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, 1999

[ ] 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, 1999, the number of outstanding shares of the Company's common stock, par value $.01, was 20,088,286.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited):

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 1999	December 31, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,356,566	$ 4,088,173
Trade accounts receivable, net	2,466,906	2,532,527
Receivables for royalties, license and option fees and R&D fees	2,808,557	2,296,852
Inventory	3,169,611	2,959,443
Advances and loans to officers and employees	420,632	338,947
Prepaid expenses and other	657,057	596,400
Total current assets	14,879,329	12,812,342
Property and equipment, net	8,495,715	8,643,856
Deferred loan costs, net	44,612	90,428
Goodwill and other intangible assets, net	1,304,978	1,351,813
Other long-term assets	187,892	182,892
Total assets	$ 24,912,526	$ 23,081,331
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,292,476	$ 1,347,737
Accrued expenses	1,403,313	1,057,287
Accrued settlement liability	1,000,000	1,300,000
Deferred revenue	750,000	750,000
Current portion - long-term debt	1,195,757	3,055,460
Total current liabilities	5,641,546	7,510,484
Deferred revenue - long-term	1,036,517	1,035,855
Long-term debt	3,088,636	--
Total liabilities	9,766,699	8,546,339
Shareholders' equity:		
Common stock and common stock warrants	85,184,563	84,903,633
Accumulated deficit	(70,038,736)	(70,368,641)
Total shareholders' equity	15,145,827	14,534,992
Total liabilities and shareholders' equity	$ 24,912,526	$ 23,081,331

See accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998
Product revenues	$ 2,950,055	$ 3,509,461
Royalties, license and option fees and R&D fees	1,670,787	1,062,437
Total revenues	4,620,842	4,571,898
Cost of sales	1,548,172	1,749,611
Operating expenses:		
Research & development, net	1,055,521	1,038,752
Selling & marketing	727,085	875,830
General & administration	850,716	726,686
Total operating expenses	2,633,322	2,641,268
Operating income	439,348	181,019
Interest income	33,700	83,457
Interest expense	(142,716)	(228,780)
Other expense, net	(427)	(8,876)
Net income	$ 329,905	$ 26,820
Basic earnings per common share	$ 0.02	$ 0.00
Diluted earnings per common share	$ 0.02	$ 0.00
Weighted average common shares outstanding-basic	20,018,245	19,577,247
Weighted average common shares outstanding-diluted	20,241,082	20,358,114

See accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the three months ended March 31, 1999	1998
Cash flows from operating activities:		
Net income	$ 329,905	$ 26,820
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	269,264	269,853
Amortization of deferred loan costs	45,816	65,816
Stock issued to directors	21,000	--
Stock compensation awards to non-employees	--	30,000
Restricted stock awards	49,930	--
Changes in operating assets and liabilities:		
Trade accounts receivable	65,621	(917,391)
Receivables for royalties, license and option fees and R&D fees	(511,705)	(460,617)
Inventory	(210,168)	(339,365)
Prepaid expenses and other	(142,342)	(135,998)
Other long-term assets	(5,000)	40,008
Accounts payable and accrued expenses	290,765	(752,239)
Accrued settlement liability	(300,000)	--
Deferred revenues	662	(7,229)
Net cash used in operating activities	(96,252)	(2,180,342)
Cash flows from investing activities:		
Purchases of property and equipment	(74,288)	(1,213,942)
Net cash used in investing activities	(74,288)	(1,213,942)
Cash flows from financing activities:		
Proceeds from the exercise of common stock options and warrants	210,000	1,766,393
Proceeds from long-term debt	4,000,000	--
Repayment of debt	(2,771,067)	(620,778)
Net cash provided by financing activities	1,438,933	1,145,615
Net (decrease) increase in cash and cash equivalents	1,268,393	(2,248,669)
Cash and cash equivalents, beginning of the period	4,088,173	8,672,021
Cash and cash equivalents, end of the period	$ 5,356,566	$ 6,423,352
Cash paid for interest	$ 77,273	$ 164,472

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1999 AND DECEMBER 31, 1998 (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, 1999 and the results of their operations and cash flows for the three months ended March 31, 1999 and 1998.

These condensed consolidated statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 1998 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 in debt securities 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 1999.

(2) Common Shares Outstanding and Earnings Per Share Information

Common stock outstanding as of March 31, 1999 is as follows:

	Number of Shares
Common stock outstanding as of December 31, 1998	19,993,311
Warrants exercised after December 31, 1998	70,000
Shares issued to Directors after December 31, 1998	4,802
Total shares	20,068,113

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

	Three Months Ended March 31,	
	1999	1998
Net income available to stockholders (numerator)	$ 329,905	$ 26,820
Shares calculation (denominator):		
Weighted average shares outstanding - basic	20,018,245	19,577,247
Effect of dilutive securities:		
Stock options and employee stock purchase plan	104,432	501,844
Warrants	118,405	279,023

Weighted average shares outstanding - diluted	20,241,082	20,358,114
Earnings per share - basic	$ 0.02	$ 0.00
Earnings per share - diluted	$ 0.02	$ 0.00

Options to purchase 2,761,305 and 1,037,838 shares of Common Stock with exercise prices ranging from $5.00 to $15.00 and $7.38 to $15.00 per share were outstanding during the quarters ended March 31, 1999 and 1998, 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 July 23, 2001 and June 23, 2008.

(3) Related Party Transactions

During the first quarter of 1999, additional advances totaling $102,000 were made to an officer of the Company. As of March 31, 1999, the outstanding secured loan receivable from the officer totaled $355,000. During May 1999, $120,000 of the loan balance was paid by the officer. The loan bears an interest rate of the lower of 13.87% or the highest rate permitted under the applicable law. The loan was approved by the Compensation Committee of the Company's Board of Directors. Repayment of the loan is due by December 31, 1999.

(4) Inventory

The major components of inventory are as follows:

	March 31, 1999	December 31, 1998
Raw materials and work-in-process	$ 906,064	$ 743,383
Finished goods	2,263,547	2,216,060
Total inventory	$3,169,611	$2,959,443

(5) Debt

In March 1999, the Company received a $4,000,000 term loan with a fixed interest rate of 13.87%. The loan is secured by the assets of the Company's manufacturing facility in Louisiana and a portion of the Company's accounts receivable. Principal and interest payments are due in equal monthly installments over a period of forty-eight months commencing March 1999. The term loan was obtained mainly to refinance scheduled debt repayments made in the first quarter of 1999.

(6) Legal Proceedings

In November 1997, Biosource Technologies, Inc. filed a compliant against the Company in the San Mateo Superior Court. Biosource claimed damages from the Company on the grounds that the Company had failed to pay certain minimum amounts allegedly due under a contract for the supply of melanin.

In December 1998, the Company reached a settlement agreement with Biosource for a net amount of $1,300,000, which consists of a $1,500,000 settlement of Biosource's claims and a $200,000 settlement of the Company's cross claims. Pursuant to the agreement, the Company paid Biosource $300,000 in January, 1999. The remaining $1,000,000 will be paid in cash by May 31, 1999. The settlement agreement also provides for the termination of the license and supply agreement between the parties.

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, 1999 and 1998

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, risks of consummation of the sale of the Company (as to which there is no assurance) 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, royalties and R&D fees. 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 non-refundable upfront fees, future milestone payments, commitments for future minimum purchases and royalties based on third party product sales or a share of partners' revenues, and revenues from the sale of Microsponge and Polytrap systems.

Product revenues for the three months ended March 31, 1999 totaled $2,950,000 compared to $3,509,000 in the corresponding period of the prior year, representing a decrease of $559,000 or 16%. This decrease is primarily due to the launch of a Microsponge-based retinol formulation in the first quarter of the prior year and the supply of Microsponge systems to Procter & Gamble for a baby wipe product which has now been discontinued.

Royalties, license and option fees, and R&D fees for the first quarter of 1999 increased by $608,000 or 57% from the first quarter of the prior year to a total of $1,671,000. Approximately 82% of the increase is due to the exercise of an option by a cosmeceutical customer to purchase the rights to a certain proprietary product. Higher royalties from Ortho Pharmaceutical for Retin-A(R) Micro(TM) accounted for 31% of the increase. These increases were partly offset by the absence of royalties from Procter & Gamble for the baby wipe product.

Gross profit on product revenues of $1,402,000 decreased as a percentage of product revenues from 50% to 48% due mainly to the launch of a Microsponge-based retinol formulation in the first quarter of the prior year.

Research and development expenses for the first quarter of 1999 were essentially flat with the corresponding period of the prior year.

Selling and marketing expenses decreased by $149,000 or 17% from the first quarter of the prior year to $727,000. The decrease is mostly due to lower expenses for outside services relating to print promotion activities.

General and administrative expenses totaled $851,000, an increase of $124,000 or 17% from the first quarter of the prior year. This increase is primarily attributable to incremental compensation expense resulting from restricted stock awards, incremental compensation for the Company's Board of Directors, higher travel expenses and other outside services.

Interest income decreased by $50,000 or 60% from the first quarter of the prior year due to lower average cash balances. Interest expense decreased by $86,000 or 38% to $143,000 due to a decrease in outstanding debt compared to the first quarter of the prior year.

Capital Resources and Liquidity

Total assets as of March 31, 1999 were $24,913,000 compared with $23,081,000 at December 31, 1998. Working capital increased to $9,238,000 from $5,302,000 for the same period and cash and cash equivalents increased to $5,357,000 from $4,088,000. During the first three months of 1999, the Company's operating activities used $96,000 of cash compared to $2,180,000 in the first quarter of the prior year. The Company invested approximately $1,056,000 in product research and development and $727,000 in selling and marketing the Company's products and technologies.

Trade accounts receivable decreased slightly to $2,467,000 at March 31, 1999 from $2,533,000 at December 31, 1998. Days sales outstanding increased to 73 days at March 31, 1999 compared to 68 days at December 31, 1998. The increase in days sales outstanding is mainly due to the timing of product shipments, which was heavily weighted towards the last month of the quarter. Receivables from royalties, license and option fees and R&D fees increased to $2,809,000 at March 31, 1999 compared to $2,297,000 at December 31, 1998. This increase is primarily attributable to certain proceeds related to the sale of a proprietary product which are not due for payment until the second quarter of 1999.

Capital expenditures for the three months ended March 31, 1999 decreased substantially to $74,000 compared to $1,214,000 in the same period of the prior year. The first quarter of the prior year included capital expenditures related to the plant expansion in the Company's manufacturing facility in Louisiana and leasehold improvements to the Company's new facility in Redwood City, which are now substantially complete.

In March 1999, the Company received a $4,000,000 term loan with a fixed interest rate of 13.87%. The loan is secured by the assets of the Company's manufacturing facility in Louisiana and a portion of the Company's accounts receivable. Principal and interest payments are due in equal monthly installments over a period of forty-eight months commencing March 1999. The term loan was obtained mainly to refinance scheduled debt repayments made in the first quarter of 1999.

In accordance with the terms of the settlement agreement with Biosource, the Company will pay Biosource an amount of $1,000,000 in May 1999 in lieu of issuing shares of the Company's common stock.

The Company has financed its operations, including technology and 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, license and option fees and R&D fees, are expected to be sufficient to meet the Company's working capital requirements for the foreseeable future, assuming no changes to existing business plans.

Year 2000

The Company is conducting a comprehensive review of its internal computer systems to ensure these systems are adequate to address the issues expected to arise in connection with the Year 2000. These issues include the possibility that software which uses only the last two digits to refer to the year will no longer function properly for years that begin with 20 rather than 19. In addition, the Company is reviewing the status of its customers and suppliers with regard to this issue and assessing the potential impact of non-compliance by such parties on the Company's operations.

The Company has developed a phased program to address Year 2000 issues. The first phase consists of identifying necessary changes to application software used by the Company. The Company utilizes an integrated ERP system for the majority of its manufacturing and financial systems and has received the Year 2000 compliant version of the software from the vendor. Implementation of the upgraded software was completed on September 30, 1998.

The second phase consists of determining whether Company systems not addressed in Phase One (including non-IT systems) are Year 2000 compliant. Identification of systems that are not Year 2000 compliant has been completed. The Company is now in the process of upgrading or replacing these systems. The Company expects to upgrade or replace these non-compliant systems by the third quarter of 1999.

The third phase consists of determining the extent to which the Company may be impacted by third parties' systems, which may not be Year 2000-compliant. The Year 2000 computer issue creates risk for the Company from third parties with whom the Company deals on financial transactions worldwide. While the Company expects to complete efforts in the second quarter of 1999, there can be no assurance that the systems of other companies with which the Company deals or on which the Company's systems rely will be converted on a timely basis, or that any such failure to convert by another company could not have an adverse effect on the Company.

Based on current estimates, management expects the total cost to remediate non-compliant systems will be less than $650,000 (approximately $598,000 of which has been incurred since the project was started in early 1998). Most of the costs incurred were for purchases of new systems and related equipment. The estimate may change materially as the Company continues to review and audit the result of its work. The Company expects to fund all costs to upgrade or replace systems that are not Year 2000-compliant through operating cash flows.

The Company has not yet determined its most likely worst case Year 2000 scenario. Potential Year 2000 scenarios are going to be considered in the Company's contingency plans.

The Company is currently in the process of developing formal contingency plans for addressing any problems which may result if the work performed in phase two and three do not successfully resolve all issues by the Year 2000. The Company expects to complete its contingency plans in the third quarter of 1999.

Failure to complete any necessary remediation by the Year 2000 may have a material adverse impact on the operations of the Company. Failure of third parties, such as customers and suppliers, to remediate Year 2000 problems in their IT and non-IT systems would also have a material adverse impact on the operations of the Company.

New Accounting Standards

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. SFAS 133 generally provides for matching the timing of gain or loss recognition on the hedging instrument with the recognition of (a) the changes in the fair value of the hedged asset or liability that are attributed to the hedged risk or (b) the earnings effect of hedged forecasted transactions. 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

In November, 1997 Biosource Technologies, Inc. ("Biosource") filed a complaint against the Company in the San Mateo Superior Court. Biosource claimed damages from the Company on the grounds that the Company has failed to pay certain minimum amounts allegedly due under a contract for the supply of melanin.

In December 1998, the Company reached a settlement agreement with Biosource for a net amount of $1,300,000, which consists of a $1,500,000 settlement of Biosource's claims and a $200,000 settlement of the Company's cross claims. Pursuant to the agreement, the Company paid Biosource $300,000 in January, 1999. The remaining $1,000,000 will be paid by the Company in cash by May 31, 1999. The settlement agreement also provided for the termination of the license and supply agreement between the parties.

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, 1999.

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 13, 1999

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

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

Date: May 13, 1999

By: /S/ Michael O'Connell

Michael O'Connell
Executive Vice President,
Chief Administrative Officer
and Chief Financial Officer;
President of Pharmaceutical
Sciences

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, 1999, AND CONDENSED CONSOLIDATED STATEMENT OF
OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 1999, AND IS
QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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MAR-31-1999
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