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, 1995

/ / 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, 1995 the number of outstanding shares of the Company's common stock, par value $.01, was 16,464,420.

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PART I. FINANCIAL INFORMATION

ADVANCED POLYMER SYSTEMS, INC
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS	June 30, 1995	December 31, 1994
Current assets:		
Cash and cash equivalents	$ 2,178,824	$ 2,741,994
Marketable securities	487,560	1,775,502
Pledged marketable securities	2,217,750	1,945,620
Trade accounts receivable, net	4,696,474	1,887,388
Inventory	8,447,709	7,002,026
Prepaid expenses and other	1,046,795	1,032,173
Total current assets	19,075,112	16,384,703
Property and equipment, net	4,877,934	5,106,525
Assets held for sale	923,436	923,436
Prepaid license fees	539,308	627,544
Goodwill, net	267,994	348,393
Other assets	155,343	117,561
	$ 25,839,127	$ 23,508,162
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 3,465,407	$ 2,584,161
Accrued expenses	1,843,808	2,388,793
Accounts payable, Johnson & Johnson	5,992,409	3,570,525
Deferred revenues	750,000	0
Current portion - long-term debt	2,100,000	2,200,000
Total current liabilities	14,151,624	10,743,479
Long-term debt	832,886	978,935
Total liabilities	14,984,510	11,722,414
Shareholders' equity:		
Common stock and common stock warrants	66,239,628	64,516,958
Unrealized gain on securities	311,354	113,166
Accumulated deficit	(55,696,365)	(52,844,376)
Total shareholders' equity	10,854,617	11,785,748
	$ 25,839,127	$ 23,508,162

See accompanying notes.

ADVANCED POLYMER SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	3 Months Ended June 30, 1995	3 Months Ended June 30, 1994	6 Months Ended June 30, 1995	6 Months Ended June 30, 1994
Product revenues	$4,711,201	$3,830,332	$8,997,420	$8,838,471
Licensing revenues	30,000	545,403	885,000	633,402
Total revenues	4,741,201	4,375,735	9,882,420	9,471,873
Cost of sales	3,348,289	3,070,903	6,371,335	6,541,783
Gross profit	1,392,912	1,304,832	3,511,085	2,930,090
Research & development	983,292	1,875,156	1,914,521	3,173,989
Selling & marketing	1,256,449	993,060	2,360,690	2,008,020
Advertising & promotion	326,061	433,150	599,224	915,731
General & administration	784,237	731,057	1,530,843	1,388,074
Total expenses	3,350,039	4,032,423	6,405,278	7,485,814
Operating loss	(1,957,127)	(2,727,591)	(2,894,193)	(4,555,724)
Interest Income	88,413	82,997	186,397	148,035
Interest expense	(66,580)	(71,180)	(132,760)	(141,628)
Other expense	(714)	(6,240)	(747)	(6,167)
Loss before taxes	(1,936,008)	(2,722,014)	(2,841,303)	(4,555,484)
Income tax expense	6,376	9,862	10,686	25,665
Net loss	($1,942,384)	($2,731,876)	($2,851,989)	($4,581,149)
Loss per common share	($0.12)	($0.18)	($0.17)	($0.32)
Weighted average common shares outstanding	16,415,732	14,866,756	16,297,473	14,378,680

See accompanying notes.

ADVANCED POLYMER SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR SIX MONTHS ENDED JUNE 30, 1995 AND 1994
(UNAUDITED)

	June 30, 1995	June 30, 1994
Cash flows from operating activities:		
Net loss	($2,851,989)	($4,581,149)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	578,970	553,746
Change in allowance for doubtful accounts	(412)	(8,264)
Gain on sale of equipment	0	(488)
Accretion of marketable securities	(75,802)	(73,650)
Changes in operating assets and liabilities:		
Trade accounts receivable	(2,777,291)	(2,488,587)
Inventory	(1,445,683)	1,244,975
Prepaid license fees	68,934	55,122
Other assets	(82,532)	(17,260)
Current liabilities	3,408,146	2,179,053
Net cash used in operating activities	(3,177,659)	(3,136,502)
Cash flows from investing activities:		
Purchases of fixed assets, net of disposals	(251,932)	(321,133)
Change in marketable securities	1,289,800	1,018,609
Repayment of long-term debt	(146,049)	(212,464)
Net cash provided from investing activities	891,819	485,012
Cash flows from financing activities:		
Proceeds from the exercise of common stock options, net of shares retired	338,644	1,764,035
Proceeds from private placement, net of offering costs	1,384,026	6,346,530
Net cash provided from financing activities	1,722,670	8,110,565
Net increase (decrease) in cash and cash equivalents	(563,170)	5,459,075
Cash and cash equivalents, beginning of the period	2,741,994	1,792,637
Cash and cash equivalents, end of the period	$2,178,824	$7,251,712

See accompanying notes.

ADVANCED POLYMER SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1995 AND 1994
(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 as of June 30, 1995, the results of operations for the three and six months ended June 30, 1995 and 1994, and changes in cash for the six months ended June 30, 1995 and 1994.

These condensed consolidated statements should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 1994, 1993 and 1992.

The condensed consolidated financial statements include the financial statements of the Company (APS) and its subsidiaries, Premier, Inc. (Premier), Advanced Consumer Products, Inc., and APS Joint Venture Corporation. All significant intercompany balances and transactions have been eliminated in consolidation.

The business of Premier, the Company's marketing and distribution subsidiary, is highly seasonal in that it markets and distributes sunscreen products under an exclusive distribution agreement with Johnson and Johnson. Sales of these products are heavily weighted to the first two quarters of the calendar year, so the results of operations for the interim periods are not necessarily indicative of the results for the full year.

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 1995.

(2) COMMON SHARES OUTSTANDING AND PER SHARE INFORMATION

Common stock outstanding as of June 30, 1995 is as follows:

	Number of Shares
Common stock outstanding as of December 31, 1994	16,043,121
Options exercised after December 31, 1994	84,000
Shares issued in private placement	310,278
TOTAL SHARES	16,437,399

Per share information is based on the weighted average number of shares of common stock outstanding, as adjusted during each of the periods. Stock options and warrants (common stock equivalents) are not included in the calculations as their inclusion would be anti-dilutive.

(3) PRIVATE PLACEMENT

During the first quarter of 1995, APS received $1,375,261 net of offering costs through a previously announced private placement and sale of 310,278 shares of common stock and 310,278 warrants exercisable over a three-year period at an exercise price of $5.32 per share. The private placement was pursuant to an agreement made in 1994 for the sale of up to $8 million of common stock and warrants in six installments beginning June 1994 and ending September 29, 1995. In accordance with the private placement agreement, the Company has sold $6 million of common stock and warrants as of March 30, 1995. The remaining two optional installments in June and September 1995 totalling $2 million of Common Stock and warrants will not be sold by the Company.

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, 1995 AND 1994

Revenues for the three months ended June 30, 1995 were $4,741,000 compared to $4,376,000 in the corresponding period of the prior year. This represented product revenues of $4,711,000, an increase of $881,000 or 23% from the second quarter of the prior year, and licensing revenues of $30,000, a decrease of $515,000 or 94% from the prior year's second quarter.

The increase in product revenues is primarily attributable to an increase of 57% in products which incorporate Company-produced delivery systems. In this category, sales of the Exact(R) line of acne products increased by 26%, Take-Off make-up remover cloths/facial cleansers increased by 30% and shipments to customers of the Company's alliance with Dow Corning increased by 64% over the corresponding period in the prior year.

This was partially offset by a slight net decrease in sales of other products which do not incorporate Microsponge(R) delivery systems, being principally the suncare products which are in-licensed from Johnson & Johnson, Inc.

Licensing revenues decreased to $30,000 from $545,000. The second quarter of the prior year included $500,000 received from J&J which was recognized under the percentage-of-completion method to offset the expense of clinical studies which have now been completed.

Gross profit for the second quarter was $1,393,000 compared to $1,305,000 in the same period of the prior year, an increase of 7%. As a percentage of product revenues, gross profit increased to 29% from 20% in the year-ago quarter. This was due primarily to increased volume and overhead absorption in the Company's manufacturing facility and improved sales mix of higher margin consumer products.

Operating expense in total decreased by $682,000 or 17% to $3,350,000. Research and development expense decreased by $892,000 or 48% to $983,000 as anticipated due to the reduced spending on now-completed clinical studies for the two New Drug Applications (NDAs) which the Company has filed.

Selling and marketing expense increased by $263,000 or 27% to $1,256,000. This is primarily due to the establishment of the Company's ethical pharmaceutical marketing effort, as well as increased distribution costs associated with the higher sales levels.

Advertising and promotion expense decreased by $107,000 or 25% to $326,000 as the Company maintained its focus on cost-efficient point-of-sale advertising. General and administrative expense increased by $53,000 or 7% to $784,000 due mainly to increased insurance costs.

Interest income and expense were essentially flat for the quarter.

The net loss for the second quarter of $1,942,000 represents an improvement of $789,000 or 29% over the year-ago quarter, resulting primarily from the improved sales mix and the substantial reduction in R&D expense.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1995 AND 1994

Revenues for the six months ended June 30, 1995 totalled $9,882,000, an increase of $411,000 or 4% over the corresponding period of the prior year.

Product revenues increased by $159,000 or 2% to $8,997,000 while licensing revenues increased by $252,000 or 40% to $885,000. The increase in product sales is primarily due to an increase in revenues from polymer supply shipments to the Dow Corning alliance of $781,000 or 102% for supply to manufacturers of cosmetics and personal care products and an increase in revenues from consumer products other than suncare of $759,000 or 48%. Of this increase in consumer products, sales of the Exact(R) acne product line increased by 23% and sales of Microsponge(R) enhanced Take-Off make-up remover cloths increased by 24% over the year-ago period. This was offset by an anticipated decrease in shipments of the in-licensed J&J suncare products of $1,767,000 or 35%. This decrease was primarily the result of a planned strategy to better manage customer order levels and reduce post-season returns.

Licensing revenues increased by $252,000 or 40% to $885,000. This was due to the receipt of a milestone payment of $1,500,000 from J&J on the filing of the NDA on Microsponge-entrapped tretinoin, half of which was recognized as revenues. This was offset by revenue of $500,000 recognized in the first half of the prior year under the percentage-of-completion method for now-completed clinical trials.

Gross profit for the first half of 1995 of $3,511,000 represented an increase of $581,000 or 20% over the corresponding period of the prior year. This was primarily due to increased volume and overhead absorption in the Company's manufacturing facility, in conjunction with increased sales of higher margin consumer products.

Research and development expense decreased by $1,259,000 or 40% to $1,915,000 for the first six months of 1995 due to substantially reduced expenses related to clinical studies.

Selling and marketing expense increased by $353,000 or 18% to $2,361,000 due to variable expenses associated with the higher sales volume and the establishment of the Company's ethical pharmaceutical marketing effort. Advertising and promotion expense decreased by $317,000 or 35% to $599,000 due to a shift to more cost efficient point-of-sale advertising.

General and administrative expense increased by $143,000 or 10% due principally to higher insurance costs.

Interest income increased to $186,000 from $148,000 due to higher average cash balances and higher interest rates. Interest expense was essentially flat.

The operating loss for the first six months of 1995 of $2,852,000 showed an improvement of $1,729,000 or 38% over the corresponding period of the prior year.

CAPITAL RESOURCES AND LIQUIDITY

Total assets as of June 30, 1995 were $25,839,000 compared with $23,508,000 at December 31, 1994. Working capital decreased to $4,924,000 from $5,642,000 at December 31, 1994. In the same period, cash equivalents and marketable securities decreased to $2,666,000 from $4,517,000. During the first six months of 1995, Company operations used $3,178,000 of cash.

The Company has financed its operations, including product research and development, from amounts raised in equity financings; the sale of consumer products, Microsponge delivery systems and analytical standard products; payments received under licensing agreements; and interest earned on short-term investments. The Company raised $16,636,000 in equity financings in 1992 and received an additional $10,492,000 in 1994 and the first quarter of 1995 from two private placements.

On June 30, 1995, the Company had $2,666,000 in cash, cash equivalents and short-term marketable securities. The Company's primary investment objectives for these assets are the preservation of capital and the maintenance of a high degree of liquidity. The Company is currently planning to execute various proposals to generate additional cash to sustain and develop the business, including sale of idle assets, refinancing of existing debt, joint ventures, licensing opportunities and debt financing.

Cash has been expended with regard to Phase III clinical tests of tretinoin entrapped in a Microsponge delivery system for the treatment of acne, and of ProZone, APS' Melanosponge product, together with related research and developments costs, all of which have decreased substantially in 1995 as the respective NDAs have been filed.

Additionally, the Company is contractually obligated to purchase minimum quantities of melanin. Failure to purchase the minimum quantities in 1995 would result in a mandatory payment of $600,000 to its melanin supplier under "take or pay" provisions.

The Company's existing cash, cash equivalents and short-term marketable securities, collections of trade accounts receivable, together with interest income and other revenue producing activities, are expected to be sufficient to meet the Company's near-term cash requirements assuming no changes to existing business plans.

If the Company is unsuccessful in its efforts to raise additional cash, operating costs will have to be significantly reduced in the near term.

PART II.

Item 1. Legal Proceedings

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: 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 11, 1995

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

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

Date: August 11, 1995

By: /s/ Michael O'Connell

Michael O'Connell
Chief Financial Officer

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JUN-30-1995
2,178,824
487,560
4,753,864
57,390
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