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 March 31, 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 April 30, 1998, the number of outstanding shares of the Company's common stock, par value $.01, was 19,812,912.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited):

BALANCE SHEETS (UNAUDITED)

	March 31, 1998	December 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,423,352	$ 8,672,021
Trade accounts receivable, net	4,766,673	3,388,665
Inventory	2,978,494	2,639,129
Prepaid expenses and other	677,149	541,151
Total current assets	14,845,668	15,240,966
Property and equipment, net	7,781,346	6,771,173
Deferred loan costs, net	287,877	353,693
Prepaid license fees, net	62,162	82,880
Goodwill and other intangible assets	1,432,176	1,477,542
Other long-term assets	214,172	254,180
	$ 24,623,401	$ 24,180,434
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,740,587	$ 1,636,189
Accrued expenses	2,005,662	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	4,565,878	2,523,389
Total current liabilities	12,196,767	10,883,746
Long-term debt	392,193	3,055,460
Total liabilities	12,588,960	13,939,206
Shareholders' equity:		
Common stock and common stock warrants	84,271,787	82,505,394
Accumulated deficit	(72,237,346)	(72,264,166)
Total shareholders' equity	12,034,441	10,241,228
	$ 24,623,401	$ 24,180,434

See accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended March 31, 1998	Three Months Ended March 31, 1997
Product and technology revenues	$ 4,571,898	$ 3,547,132
Milestone payment	--	1,500,000
Total revenues	4,571,898	5,047,132
Cost of sales	1,749,611	1,491,515
Operating expenses:		
Research & development, net	1,038,752	932,474
Selling & marketing	875,830	1,173,812
General & administration	726,686	843,294
Total operating expenses	2,641,268	2,949,580
Operating income	181,019	606,037
Interest income	83,457	79,300
Interest expense	(228,780)	(271,392)
Other income (expense), net	(8,876)	4,978
Net income	$ 26,820	$ 418,923
Basic earnings per common share	$ 0.00	$ 0.02
Diluted earnings per common share	$ 0.00	$ 0.02
Weighted average common shares outstanding-basic	19,577,247	18,406,134
Weighted average common shares outstanding-diluted	20,358,114	19,692,958

See accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the three months ended March 31,	
	1998	1997
Cash flows from operating activities:		
Net income	$ 26,820	$ 418,923
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	269,853	251,947
Amortization of deferred loan costs	65,816	65,816
Provision for deferred compensation	30,000	45,000
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,378,008)	(426,109)
Inventory	(339,365)	(622,655)
Prepaid expenses and other	(135,998)	(26,660)
Other long-term assets	40,008	(94,177)
Accounts payable and accrued expenses	(752,239)	(750,835)
Deferred revenues	(7,229)	1,475,000
Net cash provided by (used in) operating activities	(2,180,342)	336,250
Cash flows from investing activities:		
Purchases of property and equipment	(1,213,942)	(136,067)
Purchases of marketable securities	-	(1,596,617)
Proceeds from assets held for sale	-	1,449,698
Net cash used in investing activities	(1,213,942)	(282,986)
Cash flows from financing activities:		
Proceeds from the exercise of common stock options and warrants	1,766,393	275,114
Repayment of long-term debt	(620,778)	(286,187)
Net cash provided by (used in) financing activities	1,145,615	(11,073)
Net increase (decrease) in cash and cash equivalents	(2,248,669)	42,191
Cash and cash equivalents, beginning of the period	8,672,021	5,394,509
Cash and cash equivalents, end of the period	$ 6,423,352	$ 5,436,700
Supplemental disclosure:		
Cash paid for interest	$ 164,472	$ 205,633

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1998 AND DECEMBER 31, 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 March 31, 1998 and the results of their operations and cash flows for the three months ended March 31, 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. Investments which have original maturities longer than three months are classified as marketable securities in the accompanying balance sheets.

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

(2) Common Shares Outstanding and Earnings Per Share Information

Common stock outstanding as of March 31, 1998 is as follows:

	Number of Shares
Common stock outstanding as of December 31, 1997	19,464,821
Warrants exercised after December 31, 1997	310,278
Options exercised after December 31, 1997	26,812
Total shares	19,801,911

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

	Three Months Ended March 31, 1998	Three Months Ended March 31, 1997
Net income available to stockholders (numerator)	$ 26,820	$ 418,923
Shares calculation (denominator):		
Weighted average shares outstanding - basic	19,577,247	18,406,134
Effect of dilutive securities:		
Stock options and employee stock purchase plan	501,844	752,275
Warrants	279,023	534,549
Weighted average shares		

outstanding - diluted	20,358,114	19,692,958
Earnings per share - basic	$ 0.00	$ 0.02
Earnings per share - diluted	$ 0.00	$ 0.02

Options to purchase 1,037,838 and 543,167 shares of Common Stock with exercise prices ranging from $7.38 to $15.00 and $8.50 to $15.00 per share were outstanding during the quarters ended March 31, 1998 and 1997, respectively, 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. The options expire between May 24, 1998 and March 6, 2008.

(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 months ended March 31, 1998 and 1997, comprehensive income was the same as net income.

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.

(4) Inventory

The major components of inventory are as follows:

	March 31, 1998	December 31, 1997
Raw materials and work-in-process	$ 705,010	$ 834,496
Finished goods	2,273,484	1,804,633
Total inventory	$2,978,494	$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 March 31, 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 March 31, 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 almost 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 March 31, 1998 totaled $4,572,000 compared to $3,547,000 in the corresponding period of the prior year, representing an increase of $1,025,000 or 29%. This increase was due primarily to sales of various cosmeceutical and pharmaceutical products which were launched in 1997 by Johnson & Johnson, Avon, Medicis and Sothys and product launches in the first quarter of 1998 by La Prairie and BioMedic. Total revenues for the year-ago first quarter also included a milestone payment of $1,500,000 from Johnson & Johnson upon receipt of marketing approval from the FDA for Retin-A(R) Micro(TM) in February 1997.

Gross profit for the first quarter of 1998 of $2,822,000 represented 62% of product and technology revenues, an increase of four percentage points from the corresponding gross profit in the year-ago quarter. 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.

Research and development expenses increased by $106,000 or 11% to $1,039,000 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 $298,000 or 25% to $876,000 as a result of decreased headcount and one-time expenses related to the relocation of a senior executive in the year-ago quarter. General and administrative expense decreased by $117,000 or 14% to $727,000 due mainly to decreased use of outside consultants.

Interest income of $83,000 increased by $4,000 or 5% over the year-ago quarter. Interest expense decreased by $43,000 or 16% to $229,000 due mainly to principal repayments in the first quarter.

Net income was $27,000 compared with $419,000 in the corresponding quarter of the prior year which included the milestone payment of $1,500,000 from Johnson & Johnson.

Capital Resources and Liquidity

Total assets as of March 31, 1998 were $24,623,000 compared with $24,180,000 at December 31, 1997, and working capital decreased to $2,649,000 from $4,357,000. In the same period, cash and cash equivalents decreased to $6,423,000 from $8,672,000. During the first three months of 1998, the Company's operating activities used $2,180,000 of cash. This principally related to an increase in receivables as a result of the launches of new products by corporate partners and the restructuring of the agreement with Avon to a royalty arrangement. The Company invested approximately $1,039,000 in product research and development and $876,000 in selling and marketing the Company's products and technologies.

Capital expenditures for the three months ended March 31, 1998 totaled $1,214,000 compared to $136,000 in the same period of the prior year. The increase in capital expenditures is mainly due to capital projects that will increase capacity in the Company's manufacturing facility in Lafayette, Louisiana. This is necessary in order to meet anticipated higher volume requirements. This plant expansion project is expected to be completed in the third quarter of 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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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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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 March 31, 1998.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits: 27 Financial Data Schedule as of and for the three months ended March 31, 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: May 14, 1998

By: /s/ John J. Meakem, Jr.

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

Date: May 14, 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

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED
FROM THE UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET AS OF MARCH 31,
1998, AND CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE THREE
MONTHS ENDED MARCH 31, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY
REFERENCE TO SUCH FINANCIAL STATEMENTS.

1
3-MOS
DEC-31-1998
MAR-31-1998
6,423,352
0
4,766,673
13,216
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26,820
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