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

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

For the quarterly period ended September 30, 2003

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

For the transition period from ____ to ____

Commission file Number 0-16109

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes [ ] No [X]

At October 31, 2003, the number of outstanding shares of the Company's common stock, par value $.01, was 20,624,969.

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements:

A.P. PHARMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (IN THOUSANDS)

	September 30, 2003 (Unaudited)	December 31, 2002 (Note A)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,473	$ 3,282
Marketable securities	9,620	10,839
Accounts receivable, net	1,267	1,340
Prepaid expenses and other	393	280
Assets held for sale	--	225
Total current assets	12,753	15,966
Property and equipment, net	1,454	1,626
Other long-term assets	472	189
Total assets	$ 14,679	$ 17,781
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 295	$ 268
Accrued expenses	1,142	945
Accrued disposition costs	263	514
Deferred revenue	327	250
Total current liabilities	2,027	1,977
Deferred revenue - long-term	75	345
Shareholders' equity:		
Common stock	86,762	86,618
Accumulated deficit	(74,220)	(71,235)
Accumulated other comprehensive income	35	76
Total shareholders' equity	12,577	15,459
Total liabilities and shareholders' equity	$ 14,679	$ 17,781

Note A Information has been derived from the Company's audited financial statements for the year ended December 31, 2002 which are included in the 2002 Form 10-K filed with the Securities and Exchange Commission.

See accompanying notes to condensed consolidated financial statements.

A.P. PHARMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Royalties	$ 1,149	$ 935	$ 3,211	$ 2,768
Contract revenues	119	106	279	193
Total revenues	1,268	1,041	3,490	2,961
Costs and expenses:				
Research & development	1,854	1,874	6,391	5,243
General & administration	649	644	2,193	2,217
Total operating expenses	2,503	2,518	8,584	7,460
Operating loss	(1,235)	(1,477)	(5,094)	(4,499)
Interest income, net	55	127	197	491
Other income, net	165	11	153	25
Loss from continuing operations	(1,015)	(1,339)	(4,744)	(3,983)
Gain (loss) on disposition of discontinued operations	(43)	287	1,759	432
Net loss	$(1,058)	$(1,052)	$(2,985)	$(3,551)
Basic and diluted loss per share:				
Loss from continuing operations	$ (0.05)	$ (0.07)	$ (0.23)	$ (0.20)
Net loss	$ (0.05)	$ (0.05)	$ (0.15)	$ (0.17)
Weighted average common shares outstanding-basic and diluted	20,571	20,417	20,527	20,393

See accompanying notes to condensed consolidated financial statements.

A.P. PHARMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)(in thousands)

	For the Nine Months ended September 30,	
	2003	2002
Cash flows from operating activities:		
Net loss	$(2,985)	$(3,551)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on disposition of discontinued operations	(1,759)	(432)
Gain on sale of marketable securities	--	(81)
Depreciation and amortization	341	337
Provision for (recovery of) doubtful accounts and note receivable	(16)	58
Stock and stock option compensation awards to non-employees	119	92
Restricted stock awards	--	33
Amortization of premium/discount and accretion of marketable securities	44	11
Loss on retirements of property and equipment	15	2
Changes in operating assets and liabilities:		
Accounts receivable	73	107
Prepaid expenses and other	(97)	131
Other long-term assets	(283)	19
Accounts payable	27	(112)
Accrued expenses	197	(163)
Deferred revenue	(193)	(75)
Net cash used in continuing operating activities	(4,517)	(3,624)
Net cash used in discontinued operations	(406)	(305)
Cash flows from investing activities:		
Proceeds from disposition of discontinued operations	2,139	--
Purchases of property and equipment	(185)	(413)
Purchases of marketable securities	(5,649)	(9,076)
Maturities of marketable securities	6,784	16,304
Net cash provided by investing activities	3,089	6,815
Cash flow from financing activities:		
Proceeds from issuance of shares under employee stock purchase plan	25	52
Net cash provided by financing activities	25	52
Net increase (decrease) in cash and cash equivalents	(1,809)	2,938
Cash and cash equivalents, beginning of the period	3,282	3,618
Cash and cash equivalents, end of the period	$ 1,473	$ 6,556

See accompanying notes to condensed consolidated financial statements.

A.P. PHARMA, INC.
- -----------------
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
- --
September 30, 2003 and 2002 (UNAUDITED)
- -----------------------------------

(1) Basis of Presentation

A.P. Pharma, Inc. (APP, the Company, we, our, or us) is developing patented polymer-based delivery systems to enhance the safety and effectiveness of pharmaceutical compounds. Projects are currently conducted under feasibility and development arrangements with pharmaceutical and biotechnology companies. New products and technologies under development include bioerodible polymers for injectable and implantable drug delivery.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The condensed consolidated balance sheet as of December 31, 2002 has been derived from the audited financial statements as of that date. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2002.

The condensed consolidated financial statements include the financial statements of the Company and its subsidiary, APS Analytical Standards, Inc. (Analytical Standards) through the date of sale (February 13, 2003). All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassification
- ----------------

Certain reclassifications have been made to the prior period financial statements to conform with the presentation in 2003. The operations and related assets of the Analytical Standards division were reclassified to discontinued operations and assets held for sale, respectively, in the statements of operations and cash flows for the three and nine months ended September 30, 2002 and in the balance sheet as of December 31, 2002.

Critical Accounting Policies
- ----------------------------

We believe there have been no significant changes in our critical accounting policies during the nine months ended September 30, 2003 as compared to those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the SEC on March 28, 2003.

Use of Estimates
- ----------------

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Estimates were made relating to useful lives of fixed assets, valuation allowances, impairment of assets and accruals. Actual results could differ materially

from those estimates.

Revenue Recognition
- ------------------

Contractually required minimum royalties are recorded ratably throughout the contractual period. Royalties in excess of minimum royalties are recognized as earned when the related product is shipped to the end customer by our licensees based on information provided to us by our licensees.

Our revenue arrangements with multiple deliverables are divided into separate units of accounting if certain criteria are met, including whether the delivered item has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered items. The consideration we receive is allocated among the separate units based on their respective fair values, and the applicable revenue recognition criteria are considered separately for each of the separate units.

We have licensing agreements that generally provide for periodic minimum payments, royalties, milestone payments and/or non-refundable license fees. These licensing agreements typically require a non-refundable license fee and allow our partners to sell our proprietary products in a defined field or territory for a defined period. The license agreements provide for APP to earn future revenue through royalty payments. These non-refundable license fees are initially reported as deferred revenues and recognized as contract revenues over the estimated life of the product to which they relate and/or until the related product is discontinued, as we have continuing involvement with licensees. Revenue recognized from deferred license fees is classified as contract revenue in the accompanying consolidated statements of operations. License fees received in connection with arrangements where we have no continuing involvement are recognized as revenue when the amounts are received or when collectibility is assured, whichever is earlier. No such fees were recorded in the three and nine months ended September 30, 2003.

A milestone payment is a payment made by a third party or corporate partner to us upon the achievement of a predetermined milestone as defined in a legally binding contract. Milestone payments are recognized as revenue when the milestone event has occurred and we have completed all milestone related services such that the milestone payment is currently due and is non-refundable. No such payments were received during the three and nine months ended September 30, 2003.

Contract revenues from research and development arrangements are recognized as the related development costs are incurred. These revenues approximate the costs incurred.

Cash Equivalents and Short-term Investments
- --

We consider all short-term investments in debt securities which have original maturities of three months or less at the date of purchase to be cash equivalents. Investments which have original maturities longer than three months are classified as marketable securities in the accompanying balance sheets.

Accrued Disposition Costs
- -------------------------

Costs relating to the disposal of discontinued operations are reported as accrued disposition costs in the accompanying balance sheets. Accrued disposition costs include severance costs, gross profit guarantees, and costs of disposition, all of which are payable over the next year.

Concentrations of Credit Risk
- -----------------------------

Financial instruments which potentially expose our company to concentrations of credit risk consist primarily of accounts receivable. Approximately 75% of the account receivables were concentrated with two customers in the pharmaceutical industry as of September 30, 2003. To reduce credit risk, we perform ongoing credit evaluations of our customers' financial

conditions. We do not generally require collateral for customers with account receivable balances.

Segment and Geographic Information

Our operations are confined to a single business segment, the design and commercialization of polymer technologies for pharmaceutical and other applications.

Substantially all of our revenues are derived from domestic customers.

Employee Stock Plans

As permitted by the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (FAS 123), we have elected to continue to apply the intrinsic value method of Accounting Principle Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB 25) and related interpretations in accounting for our employee stock option plans and the Employee Stock Purchase Plan (ESPP). Under APB 25, if the exercise price of our employee and director stock options equals or exceeds the fair market value of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net loss and net loss per share has been determined as if we had accounted for our employee stock options and ESPP under the fair value method prescribed by FAS 123. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period of the options using the straight-line method. Our pro forma information is set forth in the table below (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net loss, as reported	$(1,058)	$(1,052)	$(2,985)	$(3,551)
Deduct:				
Stock-based employee compensation expense determined under FAS 123	(99)	(140)	(326)	(421)
Pro forma net loss	$(1,157)	$(1,192)	$(3,311)	$(3,972)
Basic and diluted loss per common share as reported	$ (0.05)	$ (0.05)	$ (0.15)	$ (0.17)
Basic and diluted pro forma loss per common share	$ (0.06)	$ (0.06)	$ (0.16)	$ (0.19)

Fair values of awards granted under the stock option plans and ESPP were estimated at grant or purchase dates using a Black-Scholes option pricing model. The following assumptions were used:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Expected life in				

years (from vesting date):	5	5	5	5
Discount rate:	2.8%	2.6%	2.8%	2.6%
Volatility	66%	65%	66%	65%
Expected dividend yield	--	--	--	--

Recent Accounting Pronouncements

In November 2002, the FASB issued Emerging Issues Task Force (EITF) Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." EITF 00-21 addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF 00-21 provides guidance with respect to the effect of certain customer rights due to company nonperformance on the recognition of revenue allocated to delivered units of accounting. EITF 00-21 also addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF 00-21 provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting arrangement. The provisions of EITF 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The impact of the adoption of EITF 00-21 did not have a material effect on our financial position and results of operations.

In January 2003, the FASB issued Financial Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). The consolidation requirements of FIN 46 apply immediately to variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after December 15, 2003. We do not have variable interest entities and, as such, the adoption of FIN 46 does not have a material effect on our financial position or results of operations.

(2) Loss Per Share Information

Basic loss per share is calculated using the weighted average number of common shares outstanding. Because the Company is in a net loss position for the three and nine months ended September 30, 2003 and 2002, diluted earnings per share is also calculated using the weighted average number of common shares outstanding and excludes the effects of options, warrants and convertible securities which are antidilutive for all periods presented.

(3) Comprehensive Loss

Comprehensive loss for the three and nine months ended September 30, 2003 and 2002 consists of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net loss	$(1,058)	$(1,052)	$(2,985)	$(3,551)
Unrealized holding losses arising during the period	(19)	(20)	(41)	(150)
Comprehensive loss	$(1,077)	$(1,072)	$(3,026)	$(3,701)

(4) Discontinued Operations

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

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

The gain(loss) from disposition of discontinued operations consists of the gain on sale of the Analytical Standards division, the operating results of the Analytical Standards division through the sale on February 13, 2003 and changes in estimates relating to the discontinued cosmeceutical and toiletry business as follows (in thousands):

	Nine months ended September 30,	
	2003	2002
Analytical Standards Division		
Gain on Sale of Analytical Standards division	$1,870	$ --
Income from Analytical standards operations	7	186
	1,877	186
Cosmeceutical and Toiletry Business		
Cosmeceutical and toiletry earn out payment	--	210
Recovery of (reserve for) doubtful accounts receivable	4	(8)
Change in estimate for guarantees	(132)	--
Change in estimates for professional fees	--	(8)
Change in estimate of provision for income taxes and tax refunds	10	53
Other changes in estimate	--	(1)
	(118)	246
Total gain from disposition of discontinued operations	$1,759	$432

Basic and diluted income (loss) per common share from discontinued operations, excluding the gain on sale of the Analytical Standards division and cosmeceutical and toiletry business, were ($0.01) and $0.01 per share for the nine months ended September 30, 2003 and 2002, respectively.

Analytical Standards Division

On February 13, 2003, we completed the sale of our Analytical Standards division to GFS Chemicals, Inc. ("GFS"), a privately held company based in Columbus, Ohio. In this transaction, we received $2.1 million on closing and are entitled to receive royalties on sales of Analytical Standards products of 15% for the first year, 10% for the second through fourth years, and 5% for the fifth year. The net present value of the guaranteed minimum royalties is included in the gain on disposition of discontinued operations.

As a result of the sale of the Analytical Standards division, we recorded severance charges of $209,000 in the nine months ended September 30, 2003 as a partial offset to the gain on disposition of the Analytical Standards division. Approximately $161,000 of these severance charges has been paid to date, including $51,000 in the current quarter.

Cosmeceutical and Toiletry Business

On July 25, 2000, we completed the sale of our cosmeceutical and toiletry business to RP Scherer Corporation, a subsidiary of Cardinal Health, Inc. We received $25 million on closing and were entitled to receive further earnout amounts for the subsequent three years up to a maximum of $26.5 million, the amounts of which are dependent on the performance of the business sold. We received an aggregate of $3.8 million of these earnout amounts, which were based on gross profit earned by the business sold over the three-year period.

Under the terms of the agreement with RP Scherer, we guaranteed a minimum gross profit percentage on RP Scherer's combined sales of products to Ortho Neutrogena and Dermik ("Gross Profit Guarantee"). The guarantee period commenced on July 1, 2000 and ends on the earlier of July 1, 2010 or the end of two consecutive guarantee periods where the combined gross profit on sales to Ortho and Dermik equals or exceeds the guaranteed gross profit. Payments for the Gross Profit Guarantee aggregated $404,000 for the first three guarantee years. As there is no minimum amount of Gross Profit Guarantee due, no accrual for the guarantee for future years is estimable.

A total of 60 positions, primarily in the manufacturing, marketing and research and development departments and associated general and administrative staff, were eliminated as a result of the disposition. During the year ended December 31, 2000, we recorded severance charges of $3,685,000 as a partial offset to the gain on disposition of the cosmeceutical business all of which has been paid to date, including $20,000 in the current quarter.

As of September 30, 2003, net assets relating to the discontinued cosmeceutical and toiletry business include trade receivables of $149,000 and a provision for doubtful accounts receivable of $24,000. Liabilities related to the discontinued cosmeceutical and toiletry operation in the amount of $209,000 include an accrual for the gross profit guarantee. These liabilities are reported as accrued disposition costs in the accompanying balance sheet.

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

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

Certain reclassifications have been made to the prior period financial statements to conform with the presentation in 2003. The operations and related assets of the Analytical Standards division were reclassified to discontinued operations and assets held for sale, respectively, in the statements of operations and cash flows for the three and nine months ended September 30, 2002 and in the balance sheet as of December 31, 2002.

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Estimates were made relating to useful lives of fixed assets, valuation allowances, impairment of assets and accruals. Actual results could differ materially from those estimates. The items in our financial statements requiring significant estimates and judgments are as follows:

CRITICAL ACCOUNTING POLICIES

We believe there have been no significant changes in our critical accounting policies during the nine months ended September 30, 2003 as compared to what was previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the SEC on March 28, 2003.

Revenue Recognition

Contractually required minimum royalties are recorded ratably throughout the contractual period. Royalties in excess of minimum royalties are recognized as earned when the related product is shipped to the end customer by our licensees based on information provided to us by our licensees.

We have licensing agreements that generally provide for periodic minimum payments, royalties, milestone payments and/or non-refundable license fees. These licensing agreements typically require a non-refundable license fee and allow our partners to sell our proprietary products in a defined field or territory for a defined period. The license agreements provide for APP to earn future revenue through royalty payments. These non-refundable license fees are initially reported as deferred revenues and recognized as contract revenues over the estimated life of the product to which they relate as we have continuing involvement with licensees and until the related product is discontinued. Revenue recognized from deferred license fees is classified as contract revenue in the accompanying consolidated statements of operations. License fees received in connection with arrangements where we have no continuing involvement are recognized as revenue when the amounts are received or when collectibility is assured, whichever is earlier. No such fees were recorded in the three and nine months ended September 30, 2003.

A milestone payment is a payment made by a third party or corporate partner to us upon the achievement of a predetermined milestone as defined in a legally binding contract. Milestone payments are recognized as revenue when the milestone event has occurred and we have completed all milestone related services such that the milestone payment is currently due and is non-refundable. No such payments were received during the three and nine months ended September 30, 2003.

Contract revenues from research and development arrangements are recognized as the related development costs are incurred. These revenues approximate the costs incurred.

Results of Operations

Our revenues are derived principally from royalties, license fees and research and development fees. Under strategic alliance arrangements entered into with certain corporations, we can receive non-refundable upfront fees, milestone payments and royalties based on third party product sales.

Royalties for the three and nine months ended September 30, 2003 were $1,149,000 and $3,211,000, respectively, compared to $935,000 and $2,768,000, respectively, in the same periods in 2002. These increases were due mainly to continued growth in sales of Retin-A Micro(R) following the launch of a new low-dose formulation in July 2002 after FDA marketing clearance.

Research and development expense increased approximately $20,000 and $1,148,000 for the three and nine months ended September 30, 2003, respectively, from $1,874,000 and $5,243,000, respectively, for the same periods in 2002. These increases were due mainly to the cost of Biochronomer studies which were designed to demonstrate the biocompatibility of the polymer, and preclinical safety studies using the enhanced APF112 formulation as agreed in discussions with the U.S. Food and Drug Administration (FDA). APF112 is designed to provide 24 to 36 hours of pain relief following surgery and avoid or minimize the use of opioids which can have harmful side affects. A full package incorporating extensive safety and biocompatibility studies and the Phase II protocol was submitted to the FDA in July 2003, and in August 2003 the Company received clearance from the FDA to initiate human clinical studies in procedures for the repair of inguinal hernias. In addition, costs associated with the manufacture of GMP product for human clinical trials were incurred during the third quarter of 2003. The Phase II human clinical trials for the treatment of post-surgical pain have been initiated.

General and administrative expense decreased moderately for the three and nine months ended September 30, 2003 compared to the corresponding periods in 2002. General and administrative costs are expected to increase only moderately in 2003.

Net interest income for the three and nine months ended September 30, 2003 decreased by $72,000 and $294,000, respectively, from $127,000 and $491,000, respectively, for the corresponding periods in 2002. These decreases were due to lower interest rates earned on lower average cash balances.

Gain (loss) on disposition of discontinued operations represents the gain on sale of the Analytical Standards division netted with the net gain (loss) attributable to the Analytical Standards division, and the cosmeceutical and toiletries product lines. The loss on disposition of discontinued operations totaled $43,000 for the three months ended September 30, 2003, compared with the gain on disposition of discontinued operation of $287,000 in the three months ended September 30, 2002. The gain on disposition of discontinued operations totaled $1,759,000 for the nine months ended September 30, 2003, compared with $432,000 in the nine months ended September 30, 2002.

Capital Resources and Liquidity

Total assets as of September 30, 2003 were $14,679,000 compared with $17,781,000 at December 31, 2002. Cash, cash equivalents and marketable securities decreased by $3,028,000 to $11,093,000 at September 30, 2003 from $14,121,000 at December 31, 2002 due to net cash used in operations, partially offset by cash received for the sale of the Analytical Standards division.

Net cash used in continuing operating activities for the nine months ended September 30, 2003 and 2002 was $4,517,000 and $3,624,000, respectively. The increase in net cash used in operating activities was due mainly to increased preclinical study costs.

We have financed our operations, including technology and product research and development, from royalties on Retin-A Micro and Carac, proceeds from the sale of the cosmeceutical and toiletry business to

RP Scherer, proceeds from the sale of the Analytical Standards division to GFS Chemicals, Inc., interest earned on short-term investments and research and development fees received from corporate collaborators.

Our existing cash and cash equivalents, marketable securities, collections of trade accounts receivable, together with interest income and other revenue-producing activities including royalties, license and option fees and research and development fees, are expected to be sufficient to meet our cash needs for at least two years, assuming no changes to our current business plan.

Our future capital requirements will depend on numerous factors including, among others, royalties from sales of products by third party licensees; our ability to enter into a joint venture agreement for the APF112 project with a partner with whom we will share costs and profits; our ability to enter into collaborative research and development and licensing agreements; progress of product candidates in preclinical and clinical trials; investment in new research and development programs; time required to gain regulatory approvals; resources that we devote to self-funded products; our ability to obtain and retain funding from third parties under collaborative agreements; potential acquisitions of technology, product candidates or businesses; and the costs of defending or prosecuting any patent opposition or litigation necessary to protect the our proprietary technology.

Recent Accounting Pronouncements
- ---------------------------------

In November 2002, the FASB issued Emerging Issues Task Force (EITF) Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." EITF 00-21 addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF 00-21 provides guidance with respect to the effect of certain customer rights due to company nonperformance on the recognition of revenue allocated to delivered units of accounting. EITF 00-21 also addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF 00-21 provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting arrangement. The provisions of EITF 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The impact of the adoption of EITF 00-21 did not have a material effect on our financial position and results of operations.

In January 2003, the FASB issued Financial Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). The consolidation requirements of FIN 46 apply immediately to variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after December 15, 2003. We do not have variable interest entities and as such, the adoption of FIN 46 does not have a material effect on our financial position or results of operations.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Since December 31, 2002, there have been no material changes in the Company's market risk exposure.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Based on their evaluation as of end of the period covered by this Quarterly Report on Form 10-Q, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed,

summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting identified in connection with our evaluation that occurred during our first fiscal quarter that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

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

None.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibit

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

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

Exhibit 32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On August 4, 2003, the Company furnished a press release current report on Form 8-K reporting the earnings for the second quarter of 2003.

SIGNATURES

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

A.P. PHARMA, INC.

Date: November 12, 2003

By: /S/ Michael O'Connell
Michael O'Connell
President and Chief
Executive Officer

Date: November 12, 2003

By: /S/ Gordon Sangster
Gordon Sangster
Chief Financial Officer

Exhibit 31.1

SECTION 302 CERTIFICATIONS

I, Michael O'Connell, certify that:

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

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

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

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

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

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

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

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

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

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

Date: November 12, 2003

/s/ Michael O'Connell

- ----------

Michael O'Connell
President and Chief Executive Officer

Exhibit 31.2

SECTION 302 CERTIFICATIONS

I, Gordon Sangster, certify that:

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

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

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

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

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

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

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

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

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

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

Date: November 12, 2003

/s/ Gordon Sangster

- ------------------
Gordon Sangster
Chief Financial Officer

Exhibit 32

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

In connection with the Quarterly Report of A.P. Pharma, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael O'Connell, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Michael O'Connell
Michael O'Connell,
Chief Executive Officer

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

In connection with the Quarterly Report of A.P. Pharma, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gordon Sangster, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ Gordon Sangster
Gordon Sangster,
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to A.P. Pharma, Inc. and will be retained by A.P. Pharma, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.