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 September 30, 1996

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ________ to _______

Commission file Number 0-16109

ADVANCED POLYMER SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	94-2875566
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

(415) 366-2626
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
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At October 31, 1996 the number of outstanding shares of the Company's common stock, par value $.01, was 18,259,097.

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ADVANCED POLYMER SYSTEMS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 1996	December 31, 1995
ASSETS		
Current assets:		
Cash and cash equivalents	$7,315,773	$5,172,809
Trade accounts receivable, net	3,054,837	2,436,815
Inventory	5,065,028	7,858,584
Prepaid expenses and other	932,829	1,001,672
Total current assets	16,368,467	16,469,880
Property and equipment, net	4,840,660	5,027,034
Deferred loan costs, net	682,775	832,324
Prepaid license fees	200,225	303,638
Intangible assets, including goodwill, net	1,335,739	345,557
Other assets	60,603	103,809
	$23,488,469	$23,082,242
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,169,097	$3,240,807
Accrued expenses	1,914,857	1,819,541
Accrued melanin purchase commitments	600,000	600,000
Accounts payable, Johnson & Johnson	2,595,339	4,229,637
Deferred revenues	750,000	750,000
Notes payable	1,500,000	-
Current portion - long-term debt	1,156,863	853,987
Total current liabilities	9,686,156	11,493,972
Long-term debt	6,193,220	6,354,969
Total liabilities	15,879,376	17,848,941
Shareholders' equity:		
Common stock and common stock warrants	75,979,110	67,423,859
Unrealized gain on securities	-	12,348
Accumulated deficit	(68,370,017)	(62,202,906)
Total shareholders' equity	7,609,093	5,233,301
	$23,488,469	$23,082,242

See accompanying notes.

ADVANCED POLYMER SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	3 Months Ended		9 Months Ended	
	September 30, 1996	September 30, 1995	September 30, 1996	September 30, 1995
Product revenues	$4,090,530	$3,276,312	$14,497,522	$12,273,732
Licensing revenues	350,000	20,000	450,000	905,000
Total revenues	4,440,530	3,296,312	14,947,522	13,178,732
Cost of sales	2,251,891	1,904,456	8,546,079	8,275,791
Research & development	990,300	941,017	2,864,099	2,855,538
Selling & marketing	1,294,439	1,191,543	4,050,457	3,552,233
Advertising & promotion	1,052,199	738,903	2,720,496	1,338,127
General & administration	739,165	713,915	2,243,055	2,244,758
Total expenses	6,327,994	5,489,834	20,424,186	18,266,447
Operating loss	(1,887,464)	(2,193,522)	(5,476,664)	(5,087,715)
Interest income	141,612	51,579	255,580	237,976
Interest expense	(320,086)	(71,420)	(933,112)	(204,180)
Other income (expense)	(23,820)	214,534	(12,915)	203,101
Net loss	($2,089,758)	($1,998,829)	($6,167,111)	($4,850,818)
Loss per common share	($0.11)	($0.12)	($0.34)	($0.30)
Weighted average common shares outstanding	18,220,264	16,513,687	17,885,248	16,369,544

See accompanying notes.

ADVANCED POLYMER SYSTEMS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
for the nine months ended September 30, 1996 and 1995
(Unaudited)

	September 30, 1996	September 30, 1995
Cash flows from operating activities:		
Net loss	($6,167,111)	($4,850,818)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,259,332	1,024,914
Change in allowance for doubtful accounts	2,089	(460)
Gain on sale of marketable securities	-	(234,323)
Accretion of marketable securities	-	(22,769)
Changes in operating assets and liabilities:		
Trade accounts receivable	(620,111)	(2,174,487)
Inventory	2,793,556	(1,546,353)
Prepaid expenses and other	68,843	(118,311)
Other assets	22,200	(576,067)
Accounts payable and accrued expenses	(3,010,692)	2,651,343
Net cash used in operating activities	(5,651,894)	(5,847,331)
Cash flows from investing activities:		
Purchases of fixed assets	(561,647)	(274,970)
Purchase of marketable securities	(512,513)	(1,958,891)
Purchase of U.S. government securities	-	(2,500,000)
Proceeds from sale of long-term marketable securities	-	2,228,670
Maturities and sales of marketable securities	500,165	3,153,728
Net cash provided from (used in) investing activities	(573,995)	648,537
Cash flows from financing activities:		
Proceeds from the exercise of common stock options and warrants	1,833,329	1,005,731
Proceeds from note payable	1,500,000	-
Proceeds from long-term debt and warrants	731,270	6,147,234
Repayment of long-term debt	(590,143)	-
Proceeds from private placements net of offering costs	4,894,397	1,384,027
Net cash provided from financing activities	8,368,853	8,536,992
Net increase in cash and cash equivalents	2,142,964	3,338,198
Cash and cash equivalents, beginning of the period	5,172,809	2,741,994
Cash and cash equivalents, end of the period	$7,315,773	$6,080,192

Supplemental disclosure of non-cash financing transactions:

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

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

In September, 1995, the Company offset its note payable to Dow Corning Corporation ("DCC") against its receivable from DCC. This resulted in a decrease in long-term debt, short-term debt and accounts receivable of $478,935, $100,000 and $578,935 respectively.

During the third quarter of 1995, the Company extinguished a debt through an insubstance defeasance transaction by placing U.S. government securities in an irrevocable trust to fund all future scheduled payments on the debt.

See accompanying notes.

ADVANCED POLYMER SYSTEMS, INC.

Notes to Condensed Consolidated Financial Statements
September 30, 1996 and 1995
(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") as of September 30, 1996 and the results of their operations for the three and nine months ended September 30, 1996 and 1995, and their cash flows for the nine months ended September 30, 1996 and 1995.

These condensed consolidated statements should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 1995, 1994 and 1993.

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

The business of Premier, the Company's marketing and distribution subsidiary, is highly seasonal in that it markets and distributes sunscreen products under an exclusive distribution agreement with Johnson & Johnson. In addition, effective September 1995, the Company licensed from Reckitt & Colman the exclusive U.S. rights to the Neet(R) line of depilatory products. Sales of the two sunscreen products and the depilatory product line are heavily weighted to the first two quarters of the calendar year, so the results of operations for the interim periods are not necessarily indicative of the results for the full year.

The Company considers all short-term investments which have original maturities of less than three months to be cash equivalents.

Certain reclassifications have been made to the prior period financial statements to conform with the presentation in 1996.

(2) Common Shares Outstanding and per Share Information

Common stock outstanding as of September 30, 1996 is as follows:

	Number of Shares
Common stock outstanding as of December 31, 1995	17,026,666
Options exercised after December 31, 1995	292,736
Warrants exercised	66,337
Shares issued to Lander Company	356,761
Shares issued in debt financing arrangements	10,675
Shares issued for acquisition of all rights to the Polytrap technology from Dow Corning	200,000
Shares issued to pay BioSource for the 1995 Melanin commitment	94,000
Shares issued in Private Placement	201,922
TOTAL SHARES	18,249,097

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

(3) Sale of Common Stock

In the first quarter of 1996, the Company formed a collaborative agreement with the Lander Company under which the Company received $2,976,000 in net proceeds from the sale of 356,761 shares of Common Stock. In addition, the Company will receive licensing fees, research and development funding and royalties on product sales in the future.

(4) Acquisition of All Rights to Polytrap Technology

In the first quarter of 1996, APS acquired all patents and rights to the Polytrap technology from Dow Corning in exchange for 200,000 shares of APS Common Stock. APS recorded intangible assets totalling $1,200,000 relating to this transaction. The intangible assets are being amortized on a straight line basis over a period of approximately 10 years, which is the remaining life of the main patent acquired.

(5) Private Placement

During the second quarter of 1996, APS received $1,946,475 net of offering costs, through a private placement and sale of 201,922 shares of common stock and 86,538 warrants exercisable over a three-year period. The warrants are exercisable at the following prices:

Number of shares	Exercise Price
28,846	$7.43
28,846	$9.90
28,846	$12.38

The private placement was pursuant to an agreement for the sale of up to $5,000,000 of common stock and warrants, which can be initiated at the Company's sole discretion.

(6) Notes Payable

During the first nine months of 1996, the Company received advances from a supplier totalling $1,500,000, with an interest rate equal to the Prime Rate. All principal and interest outstanding were paid in October 1996.

(7) Long-Term Debt

During the third quarter of 1996, APS received $581,270 from an existing financing arrangement. The amount received was a deposit that was previously offset against the outstanding loan balance and subsequently refunded to APS upon satisfaction of certain conditions identified in the financing agreement.

(8) Stockholders Rights Plan

On August 19, 1996, the Board of Directors approved a Shareholder Rights Plan under which stockholders of record on September 3, 1996 received a dividend of one Preferred Stock purchase right ("Rights") for each share of Common Stock outstanding. The Rights are not generally exercisable until 10 business days after a person or group acquires 20% or more of the outstanding shares of Common Stock or announces a tender offer which could result in a person or group beneficially owning 20% or more of the outstanding shares of Common Stock (an "Acquisition"). Each Right, should it become exercisable, will entitle the holder (other than acquirer) to purchase Company Stock at a discount. The Board of Directors may terminate the Rights Plan or, under certain circumstances, redeem the Rights.

In the event of an Acquisition without the approval of the Board, each Right will entitle the registered holder, other than an acquirer and certain related parties, to buy at the Right's then current exercise price a number of shares of Common Stock with a market value equal to twice the exercise price.

In addition, if at the time when there was a 20% shareholder, the Company were to be acquired by merger, shareholders with unexercised Rights could purchase common stock of the acquirer with a value of twice the exercise price of the Rights.

The Board may redeem the Right for $0.01 per Right at any time prior to Acquisition. Unless earlier redeemed, the Rights will expire on August 19, 2006.

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 September 30, 1996 and 1995

To the extent that this report discusses financial projections, information or expectations about our products or markets, or otherwise makes statements about future events, such statements 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 and acceptance of new products, the costs associated with new product introductions, establishment of new corporate alliances, progress in research and development programs and other risks listed from time to time in the Company's Securities and Exchange Commission filings.

Revenues for the three months ended September 30, 1996 were $4,441,000 compared to $3,296,000 in the corresponding quarter of the prior year. This represented product revenues of $4,091,000, an increase of $815,000 or 25%, and licensing fees of $350,000, compared with $20,000 in the third quarter of the prior year.

The increase in product revenues was primarily attributable to increased shipments of Microsponge(R) entrapments to manufacturers of personal care products and a full quarter's sales of the Neet line of depilatory products which was acquired from Reckitt and Colman in September 1995.

The increase in licensing fees is due to the receipt of initial upfront fees from various companies on the signing of license and supply agreements for products incorporating the Company's technology.

Gross profit on product revenues for the third quarter totaled $1,839,000, an increase of $467,000 or 34% over the comparable period of the prior year. As a percentage of product sales, gross profit was 45% in the third quarter compared to 42% in the corresponding period of the prior year. This increase resulted mainly from increased manufacturing efficiencies due to higher volume.

Operating expenses for the third quarter increased by $491,000 or 14% over the prior year quarter. Selling and marketing expense increased by $103,000 or 9% over the third quarter of the prior year due mainly to increased activities in the ethical pharmaceutical and personal care fields.

Advertising and promotion expense increased by $313,000 or 42% due mainly to print advertising for the Exact line of acne products and advertising for Neet which was acquired late in the third quarter of 1995. Research and development expense increased by $49,000 or 5% due mainly to an increase in filings of patents and trademarks for new technologies and applications, both domestically and internationally.

General and administrative expense was essentially flat between periods.

The operating loss for the third quarter of $1,888,000 represented an improvement of $306,000 or 14% over the third quarter of the prior year.

Interest income for the three months ended September 30, 1996 increased by $90,000 to $142,000 over the prior year third quarter due to higher average cash balances. Interest expense increased by $249,000 to $320,000 over the prior year's third quarter due to the debt financing completed at the end of the third quarter of 1995. Other income/(expense) decreased by $238,000 due to the gain recognized on the sale of securities executed as part of the insubstance defeasance, also completed at the end of the third quarter of 1995.

The net loss for the three months ended September 30, 1996 was essentially flat with the corresponding period of the prior year, as increased advertising and interest expense was offset by higher gross profit.

Results of Operations for the Nine Months Ended September 30, 1996

Revenues for the nine months ended September 30, 1996 increased by $1,769,000 or 13% over the corresponding period of the prior year.

Product revenues increased by $2,224,000 or 18% due mainly to sales of the Neet line of depilatory products which was acquired in September 1995, and increased shipments of polymeric delivery systems to manufacturers of personal care and toiletry products. These increases were partially offset by decreased sales of the in-licensed Johnson & Johnson suncare and specialty products. Licensing income decreased by $455,000 to $450,000 principally due to the significant milestone payment received from Johnson & Johnson, Inc. in the third quarter of the prior year on the filing of the NDA for Microsponge-entrapped tretinoin which was partially offset by initial upfront fees received from new corporate partners related to new products incorporating the Company's technology.

Gross profit on product revenues for the nine months ended September 30, 1996 increased by $1,954,000 or 49% over the corresponding period of the prior year. As a percentage of product revenues, gross profit for the first nine months of the year increased from 33% in 1995 to 41% in 1996 due to both increased manufacturing efficiencies resulting from higher volume, and sales of higher margin consumer products.

Operating expenses for the nine months ended September 30, 1996 increased by $1,888,000 or 19% to $11,878,000. Research and development expense of $2,864,000 was approximately the same as the corresponding period of the prior year.

Selling and marketing expenses for the nine month period increased by $498,000 or 14% to $4,050,000 due mainly to increased activities in the ethical dermatology and personal care fields. Advertising and promotion expense increased by $1,382,000 or 103% to $2,720,000 due mainly to a sampling program involving the Company's consumer products, television advertising for the Neet line of depilatories and print advertising for the Exact line of acne medications. General and administrative expense was flat compared with the corresponding period of the prior year at $2,243,000.

The increase in operating expenses was partially offset by the increased gross profit, resulting in an operating loss of $5,477,000, an increase of $389,000 or 8%.

Interest income for the nine months ended September 30, 1996 increased by $18,000 or 7% to $256,000 over the corresponding period of the prior year due to higher average cash balances. Interest expense for the nine month period increased by $729,000 to $933,000 compared with the prior year period due to the debt financing arranged in the second half of 1995. Other income/(expense) decreased by $216,000 due mainly to the gain on sale of securities executed as part of the insubstance defeasance in the third quarter of the prior year.

The net loss for the nine month period ended September 30, 1996 totaled $6,167,000, an increase of $1,316,000 or 27% from the corresponding period of the prior year.

Capital Resources and Liquidity

Total assets as of September 30, 1996 were $23,488,000 compared with $23,082,000 at December 31, 1995, and working capital increased to $6,682,000 from $4,976,000. In the same period, cash and cash equivalents increased to $7,316,000 from $5,173,000. During the first nine months of 1996, Company operations used $5,652,000 of cash. The Company invested approximately $2,864,000 in product research and development and $6,771,000 in selling, marketing and promoting products.

The Company has financed its operations, including product research and development and promotional activities, from amounts raised in debt and equity financings; product sales; payments received under licensing agreements; and interest earned on short-term investments.

In prior years, cash was expended with regard to Phase III clinical tests on tretinoin entrapped in a Microsponge delivery system for the treatment of acne, and on APS' melanin-Microsponge sun protectant product, together with related research and development costs, all of which decreased substantially in 1995 following the filing of the respective NDAs. Additionally, the Company is contractually obligated to purchase minimum annual quantities of melanin.

Failure to purchase the minimum quantities results in a mandatory annual payment of $600,000 to its melanin supplier under "take or pay" provisions. The minimum financial commitments not yet expensed by APS under the current agreements are $600,000 per annum for each of the years in the two year period ending December 31, 1998, for an aggregate of $1,200,000.

In the second quarter of 1996, the Company entered into an agreement for the sale of up to $5,000,000 of common stock and warrants, which can be initiated at the Company's sole discretion. The Company initiated a drawdown of $2,000,000 in May 1996 in return for 201,922 shares and 86,538 warrants exercisable over a three year period. This, together with the Company's existing cash and cash equivalents, collections of trade accounts receivable, interest income and other revenue producing activities including milestone payments, are expected to be sufficient to meet the Company's near-term cash requirements assuming no changes to existing business plans.

During the third quarter of 1996, APS received $581,000 from an existing financing arrangement. The amount received was a deposit that was previously offset against the outstanding loan balance and subsequently refunded to APS upon satisfaction of certain conditions identified in the financing agreement.

PART II.

Item 1. Legal Proceedings

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: 27 Financial Data Schedule

(b) Reports on Form 8-K: None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ADVANCED POLYMER SYSTEMS, INC.

Date: November 12, 1996

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

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

Date: November 12, 1996

By: /s/ Michael O'Connell

Michael O'Connell
Chief Financial Officer

EXHIBIT INDEX

Form 10-Q

ADVANCED POLYMER SYSTEMS, INC.

27 -Financial Data Schedule.

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DEC-31-1996
JAN-01-1996
SEP-30-1996
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3,054,837
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