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

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

For the quarterly period ended June 30, 1998

[ ] 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

ADVANCED POLYMER SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

At July 31, 1998, the number of outstanding shares of the Company's common stock, par value $.01, was 19,968,058.

INDEX

Signatures

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited):

CONDENSED BALANCE SHEETS (UNAUDITED)

	June 30, 1998	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,196,844	$ 8,672,021
Trade accounts receivable, net	5,260,681	3,388,665
Inventory	3,079,943	2,639,129
Prepaid expenses and other	669,442	541,151
Total current assets	14,206,910	15,240,966
Property and equipment, net	8,370,159	6,771,173
Deferred loan costs, net	222,061	353,693
Prepaid license fees, net	41,444	82,880
Goodwill and other intangible assets	1,386,812	1,477,542
Other long-term assets	212,892	254,180
	$ 24,440,278	$ 24,180,434
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,275,524	$ 1,636,189
Accrued expenses	2,300,998	2,832,299
Accrued melanin purchase commitments	1,800,000	1,800,000
Deferred revenues	2,084,640	2,091,869
Current portion - long-term debt	4,206,643	2,523,389
Total current liabilities	11,667,805	10,883,746
Long-term debt	124,062	3,055,460
Total liabilities	11,791,867	13,939,206
Shareholders' equity:		
Common stock and common stock warrants	84,658,778	82,505,394
Accumulated deficit	(72,010,367)	(72,264,166)
Total shareholders' equity	12,648,411	10,241,228
	$ 24,440,278	$ 24,180,434

See accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 1998	June 30,1997	June 30, 1998	June 30, 1997
Product and technology revenues	$ 5,097,722	$ 4,499,516	$ 9,669,620	$ 8,046,648
Milestone payment	--	--	--	1,500,000
Total revenues	5,097,722	4,499,516	9,669,620	9,546,648
Cost of sales	1,953,342	1,952,179	3,702,953	3,443,694
Operating expenses:				
Research & development	1,161,090	900,817	2,199,842	1,833,291
Selling & marketing	738,896	949,069	1,614,726	2,122,881
General & administration	865,411	1,069,705	1,592,101	1,912,999
Total operating expenses	2,765,397	2,919,591	5,406,669	5,869,171
Operating income (loss)	378,983	(372,254)	559,998	233,783
Interest income	70,902	80,227	154,359	159,527
Interest expense	(211,419)	(268,862)	(440,199)	(540,254)
Other expense, net	(11,483)	(70,845)	(20,359)	(65,867)
Net income (loss)	$ 226,983	$ (631,734)	$ 253,799	$ (212,811)
Basic earnings (loss) per common share	$ 0.01	$ (0.03)	$ 0.01	$ (0.01)
Diluted earnings (loss) per common share	$ 0.01	$ (0.03)	$ 0.01	$ (0.01)
Weighted average common shares outstanding-basic	19,877,164	18,577,599	19,727,206	18,491,867
Weighted average common shares outstanding-diluted	20,585,182	19,697,625	20,494,607	19,721,408

See accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the six months ended June 30, 1998	1997
Cash flows from operating activities:		
Net income (loss)	$ 253,799	$ (212,811)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	534,531	487,413
Amortization of deferred loan costs	131,632	131,632
Provision for deferred compensation	12,850	126,757
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,872,016)	(1,592,926)
Inventory	(440,814)	(533,896)
Prepaid expenses and other	(128,291)	(98,026)
Other assets	41,288	(488,176)
Accounts payable and accrued expenses	(904,816)	(342,329)
Deferred revenues	(7,229)	1,500,000
Net cash used in operating activities	(2,379,066)	(1,022,362)
Cash flows from investing activities:		
Purchases of fixed assets	(2,001,351)	(596,872)
Purchases of marketable securities	-	(1,596,617)
Maturities and sales of marketable securities	-	1,596,617
Proceeds from assets held for sale	-	2,181,004
Net cash (used in) provided by investing activities	(2,001,351)	1,584,132
Cash flows from financing activities:		
Proceeds from the exercise of common stock options and warrants and issuance of restricted stock	2,043,749	2,071,923
Proceeds from shares issued under the Employee Stock Purchase Plan	109,635	-
Repayment of long-term debt	(1,248,144)	(578,268)
Net cash provided by financing activities	905,240	1,493,655
Net (decrease) increase in cash and cash equivalents	(3,475,177)	2,055,425
Cash and cash equivalents, beginning of the period	8,672,021	5,394,509
Cash and cash equivalents, end of the period	$ 5,196,844	$ 7,449,934
Supplemental disclosure of non-cash financing transactions:		
Cash paid for interest	$ 317,281	$ 410,351

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1998 AND 1997 (UNAUDITED)

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position of Advanced Polymer Systems, Inc. and subsidiaries ("the Company" or "APS") as of June 30, 1998 and the results of their operations for the three and six months ended June 30, 1998 and 1997, and their cash flows for the six months ended June 30, 1998 and 1997.

These condensed consolidated statements should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 1997, 1996 and 1995 included in the Company's Annual Report on Form 10-K.

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

The Company considers all short-term investments which have original maturities of less than three months to be cash equivalents.

Certain reclassifications have been made to the prior period financial statements to conform with the presentation in 1998.

(2) Common Shares Outstanding and Earnings (Loss) Per Share Information

Common stock outstanding as of June 30, 1998 is as follows:

	Number of Shares
Common stock outstanding as of December 31, 1997	19,464,821
Warrants exercised	310,278
Options exercised	75,494
Restricted stock issued	100,000
Shares issued under the Employee Stock Purchase Plan	17,465
Total shares	19,968,058

The following table sets forth the computation of the Company's basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	June 30, 1998	June 30, 1997	June 30, 1998	June 30, 1997
Net income (loss) (numerator)	$ 226,983	$ (631,734)	$ 253,799	$ (212,811)
Shares calculation (denominator):				
Weighted average shares outstanding - basic	19,877,164	18,577,599	19,727,206	18,491,867
Effect of dilutive securities:				

Stock options and employee stock purchase plan	555,317	622,384	528,646	692,698
Warrants	152,701	497,642	238,755	536,843
Weighted average shares outstanding - diluted	20,585,182	19,697,625	20,494,607	19,721,408
Earnings (loss) per share - basic	$ 0.01	$ (0.03)	$ 0.01	$ (0.01)
Earnings (loss) per share - diluted	$ 0.01	$ (0.03)	$ 0.01	$ (0.01)

The following options with expiration dates ranging from November 19, 2001 to June 5, 2008 were outstanding during the periods presented, but were not included in the computation of diluted earnings per share since the exercise prices of the options were greater than the average market price of the common shares:

	Three Months Ended		Six Months Ended	
	June 30, 1998	June 30, 1997	June 30, 1998	June 30, 1997
Number outstanding	812,417	883,104	827,917	832,500
Range of exercise prices	$7.75-$15.00	$7.75-$15.00	$7.75-$15.00	$8.125-$15.00

(3) New Accounting Standards

During the first quarter of 1998, the Company adopted Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income" which establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. For the three and six months ended June 30, 1998 and 1997, comprehensive income (loss) was the same as net income (loss).

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of a Business Enterprise" which is effective for financial statements beginning after December 15, 1997, and establishes standards for disclosures about segments of an enterprise. In its consolidated financial statements for the year ending December 31, 1998, the Company will make the required disclosures.

In June 1998, the FASB issued SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS 133) which will be effective for all fiscal quarters of fiscal years beginning after June 15, 1999. SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Earlier application of all provisions of this Statement is encouraged but it is permitted only as of the beginning of any fiscal quarter that begins after issuance of this Statement. The Company anticipates that adoption of this Statement will not have a material effect on the consolidated financial statements.

(4) Inventory

The major components of inventory are as follows:

	June 30, 1998	December 31, 1997
Raw materials and work-in-process	$1,054,601	$ 834,496
Finished goods	2,025,342	1,804,633
Total inventory	$3,079,943	$2,639,129

(5) Legal Proceedings

In November, 1997 Biosource Technologies, Inc. ("Biosource") filed a complaint against the Company in the San Mateo Superior Court. Biosource claims damages from the Company of an amount not less than $1,050,000, on the grounds that the Company has failed to pay certain minimum amounts allegedly due under a contract for the supply of melanin. Biosource also claims interest on that sum and costs.

The Company has denied liability, basing its defense on the assertion that obligations under the contract have been suspended, because the expected FDA approval of the Company's melanin-based product has not yet been forthcoming. The Company is vigorously defending the action, and has cross claimed for rescission of the contract and restitution of money paid thereunder, and for a declaratory judgment that it is not indebted to Biosource.

The Company expects that the outcome of this legal proceeding will not have a material adverse effect on the consolidated financial statements considering amounts accrued at June 30, 1998.

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

Results of Operations for the Three Months Ended June 30, 1998 and 1997

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 approval, launch and acceptance of new products, establishment of new corporate alliances, progress in research and development programs and other risks described below or identified from time to time in the Company's Securities and Exchange Commission filings.

The Company's revenues are derived principally from product sales, license fees and royalties. The Company is currently manufacturing and selling Microsponge(R) and Polytrap (R) delivery systems for use by customers in approximately 100 different personal care and cosmetic products. Under strategic alliance arrangements entered into with certain corporations, APS can receive an initial license fee, future milestone payments, royalties based on third party product sales or a share of partners' revenues, and revenues from the supply of Microsponge and Polytrap systems.

These strategic alliances are intended to provide the Company with the marketing expertise and/or financial strength of other companies. In this respect, the Company's periodic financial results are dependent upon the degree of success of current collaborations and the Company's ability to negotiate acceptable collaborative agreements in the future.

Product and technology revenues for the three months ended June 30, 1998 totaled $5,098,000 compared to $4,500,000 in the corresponding period of the prior year, representing an increase of $598,000 or 13%. This was due primarily to increased sales of proprietary cosmeceutical products, higher royalties from Johnson & Johnson for sales of Retin-A(R) Micro (TM), and a license fee for the mass distribution of a retinol formulation.

Gross profit for the second quarter of 1998 of $3,144,000 represented 62% of product and technology revenues, an increase of five percentage points from the gross profit in the corresponding quarter of the prior year. This was primarily attributable to an increase in royalties from Johnson & Johnson for sales of Retin-A Micro which was launched in March 1997, a license fee for the mass distribution of a retinol formulation and an increase in revenues from higher margin proprietary cosmeceutical products.

Research and development expenses increased by $260,000 or 29% to $1,161,000 due mainly to increased headcount and expenses resulting from the Company's move to new R&D facilities during the first quarter of 1998. Selling and marketing expense decreased by $210,000 or 22% to $739,000 as a result of a reduction in headcount and outside services. General and administrative expense decreased by $204,000 or 19% to $865,000 due mainly to decreased use of consultants and outside services.

Interest income of $71,000 decreased by $9,000 or 12% over the year-ago quarter due to lower average cash balances. Interest expense decreased by $57,000 or 21% to $211,000 due mainly to debt principal repayments in the past year.

Net income for the second quarter of 1998 was $227,000 compared to a net loss of $632,000 in the corresponding quarter of the prior year.

Results of Operations for the Six Months Ended June 30, 1998 and 1997

Product and technology revenues for the six months ended June 30, 1998 totaled $9,670,000, an increase of $1,623,000 or 20% over the corresponding period in the prior year. This was mainly due to increased sales of proprietary cosmeceutical products, the receipt of a license fee for a mass marketing agreement for a retinol formulation and increased royalties from Johnson & Johnson for Retin-A Micro, which was launched in March 1997. Total revenues for the first six months of the prior year also included a milestone payment of $1,500,000 from Johnson & Johnson upon receipt of marketing approval from the FDA for Retin-A Micro in February 1997.

Gross profit on product and technology revenues for the first half of 1998 was $5,967,000, an increase of $1,364,000 or 30% over the same period in the prior year. This was primarily due to increased sales of higher margin proprietary cosmeceutical products which have been launched by corporate partners in the course of the last year, a license fee for a mass marketing agreement and increased royalties from Johnson & Johnson for sales of Retin-A Micro.

Research and development expense increased by $367,000 or 20% due mainly to increased headcount and expenses resulting from the Company's move to new research & development facilities during the first quarter of 1998. Selling and marketing expenses decreased by $508,000 or 24% to $1,615,000 primarily as a result of reduced headcount, reduced outside services and one-time expenses related to the relocation of a senior executive in the year-ago period. General and administrative expenses decreased by $321,000 or 17% due mainly to decreased use of outside services.

Interest expense for the first six months of 1998 decreased by $100,000 due to debt principal repayments in the past year.

Net income for the first six months of 1998 was $254,000 compared with a net loss of $213,000 in the corresponding period of the prior year which included the milestone payment of $1,500,000 from Johnson & Johnson.

Capital Resources and Liquidity
- -------------------------------

Total assets as of June 30, 1998 were $24,440,000 compared with $24,180,000 at December 31, 1997, and working capital decreased to $2,539,000 from $4,357,000, mainly due to an increase in the current portion of long-term debt. In the same period, cash and cash equivalents decreased to $5,197,000 from $8,672,000. During the first six months of 1998, the Company's operating activities used $2,379,000 of cash. This principally related to an increase in receivables as a result of increased shipments for the launches of new products by corporate partners. The Company invested approximately $2,200,000 in product research and development and $1,615,000 in selling and marketing the Company's products and technologies.

Capital expenditures for the six months ended June 30, 1998 totaled $2,001,000 compared to $597,000 in the same period of the prior year. The increase in capital expenditures is mainly due to on-going capital projects that will increase capacity in the Company's manufacturing facility in Lafayette, Louisiana in order to meet anticipated higher volume requirements. This plant expansion project is expected to be completed in 1998. In addition, the Company's lease on its facilities in Redwood City expired and the increase in capital expenditures also included leasehold improvements, primarily laboratories, in the Company's new facilities in Redwood City.

The Company has financed its operations, including product research and development, from amounts raised in debt and equity financings, the sale of Microsponge and Polytrap delivery systems and analytical standard products; payments received under licensing agreements; and interest earned on short-term investments.

The Company's existing cash and cash equivalents, collections of trade accounts receivable, together with interest income and other revenue producing activities including royalties, licensing fees and milestone payments, are expected to be sufficient to meet the Company's working capital requirements for the foreseeable future, assuming no changes to existing business plans.

New Accounting Standards
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In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of a Business Enterprise" which is effective for financial statements beginning after December 15, 1997, and establishes standards for disclosures about segments of an enterprise. In its consolidated financial statements for the year ending December 31, 1998, the Company will make the required disclosures.

In June 1998, the FASB issued SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS 133) which will be effective for all fiscal quarters of fiscal years beginning after June 15, 1999. SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Earlier application of all provisions of this Statement is encouraged but it is permitted only as of the beginning of any fiscal quarter that begins after issuance of this Statement. The Company anticipates that adoption of this Statement will not have a material effect on the consolidated financial statements.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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The Company has denied liability, basing its defense on the assertion that obligations under the contract have been suspended, because the expected FDA approval of the Company's melanin-based product has not yet been forthcoming. The Company is vigorously defending the action, and has cross claimed for rescission of the contract and restitution of money paid thereunder, and for a declaratory judgment that it is not indebted to Biosource.

The Company expects that the outcome of this legal proceeding will not have a material adverse effect on the consolidated financial statements considering amounts accrued at June 30, 1998.

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

The Company's annual shareholder's meeting was held on June 10, 1998, at which the following proposals were approved:

Proposal I: Election of the following Directors:

	Votes For	Votes Withheld
John J. Meakem, Jr. Chairman of the Board	16,799,644	893,109
Carl Ehmann	16,798,095	894,658
Jorge Heller	16,798,640	894,113
Peter Riepenhausen	16,800,245	892,508
Toby Rosenblatt	16,798,840	893,913
Gregory Turnbull	16,796,395	896,358
Charles Anthony Wainwright	16,797,840	894,913
Dennis Winger	16,798,845	893,908

Proposal II: To amend the Company's 1992 Stock Plan (i) to increase by 750,000 the number of shares of common stock reserved for issuance under the plan; and (ii) to provide for grants of restricted stock awards under the plan.

Votes For	Votes Against	Abstentions & Broker Non-Votes
15,918,362	1,583,068	191,323

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits: 27 Financial Data Schedule as of and for the six months ended June 30, 1998.

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.

ADVANCED POLYMER SYSTEMS, INC.

Date: August 12, 1998   By: /s/ John J. Meakem, Jr.

John J. Meakem, Jr.
Chairman, President and
Chief Executive Officer

Date: August 12, 1998   By: /s/ Michael O'Connell

Michael O'Connell
Executive Vice President,
Chief Administrative Officer
and Chief Financial Officer

EXHIBIT INDEX

Form 10-Q

EXHIBIT	DESCRIPTION
27	Financial Data Schedule

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED
FROM THE UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET AS OF JUNE 30,
1998, AND CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE SIX
MONTHS ENDED JUNE 30, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY
REFERENCE TO SUCH FINANCIAL STATEMENTS.

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JUN-30-1998
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