid and enforceable inventions, trade secrets or proprietary information that have been assigned to the Company.

(h) The Company maintains policies and procedures regarding data security, privacy and data use that are commercially reasonable and, in any event, comply with the Company's obligations to its customers and applicable laws, rules and regulations. To the knowledge of the Company, there have not been, and the transaction contemplated under this Agreement will not result in, any security breaches of any security policy, data use restriction or privacy breach under any such policies or any applicable laws, rules or regulations.

(dd) *Compliance With Environmental Laws.* Except as would not, singly or in the aggregate, result in a Material Adverse Effect: (i) the Company is not in violation of any federal, state or local statute, law, rule, regulation, ordinance, code, policy or rule of common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release or threatened release of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum or petroleum products (collectively, "**Hazardous Materials**") or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials (collectively, "**Environmental Laws**"); (ii) the Company has all permits, authorizations and approvals required under any applicable Environmental Laws and is in material compliance with their requirements; (iii) there are no pending or, to the Company's knowledge, threatened administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company; and (iv) there are no events or circumstances that might reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or governmental body or agency, against or affecting the Company relating to Hazardous Materials or any Environmental Laws.

(ee) *Tax Law Compliance.* The Company has filed all necessary federal and state income and franchise tax returns or has properly requested extensions thereof and has paid all taxes required to be paid by it and, if due and payable, any related or similar assessment, fine or penalty levied against it. The Company has made adequate charges, accruals and reserves in the applicable financial statements referred to in Subsection h above in respect of all federal and state and income and franchise taxes for all periods as to which the tax liability of the Company has not been finally determined.

(ff) *Company's Accounting System.* The Company makes and keeps accurate books and records and maintains a system of accounting controls sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(gg) *Compliance With ERISA.* The Company and any “**employee benefit plan**” (as defined under the Employee Retirement Income Security Act of 1974, as amended, and the regulations and published interpretations thereunder (collectively, “**ERISA**”)) established or maintained by the Company, or its ERISA Affiliates (as defined below) are in compliance in all material respects with ERISA. “**ERISA Affiliate**” means, with respect to the Company, any member of any group of organizations described in Sections 414(b), (c), (m) or (o) of the Internal Revenue Code of 1986, as amended, and the regulations and published interpretations thereunder (the “**Code**”) of which the Company is a member. No “**reportable event**” (as defined under ERISA) has occurred or is reasonably expected to occur with respect to any “**employee benefit plan**” established or maintained by the Company, or any of its ERISA Affiliates. No “**employee benefit plan**” established or maintained by the Company, or any of its ERISA Affiliates, if such “**employee benefit plan**” were terminated, would have any “**amount of unfunded benefit liabilities**” (as defined under ERISA). Neither the Company, nor any of its ERISA Affiliates has incurred or reasonably expects to incur any liability under (i) Title IV of ERISA with respect to termination of, or withdrawal from, any “**employee benefit plan**” or (ii) Sections 412, 4971, 4975 or 4980B of the Code. Each “**employee benefit plan**” established or maintained by the Company, or any of its ERISA Affiliates that is intended to be qualified under Section 401(a) of the Code is so qualified and nothing has occurred, whether by action or failure to act, which would cause the loss of such qualification.

(hh) *No Outstanding Loans or Other Extensions of Credit.* The Company has not extended or maintained credit, arranged for the extension of credit, or renewed any extension of credit, in the form of a personal loan, to or for any director or executive officer (or equivalent thereof) of the Company except for such extensions of credit as are: (i) expressly permitted by Section 13(k) of the Exchange Act; or (ii) fully repaid, discharged, forgiven or otherwise no longer outstanding or owing in any way on the date of this Agreement.

(ii) *Compliance with Laws.* The Company has not been advised, and has no reason to believe, that it is not conducting business in compliance with all applicable laws, rules and regulations of the jurisdictions in which it is conducting business, except where failure to be so in compliance would not result in a Material Adverse Effect. The Company:

(i) has not, since January 1, 2011, received any FDA Form 483, notice of adverse finding, warning letter, untitled letter or other correspondence or notice from the U.S. Food and Drug Administration (the “**FDA**”) or any other federal, state, local or foreign governmental or regulatory authority alleging or asserting material noncompliance with any Applicable Laws or any licenses, certificates, approvals, clearances, authorizations, permits and supplements or amendments thereto required by any such Applicable Laws (“**Authorizations**”);

(ii) possesses all material Authorizations and such Authorizations are valid and in full force and effect and the Company is not in material violation of any term of any such Authorizations;

(iii) has not received notice of any claim, action, suit, proceeding, hearing, enforcement, investigation, arbitration or other action from the FDA or any other federal, state, local or foreign governmental or regulatory authority or third party alleging that

any product operation or activity is in material violation of any Applicable Laws or Authorizations and has no knowledge that the FDA or any other federal, state, local or foreign governmental or regulatory authority or third party is considering any such claim, litigation, arbitration, action, suit, investigation or proceeding;

(iv) has not received notice that the FDA or any other federal, state, local or foreign governmental or regulatory authority has taken, is taking or intends to take action to limit, suspend, modify or revoke any material Authorizations and has no knowledge that the FDA or any other federal, state, local or foreign governmental or regulatory authority is considering such action;

(v) has filed, obtained, maintained or submitted all material reports, documents, forms, notices, applications, records, claims, submissions and supplements or amendments as required by any Applicable Laws or Authorizations and that all such reports, documents, forms, notices, applications, records, claims, submissions and supplements or amendments were materially complete and correct on the date filed (or were corrected or supplemented by a subsequent submission); and

(vi) has not, either voluntarily or involuntarily, initiated, conducted, or issued or caused to be initiated, conducted or issued, any recall, market withdrawal or replacement, safety alert, "**dear doctor**" letter, or other notice or action relating to the alleged lack of safety or efficacy of any product or any alleged product defect or violation and, to the Company's knowledge, no third party has initiated, conducted or intends to initiate any such notice or action.

The studies, tests and preclinical and clinical trials conducted by or on behalf of the Company were and, if still pending, are being conducted in accordance with experimental protocols, procedures and controls pursuant to accepted professional scientific standards and all Applicable Laws and Authorizations, including, without limitation, the Federal Food, Drug and Cosmetic Act and the rules and regulations promulgated thereunder (collectively, "**FFDCA**"); the descriptions of the results of such studies, tests and trials contained in the SEC Reports are accurate and fairly present the data derived from such studies, tests and trials; the Company is not aware of any studies, tests or trials, the results of which the Company believes reasonably call into question the study, test, or trial results described or referred to in the SEC Reports when viewed in the context in which such results are described and the clinical state of development; and, since January 1, 2009, the Company has not received any notices or correspondence from the FDA or any other federal, state, local or foreign governmental or regulatory authority requiring the termination, suspension or material modification of any studies, tests or preclinical or clinical trials conducted by or on behalf of the Company.

(jj) *No Price Stabilization or Manipulation; Compliance with Regulation M, etc.* The Company has not taken, directly or indirectly, any action designed to or that might be reasonably expected to cause or result in stabilization or manipulation of the price of the Shares or any other "**reference security**" (as defined in Rule 100 of Regulation M under the 1934 Act ("**Regulation M**")), whether to facilitate the sale or resale of the Shares or otherwise, and has taken no action which would directly or indirectly violate Regulation M or facilitate any short-selling of the Shares offered or the underlying Shares by Purchasers.

(kk) *Company Not an "Investment Company."* The Company has been advised of the rules and requirements under the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission thereunder (collectively, the "**Investment Company Act**"). The Company is not, and after receipt of payment for the Shares will not be, an "**investment company**" within the meaning of the Investment Company Act.

(ll) *Brokers.* Except for Jefferies & Company, Inc., there is no broker, finder or other party that is entitled to receive from the Company any brokerage or finder's fee or other fee or commission as a result of the Placement or the transactions contemplated thereby.

Section 4. Covenants.

(a) *Reasonable Best Efforts.* Each party shall use its reasonable best efforts to timely satisfy each of the conditions to be satisfied by it as provided in Sections 5 and 6 of this Agreement.

(b) *Form D and Blue Sky.* The Company agrees to file a Form D with respect to the Shares as required under Regulation D and to comply with any applicable state securities and "**Blue Sky**" laws in connection with the sale of the Shares. The Company shall, on or before the Closing Date, take such action as the Company shall reasonably determine is necessary in order to obtain an exemption for or to qualify the Shares for sale to the Purchasers at the Closing pursuant to this Agreement under applicable securities or "**Blue Sky**" laws of the states of the United States (or to obtain an exemption from such qualification), and shall provide evidence of any such action so taken to the Placement Agent on or prior to the Closing Date. The Company shall make all filings and reports relating to the offer and sale of the Shares required under applicable securities or "**Blue Sky**" laws of the states of the United States following the Closing Date.

(c) *Financial Information.* From the Closing Date until the first anniversary of the Closing, the Company will make available to the Purchasers (except to the extent that the following are publicly available, in which case the Company shall have no obligations under this Subsection (c) with respect to such publicly available information): (i) within one Business Day after the filing thereof with the Commission, a copy of its Annual Reports and Quarterly Reports on Form 10-K or 10-Q, any interim reports or any consolidated balance sheets, income statements, stockholders' equity statements and/or cash flow statements for any period other than annual, any Current Reports on Form 8-K and any registration statements (other than on Form S-8) or amendments filed pursuant to the Securities Act; and (ii) copies of any notices and other information made available or given to the stockholders of the Company generally, contemporaneously with the making available or giving thereof to the stockholders.

(d) *Fees and Expenses.* Except as otherwise set forth in the Transaction Documents, each party to this Agreement shall bear its own expenses in connection with the sale of the Shares to the Purchasers.

(e) *General Solicitation.* Neither the Company nor any of its Affiliates have engaged, and will engage, directly or indirectly in any form of “*general solicitation*” or “*general advertising*” in connection with the offering of the Shares (as those terms are used in Regulation D) under the Securities Act or in any manner involving a public offering within the meaning of Section 4(2); and the Company has not entered, and will not enter, into any arrangement or agreement with respect to the distribution of the Shares, except for this Agreement and the Resale Registration Rights Agreement, and the Company agrees not to enter into any such arrangement or agreement. “*Affiliate*” shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act.

(f) *Integration.* Neither the Company nor any of its Affiliates has directly or indirectly sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of any “*security*” (as defined in the Securities Act) that is, or would be, integrated with the sale of any of the Shares in a manner that would require the registration under the Securities Act of any of the Shares.

(g) *Publicity.* The Company agrees that it will not, and shall cause each of its Subsidiaries to not, without the prior written consent of a Purchaser, use in advertising, publicity, or otherwise the name of such Purchaser, or any partner or employee of such Purchaser, nor any trade name, trademark, trade device, service mark, symbol or any abbreviation, contraction or simulation thereof owned by such Purchaser or any of their respective affiliates, except: (a) in any registration statement in which such Purchaser is identified as a selling security holder, or (b) to the extent required by law or legal process, in which case the Company shall provide such Purchaser with prior notice of such disclosure. The Company further agrees that it shall obtain the written consent of such Purchaser prior to the Company’s or any of its Subsidiaries’ issuance of any public statement detailing the purchase of Shares by Purchasers pursuant to this Agreement other than to the extent required by law or legal process, in which case the Company shall only be required to provide such Purchaser with prior notice of such disclosure.

(h) *Confidentiality After The Date Hereof.* Each Purchaser, severally and not jointly with the other Purchasers, covenants that until such time as the transactions contemplated by this Agreement and such other material non-public information related to the Company in possession of the Purchaser are publicly disclosed by the Company as described in Subsection (i), such Purchaser will maintain the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction).

(i) *Securities Laws Disclosure: Publicity.* The Company shall, by 8:30 a.m. (New York City time) on the next Business Day after the date hereof, issue a press release and file a Current Report on Form 8-K, disclosing the material terms of the transactions contemplated hereby, and filing the Transaction Documents as exhibits thereto. From and after the issuance of the Press Release, no Purchaser shall be in possession of any material, non-public information received from the Company or any of its officers, directors, employees or agents, that is not disclosed in the Press Release. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any filing with the Commission, press release or any regulatory agency, without the prior written consent of such Purchaser, except (i) as required by federal securities law in connection with (A) any

registration statement contemplated by the Registration Rights Agreement and (B) the filing of final Transaction Documents (including signature pages thereto) with the Commission and (ii) to the extent such disclosure is required by law or regulations, in which case the Company shall provide the Purchasers with prior notice of such disclosure permitted under this clause (ii).

(j) *Reporting Status.* During the period beginning on the Closing Date and ending on the first anniversary of the Closing Date, the Company shall timely file all reports required to be filed with the Commission pursuant to the Exchange Act, and the Company shall not terminate its status as an issuer required to file reports under the Exchange Act even if the Exchange Act or the rules and regulations thereunder would no longer require or otherwise permit such termination.

Section 5. Conditions to the Company's Obligation to Sell.

The obligation of the Company hereunder to issue and sell the Shares to the Purchasers at the Closing is subject to the satisfaction, at or before the Closing Date, of each of the following conditions, *provided* that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion by providing the Purchaser with prior written notice thereof:

(a) Each Purchaser shall have executed each of the Transaction Documents to which it is a party, in a form reasonably satisfactory to the Company, and delivered the same to the Company.

(b) Subject to confirmation of receipt of the Certificates as set forth in Section 6(b) below, each Purchaser shall have delivered to the Company each such Purchaser's Investment Amount in cash at the Closing by wire transfer of immediately available funds pursuant to the wire instructions, in respect of each Purchaser, as set forth on Schedule B hereto.

(c) Each Purchaser shall have delivered to the Company a properly completed and duly executed applicable Internal Revenue Service Form W-8 or W-9 that establishes a complete exemption from United States withholding tax.

(d) The representations and warranties of each Purchaser shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date), except that representations and warranties that are qualified by materiality shall be true and correct in all respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date), and each Purchaser shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by such Purchaser at or prior to the Closing Date.

(e) No injunction, restraining order, action or order of any nature by a governmental or regulatory authority shall have been issued, taken or made or no action shall have been taken and no statute, rule, regulation or order shall have been enacted, adopted or issued by any federal, state or foreign governmental or regulatory authority of competent jurisdiction that would, prior to or as of the Closing Date, prevent or materially interfere with the consummation of the Transactions.

Section 6. Conditions to the Purchasers' Obligation to Purchase.

The obligation of each Purchaser hereunder to purchase the Shares at the Closing is subject to the satisfaction, at or before the Closing Date, of each of the following conditions, *provided* that these conditions are for the Purchasers' several and sole benefit and may be waived by each Purchaser at any time in such Purchaser's sole discretion by providing the Company with prior written notice thereof:

(a) The Company shall have executed and delivered, or caused to be delivered, to each of the Purchasers: (i) each of the Transaction Documents to which it is a party; and (ii) the Certificates.

(b) The representations and warranties of the Company contained herein shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date), except that representations and warranties that are qualified by materiality shall be true and correct in all respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by the Transaction Documents to be performed, satisfied or complied with by the Company at or prior to the Closing Date. Each Purchaser or its agent shall have received certificates, executed by an authorized officer of each of the Company, dated as of the Closing Date, to the foregoing effect.

(c) No injunction, restraining order, action or order of any nature by a governmental or regulatory authority shall have been issued, taken or made or no action shall have been taken and no statute, rule, regulation or order shall have been enacted, adopted or issued by any federal, state or foreign governmental or regulatory authority of competent jurisdiction that would, prior to or as of the Closing Date, prevent or materially interfere with the consummation of the Transactions; and no stop order suspending the qualification or exemption from qualification of any of the Shares in any jurisdiction shall have been issued and no proceeding for that purpose shall have been commenced or, to the knowledge of the Company after reasonable inquiry, be pending or contemplated as of the Closing Date.

(d) No Material Adverse Effect shall have occurred since the date of the Company's most recent financial statements contained in the SEC Reports.

(e) The Company shall have agreed to sell 100,000,000 Shares for an aggregate amount of gross proceeds of \$50,000,000.

Section 7. Termination.

In the event that the Closing shall not have occurred due to the failure of the Company or any Purchaser to satisfy the conditions set forth in Sections 5 and 6 above (and the

non-breaching party's failure to waive such unsatisfied condition(s)), the non-breaching party shall have the option to terminate this Agreement with respect to such breaching party at the close of business on the fifth business Trading Day following the Closing Date.

Section 8. Miscellaneous.

(a) *Notices.* Any notice or other communication required or permitted to be provided hereunder shall be in writing and shall be deemed delivered at the time delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed; when receipt acknowledged, if sent via facsimile; and the next Business Day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery. Failure to provide a notice or communication to one party hereto or any defect in it shall not affect its sufficiency with respect to other parties hereto. The address for such notices and communications shall be as follows:

If to the Company:

A.P. Pharma, Inc.
123 Saginaw Drive
Redwood City, CA 94063
Attn: John Whelan, Chief Executive Officer
Facsimile: (650) 365-6490

With a copy to:

Ropes & Gray LLP
Three Embarcadero
San Francisco, CA 94111
Attn: Ryan Murr, Esq.
Facsimile: (415) 315-6026

If to a Purchaser:

To the address set forth under such Purchaser's name on Schedule B or such other address as may be designated in writing hereafter, in the same manner, by such person.

(b) *Independent Nature of Purchaser's Obligations and Rights.* The obligations of each Purchaser under this Agreement are several and not joint with the obligations of each other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under this Agreement. Nothing contained herein or in any Transaction Document, and no action taken by any Purchaser pursuant thereto, shall be deemed to constitute the Purchaser as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by this Agreement or any other Transaction Document. Each Purchaser acknowledges that no other Purchaser will be acting as agent of such Purchaser in enforcing its rights under this Agreement. Each Purchaser shall be entitled to independently protect and enforce its rights, including without limitation the rights

arising out of this Agreement, and it shall not be necessary for any other Purchaser to be joined as an additional party in any Proceeding for such purpose. The Company acknowledges that each of the Purchasers has been provided with the same Resale Registration Rights Agreement for the purpose of closing a transaction with multiple Purchasers and not because it was required or requested to do so by any Purchaser.

(c) *Governing Law; Jurisdiction; Jury Trial; Etc.* This Agreement shall be governed by, and construed in accordance with, the laws of the State of California. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in The City of San Francisco for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereby irrevocably waives any right it may have, and agrees not to request, a jury trial for the adjudication of any dispute hereunder or in connection with or arising out of this Agreement or any transaction contemplated hereby. If either party shall commence a proceeding to enforce any provisions of this Agreement, then the prevailing party in such proceeding shall be reimbursed by the other party for its attorney's fees and other costs and expenses incurred with the investigation, preparation and prosecution of such proceeding.

(d) *Amendments and Waivers.* No provision of this Agreement may be amended or waived other than by an instrument in writing signed by the Company and each Purchaser, and any amendment to or waiver of this Agreement made in conformity with the provisions of this Section 8(d) shall be binding on all Purchasers.

(e) *Further Assurances.* Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as any other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(f) *Entire Agreement.* This Agreement supersedes all other prior oral or written agreements (except any confidentiality or nondisclosure agreements entered into among the parties (the "**Prior Confidentiality Agreements**") and those certain side letters entered into between the Company and certain Purchasers dated as of July 25, 2012 (the "**Side Letters**")), among the parties hereto and persons acting on their behalf with respect to the matters discussed herein, and the Transaction Documents, the Prior Confidentiality Agreements and the Side Letters contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, none of the parties hereto makes any representation, warranty, covenant or undertaking with respect to such matters.

(g) *Successors and Assigns*. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; *provided* that no party shall assign any of its rights or obligations hereunder without the prior written consent of the other party.

(h) *Massachusetts Business Trust*. A copy of the Agreement and Declaration of Trust of each Purchaser or any affiliate thereof is on file with the Secretary of State of the Commonwealth of Massachusetts and notice is hereby given that this Agreement is executed on behalf of the trustees of such Purchaser or any affiliate thereof as trustees and not individually and that the obligations of this Agreement are not binding on any of the trustees, officers or stockholders of such Purchaser or any affiliate thereof individually but are binding only upon such Purchaser or any affiliate thereof and its assets and property.

(i) *Counterparts; Facsimile Copies*. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.

(j) *Severability*. If any provision of this Agreement shall be invalid, unenforceable, illegal or void in any jurisdiction, such invalidity, unenforceability, illegality or voidness shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction. In that case, the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such provision. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining provisions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(k) *Headings*. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

(l) *No Third Party Beneficiaries*. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other Person except as provided in the next paragraph.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused their respective signature page to this Securities Purchase Agreement to be duly executed as of the date first written above.

A.P. Pharma, Inc.

By: /s/ John Whelan

Name: John Whelan

Title: Chief Executive Officer

Standard Pacific Capital Holdings LLLP

By: /s/ Andrew Midler

Name: Andrew Midler

Title: General Partner

The Moses Trust

By: /s/ Andrew Midler

Name: Andrew Midler

Title: Trustee

Broadfin Healthcare Master Fund, LTD

By: /s/ Jason Abrams

Name: Jason Abrams

Title: CFO

Capital Ventures International

By: /s/ Martin Kobinger

Name: Martin Kobinger

Title: Investment Manager

PURCHASERS

T. Rowe Price Health Sciences Fund, Inc.
T. Rowe Price Health Sciences Portfolio
VALIC Company I - Health Sciences Fund
John Hancock Variable Insurance Trust - Health
Sciences Trust
John Hancock Funds II - Health Sciences Fund
TD Mutual Funds - TD Health Sciences Fund

By: T. ROWE PRICE ASSOCIATES, INC.
Investment Adviser, for and on behalf of the
Purchasers listed in Attachment A

By: /s/ G. Mark Bussard

Name: G. Mark Bussard

Title: Vice President

Franklin Templeton Investment Funds - Franklin
Biotechnology Discovery Fund

By: /s/ Steven Gray

Name: Steven Gray

Title: Vice President

Tang Capital Partners, LP

By: /s/ Kevin Tang

Name: Kevin Tang

Title: Managing Director

Baker Brothers Life Sciences, L.P.

By: Baker Bros Advisors, LLC, Management Company and Investment Advisor to BAKER BROTHERS LIFE SCIENCES, L.P., pursuant to authority granted by Baker Brothers Life Sciences Capital, L.P., general partner to BAKER BROTHERS SCIENCES, L.P. and not the general partner

/s/ Scott L. Lessing

By: Scott L. Lessing, President

667, L.P.

By: Baker Bros Advisors, LLC, Management Company and Investment Advisor to 667, L.P., pursuant to authority granted by 667 Capital, L.P., general partner to 667, L.P. and not the general partner

/s/ Scott L. Lessing

By: Scott L. Lessing, President

14159, L.P.

By: Baker Bros Advisors, LLC, Management Company and Investment Advisor to 14159, L.P., pursuant to authority granted by 14159 Capital, L.P., general partner to 14159, L.P. and not the general partner

/s/ Scott L. Lessing

By: Scott L. Lessing, President

By: /s/ Jay Venkatesan

Name: Jay Venkatesan, signing on behalf of Ayer
Capital Partners Master Fund, L.P.

Title: Managing Member

By: /s/ Jay Venkatesan

Name: Jay Venkatesan, signing on behalf of Ayer

Capital Partners Kestrel Fund, LP

Title: Managing Member

By: /s/ Jay Venkatesan

Name: Jay Venkatesan, signing on behalf Epworth

- Ayer Capital

Title: Managing Member of Investment Advisor

By: /s/ Kenneth Robins

Name: Kenneth Robins

Title: Treasurer

Fidelity Advisor Series VII: Fidelity Advisor
Biotechnology Fund

By: /s/ Kenneth Robins

Name: Kenneth Robins

Title: Treasurer

<u>Purchaser</u>	<u>Number of Shares Purchased</u>	<u>Total Purchase Price</u>
Standard Pacific Capital Holdings LLLP	36,190,476	\$ 19,000,000.00
The Moses Trust	1,904,762	\$ 1,000,000.00
Fidelity Select Portfolios: Biotechnology Portfolio	14,288,530	\$ 7,501,478.00
Fidelity Advisor Series VII: Fidelity Advisor Biotechnology Fund	949,565	\$ 498,522.00
T. Rowe Price Health Sciences Fund, Inc.	11,430,000	\$ 6,000,750.00
T. Rowe Price Health Sciences Portfolio	381,000	\$ 200,025.00
VALIC Company I – Health Sciences Fund	727,500	\$ 381,937.50
John Hancock Variable Insurance Trust – Health Sciences Trust	466,500	\$ 244,912.50
John Hancock Funds II – Health Sciences Fund	1,163,100	\$ 610,627.50
TD Mutual Funds – TD Health Sciences Fund	486,200	\$ 255,255.00
Broadfin Healthcare Master Fund, LTD	9,523,810	\$ 5,000,000.00
Tang Capital Partners, LP	9,523,810	\$ 5,000,000.00
Baker Brothers Life Sciences, L.P.	8,267,137	\$ 4,340,246.65
667, L.P.	302,775	\$ 158,957.00
667, L.P.	229,484	\$ 120,479.00
14159, L.P.	200,604	\$ 105,317.34
Franklin Templeton Investment Funds – Franklin Biotechnology Discovery Fund	2,857,143	\$ 1,500,000.00
Ayer Capital Partners Master Fund, L.P.	2,310,190	\$ 1,212,849.75
Ayer Capital Partners Kestrel Fund, LP	43,000	\$ 22,575.00
Epworth – Ayer Capital	123,000	\$ 64,575.00
Capital Ventures International	631,414	\$ 331,492.00

Purchaser Information

LEGAL NAME OF PURCHASER: _____

ADDRESS OF PURCHASER: _____

Attention: _____

TELEPHONE NUMBER:

FAX NUMBER:

NOMINEE (Name in which the Shares are to be registered, if different than name of Purchaser): _____

TAX I.D. NUMBER: _____

(If acquired in the name of a nominee, the taxpayer I.D. number of such nominee)

PERSON TO RECEIVE COPIES OF TRANSACTION DOCUMENTS

NAME: _____

TELEPHONE NUMBER: _____

EMAIL: _____

OPERATIONS CONTACTS

PRIMARY: _____

TELEPHONE NUMBER: _____

EMAIL: _____

SECONDARY: _____

TELEPHONE NUMBER: _____

EMAIL: _____

PAYMENT INSTRUCTIONS:

NAME OF BANK: _____

ABA: _____

ACCOUNT NAME: _____

ACCOUNT NUMBER: _____

REFERENCE/ATTENTION: _____

MAIL PAYMENT NOTICES (if different than mailing address): _____

Attention: _____

TELEPHONE NUMBER:

FAX NUMBER:

STATE OF PRINCIPAL PLACE OF BUSINESS: _____

PHYSICAL DELIVERY INSTRUCTIONS:

Attention: _____

TELEPHONE NUMBER:

FAX NUMBER:

TAX WITHHOLDING FORM ATTACHED (indicate type):

Total purchase price of Shares to be purchased by you ("**Investment Amount**"): \$ _____

(if special denominations required, please note)

CURRENT HOLDINGS IN COMPANY SECURITIES:¹ _____

¹ Reported holdings will be reflected in the Selling Stockholder Table in the resale registration statement. If current holdings are zero, please so indicate or leave blank.

Wire Instructions

Please note Purchaser's name on the wire

REGISTRATION RIGHTS AGREEMENT

Registration Rights Agreement (this "**Agreement**") dated as of July 25, 2012 among A.P. Pharma, Inc., a Delaware corporation, (the "**Company**"), and the investors listed on the signature pages hereto (each, a "**Purchaser**" and, collectively, the "**Purchasers**").

Background

1. Sale of Securities. In connection with that certain Securities Purchase Agreement among the parties hereto dated the date hereof (the "**Securities Purchase Agreement**"), the Company has agreed, upon the terms and subject to the conditions set forth in the Securities Purchase Agreement, to issue and sell to the Purchasers listed on the signature pages hereof 102,000,000 shares (the "**Common Shares**") of the Company's common stock, par value \$0.01 per share (the "**Common Stock**").

2. Registration Rights. In accordance with the terms of the Securities Purchase Agreement, the Company has agreed to provide to the Purchasers certain registration rights under the Securities Act of 1933, as amended, and the rules and regulations thereunder, or any similar successor statute (collectively, the "**Securities Act**"), and applicable state securities laws. The execution and delivery of this Agreement is a condition to the Initial Purchaser's obligation to purchase the Common Shares under the Securities Purchase Agreement.

Agreement

The Company and each of the Purchasers hereby agree as follows:

1. Definitions.

Capitalized terms used herein and not otherwise defined herein shall have the respective meanings set forth in the Securities Purchase Agreement. As used in this Agreement, the following terms shall have the respective meanings set forth in this Section 1:

"**Additional Payment Amount**" shall have the meaning set forth in Section 2(d).

"**Advice**" shall have the meaning set forth in Section 2(e).

"**Business Day**" means any day other than Saturday, Sunday or other day on which commercial banks in The City of New York are authorized or required by law to remain closed.

"**Commission**" means the U.S. Securities and Exchange Commission.

"**Common Shares**" shall have the meaning set forth in the preamble.

"**Company**" shall have the meaning set forth in the preamble.

"**Effective Date**" means, with respect to any Registration Statement, the date that the Commission first declares effective such Registration Statement.

“Effectiveness Deadline” means an Initial Effectiveness Deadline or a Subsequent Effectiveness Deadline.

“Effectiveness Period” shall have the meaning set forth in [Section 2\(a\)](#).

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Filing Deadline” means: (a) with respect to the initial Registration Statement to be filed pursuant to [Section 2\(a\)](#), the 30th day following the Closing Date under the Securities Purchase Agreement; and (b) with respect to any additional Registration Statement to be filed pursuant to [Section 2\(b\)](#), the 30th day following the date that the Commission shall indicate as being the first date or time that such filing may be made.

“FINRA” means the Financial Industry Regulatory Authority, Inc. or any successor organization performing similar functions.

“Holder” or **“Holders”** means the holder or holders, as the case may be, from time to time of Registrable Securities.

“Indemnified Party” shall have the meaning set forth in [Section 5\(c\)](#).

“Indemnifying Party” shall have the meaning set forth in [Section 5\(c\)](#).

“Initial Effectiveness Deadline” means, with respect to the Registration Statement filed pursuant to [Section 2\(a\)](#), the date that is: (a) in the event that the Registration Statement is not subject to a full review by the SEC, 90 days after the Closing Date under the Securities Purchase Agreement; or (b) in the event that the Registration Statement is subject to review by the SEC, 120 days after the Closing Date under the Securities Purchase Agreement.

“Legal Counsel” shall have the meaning set forth in [Section 3\(h\)](#).

“Proceeding” means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

“Prospectus” means the prospectus included in a Registration Statement (including, without limitation, any preliminary prospectus, any free-writing prospectus and any prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by a Registration Statement, and all other amendments and supplements to such prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such prospectus.

“Purchaser” shall have the meaning set forth in the preamble.

“Registrable Securities” means each of the Securities upon its original issuance and at all times subsequent thereto until: (i) a Registration Statement covering such Security has been declared effective by the Commission and such Security has been disposed of in accordance with such effective Registration Statement; (ii) such Security ceases to be outstanding; or (iii) such Security has been sold in compliance with Rule 144 or is salable pursuant to Rule 144(d) without any limitation on the manner of sale or amount of securities to be sold (or any similar provision then in force other than Rule 144A).

“Registration Default” shall have the meaning set forth in [Section 2\(d\)](#).

“Registration Statement” means a registration statement filed pursuant to the terms hereof and which covers the resale by the Holders of Registrable Securities, including the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto and all material incorporated by reference (or deemed to be incorporated by reference) therein. For the avoidance of doubt, **“Registration Statement”** means the initial registration statement described above in this paragraph and any additional registration statement or registration statements that are needed to sell additional Registrable Securities with the effect that the obligations of the Company under this Agreement also extend to such additional registration statement or registration statements, in all cases, as specified in this Agreement.

“Rule 144” means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

“Rule 415” means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

“Rule 424” means Rule 424 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

“Securities” means the Common Shares issued pursuant to the Securities Purchase Agreement, together with any securities issued or issuable upon any stock split, dividend or other distribution, recapitalization or similar event or conversion price adjustment with respect thereto.

“Securities Act” shall have the meaning set forth in the preamble.

“Securities Purchase Agreement” shall have the meaning set forth in the preamble.

“Selling Holder Questionnaire” shall have the meaning set forth in [Section 2\(e\)](#).

“Subsequent Effectiveness Deadline” means, with respect to any additional Registration Statement filed pursuant to [Section 2\(b\)](#), the date that is: (a) in the event that the Registration Statement is not subject to a full review by the SEC, 60 days after the Filing Deadline applicable to such Registration Statement, or (b) in the event that the Registration Statement is subject to a full review by the SEC, 90 days after the Filing Deadline applicable to such Registration Statement.

“**Subsequent Registration Statement**” shall have the meaning set forth in Section 2(b).

“**Suspension Period**” shall have the meaning set forth in Section 2(c).

“**Trading Day**” means any day on which the Common Stock is traded on the Trading Market; provided that “Trading Day” shall not include any day on which the Common Stock is scheduled to trade on such exchange or market for less than 4.5 hours or any day that the Common Stock is suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York time).

“**Trading Market**” means whichever of the New York Stock Exchange, the American Stock Exchange, the Nasdaq Global Market, the Nasdaq Capital Market or such other United States registered national securities exchange on which the Common Stock is listed or quoted for trading on the date in question.

“**Transaction Documents**” means, collectively, this Agreement and the Securities Purchase Agreement, dated as of July 25, 2012, among the Company and the purchasers named therein.

2. Registration.

(a) *Initial Registration.* On or prior to the Filing Deadline, the Company shall prepare and file with the Commission a Registration Statement covering the resale of all Registrable Securities for an offering to be made on a continuous basis pursuant to Rule 415. The Registration Statement shall be on Form S-3 (except if the Company is not then eligible to register for resale the Registrable Securities on Form S-3 in which case such registration shall be on another appropriate form for such purpose) and shall contain (except if otherwise required pursuant to written comments received from the Commission upon a review of such Registration Statement) a “**Plan of Distribution**” substantially in the form attached hereto as Annex A, as the same may be amended in accordance with the provisions of this Agreement. The Company shall use reasonable best efforts to cause the Registration Statement to be declared effective under the Securities Act as soon as practicable but, in any event, no later than the Initial Effectiveness Deadline, and shall use commercially reasonable efforts to keep the Registration Statement (or a Subsequent Form S-3, as defined below) continuously effective under the Securities Act until the earlier of (i) such time as all of the Registrable Securities covered by such Registration Statement have been sold or (ii) the date when all Registrable Securities covered by the Registration Statement cease to be Registrable Securities as determined by the counsel to the Company (the “**Effectiveness Period**”). Notwithstanding the foregoing, the Company shall only be required to initially register the number of Registrable Securities the Commission allows to be registered on the initial Registration Statement.

(b) *Subsequent Registrations.* If for any reason the Commission does not permit all of the Registrable Securities to be included in the Registration Statement initially filed pursuant to Section 2(a), then the Company shall prepare and file as soon as practicable after the date on

which the Commission shall indicate as being the first date or time that such filing may be made, but in any event by the Filing Deadline, an additional Registration Statement covering the resale of the Registrable Securities not already covered by an existing and effective Registration Statement for an offering to be made on a continuous basis pursuant to Rule 415 (the "**Subsequent Registration Statement**"), provided that the number of Registrable Securities that the Company shall be required to register on each Subsequent Registration Statement shall not exceed the number of Registrable Securities the Commission allowed to be registered on the initial Registration Statement. The Company shall use commercially reasonable efforts to cause such Registration Statement to be declared effective under the Securities Act as soon as practicable but, in any event, no later than the Subsequent Effectiveness Deadline, and shall use commercially reasonable efforts to keep such Registration Statement continuously effective under the Securities Act during the Effectiveness Period.

(c) *Suspension Periods.* Notwithstanding anything to the contrary contained herein, the Company may suspend the effectiveness of a Registration Statement by written notice to the Holders for a period (each such period, a "**Suspension Period**") not to exceed an aggregate of 45 days in any 90-day period, and not to exceed an aggregate of 90 days in any 360-day period, if:

- (i) an event occurs and is continuing as a result of which, if such event were not disclosed in the Registration Statement, the Registration Statement would, in the Company's reasonable judgment, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and
- (ii) the Company reasonably determines in good faith that the disclosure of such event at such time would be seriously detrimental to the Company or its business;

provided that, in the event the disclosure relates to a previously undisclosed proposed or pending material business transaction, the disclosure of which would impede the Company's ability to consummate such transaction, the period during which the effectiveness of the Registration Statement is suspended shall not be included in the calculation of any Suspension Period.

(d) *Additional Payment Amounts.* The Company and the Purchasers agree that the Holders will suffer damages if the Company fails to fulfill its obligations under this Section 2 and that it would not be feasible to ascertain the extent of such damages with precision. Accordingly, if:

- (i) a Registration Statement is not filed with the Commission on or before the applicable Filing Deadline;
- (ii) a Registration Statement is not declared effective by the Commission on or before the applicable Effectiveness Deadline;
- (iii) a Registration Statement is filed and declared effective but, during the applicable Effectiveness Period, shall cease to be effective or, other than by reason of a Suspension Period as provided in Section 2(c), shall fail to be usable for its intended purpose without such disability being cured within

twenty Business Days by an effective post-effective amendment to such Registration Statement, a supplement to the Prospectus, a report filed with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act that cures such failure; or

- (iv) (A) prior to or on the 45th day, as may be permitted under Section 2(c), of any Suspension Period, such suspension has not been terminated or (B) Suspension Periods exceed an aggregate of 45 days, as may be permitted under Section 2(c), in any 90-day period or an aggregate of 90 days in any 360-day period,

(each such event referred to in foregoing clauses (i) through (iv), a “**Registration Default**”), then in such event as relief for the damages to any Holder by reason of any such delay in or reduction of its ability to sell the Registrable Securities and not as a penalty, the Company hereby agrees to pay to each Holder, subject to Section 2(e), an amount in cash equal to 1.5% of the aggregate purchase price of the unregistered Registrable Securities held by such Holder for each 30-day period (prorated for periods totaling less than 30 days) following the Registration Default until the earlier to occur of: (i) such time as when the Company cures the Registration Default; and (ii) the six (6) month anniversary of the date hereof. The payments to which a Holder shall be entitled pursuant to this Section 2(d) are referred to herein as “**Additional Payment Amounts**”. The Company shall pay Additional Payment Amounts, if any, to Holders on the earlier of: (I) the last day of the calendar month during which such Additional Payment Amounts are incurred; and (II) the third Business Day following the date on which the Registration Default giving rise to the Additional Payment Amounts is cured. In the event that the Company fails to pay Additional Payment Amounts within three Trading Days, such Additional Payment Amounts shall accrue interest, payable in cash in arrears, at the rate of 1.0% per month (prorated for partial months) until paid in full.

(e) *Selling Holder Agreements*. Each Holder agrees to furnish to the Company a completed questionnaire in the form attached to this Agreement as Annex B or in a form mutually agreeable to the parties (a “**Selling Holder Questionnaire**”). The Company shall not be required to include the Registrable Securities of a Holder in a Registration Statement and shall not be required to pay any Additional Payment Amounts under Section 2(d) or other damages to any Holder who fails to furnish to the Company a fully completed Selling Holder Questionnaire at least ten Business Days prior to the applicable Filing Deadline.

Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of any event of the kind described in Section 2(c) or Section 3(c), such Holder will forthwith discontinue disposition of such Registrable Securities under the Registration Statement until such Holder’s receipt of the copies of the supplemented Prospectus and/or amended Registration Statement or until it is advised in writing (the “**Advice**”) by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement. The Company may provide appropriate stop orders to enforce the provisions of this paragraph.

With respect to Registrable Securities not already covered by a Registration Statement, the Company shall not be obligated to file: (i) more than one pre-effective amendment or supplement to a Registration Statement for all Holders during any fiscal quarter; and (ii) more than one post-effective amendment to a Registration Statement for all Holders during any semi-annual period, and provided further, in all such cases involving supplements or amendments (whether pre-effective or post-effective), the Company shall only be obligated to make a filing when the aggregate principal amount of the Registrable Securities to be included in such amendment or supplement is more than \$5 million.

3. Registration Procedures.

(a) *Right to Prior Drafts.* Not less than five Business Days prior to the filing of a Registration Statement or any related Prospectus or any amendment or supplement thereto, the Company shall furnish to each Holder copies of the “**Selling Security Holders**” section of such documents in the form in which the Company proposes to file them, which sections will be subject to the review of each such Holder. Each Holder shall provide comments, if any, within two Business Days after the date such materials are provided. The Company shall not file a Registration Statement, any Prospectus or any amendments or supplements thereto in which the “**Selling Security Holders**” section thereof differ in any material respect from the disclosure received from a Holder in its Selling Holder Questionnaire (as amended or supplemented).

(b) *Subsequent Amendments or Supplements, etc.* The Company shall: (i) prepare and file with the Commission such amendments, including post-effective amendments, pursuant to Rule 462 or otherwise, to a Registration Statement and the Prospectus used in connection therewith as may be necessary to keep such Registration Statement continuously effective as to the applicable Registrable Securities for its applicable Effectiveness Period; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424; (iii) respond as promptly as reasonably practicable to any comments received from the Commission with respect to any Registration Statement or any amendment thereto; (iv) comply in all material respects with the provisions of the Securities Act and the Exchange Act with respect to the Registration Statements and the disposition of all Registrable Securities covered by each Registration Statement; and (v) upon the occurrence of any event contemplated by Section 3(c)(v), as promptly as reasonably practicable, prepare a supplement or amendment, including a post-effective amendment, to the affected Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, no Registration Statement nor any Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(c) *Notices to Holders.* The Company shall notify the Holders as promptly as reasonably practicable (and, in the case of clause (i)(A) below, not less than two Business Days prior to such filing; and, in the case of (i)(c) below, not more than 24 hours after effectiveness): (i): (A) when a Prospectus or any supplement thereto or post-effective amendment to a Registration Statement is proposed to be filed; (B) when the Commission notifies the Company whether there will be a “**review**” of such Registration Statement; and (C) with respect to each Registration Statement or any post-effective amendment, when the same has

become effective; (ii) of any request by the Commission or any other Federal or state governmental authority for amendments or supplements to a Registration Statement or Prospectus or for additional information; (iii) of the issuance by the Commission of any stop order suspending the effectiveness of a Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (v) of the occurrence of any event or passage of time that makes the financial statements included in a Registration Statement ineligible for inclusion therein or that requires any Registration Statement, Prospectus or any document incorporated or deemed to be incorporated therein by reference to be revised so that, in the case of such Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(d) *Copies.* Upon request, the Company shall furnish to each Holder, without charge: (i) at least one copy of each Registration Statement and each amendment thereto and all exhibits to the extent requested by such Holder (excluding those previously furnished or incorporated by reference), except if such documents are available on Edgar; and (ii) an electronic copy of each Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto as such Holder may reasonably request. The Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto.

(e) *Blue Sky.* The Company shall, prior to any public offering of Registrable Securities, use commercially reasonable efforts to cooperate with the selling Holders in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Securities for offer and sale under the securities or Blue Sky laws of all jurisdictions within the United States that the selling Holders request in writing be covered, to keep each such registration or qualification (or exemption therefrom) effective during the applicable Effectiveness Period and to do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by any Registration Statement; provided, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or to become subject to any tax in any such jurisdiction where it is not then so subject.

(f) *Certificates.* The Company shall cooperate with the Holders to facilitate the timely preparation and delivery of either certificates or a book entry position through the DTC's DWAC system representing Registrable Securities to be delivered to a transferee pursuant to any Registration Statement, which certificates shall be free of all restrictive legends, and to enable such Registrable Securities to be in such denominations and registered in such names as any such Holders may reasonably request.

(g) *Underwriters.* If underwriters are used or if any Holder is deemed to be, alleged to be or reasonably believes it may be deemed or alleged to be, an underwriter or is required under

applicable securities laws to be described in a Registration Statement as an underwriter, with the concurrence of counsel for the Company, the Company shall use its reasonable efforts to furnish, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters: (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters; and (ii) a letter, dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering addressed to the underwriters.

(h) *144 Information.* With a view to making available to Holders the benefits of Rule 144 promulgated under the Securities Act, the Company shall, during the Effectiveness Period, file with the Commission in a timely manner all reports and other documents required of the Company under Rule 144(c) and provide to any Holder that is an affiliate of the Company (as “affiliate” is defined in Rule 144(a)(1)), as long as such Holder owns Registrable Securities, upon reasonable request: (i) a written statement by the Company that it has complied with the current information requirements of Rule 144(c); and (ii) such other information as may be reasonably requested to avail any Holder of any rule or regulation of the Commission that permits the selling of any such securities without registration.

4. Registration Expenses.

All fees and expenses incident to the performance of or compliance with this Agreement by the Company, other than underwriting discounts and commissions, shall be borne by the Company whether or not any Registrable Securities are sold pursuant to a Registration Statement including, without limitation:

(i) all registration and filing fees (including, without limitation, fees and expenses: (A) with respect to filings required to be made with any Trading Market on which the Common Stock is then listed for trading; (B) related to compliance with applicable state securities or Blue Sky laws; and (C) incurred in connection with the preparation or submission of any filing with FINRA);

(ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses if the printing of prospectuses is reasonably requested by Holders of a majority of the Registrable Securities included in a Registration Statement);

(iii) messenger, telephone and delivery expenses;

(iv) fees and disbursements of counsel for the Company;

(v) Securities Act liability insurance, if the Company so desires such insurance;

(vi) fees and expenses of all other persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement; and

(vii) all of the Company's own internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit and the fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange as required hereunder.

5. Indemnification.

(a) *Indemnification by the Company.* The Company will indemnify each Purchaser who holds Common Shares (if Common Shares held by such Purchaser are included in the securities as to which such registration is being effected), each of its officers and directors, partners, members and each person controlling such Purchaser within the meaning of Section 15 of the Securities Act, against all expenses, claims, losses, damages or liabilities (or actions in respect thereof), including any of the foregoing incurred in settlement of any litigation, commenced or threatened, arising out of or based on: (A) any untrue statement (or alleged untrue statement) of a material fact contained in any Registration Statement, prospectus, offering circular or other document, or any amendment or supplement thereto, incident to any such Registration Statement, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; or (B) any violation by the Company of the Securities Act, the Exchange Act, state securities laws or any rule or regulation promulgated under such laws applicable to the Company in connection with any such registration, and in each case, the Company will reimburse each such Purchaser, each of its officers and directors, partners, members and each person controlling such Purchaser, for any legal and any other expenses reasonably incurred, as such expenses are incurred, in connection with investigating, preparing or defending any such claim, loss, damage, liability or action, *provided* that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on: (X) any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such Purchaser or controlling person, and stated to be specifically for use therein; (Y) the use by a Purchaser of an outdated or defective prospectus after the Company has notified such Purchaser in writing that the prospectus is outdated or defective; or (Z) a Purchaser's (or any other indemnified person's) failure to send or give a copy of the prospectus or supplement (as then amended or supplemented), if required, pursuant to Rule 172 under the Securities Act (or any successor rule) to the persons asserting an untrue statement or alleged untrue statement or alleged untrue statement or omission or alleged omission at or prior to the written confirmation of the sale of Common Shares to such person if such statement or omission was corrected in such prospectus or supplement; *provided, further*, that the indemnity agreement contained in this Section 5(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld).

(b) *Indemnification by the Purchasers.* Each Purchaser holding Common Shares will, if Common Shares held by such Purchaser are included in the securities as to which such registration is being effected, severally and not jointly, indemnify the Company, each of its directors and officers, other holders of the Company's securities covered by such Registration Statement, each person who controls the Company within the meaning of Section 15 of the

Securities Act, and each such holder, each of its officers and directors and each person controlling such holder within the meaning of Section 15 of the Securities Act, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on: (A) any untrue statement (or alleged untrue statement) of a material fact contained in any such Registration Statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, to the extent, and only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such Registration Statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by an instrument duly executed by such Purchaser and stated to be specifically for use therein; or (B) any violation by such Purchaser of the Securities Act, the Exchange Act, state securities laws or any rule or regulation promulgated under such laws applicable to such Purchaser, and in each case, such Purchaser will reimburse the Company, each other holder, and directors, officers, persons, underwriters or control persons of the Company and the other holders for any legal or any other expenses reasonably incurred, as such expenses are incurred, in connection with investigating or defending any such claim, loss, damage, liability or action; provided, that the indemnity agreement contained in this Section 5(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of such indemnifying Purchaser (which consent shall not be unreasonably withheld or delayed). The liability of any Purchaser for indemnification under this Section 5(b) in its capacity as a seller of Common Shares shall not exceed the amount of net proceeds to such Purchaser of the securities sold in any such registration.

(c) Notice and Procedure. Each party entitled to indemnification under this Section 5 (the "**Indemnified Party**") shall give written notice to the party required to provide indemnification (the "**Indemnifying Party**") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not unreasonably be withheld), and the Indemnified Party may participate in such defense at such party's expense, and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Agreement unless the failure to give such notice is materially prejudicial to an Indemnifying Party's ability to defend such action and provided further, that the Indemnifying Party shall not assume the defense for matters as to which there is a conflict of interest or there are separate and different defenses. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party (whose consent shall not be unreasonably withheld), consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

(d) Contribution. If the indemnification provided for in this Section 5 is held by a court of competent jurisdiction to be unavailable to an Indemnified Party with respect to any losses, claims, damages or liabilities referred to herein, the Indemnifying Party, in lieu of indemnifying such Indemnified Party thereunder, shall to the extent permitted by applicable law contribute to the amount paid or payable by such Indemnified Party as a result of such loss, claim,

damage or liability in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand and of the Indemnified Party on the other in connection with the untrue statement or omission that resulted in such loss, claim, damage or liability, as well as any other relevant equitable considerations. The relative fault of the Indemnifying Party and of the Indemnified Party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the Indemnifying Party or by the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; *provided*, that in no event shall any contribution by a Purchaser hereunder exceed the proceeds from the offering received by such Purchaser. The amount paid or payable by a party as a result of any loss, claim, damage or liability shall be deemed to include, subject to the limitations set forth in this Agreement, any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this [Section 5](#) was available to such party in accordance with its terms.

(e) Survival. The obligations of the Company and the Purchasers under this [Section 5](#) shall survive completion of any offering of Common Shares in a Registration Statement and the termination of this Agreement. The indemnity and contribution agreements contained in this [Section 5](#) are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties and are not in diminution or limitation of other remedies or causes of action that the parties may have under the Transaction Documents.

6. Miscellaneous.

(a) *Notices*. Any notice or other communication required or permitted to be provided hereunder shall be in writing and shall be delivered in person or by first class mail (registered or certified, return receipt requested), facsimile, or overnight air courier guaranteeing next day delivery, to such address as the recipient shall most recently have designated in writing or, if no such designation has been made, to the following address:

If to the Company:

AP Pharma, Inc.
123 Saginaw Drive
Redwood City, CA 94063
Attention: John Whelan, Chief Executive Officer
Facsimile: (650) 365-6490

With a copy to:

Ropes & Gray LLP
Three Embarcadero
San Francisco, CA 94111
Attention: Ryan Murr, Esq.
Facsimile: (415) 315-6026

If to a Purchaser:

To the address set forth under such Purchaser's name on the signature pages hereto.

If to any other person who is then a registered Holder:

To the address of such Holder as it appears in the record books of the Company.

All notices and communications (other than those sent to Holders) shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; when receipt acknowledged, if telecopied; and the next Business Day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery.

Failure to provide a notice or communication to one party hereto or any defect in it shall not affect its sufficiency with respect to other parties hereto.

(b) *Independent Nature of Purchaser's Obligations and Rights.* The obligations of each Purchaser under this Agreement are several and not joint with the obligations of each other Purchaser, and no Purchaser shall be responsible in any way for the performance of the obligations of any other Purchaser under this Agreement. Nothing contained herein or in any Transaction Document, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchaser as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by this Agreement or any other Transaction Document. Each Purchaser acknowledges that no other Purchaser will be acting as agent of such Purchaser in enforcing its rights under this Agreement. Each Purchaser shall be entitled to independently protect and enforce its rights, including without limitation the rights arising out of this Agreement, and it shall not be necessary for any other Purchaser to be joined as an additional party in any Proceeding for such purpose. The Company acknowledges that each of the Purchasers has been provided with the same Registration Rights Agreement for the purpose of closing a transaction with multiple Purchasers and not because it was required or requested to do so by any Purchaser.

(c) *Compliance.* Each Holder covenants and agrees that it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

(d) *Remedies.* In the event of a breach by the Company or by a Holder of any of their obligations under this Agreement, each Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement. The Company and each Holder agree that monetary damages would not provide adequate compensation for any losses incurred by reason of a breach by it of any of the provisions of this Agreement and hereby further agree that, in the event of any action for specific performance in respect of such breach, it shall waive the defense that a remedy at law would be adequate. In addition, the remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(e) *Governing Law; Jurisdiction; Jury Trial; etc.* THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO CONFLICT-OF-LAW PRINCIPLES. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in San Francisco, California, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. **EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.** If either party shall commence a proceeding to enforce any provisions of this Agreement, then the prevailing party in such proceeding shall be reimbursed by the other party for its attorney's fees and other costs and expenses incurred with the investigation, preparation and prosecution of such proceeding.

(f) *Amendments and Waivers.* No provision of this Agreement may be amended other than by an instrument in writing signed by the Company and Holders representing a majority of then outstanding Registrable Securities, and any amendment to this Agreement made in conformity with the provisions of this Section 6(h) shall be binding on the Purchasers and all Holders of the Registrable Securities, as applicable. No provision hereof may be waived other than by an instrument in writing signed by the party from whom such waiver is requested. Notwithstanding the foregoing, a waiver or consent with respect to a matter that relates exclusively to the rights of one or more Holders and that does not directly or indirectly affect the rights of other Holders may be given by Holders of at least a majority of the Registrable Securities to which such waiver or consent relates, provided that, the provisions of this sentence may not be amended, modified or supplemented except in accordance with the provisions of the immediately preceding two sentences.

(g) *Further Assurances.* Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as any other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

(h) *Entire Agreement.* This Agreement and the Securities Purchase Agreement supersede all other prior oral or written agreements among the parties hereto and persons acting

on their behalf with respect to the matters discussed herein, and this Agreement and the Securities Purchase Agreement and the instruments referenced herein and therein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, none of the parties hereto makes any representation, warranty, covenant or undertaking with respect to such matters.

(i) *Successors and Assigns.* This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that no party shall assign any of its rights or obligations hereunder without the prior written consent of the other party, except that the right to cause the Company to register Registrable Securities hereunder may be assigned (but only with all related obligations) by a Holder to a transferee who acquires all or any part of such Holder's Registrable Securities from the Holder, as long as such transferee agrees in writing to be bound by the provisions of this Agreement.

(j) *Counterparts; Facsimile Copies.* This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing the same (or on whose behalf the same is executed) with the same force and effect as if such facsimile signature were the original thereof.

(k) *Severability.* If any provision of this Agreement shall be invalid, unenforceable, illegal or void in any jurisdiction, such invalidity, unenforceability, illegality or voidness shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction. In that case, the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such provision. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining provisions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(l) *Headings.* The headings in this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

[Remainder of page intentionally left blank, signature pages to follow]

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

A.P. Pharma, Inc.

By: /s/ John Whelan

Name: John Whelan

Title: Chief Executive Officer

Company Signature Page to Registration Rights Agreement

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

Broadfin Healthcare Master Fund, LTD

AUTHORIZED SIGNATORY

By: /s/ Jason Abrams

Name: Jason Abrams

Title: CFO

ADDRESS FOR NOTICE

c/o: Broadfin Capital

Street: 237 Park Avenue, Suite 900

City/State/Zip: New York, NY 10017

Attention: Jason Abrams

Tel: 212-808-2469

Fax: 212-808-2464

Email: Jason@broadfincapital.com

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

**Capital Ventures International by: Heights
Capital Management Its Authorized Agent**

AUTHORIZED SIGNATORY

By: /s/ Martin Kobinger

Name: Martin Kobinger

Title: Investment Manager

ADDRESS FOR NOTICE

c/o: Heights Capital Management

Street: 101 California St., Suite 3250

City/State/Zip: San Francisco, CA, 94111

Attention: Sam Winer

Tel: (415) 403-6500

Fax: (415) 403-6525

Email: winer@sig.com

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

Ayer Capital Partners Master Fund, L.P.

AUTHORIZED SIGNATORY

By: /s/ Jay Venkatesan

Name: Jay Venkatesan

Title: Managing Member

ADDRESS FOR NOTICE

c/o: Ayer Capital Mangement, LP

Street: 230 California Street, Suite 600

City/State/Zip: San Francisco, CA 94111

Attention: Jay Venkatesan

Tel: 415-874-4800

Fax: 415-520-6828

Email: jrv@ayercapital.com

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

Ayer Capital Partners Kestrel Fund, LP

AUTHORIZED SIGNATORY

By: /s/ Jay Venkatesan

Name: Jay Venkatesan

Title: Managing Member

ADDRESS FOR NOTICE

c/o: Ayer Capital Mangement, LP

Street: 230 California Street, Suite 600

City/State/Zip: San Francisco, CA 94111

Attention: Jay Venkatesan

Tel: 415-874-4800

Fax: 415-520-6828

Email: jrv@ayercapital.com

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

Epworth - Ayer Capital

AUTHORIZED SIGNATORY

By: /s/ Jay Venkatesan

Name: Jay Venkatesan

Title: Managing Member

ADDRESS FOR NOTICE

c/o: Ayer Capital Mangement, LP

Street: 230 California Street, Suite 600

City/State/Zip: San Francisco, CA 94111

Attention: Jay Venkatesan

Tel: 415-874-4800

Fax: 415-520-6828

Email: jrv@ayercapital.com

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

T. Rowe Price Health Sciences Fund, Inc.
T. Rowe Price Health Sciences Portfolio
V ALIC Company I - Health Sciences Fund
John Hancock Variable Insurance Trust - Health
Sciences Trust
John Hancock Funds II - Health Sciences Fund
TD Mutual Funds - TD Health Sciences Fund

By: T. ROWE PRICE ASSOCIATES, INC.

Investment Adviser, for and on behalf of the Purchasers listed (above) in
Attachment A

By: /s/ G. Mark Bussard

Name: G. Mark Bussard

Title: Vice President

ADDRESS FOR NOTICE

T. Rowe Price Associates, Inc.
100 East Pratt Street
Baltimore, MD 21202
Attention: Andrew Baek, Vice President and
Senior Legal Counsel

Tel: 410-345-2090

Fax: 410-345-6575

Email: andrew_baek@troweprice.com

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

FTIF - Franklin Biotechnology Discovery Fund

AUTHORIZED SIGNATORY

By: /s/ Steve Gray

Name: Steve Gray

Title: Vice President

ADDRESS FOR NOTICE

c/o: Franklin Templeton Investments
Street: One Franklin Parkway, Building 920
City/State/Zip: San Mateo, CA 94403
Attention: Evan McCulloch
Tel: (650) 312 4082
Email: evan.mcculloch@frk.com

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

Tang Capital Partners, LP

AUTHORIZED SIGNATORY

By: /s/ Kevin Tang

Name: Kevin Tang

Title: Managing Director

ADDRESS FOR NOTICE

c/o Tang Capital Management, LLC

4747 Executive Drive, Suite 510

San Diego, CA 92127

Attention: John Lemkey

Tel: 858-200-3412

Fax: 858-200-3837

Email: jlemkey@tangcapital.com

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

Baker Brothers Life Sciences, L.P.

AUTHORIZED SIGNATORY

By: Baker Bros Advisors, LLC, Management Company and Investment Advisor to BAKER BROTHERS LIFE SCIENCES, L.P., pursuant to authority granted by Baker Brothers Life Sciences Capital, L.P., general partner to BAKER BROTHERS SCIENCES, L.P. and not the general partner

/s/ Scott L. Lessing

By: Scott L. Lessing, President

ADDRESS FOR NOTICE

c/o: Baker Bros. Advisors, LLC

Street: 667 Madison Ave. 21st Fl.

City/State/Zip: New York, NY 10065

Attention: Leo Kirby, CFO

Tel: 212-339-5633

Fax: 212-339-5688

Email: leokirby@bbinvestments.com

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

14159, L.P.

AUTHORIZED SIGNATORY

By: Baker Bros Advisors, LLC, Management Company and Investment Advisor to 14159, L.P., pursuant to authority granted by 14159 Capital, L.P., general partner to 14159, L.P. and not the general partner

/s/ Scott L. Lessing

By: Scott L. Lessing, President

ADDRESS FOR NOTICE

c/o: Baker Bros. Advisors, LLC

Street: 667 Madison Ave. 21st Fl.

City/State/Zip: New York, NY 10065

Attention: Leo Kirby, CFO

Tel: 212-339-5633

Fax: 212-339-5688

Email: leokirby@bbinvestments.com

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

667, L.P.

AUTHORIZED SIGNATORY

By: Baker Bros Advisors, LLC, Management Company and Investment Advisor to 667, L.P., pursuant to authority granted by 667 Capital, L.P., general partner to 667, L.P. and not the general partner

/s/ Scott L. Lessing

By: Scott L. Lessing, President

ADDRESS FOR NOTICE

c/o: Baker Bros. Advisors, LLC

Street: 667 Madison Ave. 21st Fl.

City/State/Zip: New York, NY 10065

Attention: Leo Kirby, CFO

Tel: 212-339-5633

Fax: 212-339-5688

Email: leokirby@bbinvestments.com

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

Fidelity Select Portfolios: Biotechnology Portfolio

By: /s/ Kenneth Robins

Name: Kenneth Robins

Title: Treasurer

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

FidelityAdvisor Series VII: Fidelity Advisor
Biotechnology Fund

By: /s/ Kenneth Robins

Name: Kenneth Robins

Title: Treasurer

PLAN OF DISTRIBUTION

We are registering the Shares covered by this prospectus on behalf of the Selling Security Holders. All costs, expenses and fees connected with the registration of these Securities will be borne by us. Any brokerage commissions and similar expenses connected with selling the Securities will be borne by the Selling Security Holders. The Selling Security Holders may offer and sell the Securities covered by this prospectus from time to time in one or more transactions. The term “**Selling Security Holders**” includes pledgees, donees, transferees and other successors-in-interest who may acquire Securities through a pledge, gift, partnership distribution or other non-sale related transfer from the Selling Security Holders and who agree to be bound by the terms of the Registration Rights Agreement. The Selling Security Holders will act independently of the Company in making decisions with respect to the timing, manner and size of each sale and they may sell Securities on one or more exchanges, including the Nasdaq Global Market, in the over-the-counter market or in privately negotiated transactions at prevailing market prices at the time of sale, at fixed prices, at varying prices determined at the time of the sale or at negotiated prices. These transactions include:

- ordinary brokerage transactions and transactions in which the broker solicits purchasers;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its own account pursuant to this prospectus;
- exchange or over-the-counter distributions in accordance with the rules of the exchange or other market;
- block trades in which the broker-dealer attempts to sell the Securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- a combination of any such method of sale; and
- any other method permitted pursuant to applicable law.

In connection with distributions of the Shares or otherwise, the Selling Security Holders may:

- sell the Securities short and redeliver the Securities to close out short positions; provided that such short positions were entered into in compliance with applicable securities laws;
- enter into option or other transactions with broker-dealers or other financial institutions which require the delivery to them of Securities covered by this prospectus, which they may in turn resell; and
- pledge Securities to broker-dealers or other financial institutions, which, upon a default, they may in turn resell.

Annex A – Plan of Distribution

The Selling Security Holders may also sell any Securities under Rule 144 rather than with this prospectus if the sale meets the requirements of that rule.

In effecting sales, the Selling Security Holders may engage broker-dealers or agents, who may in turn arrange for other broker-dealers to participate. Broker-dealers or agents may receive commissions, discounts or concessions from the Selling Security Holders and/or from the purchasers of Securities for whom the broker-dealers may act as agents or to whom they sell as principal, or both. The compensation to a particular broker-dealer may be in excess of customary commissions.

The Selling Security Holders, any broker-dealers or agents and any participating broker-dealers that act in connection with the sale of the Securities covered by this prospectus may be “**underwriters**” under the Securities Act with respect to those Securities and will be subject to the prospectus delivery requirements of that Act, unless exempted therefrom. Any profit that the Selling Security Holders realize, and any compensation that any broker-dealer or agent may receive in connection with any sale, including any profit realized on resale of Securities acquired as principal, may constitute underwriting discounts and commissions. If the Selling Security Holders are deemed to be underwriters, the Selling Security Holders may be subject to certain liabilities under statutes including, but not limited to, Section 11, 12 and 17 of the Securities Act and Section 10(b) and Rule 10b-5 under the Exchange Act.

The securities laws of some states may require the Selling Security Holders to sell the Securities in those states only through registered or licensed brokers or dealers. These laws may also require that we register or qualify the Securities for sale in those states unless an exemption from registration and qualification is available and the Selling Security Holders and we comply with that exemption. In addition, the anti-manipulation rules of Regulation M under the Securities Exchange Act of 1934 may apply to sales of Securities in the market and to the activities of the Selling Security Holders and their affiliates. Regulation M may restrict the ability of any person engaged in the distribution of the Securities to engage in market-making activities with respect to the Securities. All of the foregoing may affect the marketability of the Securities and the ability of any person to engage in market-making activities with respect to the Securities.

We have agreed to indemnify the Selling Stockholders against liabilities, including liabilities under the Securities Act, the Exchange Act and state securities laws, relating to the registration of the Shares offered by this prospectus.

Annex A – Plan of Distribution

A.P. PHARMA, INC.

Selling Securityholder Notice and Questionnaire

The undersigned beneficial owner of common stock, \$0.01 par value per share (the "**Securities**"), of A.P. Pharma, Inc. (the "**Company**") understands that the Company has filed or intends to file with the Securities and Exchange Commission (the "**Commission**") a Registration Statement for the registration and resale of the Registrable Securities, in accordance with the terms of the Registration Rights Agreement, dated as of July 25, 2012 (the "**Registration Rights Agreement**"), among the Company and the Purchasers named therein. A copy of the Registration Rights Agreement is available from the Company upon request at the address set forth below. All capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Registration Rights Agreement.

The undersigned hereby provides the following information to the Company for use in preparing the Registration Statement and any related prospectuses and represents and warrants that such information is accurate:

1. Name.

(a) Full Legal Name of Selling Securityholder

(b) Full Legal Name of Registered Holder (if not the same as (a) above) through which Registrable Securities Listed in Item 3 below are held:

(c) Full Legal Name of Natural Control Person (which means a natural person who directly or indirectly alone or with others has power to vote or dispose of the securities covered by the questionnaire):

2. Address for Notices to Selling Securityholder:

Name: _____

Address: _____

Telephone: _____

Fax: _____

Contact Person: _____

Email: _____

3. Beneficial Ownership of Registrable Securities:

(a) Type and Principal Amount of Registrable Securities Beneficially Owned:

4. Broker-Dealer Status:

(a) Are you a broker-dealer?

Yes No

Note: If yes, the Commission's staff has indicated that you should be identified as an underwriter in the Registration Statement.

(b) Are you an affiliate of a broker-dealer?

Yes No

(c) If you are an affiliate of a broker-dealer, do you certify that you bought the Registrable Securities in the ordinary course of business, and at the time of the purchase of the Registrable Securities to be resold, you had no agreements or understandings, directly or indirectly, with any person to distribute the Registrable Securities?

Yes No

Note: If no, the Commission's staff has indicated that you should be identified as an underwriter in the Registration Statement.

5. Beneficial Ownership of Other Securities of the Company Owned by the Selling Securityholder.

Except as set forth below in this Item 5, the undersigned is not the beneficial or registered owner of any securities of the Company other than the Registrable Securities listed above in Item 3.

Type and Amount of Other Securities Beneficially Owned by the Selling Securityholder:

6. Relationships with the Company:

Except as set forth below, neither the undersigned nor any of its affiliates, officers, directors or principal equity holders (owners of 5% of more of the equity securities of the undersigned) has held any position or office or has had any other material relationship with the Company (or its predecessors or affiliates) during the past three years.

State any exceptions here:

The undersigned agrees to promptly notify the Company of any inaccuracies or changes in the information provided herein that may occur subsequent to the date hereof and prior to the Effective Date for the Registration Statement.

By signing below, the undersigned consents to the disclosure of the information contained herein in its answers to Items 1 through 6 and the inclusion of such information in the Registration Statement and the related prospectus. The undersigned understands that such information will be relied upon by the Company in connection with the preparation or amendment of the Registration Statement and the related prospectus.

Annex B – Selling Security Holder Questionnaire

IN WITNESS WHEREOF the undersigned, by authority duly given, has caused this Notice and Questionnaire to be executed and delivered either in person or by its duly authorized agent.

Dated: _____

Beneficial Owner: _____

By: _____

Name:

Title:

PLEASE FAX A COPY OF THE COMPLETED AND EXECUTED NOTICE AND QUESTIONNAIRE, AND RETURN THE ORIGINAL BY OVERNIGHT MAIL, TO:

Ropes & Gray LLP
Three Embarcadero
San Francisco, CA 94111
Attn: Ryan Murr, Esq.
Facsimile: (415) 315-6026

Annex B – Selling Security Holder Questionnaire

**For Immediate Release****A.P. Pharma to Raise \$53.6 Million in Common Stock Offering**

REDWOOD CITY, Calif. – July 25, 2012 – A.P. Pharma, Inc. (OTCBB: APPA.OB), a specialty pharmaceutical company, today announced that it has entered into definitive agreements with certain new and existing institutional investors relating to a private placement of common stock. In the transaction, the investors have agreed to purchase 102,000,000 shares at \$0.525 per share, resulting in gross proceeds of approximately \$53.6 million. The transaction is expected to close on or around July 30, 2012, subject to the satisfaction of customary closing conditions.

“We believe the \$53.6 million to be raised will place the Company in a strong financial position as we approach the commercialization phase with our lead product, APF530, which we are developing for the prevention of both acute- and delayed-onset chemotherapy-induced nausea and vomiting,” stated John B. Whelan, president and chief executive officer. Mr. Whelan continued, “We recently completed filling our three registration lots and also have reached agreement with the FDA on our protocol for our human factors validation study, which we plan to complete shortly. We plan to resubmit our New Drug Application to the FDA in September 2012.”

Jefferies & Company, Inc. acted as lead placement agent in the Offering. JMP Securities LLC acted as co-lead placement agent.

This press release shall not constitute an offer to sell or the solicitation of an offer to buy these securities, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of any such jurisdiction.

The securities sold in the private placement have not been registered under the Securities Act of 1933, as amended, or state securities laws and may not be offered or sold in the United States absent registration with the Securities and Exchange Commission (SEC) or an applicable exemption from such registration requirements. The Company has agreed to file a registration statement with the SEC registering the resale of the shares of common stock sold in the private placement.

- more -

About APF530

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

About A.P. Pharma

A.P. Pharma is a specialty pharmaceutical company developing products using its proprietary Biochronomer™ polymer-based drug delivery platform. This drug delivery platform is designed to improve the therapeutic profile of injectable pharmaceuticals by converting them from products that must be injected once or twice per day to products that need to be injected only once every one or two weeks. The Company's lead product, APF530, is being developed for the prevention of both acute- and delayed-onset chemotherapy-induced nausea and vomiting. A.P. Pharma received a Complete Response Letter to its APF530 New Drug Application (NDA) and is targeting a resubmission of the NDA to the U.S. Food and Drug Administration in September 2012. For further information, please visit the Company's web site at www.appharma.com.

Forward-looking Statements

This news release contains "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties, including uncertainties associated with the potential approval of APF530 and the potential timing for such approval, if approved at all, as well as risks relating to capital resources and liquidity, satisfactory completion of clinical studies, progress in research and development programs, launch and acceptance of new products 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.

Contacts

Investor Relations Contact:

Michael Rice
Office Phone: 646-597-6979
Email: mrice@lifesciadvisors.com

and

Corporate Contact:

A.P. Pharma, Inc.
John B. Whelan, President and Chief Executive Officer
Office Phone: 650-366-2626

###



Company Overview

OTCBB: APPA
July 2012

Legal Disclaimer

This presentation contains "forward-looking statements" as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties, including uncertainties associated with timely development, approval, launch and acceptance of new products, satisfactory completion of clinical studies, establishment of new corporate alliances, progress in research and development programs and other risks and uncertainties identified in the Company's filings with the Securities and Exchange Commission. Actual results may differ materially from the results expected in our forward looking statements. 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.

Stock Summary

Company: A.P. Pharma, Inc.

Ticker: OTCBB: APPA.OB

Stock Price: \$0.66 (7/24/12)

Market Capitalization: \$309.1 million ¹

Pro Forma Cash: \$67.1 million ²

Debt: \$4.6 million ²

¹ Based on 497.1 million fully diluted, as-converted common shares assuming the full conversion of convertible debt outstanding and 80 million warrants using treasury stock method and 102 million common shares anticipated to be issued on July 30, 2012; not including options

² As of March 31, 2012. Pro forma for \$3.0 million in cash received in May 2012 from the exercise of convertible note purchase rights and for the net proceeds from the anticipated funding on July 30, 2012

Management

John B. Whelan	President, CEO & CFO	Raven Biotechnologies Eos Biotechnology Hewlett Packard/Agilent
Michael A. Adam, Ph.D.	Senior Vice President & Chief Operating Officer	Spectrum Pharmaceuticals Pfizer/Agouron Bristol-Myers Squibb
Thomas Ottoboni, Ph.D.	Vice President, Pharmaceutical Development	Talima Therapeutics Point Biomedical InSite Vision
Kristin Ficks*	Head of Commercial Operations	Gemini Healthcare Celgene Eisai/MGI Pharma

*Ms. Ficks is an employee of Gemini Healthcare, LLC and a consultant to A.P. Pharma

A.P. Pharma Highlights

- Lead product candidate, APF530, is long-acting, injectable product for chemotherapy-induced nausea and vomiting (CINV)
 - Incorporates widely used 5-HT3 antagonist - granisetron (Kytril®)
 - 5-day delivery profile
 - Reduces both acute- and delayed-onset CINV with single injection
- APF530 shown to be non-inferior to market leader Aloxi®
 - 1,341-patient, randomized, controlled, Phase 3 study
 - Presented at ASCO 2009
- Company is addressing issues raised in Complete Response Letter
 - Resubmission planned for September 2012
 - Product launch planned for 2H 2013
- APF530 targets a \$900 million market opportunity in US alone
 - Recent competitive setbacks could enhance commercial uptake
 - Could be second, long-acting, injectable product on market
- A.P. Pharma has the potential to leverage its Biochronomer™ drug delivery technology into other opportunities



Important APF530 Milestones

Milestone	Timing	Status
Successful End-of-Review Meetings with FDA	1Q 2011	✓
Successful Completion of Thorough QT Study	1Q 2012	✓
Successful Completion of Metabolism Study	1Q 2012	✓
Successful Completion of Formative Human Factors Study	1Q 2012	✓
Complete Human Factors Validation Study	3Q 2012*	
Complete CMC Activities	3Q 2012*	
Resubmit NDA	Sept 2012*	
Expected NDA Approval Decision	1H 2013*	
Expected Product Launch	2H 2013*	

* Indicates expected milestone timing



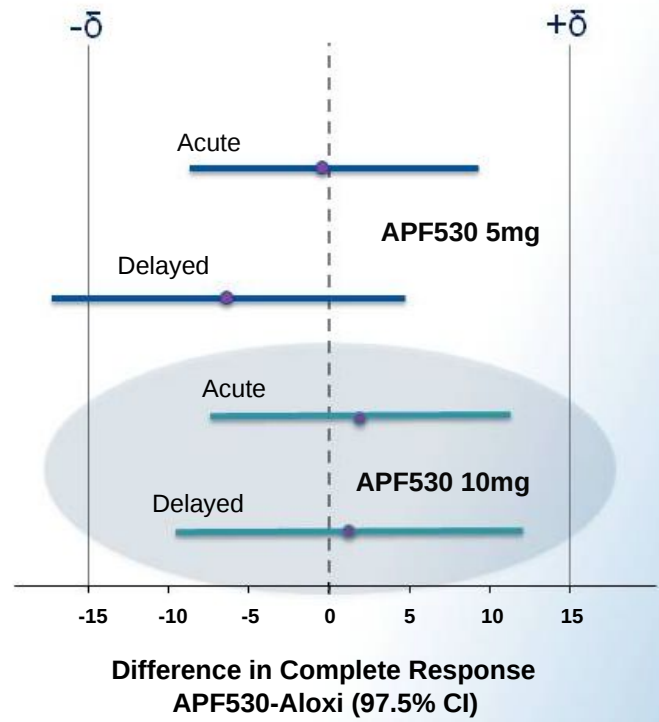
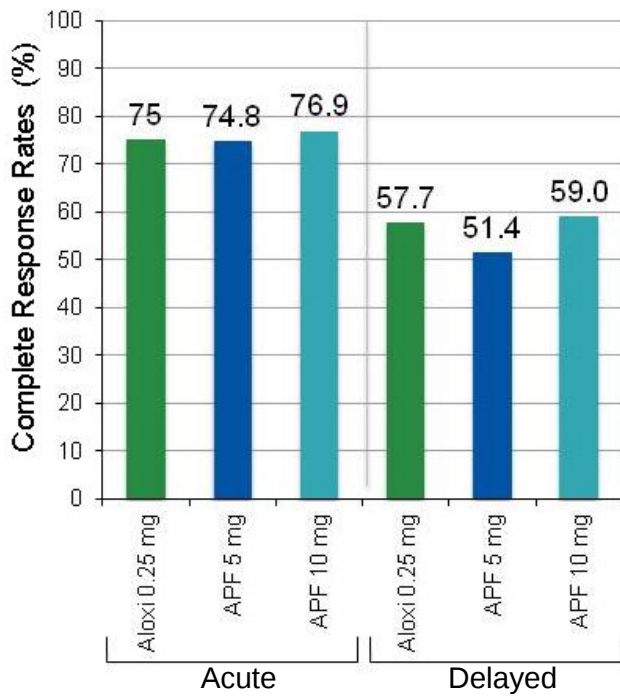
Clinical Summary

APF530 Pivotal Phase 3 Study Overview

- Randomized, controlled, multi-center study
- 1,341 patients in primary efficacy population
- Two doses of APF530 (5 mg and 10 mg granisetron) compared to the approved dose of Aloxi
- Patients stratified by type of chemotherapy regimen (moderately or highly emetogenic)
- Primary end point compared complete response between groups in both the acute (day 1) and delayed (days 2-5) phase
 - Complete response defined as no emesis and no rescue medications
 - A $\pm 15\%$ margin was used to establish non-inferiority

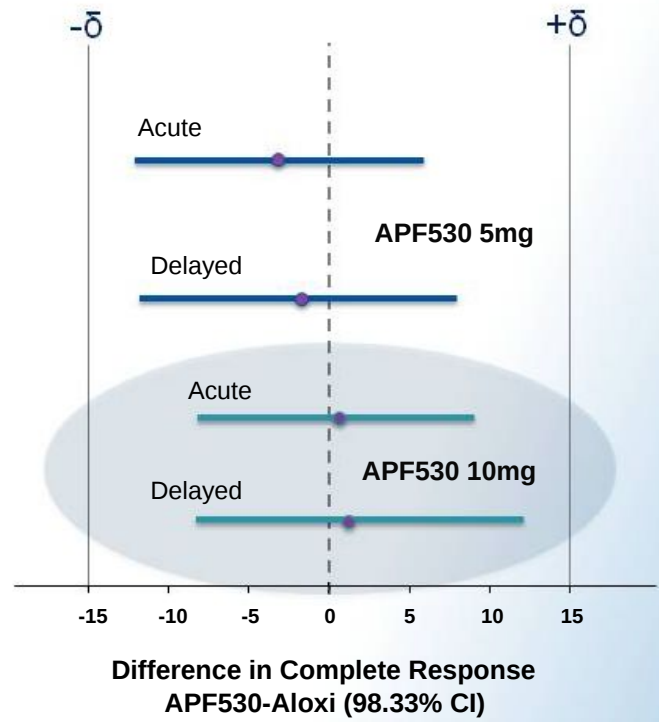
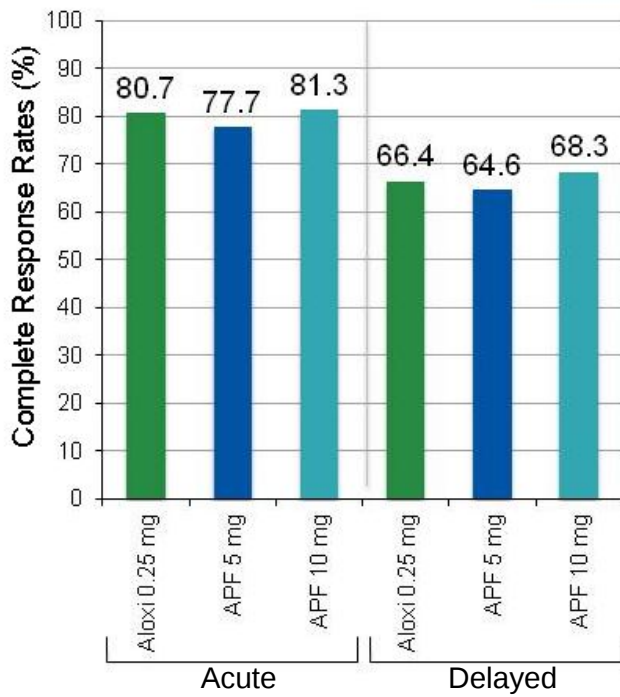
Primary Efficacy Results: Complete Response

Patients Receiving Moderately Emetogenic Chemotherapy



Primary Efficacy Results: Complete Response

Patients Receiving Highly Emetogenic Chemotherapy



Safety Summary

Reported in Cycle 1

	APF530 5 mg		APF530 10 mg		Aloxi 0.25 mg	
	N	%	N	%	N	%
Drug Related Serious Adverse Events¹	1	0.2	0	0	0	0
Discontinued Due to Adverse Event	1	0.2	1	0.2	0	0
Frequent Adverse Events						
Gastrointestinal disorders						
▪ Constipation	62	13.4	72	15.4	62	13.4
▪ Diarrhea	49	10.6	44	9.4	39	8.4
▪ Abdominal pain	21	4.5	13	2.8	28	6.0
Nervous System						
▪ Headache	31	6.7	47	10.0	45	9.7
Injection Site²					Placebo (NaCl)	
▪ Bruising	78	16.8	93	19.9	41	8.9
▪ Erythema (redness)	33	7.1	51	10.9	14	3.0
▪ Nodule (lump)	22	4.7	50	10.7	3	0.6
▪ Pain	16	3.4	33	7.1	5	1.1

¹ Pulmonary embolism in morbidly obese patient on day 16

² >90% of injection site reactions were reported as mild; one patient discontinued due to injection site reaction



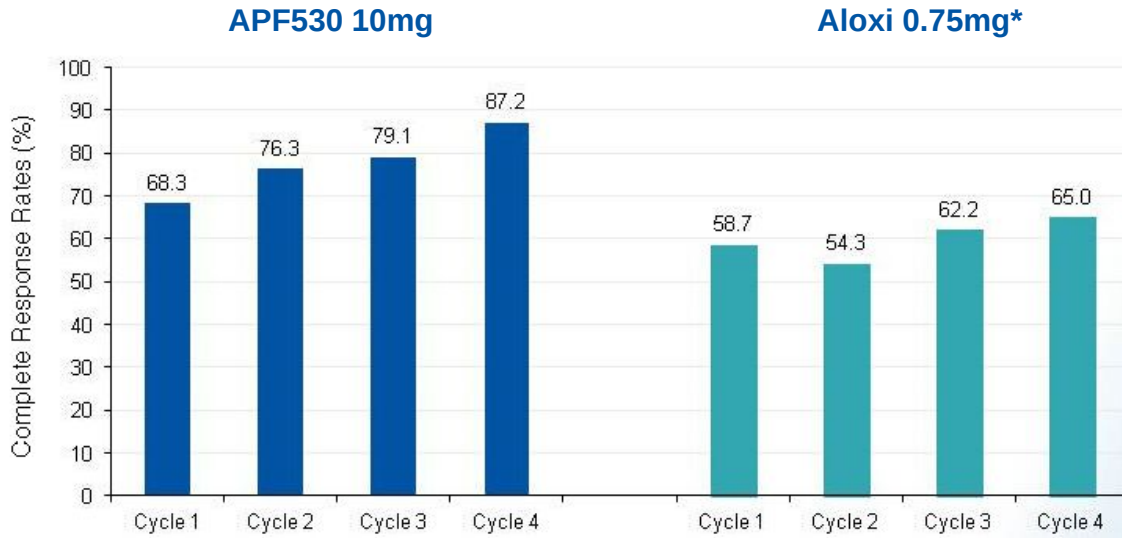
APF530's Efficacy with Difficult Chemo Regimens

			Treatment	
			APF530 10 mg	Aloxi 0.25 mg
		Chemotherapeutic Regimen		
Moderately Emetogenic	Acute	Cyclophosphamide/Doxorubicin	70.7%	65.7%
		All other regimens	84.4%	85.0%
	Delayed	Cyclophosphamide/Doxorubicin	47.4%	46.3%
		All other regimens	72.9%	70.0%
Highly Emetogenic	Acute	Cisplatin regimens	81.1%	75.5%
		Carboplatin/Paclitaxel	85.4%	89.8%
		All other regimens	75.4%	67.6%
	Delayed	Cisplatin regimens	66.0%	60.4%
		Carboplatin/Paclitaxel	70.8%	71.4%
		All other regimens	65.2%	57.4%



APF530's Sustained Efficacy in Cycles 2-4

Complete Response Rates for Delayed-onset CINV in Patients Receiving Highly Emetogenic Chemotherapy



N =	240	169	129	94
% of Cycle 1	100%	70%	54%	39%

N =	351	315	254	117
% of Cycle 1	100%	90%	72%	33%

* Sakai et al (Annals of Oncology, Vol. 19 Sept. 2008)

Summary of APF530 Phase 3 Results

- One of the largest, randomized, controlled clinical studies conducted in the CINV setting
- Non-inferiority to Aloxi was demonstrated
 - For both acute- and delayed-onset CINV
 - With both moderately and highly emetogenic chemotherapy
- APF530 was safe and well-tolerated
 - Incidence of adverse events comparable to Aloxi
- High response rates were observed in difficult chemotherapy regimens
- A high level of efficacy was maintained through multiple cycles of chemotherapy



Regulatory Status

APF530 NDA Status

- Submitted NDA in May 2009 under 505(b)(2) filing pathway
- Received Complete Response Letter in March 2010
- FDA raised issues in three main areas:
 - Dosing system
 - Two-syringe system
 - Chemistry, Manufacturing, and Controls (CMC)
 - Sterilization
 - Characterization
 - Clinical/statistical
 - Specific studies
 - Presentation of data
- Held end-of-review meetings with FDA in 1Q 2011
 - No additional clinical efficacy studies requested
- Implementing plan to resubmit NDA in September 2012



Progress of NDA Resubmission

■ Dosing System

- Change to single-syringe system – *completed*
- Enhanced dosing instructions – *completed*
- Overall, simpler and more convenient
 - Formative, non-clinical human factors study – *completed*
 - Human factors validation study – *pending*

■ Chemistry, Manufacturing, and Controls

- Change from bulk to terminal irradiation – *feasibility completed*
- Additional specifications and assays for raw materials, polymer and drug product – *in progress*
- Manufacturing runs incorporating these changes – *in progress*

■ Clinical/Statistical

- Thorough QT study – *completed*
- Metabolism study – *completed*
- Phase 3 clinical data presentation revision – *in progress*



Improved Dosing System

Original Two-syringe System

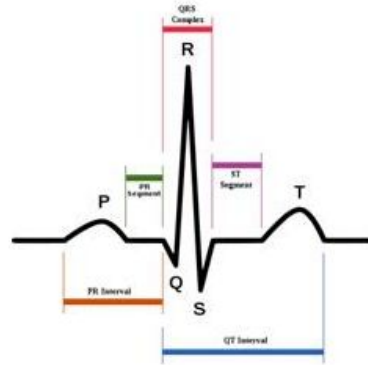


New Single-syringe System



Thorough QT Study Background

The QT interval represents the amount of time the heart's electrical system takes to repolarize after each beat



- Prolongation of the QT/QTc interval is associated with increased susceptibility to fatal cardiac tachyarrhythmias
- Thorough QT studies are intended to determine whether a drug has a threshold pharmacologic effect on cardiac repolarization
- Thorough QT studies are now routinely required by the FDA prior to drug approval
- *FDA has raised QT cardiac safety concerns with 5-HT3 antagonists*

Zofran Use in CINV Restricted

- Most widely used generic 5-HT3 now restricted
- FDA issued a Drug Safety Communication June 29, 2012
 - “The use of a single 32 mg intravenous dose of ondansetron should be avoided. New information indicates that QT prolongation occurs in a dose-dependent manner, and specifically at a single intravenous dose of 32 mg.”
 - “No single intravenous dose of ondansetron should exceed 16 mg due to the risk of QT prolongation.”
 - “The lower dose intravenous regimen of 0.15 mg/kg every 4 hours for three doses may be used in adults with chemotherapy-induced nausea and vomiting.”
- Results of Zofran tQT study
 - 32 mg IV dose causes 20 ms increase in QTcF
 - 8 mg IV dose causes 6 ms increase in QTcF
- GSK has removed the 32 mg dose from the Zofran label
- Impact on sales may be significant



Anzemet in CINV Previously Removed

- FDA issued a Drug Safety Communication Dec. 17, 2010
 - “Anzemet causes a dose-dependent prolongation in the QT, PR, and QRS intervals on an electrocardiogram (ECG) ...”
 - “Anzemet injection should no longer be used to prevent nausea and vomiting associated with initial and repeat courses of emetogenic cancer chemotherapy.”
- Anzemet label changed to remove CINV indication
- IV Anzemet sales fell to near zero in one quarter

APF530 Thorough QT Study Design

- Double-blind, single-site
- Four-way crossover
- 56 healthy male and female subjects
- Study Arms
 - SC APF530 1 g (granisetron 20 mg) – *2x therapeutic dose*
 - IV Granisetron 50 µg/kg over 3 minutes – *5x therapeutic dose*
 - Oral Moxifloxacin 400 mg (Avelox®) – positive control
 - Placebo 0.9% Normal Saline 0.84 mL
- Primary endpoint: the upper bound of the one-sided 95% confidence interval for placebo-adjusted, baseline-subtracted QTcF being less than 10 milliseconds at all time points

APF530 Thorough QT Study Results

■ Primary Endpoint Achieved in Both Granisetron Dose Groups

- Both APF530 and IV granisetron dose groups did not approach or exceed the upperbound of 10 ms at any time point
- The primary end point was met irrespective of heart-rate correction methodology – QTcF, QTcI, QTcB
- PK/PD relationship was flat – also showing no QTc signal

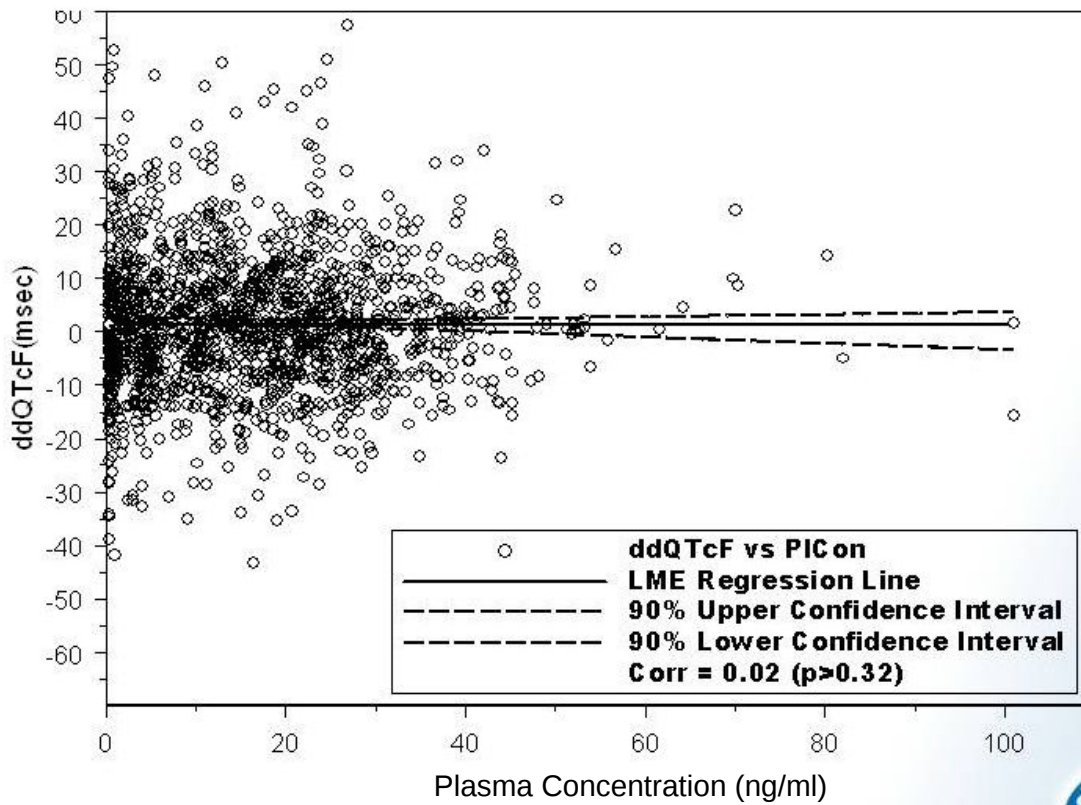
■ Valid Study

- Moxifloxacin positive control group showed expected change – assay sensitivity reached

Granisetron Thorough QT PK/PD Results

ddQTcF vs. Granisetron Plasma Concentration

Slope = -0.019



Metabolism/Fate of Polymer Study

- FDA requested study at end-of-review meeting in 1Q 2011
- Purpose of study is to demonstrate fate of polymer in human subjects
 - Confirm polymer breaks down into same hydrolytic end-products as seen in animals
 - Confirm lack of other detectable polymer-related metabolites
- Protocol reviewed by FDA prior to initiating study
 - Single blind, single site
 - 14 healthy male and female subjects
 - Gather and analyze plasma and urine samples for metabolic products
- Study objectives achieved
 - Confirmed polymer breaks down into same hydrolytic end-products as in animals
 - Confirmed lack of other detectable polymer-related metabolites

Principle Activities Remaining for NDA Filing

- **Human Factors**
 - Formative study successfully completed
 - FDA agreement on validation study protocol
 - Validation study scheduled for Q3 2012
- **Registration Lots**
 - Three of three required lots successfully filled
 - Analytical testing for lot release underway
- **Complete Assembly of NDA**
 - Focus is on creating a high-quality submission
 - Facilitate FDA review

Human Factors Study

- Assess the Instructions-for-Use and usability of APF530 in simulated oncology setting
 - Follows June 2011 FDA guidance: “Applying Human Factors and Usability Engineering to Optimize Medical Device Design”
 - Initial risk assessment followed by iterative process of formative studies
 - Validation study performed to confirm results of formative studies
- Two formative human factors studies completed

	Mean Usability Scores ¹	
	<u>Previous Syringe</u>	<u>Current Syringe</u>
Ease	3.1	8.3
Comfort	5.2	9.4
Control	7.7	9.5

¹10 – very difficult, 10 – very easy

- All subjects successfully followed instructions
- Average injection time reduced by 45%





Commercial Opportunity

U.S. Market Opportunity for APF530

- More than 7 million cycles of chemotherapy administered each year
 - ~27% are highly emetogenic
 - ~46% are moderately emetogenic
- Significant unmet medical need for additional therapies to address delayed-onset CINV
- 5-HT3 antagonists are standard-of-care for CINV
 - Recommended in treatment guidelines – NCCN, ASCO, ONS
 - An injectable 5-HT3 antagonist is co-administered with more than 90% of moderately and highly emetogenic regimens
- APF530 targets a \$900 million market opportunity in the US alone
 - In 2011, there were 5.1 million vials of injectable 5-HT3 antagonists administered for CINV
 - The average selling price for market leader Aloxi is \$175

Sources: Company-sponsored survey and analysis and Wolters Kluwer

July 2012

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Complete Response Rates for 5-HT3 Antagonists

- 1st generation 5-HT3 Average Overall Complete Response¹ Rates²
 - Moderately Emetogenic Chemotherapy ~ 42%
 - Highly Emetogenic Chemotherapy ~ 39%
- Aloxi Average Overall Complete Response Rates²
 - Moderately Emetogenic Chemotherapy ~ 57%
 - Highly Emetogenic Chemotherapy ~ 51%
- There are no long-acting 5-HT3 alternatives if a patient does not get a complete response with Aloxi

¹Overall Complete Response defined as no emesis and no rescue medications during 0 to 120 hours following chemotherapy

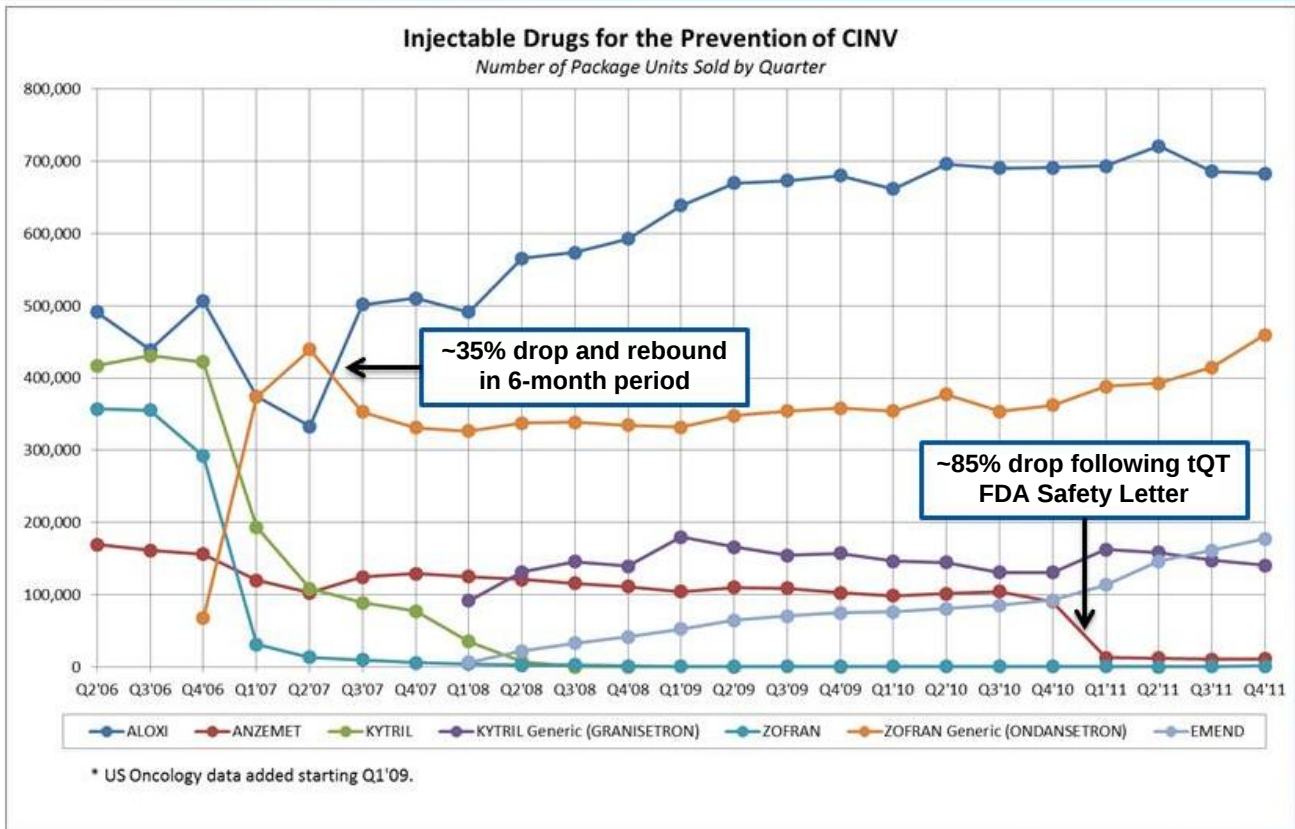
²Averages derived from published clinical studies

Antiemetic Treatment Patterns

- Most chemotherapy patients will undergo 4 to 15 cycles of chemotherapy
- Doctors prefer to administer antiemetics on-site for moderately and highly emetogenic chemotherapy
 - Patient compliance is a significant concern
 - Average cost per CINV event ranges from \$4,000 to \$5,300
- Issues controlling CINV typically appear during the first few cycles
- If the initial prevention regimen is not effective, drugs are added and/or changed to address CINV in subsequent cycles
 - No long-acting injectable alternative to Aloxi is available to prevent delayed-onset CINV



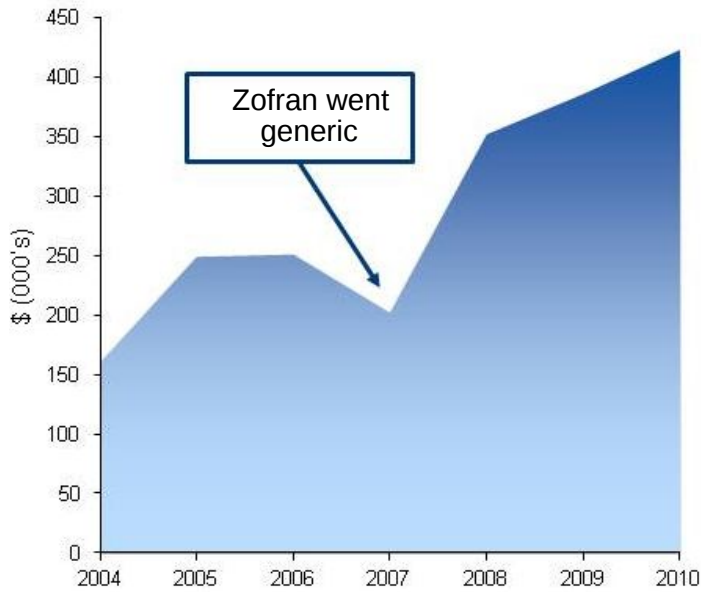
CINV Market Dynamics



Source: Wolters Kluwer
Usage in CINV estimated based on vial size

Aloxi Market Performance

Aloxi Sales



Pricing

- Average Selling Price = \$175
- Medicare Reimbursement = \$186
- Wholesale Acquisition Cost ~ \$380

Orange Book Patent Exclusivity

- One patent expires April 2015
- Three patents expire January 2024



CINV Market Dynamics: Conclusions

- Aloxi has gained market share over last 3 years despite availability of generics for acute-onset CINV
 - From 48% in 2008 to 56% in 4Q 2011
- Kytril was widely used prior to Zofran® going generic
 - High physician acceptance of granisetron
- Possible shift away from generic Zofran due to recent thorough QT results
- Aloxi dipped ~35% when Zofran went generic but then regained 100% of its lost share two quarters later
- NK1 antagonists typically are only used as an adjunct to 5-HT3 antagonists
 - Injectable Emend® units sold less than 15% of injectable units sold for CINV prevention



APF530's Potential Competitive Positioning

- Provides 5 days of prevention against chemotherapy-induced nausea and vomiting with a single injection
 - Second, long-acting, injectable product on market
- Lack of complete effectiveness of available antiemetics indicates need for additional products to prevent CINV
 - Most patients undergo 4 to 15 cycles of chemotherapy
- Cardiac safety is becoming an important point of differentiation

Product	Effective for Delayed-onset CINV	Cardiac Safety
Aloxi	Yes	Clean tQT results
Anzemet	No	QT effect – contraindicated for CINV
Zofran/ondansetron	No	QT effect - 32 mg dose removed Restrictions added to label
Kytril/granisetron	No	-
APF530	Yes	Clean tQT results



Oncology Supportive Care Market Addressable by Small Organization

- Less than 3,000 oncology practices in the US
- 50% of market represented by several hundred practices
- Handful of group purchasing organizations (GPOs) facilitate purchases for majority of market
- 3rd party infrastructure in place to support sales activities
 - Contracting
 - Reimbursement
 - Distribution
 - Education

APF530 Commercialization Plan

- A.P. Pharma owns worldwide rights to APF530
 - No milestone or royalty obligations owed to any third parties
- Building core sales and marketing team ahead of launch with plan to expand on approval
 - Hire core sales and marketing leadership in 2H 2012 (~10 people)
 - Hire field team of ~40 individuals following approval
 - Utilize GPOs and channel partners to provide additional services such as medical education, rebate contracts, clinical pathways, etc.
- Seeking commercial partner(s) for ex-US markets

A.P. Pharma Product Lifecycle Considerations

- APF530 covered by multiple patents
 - 2 patents covering combination of polymer, excipients and drug expire in 2021
 - 3 patents just allowed covering APF530 – expire in 2025
- Polymer-based injectable products are difficult to copy independent of IP
 - ANDA FDA requirements for injectable products
 - Must have same inactive ingredients in the same concentration as the reference listed drug
 - Polymers are complex mixtures of varying-length molecules, making characterization for “sameness” very challenging

Financial Summary

■ Expect cash sufficient to fund commercial launch of APF530

Summary Statement of Operations (In thousands, except per share data)	Year Ended December 31, 2011	Quarter Ended March 31, 2012
Revenue	\$ 646	\$ –
Operating expenses	11,708	4,769
Other income (expenses)	(752)	(152)
Net loss	\$ (11,814)	\$ (4,921)
Net loss per share ¹	\$ (0.10)	\$ (0.02)

Condensed Balance Sheet Data (In thousands)	March 31, 2012	Pro Forma March 31, 2012 ²
Cash and cash equivalents	\$ 13,444	\$ 67,111
Total assets	\$ 14,994	\$ 68,661
Total stockholders' equity	\$ 11,633	\$ 65,300

¹ Based on 120.3 and 200.0 million weighted average common shares outstanding for the periods ended December 31, 2011 and March 31, 2012, respectively

² Pro forma for \$3.0 million in cash received in May 2012 from the exercise of convertible note purchase rights and for the net proceeds from the anticipated funding on July 30, 2012



A.P. Pharma Highlights

- Lead product candidate, APF530, is long-acting, injectable product for chemotherapy-induced nausea and vomiting (CINV)
 - Incorporates widely used 5-HT3 antagonist -granisetron (Kytril®)
 - 5-day delivery profile
 - Reduces both acute- and delayed-onset CINV with single injection
- APF530 shown to be non-inferior to market leader Aloxi®
 - 1,341-patient, randomized, controlled, Phase 3 study
 - Presented at ASCO 2009
- Company is addressing issues raised in Complete Response Letter
 - Resubmission planned for September 2012
 - Product launch planned for 2H 2013
- APF530 targets a \$900 million market opportunity in US alone
 - Recent competitive setbacks could enhance commercial uptake
 - Could be second, long-acting, injectable product on market
- A.P. Pharma has the potential to leverage its Biochronomer™ drug delivery technology into other opportunities





Thank You

A.P. Pharma, Inc.

OTCBB: APPA

July 2012

