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, 2003

[ ] 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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes [ ] No [X]

At April 30, 2003, the number of outstanding shares of the Company's common stock, par value $.01, was 20,522,151.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements:

A.P. PHARMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (IN THOUSANDS)

	March 31, 2003 (Unaudited)	December 31, 2002 (Note A)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,632	$ 3,282
Marketable securities	10,836	10,839
Accounts receivable, net	1,386	1,340
Prepaid expenses and other	215	280
Assets held for sale	--	225
Total current assets	16,069	15,966
Property and equipment, net	1,527	1,626
Other long-term assets	481	189
Total assets	$ 18,077	$ 17,781
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 182	$ 268
Accrued expenses	1,392	945
Accrued disposition costs	395	514
Deferred revenue	450	250
Total current liabilities	2,419	1,977
Deferred revenue - long-term	145	345
Shareholders' equity:		
Common stock	86,646	86,618
Accumulated deficit	(71,201)	(71,235)
Accumulated other comprehensive income	68	76
Total shareholders' equity	15,513	15,459
Total liabilities and shareholders' equity	$ 18,077	$ 17,781

Note A Information derived from audited financial statements which are included in the 2002 Form 10-K filed with the Securities and Exchange Commission.

See accompanying notes to condensed consolidated financial statements.

A.P. PHARMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands)

	Three Months Ended March 31,	
	2003	2002
Royalties	$ 1,032	$ 904
Contract revenues	74	48
Total revenues	1,106	952
Operating expenses:		
Research & development	2,202	1,497
General & administration	778	760
Total operating expenses	2,980	2,257
Operating loss	(1,874)	(1,305)
Interest income, net	77	186
Other income (expense), net	(1)	18
Loss from continuing operations	(1,798)	(1,101)
Income (loss) from discontinued operations	(54)	95
Gain on disposition of discontinued operations	1,886	--
Net income (loss)	$ 34	$(1,006)
Basic earnings (loss) per share:		
Loss from continuing operations	$ (0.09)	$ (0.05)
Net income (loss)	$ *	$ (0.05)
Diluted earnings (loss) per share:		
Loss from continuing operations	$ (0.09)	$ (0.05)
Net income (loss)	$ *	$ (0.05)
Weighted average common shares outstanding-basic	20,475	20,360
Weighted average common shares outstanding-diluted	20,516	20,360

* Less than $0.01 per share.

See accompanying notes to condensed consolidated financial statements.

A.P. PHARMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)(in thousands)

	Three months ended March 31,	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	$ 34	$(1,006)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Income (loss) from discontinued operations	54	(95)
Gain on disposition of discontinued operations	(1,886)	--
Gain on sale of marketable securities	--	(20)
Depreciation and amortization	117	104
Provision for (recovery of) doubtful accounts and note receivable	(8)	50
Amortization of deferred revenue	--	(10)
Stock and stock option compensation awards to non-employees	28	32
Restricted stock awards	--	33
Amortization of premium/discount and accretion of marketable securities	(23)	19
Loss on retirements of property and equipment	8	--
Changes in operating assets and liabilities:		
Accounts receivable	(46)	33
Prepaid expenses and other	73	198
Other long-term assets	(292)	6
Accounts payable	(86)	(215)
Accrued expenses	447	(417)
Deferred revenue	--	20
Net cash used in continuing operating activities	(1,580)	(1,268)
Net cash used in discontinued operations	(211)	(54)
Cash flows from investing activities:		
Proceeds from disposition of discontinued operations	2,149	--
Purchases of property and equipment	(26)	(9)
Purchases of marketable securities	(2,836)	(2,519)
Maturities of marketable securities	2,854	5,034
Net cash provided by investing activities	2,141	2,506
Net increase in cash and cash equivalents	350	1,184
Cash and cash equivalents, beginning of the period	3,282	3,618
Cash and cash equivalents, end of the period	$ 3,632	$ 4,802

See accompanying notes to condensed consolidated financial statements.

A.P. PHARMA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2003 and 2002 (UNAUDITED)

(1) Basis of Presentation

A.P. Pharma, Inc. ("APP", the "Company", "we". "our", or "us") is developing patented polymer-based delivery systems to enhance the safety and effectiveness of pharmaceutical compounds. Projects are currently conducted under feasibility and development arrangements with pharmaceutical and biotechnology companies. New products and technologies under development include bioerodible polymers for injectable and implantable drug delivery.

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 of a normal recurring nature considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The condensed consolidated balance sheet as of December 31, 2002 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, 2002.

The condensed consolidated financial statements include the financial statements of the Company and its subsidiary, APS Analytical Standards, Inc through the date of sale (February 13, 2003). All significant intercompany balances and transactions have been eliminated in consolidation.

Reclassification

Certain reclassifications have been made to the prior period financial statements to conform with the presentation in 2003. The operations and related assets of the Analytical Standards division were reclassified to discontinued operations and assets held for sale, respectively in the statements of operations and cash flows for the three months ended March 31, 2002 and in the balance sheet as of December 31, 2002.

Critical Accounting Policies

We believe there have been no significant changes in our critical accounting policies during the three months ended March 31, 2003 as compared to what was previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the SEC on March 28, 2003.

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.

Revenue Recognition

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 end customer by our licensees based on information provided to us by our licensees.

We have licensing agreements that generally provide for periodic minimum payments, royalties, milestone payments and/or non-refundable license fees. These licensing agreements typically require a non-refundable license fee and allow our partners to sell our 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 we have continuing involvement with licensees and until the related product is discontinued. Revenue recognized from deferred license fees is classified as contract revenue in the accompanying consolidated statements of operations. License fees received in connection with arrangements where we have no continuing involvement are recognized as revenue when the amounts are received or when collectibility is assured, whichever is earlier. No such fees were recorded in the first quarter of 2003.

A milestone payment is a payment made by a third party or corporate partner to us 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 we have completed all milestone related services such that the milestone payment is currently due and is non-refundable. No such payments were received during the three months ended March 31, 2003.

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

Cash Equivalents and Short-term Investments

We consider 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.

Accrued Disposition Costs

Costs relating to disposal of discontinued operations are reported as accrued disposition costs in the accompanying balance sheets. Accrued disposition costs include severance costs, gross profit guarantees, and costs of disposition, all of which are payable over the next year.

Concentrations of Credit Risk

Financial instruments which potentially expose our company to concentrations of credit risk consist primarily of trade accounts receivable and receivables from royalties and contract revenues. Approximately 74% of the recorded trade receivables and receivables from royalties and contract revenues were concentrated with two customers in the pharmaceutical industry as of March 31, 2003. To reduce credit risk, we perform ongoing credit evaluations of our customers' financial conditions. We do not generally require collateral for customers with account receivable balances.

Segment and Geographic Information

Our operations are confined to a single business segment, the design and commercialization of polymer technologies for pharmaceutical and other applications.

Substantially all of our revenues are derived from domestic customers.

Employee Stock Plans
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As permitted by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (FAS 123) we have elected to continue to apply the provisions of Accounting Principle Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB 25) and related interpretations in accounting for our employee stock option and stock purchase plans. The Company is generally not required under APB 25 and related interpretations to recognize compensation expense in connection with its employee stock option and stock purchase plans.

Pro forma information regarding net loss and net loss per share is required by FAS 123 and has been determined as if we had accounted for our employee stock options under the fair value method prescribed by the FAS 123. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rates of 3.8% and 4.8% for the three months ended March 31, 2003 and 2002, respectively; a dividend yield of zero for the three months ended March 31, 2003 and 2002; volatility factors of the expected market price of the Company's common stock of 1.015 and 0.631 as of March 31, 2003 and 2002, respectively; and a weighted average expected life of the options of 5 years for the three months ended March 31, 2003 and 2002.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the vesting period of the options using the straight-line method. Our pro forma information is set forth in the table below:

	Three Months Ended March 31,	
	2003	2002
	(In thousands, except per share amounts)	
Net income (loss), as reported	$ 34	$(1,006)
Deduct:		
Stock-based employee compensation expense determined under FAS 123	(132)	(140)
Pro forma net loss	$ (98)	$(1,146)
Basic income (loss) per common share as reported	$ *	$ (0.05)
Basic pro forma loss per common share	$ **	$ (0.06)
Diluted income (loss) per common share as reported	$ 0.00	$ (0.05)
Diluted pro forma loss per common share	$ (0.00)	$ (0.06)

* Less than $0.01 per share.
** Less than $(0.01) per share.

Recent Accounting Pronouncements
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In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (FAS 146). FAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain

Costs Incurred in a Restructuring)" and requires that a liability for a cost associated with an exit or disposal activity be recognized and initially measure at fair value only when the liability is incurred rather than at the date of an entity's commitment to an exit plan. FAS 146 further establishes fair value as the objective for initial measurement of the liability and that employee benefit arrangements requiring future service beyond a "minimum retention period" be recognized over the future service period. FAS 146 is effective for exit or disposal activities initiated after December 31, 2002. We adopted this accounting principle on January 1, 2003 and have applied it to the costs associated with the discontinued operations of the Analytical Standards division (see Note 4 "Discontinued Operations").

In November 2002, the FASB issued Financial Interpretation No. 45, "Guarantor's Accounting and Disclosure requirement for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor's fiscal year-end. The disclosure requirements in FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 has not had a material effect on our financial condition or results of operations.

In November 2002, the FASB issued Emerging Issues Task Force (EITF) Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." EITF 00-21 addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF 00-21 provides guidance with respect to the effect of certain customer rights due to company nonperformance on the recognition of revenue allocated to delivered units of accounting. EITF 00-21 also addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF 00-21 provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting arrangement. The provisions of EITF 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We are currently evaluating the impact that the adoption of EITF 00-21 will have on our financial position and results of operations.

In January 2003, The FASB issued Financial Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim periods beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. We do not have variable interest entities and do not expect the adoption of FIN 46 to have a material effect on our financial position or results of operations.

(2) Earnings (Loss) Per Share Information

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) by the total of weighted-average number of common shares outstanding and dilutive potential common shares outstanding.

The following table sets forth the computation of our basic and diluted earnings (loss) per share (in thousands, except per share amounts):

	Three months ended March 31,

	Three months ended March 31,	
	2003	2002
Loss from continuing operations	$ (1,798)	$ (1,101)
Net income (loss)	34	(1,006)
Shares calculation:		
Weighted average shares outstanding - basic	20,475	20,360
Effect of dilutive securities:		
Stock options, employee stock purchase plan and stock to be issued to directors	41	--
Weighted average shares outstanding - diluted	20,516	20,360
Basic earnings (loss) per common share:		
Loss from continuing operations	$ (0.09)	$ (0.05)
Net income (loss)	$ *	$ (0.05)
Diluted earnings (loss) per common Share:		
Loss from continuing operations	$ (0.09)	$ (0.05)
Net income (loss)	$ *	$ (0.05)

* Less than $0.01 per share.

The following stock options were outstanding during the periods presented, but were not included in the computation of diluted earnings (loss) per share since inclusion of these potentially dilutive securities would have been anti-dilutive for the periods presented (in thousands, except exercise prices):

	Three months ended March 31,	
	2003	2002
Number outstanding	2,929	3,218
Range of exercise prices	$1.01 - $10.25	$2.00 - $10.88

(3) Comprehensive Income (Loss)

Comprehensive income (loss) for the three months ended March 31, 2003 and March 31, 2002 consists of the following (in thousands):

	Three Months Ended March 31,	
	2003	2002
Net income (loss)	$ 34	$(1,006)
Unrealized holding losses arising during the period	(8)	(124)
Comprehensive income (loss)	$ 26	$(1,130)

(4) Discontinued Operations

On February 13, 2003, we completed the sale of our Analytical Standards division to GFS Chemicals, Inc. ("GFS"), a private company based in Columbus, Ohio. The Analytical Standards division was no longer considered to be part of our strategic focus. In this transaction, we received $2.1 million on closing and are entitled to receive royalty payments over the next five years. Under the terms of the sale, we are entitled to receive royalties on sales of Analytical Standards products of 15% for the first year, 10% for the second through fourth years, and 5% for the fifth year. The net present value of the guaranteed minimum royalties is included in the gain on disposition of discontinued operations.

On July 25, 2000, we completed the sale of certain technology rights for our topical pharmaceutical and cosmeceutical product lines and other assets ("cosmeceutical and toiletry business") to RP Scherer Corporation, a subsidiary of Cardinal Health, Inc. We received $25 million on closing and are entitled to receive further earnout amounts for the subsequent three years up to a maximum of $26.5 million, the amounts of which are dependent on the performance of the business sold. During the first two years of the earnout period, we received an aggregate of $3.8 million. The earnout is calculated based on gross profit earned by the business sold over a three-year period. The terms of the agreement with RP Scherer provide for an earnout of 20% to 60% of gross profit of the business sold over a threshold which increases each year. Each earnout year has a different minimum level of gross profit that should be achieved before any earnout income can be received. In addition to the minimum gross profit levels, each earnout period has three additional gross profit hurdles that correspond to a specific earnout percentage up to a maximum of 60%. Earnout hurdles for the third and final year are higher than the first two years.

Under the terms of the agreement with RP Scherer, we guaranteed a minimum gross profit percentage on RP Scherer's combined sales of products to Ortho Neutrogena and Dermik ("Gross Profit Guaranty"). The guaranty period commenced on July 1, 2000 and ends on the earlier of July 1, 2010 or the end of two consecutive guaranty periods where the combined gross profit on sales to Ortho and Dermik equals or exceeds the guaranteed gross profit. Payments for the Gross Profit Guaranty aggregated $243,000 for the first two guaranty years. We expect the annual Gross Profit Guaranty payments to range from approximately $100,000 to $200,000 for the remainder of the guaranty period. As there is no minimum amount of Gross Profit Guaranty due, no accrual for the guaranty for future years is estimable.

The Analytical Standards division and cosmeceutical and toiletry business are reported as discontinued operations for all periods presented in the accompanying Condensed Consolidated Statements of Operations.

Income from discontinued operations represents the operations of the Analytical Standards division and changes in estimates relating to the discontinued cosmeceutical and toiletry business and consists of the following (in thousands):

	Three months ended March 31,	
	2003	2002
Income from Analytical Standards operations	$ 9	$ 44
Recovery of doubtful accounts receivable	4	--
Change in estimate for guarantees	(67)	--
Change in estimate of provision for income taxes and tax refunds	--	53
Other changes in estimate	--	(2)
Total income (loss) from		

discontinued operations	$(54)	$ 95

Basic and diluted income (loss) per common share from discontinued operations excluding the gain on sale of the Analytical Standards and cosmeceutical product lines were less than ($0.01) and $0.01 per share for the three months ended March 31, 2003 and 2002, respectively.

As of March 31, 2003, net assets relating to the discontinued cosmeceutical and toiletry business include trade receivables of $192,000 and a provision for doubtful accounts receivable of $24,000. Liabilities related to the discontinued cosmeceutical and toiletry operation in the amount of $226,000 include severance costs and accruals for gross profit guarantees. These liabilities are reported as accrued disposition costs in the accompanying balance sheet.

Cash used in discontinued operations primarily relates to payments of severance costs to former employees who were terminated as a result of the sales of the Analytical Standards division and cosmeceutical and toiletry business. A total of 60 positions, primarily in the manufacturing, marketing and research and development departments and associated general and administrative staff, were eliminated as a result of the dispositions. During the year ended December 31, 2000, we recorded severance charges related to salaries and benefits in gain on disposition of the cosmeceutical business. The total amount of severance charges relating to the sale of the cosmeceutical and toiletry business was approximately $3,685,000, of which approximately $3,603,000 has been paid to date, including $63,000 in the current quarter. The remaining accrued severance of approximately $82,000 is expected to be paid by July 31, 2003.

In the quarter ended March 31, 2003, we recorded severance charges of $197,000 as an offset to the gain on disposition of the Analytical Standards division. Approximately $44,000 of these severance charges has been paid to date.

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 our Securities and Exchange Commission filings.

Certain reclassifications have been made to the prior period financial statements to conform with the presentation in 2003. The operations and related assets of the Analytical Standards division were reclassified to discontinued operations and assets held for sale, respectively, in the statements of operations and cash flows for the three months ended March 31, 2002 and in the balance sheet as of December 31, 2002.

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:

CRITICAL ACCOUNTING POLICIES

We believe there have been no significant changes in our critical accounting policies during the three months ended March 31, 2003 as compared to what was previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2002 filed with the SEC on March 28, 2003.

Revenue Recognition

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 end customer by our licensees based on information provided to us by our licensees.

We have licensing agreements that generally provide for periodic minimum payments, royalties, milestone payments and/or non-refundable license fees. These licensing agreements typically require a non-refundable license fee and allow our partners to sell our 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 we have continuing involvement with licensees and until the related product is discontinued. Revenue recognized from deferred license fees is classified as contract revenue in the accompanying consolidated statements of operations. License fees received in connection with arrangements where we have no continuing involvement are recognized as revenue when the amounts are received or when collectibility is assured, whichever is earlier. No such fees were recorded in the first quarter of 2003.

A milestone payment is a payment made by a third party or corporate partner to us 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 we have completed all milestone related services such that the milestone payment is currently due and is non-refundable. No such payments were received during the three months ended March 31, 2003.

Contract revenues from research and development arrangements are

recognized as the related development costs are incurred. These revenues approximate the costs incurred.

Results of Operations for the Three Months Ended March 31, 2003 and 2002

Our revenues are derived principally from royalties, license and research and development fees. Under strategic alliance arrangements entered into with certain corporations, we can receive non-refundable upfront fees, milestone payments and royalties based on third party product sales.

Royalties for the first quarter of 2003 increased by $128,000 to $1,032,000 from $904,000 in the corresponding quarter of the prior year. This increase was due mainly to increased sales of Retin-A Micro(R) following the launch of a new low-dose formulation in July 2002 after FDA marketing clearance.

Research and development expense for the first quarter of 2003 increased by $705,000 from $1,497,000 to $2,202,000 due mainly to the cost of preclinical studies using the modified APF112 formulation as agreed with the U.S. Food and Drug Administration (FDA). We are preparing a full package for submission to the FDA prior to initiation of Phase II human clinical trials with its APF112 formulation for the treatment of post-surgical pain.

General and administrative expense for the first quarter of 2003 increased by $18,000 from $760,000 to $778,000. General and administrative expense is expected to increase only moderately in 2003.

Interest income for the first quarter of 2003 decreased by $107,000 to $78,000 from $186,000 due to lower interest rates earned on lower average cash balances.

Income/loss from discontinued operations represents the net contribution/loss attributable to the Analytical Standards division which was sold to GFS Chemicals, Inc. in February 2003 and the cosmeceutical and toiletries product lines which were sold to RP Scherer Corporation in July 2000. Net loss from discontinued operations totaled $54,000 for the three months ended March 31, 2003, compared with the net gain from discontinued operation of $95,000 in the three months ended March 31, 2002.

Gain on disposition of discontinued operations of $1,886,000 relates to the sale of the Analytical Standards division on February 13, 2003 to GFS Chemicals, Inc., a private company based in Columbus, Ohio. We received $2,149,000 million in cash on the closing date and are entitled to receive royalties on sales varying from 5% to 15% for five years following the closing, with guaranteed minimum annual royalty payments.

Capital Resources and Liquidity

Total assets as of March 31, 2003 were $18,077,000 compared with $17,781,000 at December 31, 2002. Cash, cash equivalents and marketable securities increased by $347,000 to $14,468,000 at March 31, 2003 from $14,121,000 at December 31, 2002 due to proceeds received from the sale of the Analytical Standards division, net of cash used in operating activities.

Net cash used in operating activities for the three months ended March 31, 2003 and 2002 was $1,580,000 and $1,268,000, respectively. The increase in net cash used in operating activities was mainly due to an increase in loss from continuing operations resulting from increased preclinical study costs.

We have financed our 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, proceeds from the sale of the Analytical Standards division to GFS Chemicals, Inc., interest earned on short-term investments and research and development fees received from corporate collaborators.

Our 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 our cash needs for at least two years, assuming no changes to our current business plan.

Our future capital requirements will depend on numerous factors including, among others, royalties from sales of products of third party licensees; our 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 we devote to self-funded products; our 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 our proprietary technology.

Recent Accounting Pronouncements
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In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (FAS 146). FAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" and requires that a liability for a cost associated with an exit or disposal activity be recognized and initially measure at fair value only when the liability is incurred rather than at the date of an entity's commitment to an exit plan. FAS 146 further establishes fair value as the objective for initial measurement of the liability and that employee benefit arrangements requiring future service beyond a "minimum retention period" be recognized over the future service period. FAS 146 is effective for exit or disposal activities initiated after December 31, 2002. We adopted this accounting standard on January 1, 2003.

In November 2002, the FASB issued Financial Interpretation No. 45, "Guarantor's Accounting and Disclosure requirement for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of the guarantor's fiscal year-end. The disclosure requirements in FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 has not had a material effect on our financial condition or results of operations.

In November 2002, the FASB issued Emerging Issues Task Force (EITF) Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." EITF 00-21 addresses certain aspects of the accounting by a company for arrangements under which it will perform multiple revenue-generating activities. EITF 00-21 addresses when and how an arrangement involving multiple deliverables should be divided into separate units of accounting. EITF 00-21 provides guidance with respect to the effect of certain customer rights due to company nonperformance on the recognition of revenue allocated to delivered units of accounting. EITF 00-21 also addresses the impact on the measurement and/or allocation of arrangement consideration of customer cancellation provisions and consideration that varies as a result of future actions of the customer or the company. Finally, EITF 00-21 provides guidance with respect to the recognition of the cost of certain deliverables that are excluded from the revenue accounting arrangement. The provisions of EITF 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We are currently evaluating the impact that the adoption of EITF 00-21 will have on our financial position and results of operations.

In January 2003, The FASB issued Financial Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim periods beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. We do not have variable interest entities

and do not expect the adoption of FIN 46 to have a material effect on our financial position or results of operations.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Since December 31, 2002, there have been no material changes in the Company's market risk exposure.

ITEM 4. Controls and Procedures

Based on their evaluation as of a date within 90 days of the filing date of the Quarterly Report on Form 10-Q, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the Exchange Act) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 2.2

The Asset Purchase Agreement between the Company and GFS Chemicals, Inc. filed as Exhibit 99.1 to the Company's Form 8-K filed on February 13, 2003 and incorporated herein by reference.

Exhibit 99.1 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On February 28, 2003, the Company filed a current report on Form 8-K reporting the completion of the sale of the assets of its wholly owned subsidiary, APS Analytical Standards, Inc. on February 13, 2003 to GFS Chemicals, Inc., a private company based in Columbus, Ohio.

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 14, 2003 By: /S/ Michael O'Connell

Michael O'Connell
President and Chief
Executive Officer

Date: May 14, 2003 By: /S/ Gordon Sangster

Gordon Sangster
Chief Financial Officer

CERTIFICATIONS

Certifications:

I, Michael O'Connell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A.P. Pharma, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the

registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Michael O'Connell
- ----------------------
Michael O'Connell
President and Chief Executive Officer

Certifications:

I, Gordon Sangster, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A.P. Pharma, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves

management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Gordon Sangster
- ------------------
Gordon Sangster
Chief Financial Officer

Exhibit 99.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of A.P. Pharma, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael O'Connell, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Michael O'Connell
Michael O'Connell,
Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of A.P. Pharma, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gordon Sangster, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Gordon Sangster
Gordon Sangster,
Chief Financial Officer