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, 1997

[ ] 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.)

3696 Haven Avenue, Redwood City, CA 94063
(Address of principal executive offices)

(415) 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, 1997 the number of outstanding shares of the Company's common stock, par value $.01, was 18,784,832.

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ADVANCED POLYMER SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 1997	December 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,449,934	$ 5,394,509
Trade accounts receivable, net	3,259,074	1,666,148
Inventory	2,618,969	2,085,073
Prepaid expenses and other	456,054	328,028
Assets held for sale	--	2,181,004
Total current assets	13,784,031	11,654,762
Property and equipment, net	4,929,715	4,681,292
Deferred loan costs, net	485,326	616,958
Prepaid license fees	124,316	165,752
Intangible assets, including goodwill, net	1,568,271	1,265,801
Other assets	147,780	59,603
	$ 21,039,439	$ 18,444,168
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 918,249	$ 1,543,143
Accrued expenses	2,292,879	1,456,512
Accrued melanin purchase commitments	1,800,000	1,800,000
Accounts payable, Johnson & Johnson	320,707	814,509
Deferred revenues	2,250,000	750,000
Current portion - long-term debt	2,160,655	1,490,779
Total current liabilities	9,742,490	7,854,943
Long-term debt	4,330,705	5,578,849
Total liabilities	14,073,195	13,433,792
Shareholders' equity:		
Common stock and common stock warrants	78,760,061	76,591,381
Accumulated deficit	(71,793,817)	(71,581,005)
Total shareholders' equity	6,966,244	5,010,376
	$ 21,039,439	$ 18,444,168

See accompanying notes.

ADVANCED POLYMER SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 1997	June 30, 1996	June 30, 1997	June 30, 1996
Microsponge product and technology revenues	$ 4,499,516	$ 2,057,520	$ 8,046,648	$ 3,506,265
Sales of consumer products	--	3,296,000	--	7,000,727
Milestone payment	--	--	1,500,000	--
Total revenues	4,499,516	5,353,520	9,546,648	10,506,992
Cost of sales	1,952,179	2,989,382	3,443,694	6,294,188
Operating expenses:				
Research & development	900,817	983,843	1,833,291	1,873,799
Selling, marketing & advertising	949,069	2,386,747	2,122,881	4,424,315
General & administration	1,069,705	833,870	1,912,999	1,503,891
Total operating expenses	2,919,591	4,204,460	5,869,171	7,802,005
Operating income (loss)	(372,254)	(1,840,322)	233,783	(3,589,201)
Interest income	80,227	75,012	159,527	113,968
Interest expense	(268,862)	(313,948)	(540,254)	(613,026)
Other income (expense)	(70,845)	21,201	(65,867)	10,905
Net loss	($ 631,734)	($ 2,058,057)	($ 212,811)	($ 4,077,354)
Net loss per common share	($ 0.03)	($ 0.11)	($ 0.01)	($ 0.23)
Weighted average common shares outstanding	18,577,599	18,080,623	18,491,867	17,717,740

See accompanying notes.

ADVANCED POLYMER SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
for the six months ended June 30, 1997 and 1996
(Unaudited)

	June 30, 1997	June 30, 1996
Cash flows from operating activities:		
Net loss	($ 212,811)	($4,077,354)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	487,413	707,997
Change in allowance for doubtful accounts	--	(4,106)
Provision for obsolescence of inventory	120,000	--
Provision for deferred compensation	126,757	--
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,592,926)	(1,898,532)
Inventory	(653,896)	2,426,175
Prepaid expenses and other	(98,026)	96,184
Deferred loan costs	131,632	83,731
Other assets	(488,176)	70,881
Accounts payable and accrued expenses	(342,329)	(2,301,329)
Deferred revenue	1,500,000	--
Net cash used in operating activities	(1,022,362)	(4,896,353)
Cash flows from investing activities:		
Purchases of fixed assets	(596,872)	(211,547)
Purchase of marketable securities	(1,596,617)	(512,513)
Maturities and sales of marketable securities	1,596,617	506,374
Proceeds from assets held for sale	2,181,004	--
Net cash provided from (used in) investing activities	1,584,132	(217,686)
Cash flows from financing activities:		
Proceeds from the exercise of common stock options and warrants	2,071,923	1,561,769
Proceeds from note payable	--	1,250,000
Proceeds from long-term debt and warrants	--	150,000
Repayment of long-term debt	(578,268)	(390,103)
Proceeds from private placement, net of offering costs	--	4,903,020
Net cash provided from financing activities	1,493,655	7,474,686
Net increase in cash and cash equivalents	2,055,425	2,360,647
Cash and cash equivalents, beginning of the period	5,394,509	5,172,809
Cash and cash equivalents, end of the period	$ 7,449,934	$ 7,533,456

Supplemental disclosure of non-cash investing and financing transactions:

During the first quarter of 1996, the Company acquired all rights to the Polytrap(R) technology from Dow Corning Corporation in exchange for shares of Common Stock valued at $1,200,000.

During the first quarter of 1996, the Company paid Biosource for the 1995 purchase commitment totalling $600,000 by issuing 94,000 shares of Common Stock.

See accompanying notes.

ADVANCED POLYMER SYSTEMS, INC.

Notes to Condensed Consolidated Financial Statements
June 30, 1997 and 1996
(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, 1997 and the results of their operations for the three and six months ended June 30, 1997 and 1996, and their cash flows for the six months ended June 30, 1997 and 1996.

These condensed consolidated statements should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 1996, 1995 and 1994.

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.

Effective January 1997, as part of the Company's long-term strategic plan to move away from the direct marketing of consumer products, APS licensed its consumer products to Lander Company. The Company is no longer generating revenues from sales of these products, but is receiving revenues from royalties on product sales and the supply of Microsponge(R) systems incorporated into various products. Prior year results include the sales of consumer products and related selling, marketing and distribution expenses.

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 year financial statements to conform with the presentation in 1997.

(2) Common Shares Outstanding and per Share Information

Common stock outstanding as of June 30, 1997 is as follows:

	Number of Shares
Common stock outstanding as of December 31, 1996	18,359,744
Warrants exercised	294,314
Options exercised after December 31, 1996	91,597
Total shares	18,745,655

The number of shares used in calculating earnings per share was the weighted average number of shares of common stock outstanding. Common stock equivalents were not considered since they were antidilutive.

(3) New Accounting Standards

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128), which will be effective for financial statements for periods ending after December 15, 1997, including interim periods, and establishes standards for computing and presenting earnings per share. Earlier application is not permitted. In its consolidated financial statements for the year ending December 31, 1997, the Company will make the required disclosures of basic and diluted earnings per share. All prior period earnings per share data will be restated by the Company upon adoption of SFAS 128.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income" (SFAS 130) which will be effective for financial statements for periods beginning after December 15, 1997, and establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Earlier application is permitted. The Company will make the required reporting of comprehensive income in its consolidated financial statements for the first quarter ending March 31, 1998.

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

(4) Milestone Payment

In February 1997, upon receipt of marketing clearance from the Food and Drug Administration ("FDA") to market Retin-A(R) Micro(TM) (tretinoin gel) 0.1% - microsphere for the treatment of acne, APS received $3,000,000 from Ortho McNeil Pharmaceutical Corporation, a subsidiary of Johnson & Johnson. One half of the amount received was a milestone payment which was recognized as revenues in the first quarter of 1997 and the other half was prepaid royalties which was recorded as deferred revenue.

(5) Inventory

The major components of inventory are as follows:

	June 30, 1997	December 31, 1996
Raw materials and work-in-process	$ 739,485	$ 604,852
Finished goods	1,879,484	1,480,221
Total inventory	$2,618,969	$2,085,073

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, 1997 and 1996

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) delivery systems for use by customers in almost 100 different personal care and cosmetic products. Under strategic alliance arrangements entered into with certain multinational corporations, APS generally receives an initial cash infusion, future milestone payments, royalties based on third party product sales and revenues from the supply of Microsponge 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.

Microsponge product and technology revenues for the second quarter of 1997 of $4,500,000 represented an increase of $2,442,000 or 119% over the corresponding quarter of the prior year. This increase was due primarily to the launches of new products incorporating the Company's proprietary technology which were licensed by three key marketing partners - Retin-A(R) Micro(TM) by Ortho Dermatological for which the Company received marketing clearance from the U.S. Food and Drug Administration (FDA) in February 1997, ANEW(R) Retinol Recovery Complex PM Treatment which is marketed by Avon, Inc., and TxSystems(TM) AFIRM(TM) retinol formulation which is marketed by Medicis. Continued growth in other segments of the Company's business also contributed to the sales increase.

The second quarter of the prior year included $3,296,000 from sales of consumer products which are no longer marketed by the Company.

Gross profit on product and technology revenues for the second quarter was $2,547,000 or 57% compared to $2,364,000 or 44% in the corresponding quarter of the prior year due primarily to increased sales of higher margin proprietary cosmeceutical products and increased manufacturing volume.

Operating expenses for the second quarter of 1997 decreased by $1,285,000 or 31% compared to the corresponding quarter in the prior year. This was due primarily to the decrease in selling, marketing and advertising expense by $1,438,000 to $949,000 which relates to the fact that the Company no longer directly markets consumer products, thus avoiding the associated advertising and variable selling expenses. Research and development expense decreased by $83,000 or 8% due mainly to a reallocation of resources as more products which incorporate the Company's technologies are being commercialized. This was partially offset by increased spending on clinical studies on Vitamin K and a new family of bioerodible polymers which are under review by potential partners.

General and administrative expense increased by $236,000 or 28% to $1,070,000 due mainly to certain non-recurring expenses incurred with outside consultants.

The operating loss for the second quarter of 1997 of $372,000 represented an improvement of $1,468,000 or 80% from the corresponding quarter of the prior year. This was primarily the result of the improvement in gross margins and the significant reduction in selling, marketing and advertising expense.

Interest income for the second quarter of 1997 increased slightly by $5,000 or 7% to $80,000 reflecting higher average cash balances. Interest expense decreased by $45,000 or 14% to $269,000 due mainly to principal repayments.

The net loss for the period of $632,000 represented an improvement of $1,426,000 or 69% over the corresponding period of the prior year.

Results of Operations for the Six Months Ended June 30, 1997 and 1996

Microsponge product and technology revenues for the six months ended June 30, 1997 increased by $4,540,000 or 129% to $8,047,000 compared to the corresponding quarter of the prior year. This increase was due mainly to the launches of new products incorporating the Company's proprietary technology which were licensed by three key marketing partners --Retin-A(R) Micro(TM) by Ortho Dermatological for which the Company received FDA marketing clearance in February 1997, ANEW(R) Retinol Recovery Complex PM Treatment which is marketed by Avon, Inc., and TxSystems(TM) AFIRM(TM) retinol formulation which is marketed by Medicis. Also included in revenues in the first half of 1997 was a milestone payment of $1,500,000, representing half of the $3,000,000 received from Ortho Dermatological on the FDA marketing clearance of Retin-A(R) Micro(TM). The remaining $1,500,000 was prepaid royalties which was recorded as deferred revenue.

The first half of 1996 included revenues of $7,000,000 relating to sales of consumer products which are no longer marketed by the Company.

Gross profit on product and technology revenues for the first six months of 1997 of $4,603,000 or 57% compared with $4,213,000 or 40% in the corresponding period of the prior year. This was due primarily to increased sales of higher margin proprietary cosmeceutical products and increased manufacturing volume.

Operating expenses for the first six months of 1997 decreased by $1,933,000 or 25%. This was due primarily to a reduction in selling, marketing and advertising expense of $2,301,000 or 52% to $2,123,000. This decrease was mainly due to the fact the Company licensed its consumer products to Lander Company in January 1997 and discontinued sales of in-licensed suncare products, thus avoiding the high cost of advertising and distributing consumer products.

Research and development expense decreased by $41,000 or 2% to $1,833,000. This was due mainly to a reallocation of resources as the Company's proprietary technologies are being increasingly commercialized and the fact that the year-ago period included FDA filing fees for Retin-A(R) Micro(TM) for which the Company received marketing clearance in February 1997. These decreases were partially offset by increased spending in the first six months of 1997 on clinical studies and patent protection for products which have been both newly licensed and internally developed.

General and administrative expense for the first half of 1997 increased by $409,000 or 27% over the year-ago period due mainly to a variety of non-recurring outside services.

Interest income for the first six months of 1997 was $159,000, an increase of $46,000 or 40%, due mainly to higher average cash balances. Interest expense for the same period of $540,000 decreased by $73,000 or 12% due to principal repayments.

The net loss for the first six months of 1997 of $213,000 represented an improvement of $3,865,000 or 95% over the corresponding period of the prior year.

Capital Resources and Liquidity

Total assets as of June 30, 1997 were $21,039,000 compared with $18,444,000 at December 31, 1996, and working capital increased to $4,042,000 from $3,800,000. In the same period, cash and cash equivalents increased to $7,450,000 from $5,395,000. During the first six months, the Company's operating activities used $1,022,000 of cash. This principally related to an increase in inventory and receivables as a result of the launches of new products by corporate partners. The Company invested approximately $1,833,000 in product research and development and $2,123,000 in selling and marketing the Company's products and technologies.

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

In the first six months of 1997, upon receipt of marketing clearance from the FDA to market Retin-A Micro (tretinoin gel) microsphere for the treatment of acne, APS received $3,000,000 from Ortho McNeil Pharmaceutical of which one half was a milestone payment which was recognized as revenue in the first quarter of 1997 and half was prepaid royalties which was recorded as deferred revenue.

In June 1997, approximately 300,000 warrants which had been issued in conjunction with a 1994 private placement were exercised. The Company received approximately $1,650,000 from the exercise of these warrants.

The Company's existing cash and cash equivalents, collections of trade accounts receivable, together with interest income and other revenue producing activities including 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

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128), which will be effective for financial statements for periods ending after December 15, 1997, including interim periods, and establishes standards for computing and presenting earnings per share. Earlier application is not permitted. In its consolidated financial statements for the year ending December 31, 1997, the Company will make the required disclosures of basic and diluted earnings per share. All prior period earnings per share data will be restated by the Company upon adoption of SFAS 128.

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PART II.

Item 1. Legal Proceedings

None

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

The Company's annual shareholder's meeting was held on June 18, 1997, 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	16,612,705	125,741
Carl Ehmann	16,619,306	119,140
Jorge Heller	16,613,676	124,770
Peter Riepenhausen	16,615,306	123,140
Toby Rosenblatt	16,613,946	124,500
Gregory Turnbull	16,616,356	122,090
Charles Anthony Wainwright	16,594,081	144,365
Dennis Winger	16,620,006	110,040

Proposal II: To approve an amendment to the Company's 1992 Stock Option Plan to limit the number of shares with respect to which options may be granted to no more than 250,000 shares to any one participant in any one-year period.

Votes For	Votes Against	Abstentions & Broker Non Votes
16,277,765	278,837	181,844

Proposal III: To approve the Company's 1997 Employee Stock Purchase Plan covering 400,000 shares issuable under the Plan.

Votes For	Votes Against	Abstentions & Broker Non Votes
14,383,855	2,174,142	180,449

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: 27 Financial Data Schedules

(b) 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.

ADVANCED POLYMER SYSTEMS, INC.

Date: August 12, 1997

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

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

Date: August 12, 1997

By: /s/ Michael O'Connell

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

EXHIBIT INDEX

Form 10-Q

ADVANCED POLYMER SYSTEMS, INC.

27 -Financial Data Schedules.

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DEC-31-1997
JAN-01-1997
JUN-30-1997
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