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 March 31, 2002

[ ] 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

At April 30, 2002, the number of outstanding shares of the Company's common stock, par value $.01, was 20,399,665.

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited):

Condensed Consolidated Balance Sheets
March 31, 2002 and December 31, 2001

Condensed Consolidated Statements of Operations
for the three months ended March 31, 2002 and 2001

Condensed Consolidated Statements of Cash Flows
for the three months ended March 31, 2002 and 2001

Notes to Condensed Consolidated Financial Statements

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

ITEM 3. Quantitative and Qualitative Disclosure About Market Risk

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

ITEM 6. Exhibits and Reports on Form 8-K

Signatures

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements:

A.P. PHARMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2002 (Unaudited)	December 31, 2001 (Note A)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,802,226	$ 3,617,927
Marketable securities	13,238,299	15,876,445
Trade accounts receivable, net	372,455	338,275
Receivables for royalties and license fees	1,096,671	1,129,668
Inventory	50,030	60,567
Prepaid expenses and other	353,216	600,945
Total current assets	19,912,897	21,623,827
Property and equipment, net	1,569,906	1,667,904
Other long-term assets	209,062	215,283
Total assets	$ 21,691,865	$ 23,507,014
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 136,229	$ 346,674
Accrued expenses	992,382	1,409,091
Accrued disposition costs	1,346,502	1,479,005
Deferred revenue	324,706	314,706
Total current liabilities	2,799,819	3,549,476
Deferred revenue - long-term	785,266	785,266
Shareholders' equity:		
Common stock	86,455,590	86,391,144
Accumulated deficit	(68,462,312)	(67,456,428)
Accumulated other comprehensive income	113,502	237,556
Total shareholders' equity	18,106,780	19,172,272
Total liabilities and shareholders' equity	$ 21,691,865	$ 23,507,014

Note A Information derived from audited financial statements.

See accompanying notes to condensed consolidated financial statements.

A.P. PHARMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31,	
	2002	2001
Royalties	$ 903,628	$ 650,262
Contract revenues	48,023	25,000
Product revenues	285,922	295,473
Total revenues	1,237,573	970,735
Cost of sales	113,910	93,320
Operating expenses:		
Research & development, net	1,496,541	1,378,230
Selling & marketing	126,745	124,427
General & administration	710,089	688,390
Total operating expenses	2,333,375	2,191,047
Operating loss	(1,209,712)	(1,313,632)
Interest income	185,891	348,169
Other income, net	18,738	2,684
Loss from continuing operations	(1,005,884)	(962,779)
Loss from discontinued operations	--	(158,355)
Net loss	$(1,005,884)	$(1,121,134)
Basic and diluted loss per share:		
Loss from continuing operations	$ (0.05)	$ (0.05)
Net loss	$ (0.05)	$ (0.06)
Weighted average common shares outstanding-basic and diluted	20,359,972	20,220,040

See accompanying notes to condensed consolidated financial statements.

A.P. PHARMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the three months ended March 31,	
	2002	2001
Net cash used in operating activities	$(1,322,293)	$(1,461,977)
Cash flows from investing activities:		
Purchases of property and equipment	(8,851)	(33,514)
Purchases of marketable securities	(2,519,153)	(6,054,883)
Maturities of marketable securities	5,034,596	5,854,163
Net cash provided by (used in) investing activities	2,506,592	(234,234)
Net increase (decrease) in cash and cash equivalents	1,184,299	(1,696,211)
Cash and cash equivalents, beginning of the period	3,617,927	6,493,336
Cash and cash equivalents, end of the period	$ 4,802,226	$ 4,797,125

See accompanying notes to condensed consolidated financial statements.

A.P. PHARMA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002 AND DECEMBER 31, 2001 (UNAUDITED)

(1) Summary of Significant Accounting Policies

Basis of Presentation

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 (consisting only of adjustments of a normal recurring nature) considered necessary for a fair presentation have been included. Operating results for the three month periods ended March 31, 2002 and 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. The condensed consolidated balance sheet as of December 31, 2001 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, 2001.

The condensed consolidated financial statements include the financial statements of A.P. Pharma (the Company or APP) and its subsidiary, APS Analytical Standards, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain reclassifications have been made to the prior period financial statements to conform with the presentation in 2002.

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. The items in our financial statements requiring significant estimates and judgments are as follows:

Revenue Recognition

Product revenues are recorded upon shipment of products when four basic criteria are met: 1) persuasive evidence of an arrangement exists, 2) delivery has occurred or services have been rendered, 3) the fee is fixed and determinable, and 4) collectibility is reasonably assured. Determination of criteria 3 and 4 are based on management's judgments regarding the fixed nature of the fees charged for products delivered and the collectibility of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

The Company has licensing agreements that generally provide for the Company to receive periodic minimum payments, royalties, milestone payments and/or non-refundable license fees. These licensing agreements typically require a non-refundable license fee and allow partners to sell the Company's 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 long as the Company has continuing involvement with licensees and until the related product is discontinued. Revenue recognized from deferred license fees is classified as contract revenues in the accompanying condensed consolidated statements of operations. License fees received in connection with arrangements where the Company has no continuing involvement are recognized as revenue when the amounts are received or when collectibility is assured, whichever is earlier.

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 customer by the Company's licensees based on information received by the Company from its licensees.

A milestone payment is a payment made by a third party or corporate partner to the Company 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 the Company has completed all milestone related services such that the milestone payment is currently due and is non-refundable.

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

Cash Equivalents and Short-term Investments
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The Company considers all short-term investments in debt securities which have original maturities of less than three months at date of purchase to be cash equivalents. Investments which have original maturities longer than three months are classified as marketable securities in the accompanying balance sheets.

Recent Accounting Pronouncements

In July 2001, the FASB issued FAS 141, "Business Combinations" (FAS 141). FAS 141 supersedes APB 16, "Business Combinations," and FAS 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." FAS 141 requires the purchase method of accounting for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. FAS 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001.

In July 2001, the FASB issued FAS 142, "Goodwill and Other Intangible Assets" (FAS 142). FAS 142 supersedes APB 17, "Intangible Assets," and requires the discontinuance of goodwill amortization. In addition, FAS 142 includes provisions regarding the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the testing for impairment of existing goodwill and other intangibles out of previously reported goodwill and other intangibles. FAS 142 is required to be applied for fiscal years beginning after December 15, 2001, with certain early adoption permitted. Adoption of this statement did not have a material effect on the Company's financial condition or results of operations.

In August 2001, the FASB issued FAS 143, "Accounting for Asset Retirement Obligations" (FAS 143). FAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. Adoption of this statement did not have a material effect on the Company's financial condition or results of operations.

In October 2001, the FASB issued FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144), which supersedes FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (FAS

121). FAS 144 addresses financial accounting and reporting for the impairmment of long-lived assets and for long-lived assets to be disposed of. However, FAS 144 retains the fundamental provisions of FAS 121 for: 1) recognition and measurement of the impairment of long-lived assets to be held and used; and 2) measurement of long-lived assets to be disposed of by sale. FAS 144 is effective for fiscal years beginning after December 15, 2001. Adoption of this statement did not have a material effect on the Company's financial condition or results of operations.

(2) Net 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 months ended March 31, 2002 and 2001, 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.

(3) Comprehensive Loss

Comprehensive losses for the three months ended March 31, 2002 and March 31, 2001 consist of the following:

	Three Months Ended March 31, 2002	March 31, 2001
Net loss	$(1,005,884)	$(1,121,134)
Unrealized (losses) gains on marketable securities	(124,054)	124,574
Comprehensive loss	$(1,129,938)	$ (996,560)

(4) Inventory

The major components of inventory are as follows:

	March 31, 2002	December 31, 2001
Raw materials	$ 25,139	$ 27,284
Finished goods	24,891	33,283
Total inventory	$ 50,030	$ 60,567

(5) Discontinued Operations

On July 25, 2000, the Company completed the sale of certain technology rights for topical pharmaceuticals and its cosmeceutical product lines and other assets ("cosmeceutical and toiletry business") to R.P. Scherer Corporation, a subsidiary of Cardinal Health, Inc. The Company received $25 million on closing and could receive up to an additional $26.5 million over the next three years relating to the performance milestones of the cosmeceutical and toiletry business. In accordance with Accounting Principles Board Opinion No. 30 "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," the cosmeceutical and toiletry business is reported as a discontinued operation for all periods presented in the accompanying Condensed Consolidated Statements of Operations.

Basic and diluted loss per share from discontinued operations was $0.00 and ($0.01) for the three months ended March 31, 2002

and 2001, respectively.

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 the Company's Securities and Exchange Commission filings.

The preparation of the Company's 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 the Company's financial statements requiring significant estimates and judgments are as follows:

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

Product revenues are recorded upon shipment of products when four basic criteria are met: 1) persuasive evidence of an arrangement exists, 2) delivery has occurred or services have been rendered, 3) the fee is fixed and determinable, and 4) collectibility is reasonably assured. Determination of criteria 3 and 4 are based on management's judgments regarding the fixed nature of the fees charged for products delivered and the collectibility of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

The Company has licensing agreements that generally provide for the Company to receive periodic minimum payments, royalties, milestone payments and/or non-refundable license fees. These licensing agreements typically require a non-refundable license fee and allow partners to sell the Company's 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 revenues over the estimated life of the product to which they relate as the Company has continuing involvement with licensees until the related product is discontinued. Revenue recognized from deferred license fees is classified as contract revenues in the accompanying condensed consolidated statements of operations. License fees received in connection with arrangements where the Company has no continuing involvement are recognized as revenue when the amounts are received or when collectibility is assured, whichever is earlier.

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

Results of Operations for the Three Months Ended March 31, 2002 and 2001

The Company's revenues are derived principally from royalties, license fees, contract revenues and product sales. Under strategic alliance arrangements entered into with certain corporations, APP can receive non-refundable upfront fees, future milestone payments and royalties based on third party product sales. Until July 25, 2000, the Company manufactured and sold Microsponge(R) and Polytrap(R) delivery systems for use by customers in a variety of personal care and cosmetic products.

Royalties for the first quarter of 2002 increased by 39% or $253,000 from $650,000 in the corresponding quarter in the prior year. This increase was due mainly to increased sales of Retin-A Micro(R), a prescription acne treatment which is marketed by Ortho Neutrogena, a Johnson and Johnson company, and increased sales of Carac(TM) for the treatment of actinic keratoses by the Company's marketing partner Dermik Laboratories, an Aventis company.

Product revenues for the first quarter of 2002 relating to sales of analytical standards products decreased by $10,000 or 3% to $286,000 from $296,000 in the first quarter of the prior year.

Gross profit margin on sales of analytical standards decreased from 68% to 60% due to sales mix, as the first quarter of the current year included higher sales of low-margin instruments.

Research and development expense for the first quarter of 2002 increased by $118,000 to $1,497,000 due mainly to increased headcount and related expenses as the Company undertook a variety of new product development activities and the initiation of Phase I clinical trials on the Company's first product candidate, APF112, for the treatment of post-surgical pain, partially offset by expenses related to scale-up clinical batches of GMP polymer in the year-ago quarter. Research and development expense is expected to increase in 2002 as the Company's lead product candidate, APF112, for the treatment of post-surgical pain entered human clinical studies in 2002.

Selling and marketing expense for the first quarter of 2002 increased by $2,000 or 2% to $127,000. Selling and marketing expense is expected to remain essentially unchanged in 2002.

General and administrative expense for the first quarter of 2002 increased by $22,000 or 3% from $688,000 to $710,000, due mainly to the addition of the business development function in May 2001. General and administrative expense is expected to increase only moderately in 2002, primarily due to increased investor relations activities.

Interest income for the first quarter of 2002 decreased by $162,000 or 47% to $186,000 from $348,000 due to lower interest rates earned on lower average cash balances.

The loss from discontinued operations in the first quarter of the prior year related to legal fees associated with the Kligman lawsuit, which was settled in favor of the Company in 2001.

Capital Resources and Liquidity

Total assets as of March 31, 2002 were $21,692,000 compared with $23,507,000 at December 31, 2001. Cash, cash equivalents and marketable securities decreased by $1,453,000 to $18,041,000 at March 31, 2002 from $19,494,000 at December 31, 2001.

Net cash used in operating activities for the three months ended March 31, 2002 and 2001 was $1,322,000 and $1,462,000, respectively. The decrease in net cash used in operating activities was due to lower payments of accrued disposition costs. In the first three months of the prior year, cash used in operating activities included severance and retention payments to employees that were part of the cosmeceutical and toiletry business that was sold to RP Scherer in July 2000.

The Company has financed its 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, the sales of analytical standards products, interest earned on short-term investments and research and development fees received from corporate collaborators.

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

The Company's future capital requirements will depend on numerous factors including, among others, royalties from sales of products of third party licensees; the Company's 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 the Company devotes to self-funded products; the Company's 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 Company's proprietary technology.

Recent Accounting Pronouncements
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In July 2001, the FASB issued FAS 141, "Business Combinations" (FAS 141). FAS 141 supersedes APB 16, "Business Combinations," and FAS 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises." FAS 141 requires the purchase method of accounting for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. FAS 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001.

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In August 2001, the FASB issued FAS 143, "Accounting for Asset Retirement Obligations" (FAS 143). FAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. Adoption of this statement did not have a material effect on the Company's financial condition or results of operations.

In October 2001, the FASB issued FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144), which supersedes FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (FAS 121). FAS 144 addresses financial accounting and reporting for the impairmment of long-lived assets and for long-lived assets to be disposed of. However, FAS 144 retains the fundamental provisions of FAS 121 for: 1) recognition and measurement of the impairment of long-lived assets to be held and used; and 2) measurement of long-lived assets to be disposed of by sale. FAS 144 is effective for fiscal years beginning after December 15, 2001. Adoption of this statement did not have a material effect on the Company's financial condition or results of operations.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk
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The Company's exposure to market rate risk for changes in interest rates relates primarily to its investment portfolio. APP does not use derivative financial instruments. The Company manages its interest rate risk by maintaining an investment portfolio primarily consisting of debt instruments of high credit quality and relatively short average maturities. The Company also manages its interest rate risk by maintaining sufficient cash and cash equivalents such that it is typically able to hold its investments to maturity. Notwithstanding its efforts to manage interest rate risks, there can be no assurances that it will be adequately protected against the risks associated with interest rate fluctuations.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

ITEM 6. Exhibits and Reports on Form 8-K

None.

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: May 13, 2002 By: /S/ Michael O'Connell

Michael O'Connell
President and Chief
Executive Officer

Date: May 13, 2002 By: /S/ Gordon Sangster

Gordon Sangster
Chief Financial Officer