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, 2000

[ ] 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, 2000, the number of outstanding shares of the Company's common stock, par value $.01, was 20,186,261.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited):

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2000	December 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,538,955	$ 3,705,194
Trade accounts receivable, net	3,088,684	3,580,026
Receivables for royalties, license and option fees and R&D fees	1,255,001	1,492,634
Inventory	4,753,385	4,584,997
Advances and loans to officers and employees	81,416	84,632
Prepaid expenses and other	402,793	378,969
Total current assets	13,120,234	13,826,452
Property and equipment, net	7,837,707	8,031,076
Deferred loan costs, net	36,787	39,853
Goodwill and other intangible assets, net	1,206,958	1,259,020
Other long-term assets	286,397	346,397
Total assets	$ 22,488,083	$ 23,502,798
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 907,284	$ 1,029,534
Accrued expenses	984,658	1,263,186
Taxes payable	12,307	13,480
Deferred revenue	1,003,088	1,195,396
Current portion - long-term debt	922,370	891,111
Total current liabilities	3,829,707	4,392,707
Deferred revenue - long-term	4,052,599	4,665,390
Long-term debt	2,166,282	2,408,933
Total liabilities	10,048,588	11,467,030
Shareholders' equity:		
Common stock and common stock warrants	85,714,382	85,530,952
Accumulated deficit	(73,274,887)	(73,495,184)
Total shareholders' equity	12,439,495	12,035,768
Total liabilities and shareholders' equity	$ 22,488,083	$ 23,502,798

See accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31, 2000	Three Months Ended March 31, 1999
Product revenues	$ 3,176,692	$ 2,950,055
Royalties, license and option fees and R&D fees	1,468,834	1,864,775
Total revenues	4,645,526	4,814,830
Expenses:		
Cost of product sales	1,918,536	1,548,172
Research & development, net	892,248	1,055,521
Selling & marketing	675,484	727,085
General & administration	848,581	850,716
Operating income	310,677	633,336
Interest income	65,093	33,700
Interest expense	(118,132)	(142,716)
Other income/(expense), net	2,326	(427)
Net income before taxes	259,964	523,893
Taxes	39,667	--
Net income	$ 220,297	$ 523,893
Basic earnings per common share	$ 0.01	$ 0.03
Diluted earnings per common share	$ 0.01	$ 0.03
Weighted average common shares outstanding-basic	20,133,683	20,018,245
Weighted average common shares outstanding-diluted	20,210,068	20,241,082

See accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the three months ended March 31, 2000	1999
Cash flows from operating activities:		
Net income	$ 220,297	$ 523,893
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	261,043	269,264
Amortization of deferred revenue	(805,099)	(193,326)
Amortization of deferred loan costs	3,066	45,816
Stock issued to directors	13,500	21,000
Restricted stock awards	49,930	49,930
Changes in operating assets and liabilities:		
Trade accounts receivable	491,342	65,621
Receivables for royalties, license and option fees and R&D fees	237,633	(511,705)
Inventory	(168,388)	(210,168)
Advances to officers and employees	3,216	(81,685)
Prepaid expenses and other	(23,824)	(60,657)
Other long-term assets	60,000	(5,000)
Accounts payable	(122,250)	(55,261)
Accrued expenses	(278,527)	346,026
Accrued settlement liability	--	(300,000)
Taxes payable	(1,173)	--
Net cash used in operating activities	(59,234)	(96,252)
Cash flows from investing activities:		
Purchases of property and equipment	(15,613)	(74,288)
Net cash used in investing activities	(15,613)	(74,288)
Cash flows from financing activities:		
Proceeds from the exercise of common stock options and warrants	120,000	210,000
Proceeds from long-term debt	--	4,000,000
Repayment of debt	(211,392)	(2,771,067)
Net cash provided by financing activities	(91,392)	1,438,933
Net (decrease) increase in cash and cash equivalents	(166,239)	1,268,393
Cash and cash equivalents, beginning of the period	3,705,194	4,088,173
Cash and cash equivalents, end of the period	$ 3,538,955	$ 5,356,566
Cash paid for interest	$ 112,008	$ 77,273

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2000 AND DECEMBER 31, 1999 (UNAUDITED)

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as those in the Annual Report on Form 10-K for the year ended December 31, 1999 and include 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, 2000 and the results of their operations and cash flows for the three months ended March 31, 2000 and 1999.

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

Certain reclassifications have been made to the prior period financial statements to conform with the presentation in 2000.

(2) Common Shares Outstanding and Earnings Per Share Information

Common stock outstanding as of March 31, 2000 is as follows:

	Number of Shares
Common stock outstanding as of December 31, 1999	20,119,042
Warrants exercised after December 31, 1999	40,000
Shares issued to Directors after December 31, 1999	3,924
Total shares	20,162,966

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

	Three Months Ended March 31, 2000	1999
Net income (numerator)	$ 220,297	$ 523,893
Shares calculation (denominator):		
Weighted average shares outstanding - basic	20,133,683	20,018,245
Effect of dilutive securities:		
Stock options and employee stock purchase plan	67,995	104,432
Warrants	8,390	118,405

Weighted average shares outstanding - diluted	20,210,068	20,241,082
Earnings per share - basic	$ 0.01	$ 0.03
Earnings per share - diluted	$ 0.01	$ 0.03

Options to purchase 3,080,175 and 2,761,305 shares of Common Stock with exercise prices ranging from $4.41 to $15.00 and $5.00 to $15.00 per share were outstanding during the quarters ended March 31, 2000 and 1999, 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 16, 2009.

(3) Revenue Recognition

The Company has several licensing agreements that generally provide for the Company to receive periodic minimum payments, royalties, and/or non-refundable license fees. These licensing agreements typically require a non-refundable license fee and allow customers to sell the Company's proprietary products in a specific field or territory. The license agreements provide for APS to earn future revenue through product sales and/or, in some cases, royalty payments. The license fees are non-refundable even if the agreements are terminated before their term or APS fails to supply product to the licensee. These license fees are amortized on a straight-line basis over the estimated life of the product to which they relate. If the customer fails to meet applicable contract terms and/or product supply is no longer required, any unamortized license fees are recognized as revenue.

(4) Long-Lived Assets, Including Goodwill and Other Intangibles

The company evaluates the carrying value of long-lived assets, including goodwill, whenever changes have occurred that might require revision of the remaining estimated lives of recorded long-lived assets, including goodwill, or render those assets impaired or not recoverable. If such circumstances arise, recoverability is determined by comparing the undiscounted net cash flows of long-lived assets, including goodwill, to their respective carrying values. The amount of impairment, if any, is measured based on the projected discounted cash flows using an appropriate discount rate. At this time, the Company believes that no impairment of long-lived assets, including goodwill and other intangibles, has occurred and that no reduction of the estimated useful lives or carrying values of such assets is warranted.

(5) Inventory

The major components of inventory are as follows:

	March 31, 2000	December 31, 1999
Raw materials and work-in-process	$ 970,706	$ 675,106
Finished goods	3,782,679	3,909,891
Total inventory	$4,753,385	$4,584,997

(6) Note Receivable

Included in long-term assets is the non-current portion of a note receivable recorded by the Company in connection with the sale of certain proprietary product rights. The note receivable of $500,000 is due in equal monthly installments over a period of twenty-five months commencing September 15, 1999 and bears an interest rate equal to the prime rate.

(7) Income Taxes

The Company does not anticipate incurring significant amounts of income taxes in 2000 due to the use of its net operating loss carry forwards from prior years. Currently, any income tax expense is being offset by recognition of a corresponding change in the valuation allowance for deferred tax assets.

(8) Legal Proceedings

In February 2000, Douglas Kligman and Albert Kligman filed a complaint against the Company in the U.S. District Court for the Eastern District of Pennsylvania. The complaint alleges that the plaintiffs entered into a partnership with the Company to pursue development and sales of a product developed by the plantiffs. The complaint states various claims, dissolution of partnership, implied-in-law contract and other claims. The complaint alleges damages in excess of $75,000, but otherwise makes no specific damage claim.

The Company has denied liability and is vigorously defending the claims, basing its defense on the assertion that its rights to the product are governed by a binding license agreement that was executed in November 1995 and amended in September 1996.

The Company expects that the outcome of this legal proceeding will not have a material adverse effect on the consolidated financial statements.

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, 2000 and 1999

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 contemplated action to maximize shareholder value (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, 2000 totaled $3,177,000 an increase of 8% or $227,000 over the corresponding period of the prior year. This increase was primarily attributable to increased shipments of Microsponge formulations to customers in both the U.S. and international mass merchandising channels.

Royalties and license and R&D fees for the first quarter of 2000 of $1,469,000 decreased by $396,000 or 21%. This decrease was mainly due to the receipt of R&D fees in the year-ago quarter. This decrease was partially offset by R&D fees received from Fujisawa Pharmaceutical under a new agreement relating to the development of a Microsponge formulation of a proprietary compound. The first quarter of each of the years also included one-time benefits of approximately $600,000 and $500,000 respectively, related to license and option fees.

Gross profit on product revenues of $1,258,000 decreased as a percentage of product revenues from 48% to 40% due mainly to the sales mix, as the current quarter contained increased sales of lower margin products to customers in the mass merchandising channel whereas the year-ago quarter included a higher percentage of shipments to customers in the prestige channel.

Research and development expense decreased by $163,000 or 15% to $892,000 due mainly to lower expenses for outside consultants, outside services and travel.

Selling and marketing expense decreased by $52,000 or 7% to $675,000 due mainly to lower salary expense resulting from lower headcount, and lower travel expense.

General and administrative expense of $849,000 was essentially flat with the corresponding period of the prior year.

Interest income increased by $31,000 or 91% to $65,000 due to higher average cash balances. Interest expense decreased by $25,000 or 17% to $118,000 due to the repayment of certain debts in the first quarter of the prior year.

Capital Resources and Liquidity

Total assets as of March 31, 2000 were $22,488,000 compared with $23,503,000 at December 31, 1999. Working capital decreased to

$9,291,000 at March 31, 2000 from $9,434,000 at December 31, 1999. Cash and cash equivalents at March 31, 2000 decreased to $3,539,000 from $3,705,000 at December 31, 1999. During the first three months of 2000, the Company's operating activities used $59,000 of cash compared to $96,000 in the corresponding period of the prior year. The Company invested approximately $892,000 in product research and development and $675,000 in selling and marketing the Company's products.

Trade accounts receivable decreased to $3,089,000 at March 31, 2000 compared with $3,580,000 at December 31, 1999. Days sales outstanding decreased slightly to 88 days at March 31, 2000 compared to 89 days at December 31, 1999. Receivables from royalties, license and option fees and R&D fees decreased to $1,255,000 from $1,493,000 at December 31, 1999 due to reduced activity during the first quarter of 2000.

Capital expenditures for the first quarter of 2000 decreased to $16,000 from $74,000 in the corresponding period of the prior year.

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.

New Accounting Standards

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" which is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. In June 1999, the FASB issued SFAS No. 137, which defers the implementation of SFAS 133 to be effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company anticipates that adoption of this Statement will not have a material effect on the financial position or results of operations of the Company. 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.

On December 3, 1999, the SEC staff issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101). SAB 101 summarizes certain of the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. In March 2000, the SEC issued SAB 101A, which amends SAB 101 to defer the effective date of required adoption. As amended, SAB 101 is required to be adopted in the second quarter of a fiscal year that begins between December 16, 1999 and March 15, 2000. For fiscal years beginning after March 15, 2000 adoption is required in the first quarter. The Company chose to adopt the guidance given in SAB 101 as of the year ended December 31, 1999.

In March 2000, the FASB issued Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25. This Interpretation clarifies the application of Opinion 25 for certain issues: a) the definition of employee for purposes of applying Opinion 25, b) the criteria for determining whether a plan qualifies as a noncompensatory plan, c) the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and d) the accounting for an exchange of stock compensation awards in a business combination. Generally, this Interpretation is effective July 1, 2000. We do not expect the adoption of Interpretation No. 44 to have a material effect on our consolidated financial statements.

PART II. OTHER INFORMATION

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, 2000.

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 15, 2000 By: /S/ John J. Meakem, Jr.

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

Date: May 15, 2000 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

5
THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION
EXTRACTED FROM THE UNAUDITED RESTATED CONDENSED CONSOLIDATED BALANCE
SHEET AS OF MARCH 31, 2000, AND UNAUDITED RESTATED CONDENSED
CONSOLIDATED STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED
MARCH 31, 2000, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO
SUCH FINANCIAL STATEMENTS.
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MAR-31-2000
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