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, 2001

[ ] 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

AP PHARMA, INC.

(FORMERLY KNOWN AS "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, 2001, the number of outstanding shares of the Company's common stock, par value $.01, was 20,278,474.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited):

AP PHARMA, INC. (FORMERLY KNOWN AS "ADVANCED POLYMER SYSTEMS, INC.")

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,797,125	$ 6,493,336
Marketable securities	16,251,731	16,029,320
Trade accounts receivable, net	390,564	490,578
Receivables for royalties and license fees	1,022,687	1,200,554
Inventory	76,605	71,079
Advances to employees	18,979	34,018
Prepaid expenses and other	627,902	730,964
Total current assets	23,185,593	25,049,849
Property and equipment, net	1,731,139	1,795,313
Other long-term assets	151,000	151,000
Total assets	$ 25,067,732	$ 26,996,162
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 185,039	$ 329,305
Accrued expenses	3,082,657	3,987,794
Taxes payable	237,398	255,358
Deferred revenue	404,907	390,201
Total current liabilities	3,910,001	4,962,658
Deferred revenue - long-term	857,093	874,250
Total liabilities	4,767,094	5,836,908
Shareholders' equity:		
Common stock and common stock warrants	86,364,601	86,102,083
Accumulated deficit	(66,063,963)	(64,942,829)
Total shareholders' equity	20,300,638	21,159,254
Total liabilities and shareholders' equity	$ 25,067,732	$ 26,996,162

See accompanying notes to condensed consolidated financial statements.

AP PHARMA, INC. (FORMERLY KNOWN AS "ADVANCED POLYMER SYSTEMS, INC.")

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31,	
	2001	2000
Royalties and license fees	$ 675,262	$ 425,686
Product revenues	295,473	304,562
Total revenues	970,735	730,248
Cost of sales	93,320	124,443
Operating expenses:		
Research & development, net	1,378,230	553,884
Selling & marketing	124,427	129,243
General & administration	688,390	638,734
Total operating expenses	2,191,047	1,321,861
Operating loss	(1,313,632)	(716,056)
Interest income	348,169	65,093
Interest expense	--	118,132
Other income, net	2,684	2,326
Loss before taxes	(962,779)	(766,769)
Taxes	--	39,667
Loss from continuing operations	(962,779)	(806,436)
(Loss) income from discontinued operations	(158,355)	1,026,733
Net (loss) income	$(1,121,134)	$ 220,297
Basic and diluted (loss) income per common share:		
Loss from continuing operations	$ (0.05)	$ (0.04)
Net (loss) income	$ (0.06)	$ 0.01
Weighted average common shares outstanding-basic	20,220,040	20,133,683

See accompanying notes to condensed consolidated financial statements.

AP PHARMA, INC. (FORMERLY KNOWN AS "ADVANCED POLYMER SYSTEMS, INC.")

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the three months ended March 31, 2001	2000
Net cash used in operating activities	$(1,461,977)	$ (63,411)
Cash flows from investing activities:		
Purchases of property and equipment	(33,514)	(11,436)
Purchases of marketable securities	(6,054,883)	--
Maturities of marketable securities	5,854,163	--
Net cash used in investing activities	(234,234)	(11,436)
Cash flows from financing activities:		
Proceeds from the exercise of common stock options and warrants and issuance of restricted stock	--	120,000
Repayment of debt	--	(211,392)
Net cash provided by financing activities	--	(91,392)
Net increase (decrease) in cash and cash equivalents	(1,696,211)	(166,239)
Cash and cash equivalents, beginning of the period	6,493,336	3,705,194
Cash and cash equivalents, end of the period	$ 4,797,125	$ 3,538,955
Cash paid for interest	$ --	$ 112,008
Non-cash investing activities:		
Change in unrealized appreciation of marketable securities	$ 124,574	$ --

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2001 AND DECEMBER 31, 2000 (UNAUDITED)

(1) Basis of Presentation

On May 9, 2001, the Company's shareholders approved a change in the Company name to AP Pharma, Inc.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of AP Pharma, Inc. (formerly known as "Advanced Polymer Systems, Inc.") and subsidiaries ("the Company" or "APP") as of March 31, 2001 and the results of their operations for the three months ended March 31, 2001 and 2000.

These condensed consolidated statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2000 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 2001.

(2) Common Shares Outstanding and Earnings Per Share Information

Common stock outstanding as of March 31, 2001 is as follows:

	Number of Shares
Common stock outstanding as of December 31, 2000	20,206,064
Shares issued to Directors after December 31, 2000	41,928
Total shares	20,247,992

(3) Revenue Recognition

Licensing agreements that generally provide for the Company to receive periodic minimum payments, royalties, and/or non-refundable licenses fees typically allow customers to sell the Company's proprietary products in a specific field or territory. The license agreements provide for APP to earn future revenue through royalty payments. The license fees are non-refundable even if the agreements are terminated before their term. These license fees are amortized on a straight-line basis over the estimated life of the product to which they relate.

(4) Comprehensive (Loss) Income

Comprehensive (loss) income for the three months ended March 31, 2001 consists of the following:

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
Net (loss) income	$(1,121,134)	$ 220,297
Unrealized holding gains arising during the period	124,574	--
Comprehensive (loss) income	$ (996,560)	$ 220,297

(5) Inventory

The major components of inventory are as follows:

	March 31, 2001	December 31, 2000
Raw materials	$ 43,308	$ 43,387
Finished goods	33,297	27,692
Total inventory	$ 76,605	$ 71,079

(6) Discontinued Operations

On July 25, 2000, the Company completed the sale of certain technology rights for topical pharmaceuticals and its cosmeceutical product lines and other assets ("cosmeceutical and toiletry business") to R.P. Scherer Corporation, a subsidiary of Cardinal Health, Inc. The Company received $25 million on closing and could receive up to an additional $26.5 million over the next three years relating to the performance milestones of the cosmeceutical and toiletry business. In accordance with Accounting Principles Board Opinion No. 30 "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," the cosmeceutical and toiletry business is reported as a discontinued operation for all periods presented in the accompanying Condensed Consolidated Statements of Operations.

Basic and diluted (loss) income per common share from discontinued operations was ($0.01) and $0.05 for the three months ended March 31, 2001 and 2000, respectively.

(7) 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 and that there are no partnership agreements entered into by the parties.

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, 2001 and 2000

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 the Company's Securities and Exchange Commission filings.

The Company's revenues are derived principally from royalties, license fees, R&D fees and product sales. Under strategic alliance arrangements entered into with certain corporations, APS can receive non-refundable upfront fees, future milestone payments and royalties based on third party product sales. Until July 25, 2000, the Company manufactured and sold Microsponge(R) and Polytrap(R) delivery systems for use by customers in a variety of personal care and cosmetic products. On July 25, 2000, the Company completed the sale of certain technology rights for topical pharmaceuticals and its cosmeceutical product lines and other assets to R.P. Scherer Corporation, a subsidiary of Cardinal Health, Inc.

Royalties and license fees for the first quarter of 2001 increased by 59% to $675,000 from $426,000 in the corresponding quarter of the prior year. This increase was primarily due to the launch of Carac(TM), a topical prescription treatment for actinic keratoses which received FDA marketing clearance in October 2000. It is being marketed by the Company's partner, Dermik Laboratories, an Aventis company.

Product revenues relating to sales of analytical standards decreased by 3% to $295,000 from $304,000 in the corresponding quarter of the prior year.

Gross profit on sales of analytical standards increased from 59% to 68% due mainly to sales mix as the year-ago quarter included higher sales of low-margin instruments.

Research and development expense for the first quarter of 2001 increased by $824,000 to $1,378,000 due mainly to the cost of pre-clinical trials associated with the Company's bioerodible Biochronomer(TM) system for implantable or injectable applications.

Selling and marketing expense relating to analytical standards for the first quarter of 2001 decreased by 4% to $124,000 from $129,000 due mainly to lower overhead allocations.

General and administrative expense for the first quarter of 2001 increased by $50,000 to $688,000 due mainly to increased expenditures on investor relations and consultants.

Interest income for the first quarter of 2001 increased by $283,000 to $348,000 due mainly to the receipt of $25 million in July 2000 as proceeds from the sale of the Company's cosmeceutical and toiletries product lines to R.P. Scherer Corporation.

Interest expense for the first quarter of 2001 decreased from $118,000 to $0 due to the repayment of all outstanding debt on the receipt of the $25 million from R.P. Scherer.

Loss or income from discontinued operations represents the net expense or contribution associated with the cosmeceutical product lines which were sold to R.P. Scherer. The expense of $158,000 in the first quarter of 2001 relates primarily to legal fees associated with the Kligman lawsuit. The income of $1,027,000 in the first quarter of 2000 represents the net contribution earned in the year-ago quarter.

Capital Resources and Liquidity

Total assets as of March 31, 2001 were $25,068,000 compared with $26,996,000 at December 31, 2000. Working capital decreased to $19,276,000 at March 31, 2001 from $20,087,000 at December 31, 2000. Cash, cash equivalents and marketable securities at March 31, 2001 decreased to $21,049,000 from $22,523,000 at December 31, 2000. During the first three months of 2001, the Company's operating activities used $1,462,000 of cash compared to $63,000 in the corresponding period of the prior year. The Company invested approximately $1,378,000 in product research and development in the first quarter of 2001.

Accounts receivable, net of allowances, decreased to $391,000 at March 31, 2001 compared with $491,000 at December 31, 2000. Receivables from royalties and license fees decreased to $1,023,000 from $1,201,000.

Capital expenditures for the quarter ended March 31, 2001 totaled $33,000 compared to $11,000 in the corresponding period of the prior year.

In the current year, the Company has financed its operations, including technology and product research and development, from the proceeds from the sale of its cosmeceutical and toiletries product lines and certain technology rights to topical pharmaceuticals to R.P. Scherer, Inc. for $25 million in July 2000, the sale of analytical standard products, payments received under licensing agreements, and interest earned on short-term investments.

Cash is being expended with regard to pre-clinical trials associated with the Company's bioerodible Biochronomer System for implantable and injectable pharmaceutical applications. The Company's existing cash and cash equivalents, marketable securities, collections of trade accounts receivable, together with interest income and other revenue-producing activities including royalties, license 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 Financial Accounting Standards Board (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. 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. Adoption of this statement did not have a material effect on the Company's consolidated financial statements.

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.

AP PHARMA, INC. (formerly known as "ADVANCED POLYMER SYSTEMS, INC.")

Date: May 15, 2001	By: /S/ Michael O'Connell Michael O'Connell President and Chief Executive Officer
Date: May 15, 2001	By: /S/ Gordon Sangster Gordon Sangster Chief Financial Officer