
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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 001-33221

A.P. PHARMA, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

123 Saginaw Drive, Redwood City, CA
(Address of principal executive offices)

94-2875566
(I.R.S. Employer Identification No.)

94063
(Zip Code)

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Small reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No

As of April 30, 2013, 305,628,293 shares of the registrant's Common Stock, \$0.01 par value per share, were outstanding.

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A.P. Pharma, Inc.
Condensed Balance Sheets
(in thousands)

	<u>March 31, 2013</u> (Unaudited)	<u>December 31, 2012</u> (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 45,722	\$ 53,506
Prepaid expenses and other current assets	427	584
Total current assets	46,149	54,090
Property and equipment, net	2,700	1,752
Other long-term assets	130	130
Total assets	<u>\$ 48,979</u>	<u>\$ 55,972</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 3,825	\$ 1,912
Accrued expenses	3,149	1,750
Convertible notes payable to related parties, net of discount	622	492
Total current liabilities	7,596	4,154
Stockholders' equity:		
Common stock	3,058	3,024
Additional paid-in capital	234,865	232,381
Accumulated deficit	(196,540)	(183,587)
Total stockholders' equity	41,383	51,818
Total liabilities and stockholders' equity	<u>\$ 48,979</u>	<u>\$ 55,972</u>

See accompanying notes to condensed financial statements.

A.P. Pharma, Inc.
Condensed Statements of Operations
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended	
	March 31,	
	2013	2012
Operating expenses:		
Research and development	\$ 6,772	\$ 3,329
General and administrative	5,980	1,440
Total operating expenses	<u>12,752</u>	<u>4,769</u>
Operating loss	(12,752)	(4,769)
Interest expense, net	(201)	(61)
Loss from continuing operations	(12,953)	(4,830)
Loss from discontinued operations	—	(91)
Net loss	<u>\$ (12,953)</u>	<u>\$ (4,921)</u>
Basic and diluted net loss per share:		
Loss from continuing operations	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>
Net loss	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>
Shares used to compute basic and diluted net loss per share	<u>305,075</u>	<u>200,046</u>

See accompanying notes to condensed financial statements.

A.P. Pharma, Inc.
Condensed Statements of Cash Flows
(in thousands)
(Unaudited)

	Three Months Ended	
	March 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$(12,953)	\$ (4,921)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations	—	91
Depreciation and amortization	70	51
Stock-based compensation	1,835	778
Amortization of debt discount	130	40
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	157	(40)
Accounts payable	1,330	198
Accrued expenses	1,470	(304)
Net cash used in operating activities	<u>(7,961)</u>	<u>(4,107)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(435)	(423)
Net cash used in investing activities	<u>(435)</u>	<u>(423)</u>
Cash flows from financing activities:		
Proceeds from warrant exercise	600	—
Proceeds from stock option exercise	12	—
Net cash provided by financing activities	<u>612</u>	<u>—</u>
Net decrease in cash and cash equivalents	(7,784)	(4,530)
Cash and cash equivalents, beginning of period	53,506	17,974
Cash and cash equivalents, end of period	<u>\$ 45,722</u>	<u>\$13,444</u>

See accompanying notes to condensed financial statements.

A.P. Pharma, Inc.
Notes to Condensed Financial Statements
(unaudited)

(1) BUSINESS AND BASIS OF PRESENTATION

A.P. Pharma, Inc. (the “Company,” “we,” “us” and “our”) is a specialty pharmaceutical company developing products using its proprietary Biochronomer™ polymer-based drug delivery platform. This drug delivery platform is designed to improve the therapeutic profile of injectable pharmaceuticals by converting them from products that must be injected once or twice per day to products that need to be injected only once every one or two weeks.

The Company’s lead product candidate, APF530, is being developed for the prevention of both acute chemotherapy-induced nausea and vomiting (CINV) for patients undergoing both moderately and highly emetogenic chemotherapy and for the prevention of delayed CINV for patients undergoing moderately emetogenic chemotherapy. One of the most debilitating side effects of cancer chemotherapy, CINV is a leading cause of premature discontinuations of treatment. There is only one injectable 5-HT3 antagonist approved for the prevention of delayed-onset CINV. APF530 contains the 5-HT3 antagonist granisetron formulated in the Company’s proprietary Biochronomer drug delivery system, which allows therapeutic drug levels to be maintained for five days with a single subcutaneous injection. This five-day range is designed to cover the delayed phase of CINV. Granisetron was selected for APF530 because it is widely prescribed by physicians based on a well-established record of safety and efficacy.

In May 2009, we filed the original New Drug Application (NDA) seeking approval for APF530 with the U.S. Food and Drug Administration (FDA). The FDA issued a Complete Response Letter for the APF530 NDA in March 2010. In September 2012, we resubmitted the NDA seeking approval for APF530 with the FDA. On March 28, 2013, we announced that the FDA had issued a Complete Response Letter which identifies several issues which preclude approval of the APF530 NDA in its current form. We believe the issues that remain are addressable, and we will work expeditiously to resubmit the APF530 NDA.

We own the worldwide rights to APF530 and are in the early stage of building commercial infrastructure necessary to commercialize APF530 in the U.S. on our own.

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) 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 U.S. GAAP for complete financial statements. All adjustments (all of which are of a normal recurring nature) considered necessary for a fair presentation have been included. We have evaluated subsequent events through the date that these financial statements were issued. Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013 or for any other period. The condensed balance sheet as of December 31, 2012 has been derived from the audited financial statements as of that date, but it does not include all of the information and notes required by U.S. GAAP. These unaudited condensed financial statements and the notes thereto should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012, which was filed with the Securities and Exchange Commission (SEC) on March 1, 2013 (2012 10-K).

Liquidity

We have incurred significant operating losses and negative cash flows from operations and have an accumulated deficit of \$196.5 million as of March 31, 2013. During 2011 and 2012, we entered into three financing agreements, which provided us capital to fund operations. In April 2011, we entered into definitive agreements for a convertible note financing of up to \$4.5 million. We received approximately \$1.3 million, net of issuance costs, from the initial closing and an additional \$3.0 million through the issuance of additional convertible notes in May 2012 as a result of the purchasers who participated in the April 2011 convertible note financing fully exercising their rights to purchase additional convertible notes (see Note 8). In June 2011, we entered into definitive agreements for a private placement of units, which were comprised of common stock and warrants (see Note 9). The unit financing, which closed in July 2011, provided the Company with approximately \$22.8 million of proceeds, net of issuance costs. In July 2012, the Company closed a common stock financing whereby the Company received approximately \$50.5 million of proceeds, net of issuance costs (See Note 9). As of March 31, 2013, we had cash and cash equivalents of \$45.7 million. The Company believes that its current working capital is sufficient to fund its operations into 2014.

A.P. Pharma, Inc.
Notes to Condensed Financial Statements – (Continued)
(unaudited)

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. GAAP requires our management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates. We evaluate our critical accounting policies and estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies and estimates are discussed in our 2012 10-K.

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2013, as compared to the recent accounting pronouncements described in our 2012 10-K, that we believe are of significance, or potential significance, to us.

(2) CASH EQUIVALENTS

Our available-for-sale securities as of March 31, 2013 and December 31, 2012 consisted of money market funds primarily containing U.S. government-backed securities, with original maturities of ninety days or less. The carrying value of our money market funds is included in cash equivalents and approximates their fair value. The Company's bank accounts have been placed under a control agreement in accordance with the April 2011 convertible note financing (see Note 8).

(3) FAIR VALUE MEASUREMENTS

The three-tier fair value hierarchy utilized prioritizes the inputs used in measuring fair value as follows: Level 1) observable inputs such as quoted prices in active markets; Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and Level 3) unobservable inputs in which there is little or no market data, which require us to develop our own assumptions. The hierarchy requires us to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, we measure our available-for-sale securities at fair value. We used quoted prices in active markets (Level 1) to measure the fair value of our cash equivalents on our Condensed Balance Sheets as of March 31, 2013 and December 31, 2012. Cash equivalents consist of highly rated money market funds with maturities of ninety days or less. Due to the high ratings and short-term nature of these funds, we consider the inputs used to value all cash equivalents as Level 1 inputs.

(4) NET LOSS PER SHARE

Basic and diluted net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding for the applicable period. Diluted net loss per share excludes the effect of outstanding potentially dilutive securities because they are anti-dilutive. The following table shows the outstanding potentially dilutive options, warrants and convertible notes for the three months ended March 31, 2013 and 2012 (in thousands):

	Three Months Ended March 31,	
	2013	2012
Options outstanding	89,225	52,363
Warrants outstanding	81,044	84,127
Common stock underlying convertible notes outstanding	120,320	39,921

A.P. Pharma, Inc.
Notes to Condensed Financial Statements – (Continued)
(unaudited)

(5) STOCK-BASED COMPENSATION

The following table summarizes the stock-based compensation expense for all awards (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2013	2012
Operating expenses:		
Research and development	\$ 142	\$ 304
General and administrative	1,693	474
Total stock-based compensation expense	<u>\$ 1,835</u>	<u>\$ 778</u>
Impact on basic and diluted net loss per common share	<u>\$ 0.01</u>	<u>\$ —</u>

The following table summarizes stock option activity for the three months ended March 31, 2013:

	Shares (in thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)
Outstanding at January 1, 2013	86,283	\$ 0.42	8.2
Granted	7,518	\$ 0.74	
Exercised	(63)	\$ 0.19	
Expired and forfeited	(4,513)	\$ 0.29	
Outstanding at March 31, 2013	<u>89,225</u>	\$ 0.45	8.5

Employee Stock Purchase Plan

We adopted an Employee Stock Purchase Plan (Purchase Plan) in 1997. Qualified employees may elect to have a certain percentage of their salary withheld to purchase shares of our common stock under the Purchase Plan. In June 2011, our stockholders authorized an increase in the number of shares reserved for issuance under the Purchase Plan by 500,000, for a total of 1,000,000 shares reserved at March 31, 2013. The purchase price per share is equal to 85% of the fair market value of the stock on specified dates. There were no sales under the Purchase Plan during the three months ended March 31, 2013 and 2012.

(6) COMPREHENSIVE LOSS

Comprehensive loss for the periods reported was comprised solely of our net loss. The comprehensive loss for the three months ended March 31, 2013 and 2012 was \$13.0 million and \$4.9 million, respectively. There were no other changes in equity that were excluded from our net loss for all periods.

A.P. Pharma, Inc.
Notes to Condensed Financial Statements – (Continued)
(unaudited)

(7) DISCONTINUED OPERATIONS***Cosmeceutical and Toiletry Business***

On July 25, 2000, we completed the sale of certain technology rights for our cosmeceutical and toiletry business to RP Scherer Corporation (RP Scherer), a subsidiary of Cardinal Health, Inc. 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 Dermatologics (Ortho) and Dermik Laboratories, Inc. (Dermik) (Gross Profit Guaranty). In July 2011, Valeant Pharmaceuticals announced it was acquiring both Ortho and Dermik. The guaranty period initially commenced on July 1, 2000 and was to end 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 (Two Period Test). The Gross Profit Guaranty expense totaled \$944,000 for the first seven guaranty years and in those years profits did not meet the Two Period Test. Effective March 2007, in conjunction with a sale of assets by RP Scherer's successor company to an Amcol International subsidiary (Amcol), a new agreement was signed between us and Amcol to provide continuity of product supply to Ortho and Dermik. This new agreement potentially extended the Gross Profit Guaranty period an additional two years to July 1, 2013, unless it was terminated earlier with the Two Period Test. In February 2013, an arbitrator ruled that no additional amounts were owed under the gross profit guaranty and that the term of the gross profit guaranty has ended. We had previously recorded a liability of the \$1.1 million related to the amount that Amcol asserted was due under the Gross Profit Guaranty. This event qualified as an adjusting event under ASC 855, *Subsequent Event*, and in light of the arbitrator's decision in February 2013, which was final and binding, we reversed this accrual as of December 31, 2012.

The cosmeceutical and toiletry business is reported as discontinued operations for all periods presented in our accompanying Condensed Statements of Operations.

Loss from discontinued operations primarily represents the loss attributable to changes in estimates of our cosmeceutical and toiletry business that was sold to RP Scherer on July 25, 2000, as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
<u>Cosmeceutical and Toiletry Business</u>		
Change in estimates for gross profit guarantees	<u>\$ —</u>	<u>\$ (91)</u>

There was no material basic and diluted loss per common share resulting from discontinued operations for the three months ended March 31, 2013 and 2012.

(8) CONVERTIBLE NOTES TO RELATED PARTIES

In April 2011, we entered into a Securities Purchase Agreement (Purchase Agreement) with certain institutional investors (Purchasers), including a fund affiliated with Kevin C. Tang, who is the Chairman of our Board of Directors, for a private placement of up to \$4.5 million in Senior Secured Convertible Notes due 2021 (Notes). The Purchase Agreement provided for the Purchasers to purchase \$1.5 million aggregate principal amount of Notes at the initial closing. Pursuant to the Purchase Agreement, the Purchasers had the option to purchase an additional \$3.0 million aggregate principal amount of Notes at any time until May 2, 2013 (Purchase Option). The Notes are convertible into shares of the Company's common stock at a rate of 25,000 shares for every \$1,000 of principal and accrued interest due under the Notes (Conversion Shares).

The cash received from the initial closing of the Note financing, which resulted in the issuance of \$1.5 million aggregate principal amount of Notes, was approximately \$1.3 million, net of issuance costs. In May 2012, the Purchasers exercised their Purchase Option in full, and we received \$3.0 million of cash through the issuance of the remaining \$3.0 million aggregate principal amount of Notes. As a result of the exercise of the Purchase Option, the Purchasers have purchased the full amount of Notes that the Company was obligated to sell under the Purchase Agreement.

A.P. Pharma, Inc.
Notes to Condensed Financial Statements – (Continued)
(unaudited)

The Notes are secured by substantially all of the assets of the Company, including placing our bank accounts under a control agreement. The Notes initially bore interest at 20% per annum, payable quarterly in cash or in additional principal amount of Notes at the election of the Purchasers. In June 2011, the Notes were amended to reduce the interest rate to 6% per annum effective July 1, 2011. The Notes mature on May 2, 2021; however, the holders of the Notes may require prepayment of the Notes at any time beginning on or after May 2, 2012, at each holder's option.

There is no right to convert the Notes to the extent that, after giving effect to such conversion, the holder would beneficially own in excess of 9.99% of the Company's outstanding common stock. Each holder of the Notes can increase or decrease this beneficial ownership conversion limit by written notice to the Company, which will not be effective until 61 days after delivery of the notice.

As of March 31, 2013, the Company was in compliance with all debt-related covenants under the Notes. Upon the occurrence of an event of default under the Notes, the holders of the Notes have the right to require the Company to redeem all or a portion of their Notes.

Pursuant to the Purchase Agreement, the Company filed a registration statement on Form S-1, registering for resale 69.6 million shares underlying the Notes. The registration statement was declared effective on July 29, 2011. The Purchasers have agreed to waive their right to require the Company to register the additional shares underlying the Notes until they provide notice otherwise.

The Notes contain an embedded conversion feature that was in-the-money on both issuance dates. Based on an effective fixed conversion rate of 25,000 shares for every \$1,000 of principal and accrued interest due under the Notes, the total conversion benefit at issuance exceeded the loan proceeds. Therefore, a full debt discount was recorded in an amount equal to the face value of the Notes on the issuance dates, and the Company began amortizing the resultant debt discount over the respective 10-year or remaining term of the Notes. During the three months ended March 31, 2013, accrued interest of approximately \$71,000 was paid-in-kind and rolled into the principal balance of the Notes, which resulted in an additional full debt discount for the respective periods. For the three months ended March 31, 2013, interest expense relating to the stated rate of the Notes was approximately \$72,000. Interest expense relating to the amortization of debt discount for the three months ended March 31, 2013 was approximately \$130,000.

As of March 31, 2013, the carrying value of the Notes was approximately \$622,000, which is comprised of the \$4,813,000 principal amount of the Notes outstanding, less debt discount of \$4,191,000. If the \$4.8 million principal amount of Notes is converted, the Company would issue 120.3 million shares of its common stock. Accrued interest on the principal balance was \$72,000 at March 31, 2013.

(9) STOCKHOLDERS' EQUITY

Amendments to Articles of Incorporation

In June 2011, we amended our certificate of incorporation to increase the number of shares of authorized common stock to 1,500,000,000, par value \$0.01 per share. Prior to the amendment, the number of shares of authorized common stock was 100,000,000, par value \$0.01 per share. The certificate of amendment was approved by a majority of our stockholders on June 29, 2011.

Stock Plans

At our annual meeting of stockholders in June 2011, our stockholders approved an amendment to our 2007 Equity Incentive Plan to increase the maximum number of shares of common stock available for grant by 90,000,000 shares of common stock, resulting in an aggregate of 95,000,000 shares of common stock authorized for issuance pursuant to awards granted under our 2007 Equity Incentive Plan. The stockholders also approved an amendment to our 1997 Employee Stock Purchase Plan to increase the number of shares of common stock reserved for issuance under the plan by 500,000, for a total of 1,000,000 shares reserved as of March 31, 2013.

A.P. Pharma, Inc.
Notes to Condensed Financial Statements – (Continued)
(unaudited)

2011 Private Placement

In June 2011, we entered into a Securities Purchase Agreement with certain purchasers (Securities Purchase Agreement), pursuant to which we agreed to sell 160,000,006 shares of our common stock (Shares) and warrants to purchase 80,000,005 shares of our common stock (Warrants) with an exercise price of \$0.18 per share (2011 Private Placement), for an aggregate price of \$24.0 million. The 2011 Private Placement closed on July 1, 2011. For each share purchased, the investors received one Warrant to purchase 0.5 shares of common stock (together with a Share, a Unit), at a purchase price of \$0.15 per Unit. The Warrants were immediately exercisable and expire on the fifth anniversary of the closing date of July 1, 2011. The Warrants may be exercised for cash only or, if a registration statement is not then effective and available for the resale of the shares of common stock issuable upon exercise of the Warrants, by surrender of such Warrant, or a portion of such Warrant, by way of cashless exercise. There is no right to exercise the Warrants to the extent that after giving effect to such exercise the holder would beneficially own in excess of 9.99% of our outstanding shares of common stock or such other limit as may be designated by any particular purchaser. Each holder of the Warrants can amend or waive the foregoing limitation by written notice to the Company, with such waiver taking effect only upon the expiration of a 61-day notice period.

Under the terms of the Securities Purchase Agreement, on July 29, 2011, the Company filed a registration statement with the SEC to register for resale the Shares and the shares of common stock issuable upon the exercise of the Warrants (the Warrant Shares, and collectively with the Shares, the Registrable Securities). The registration statement was declared effective on August 4, 2011. The Company is obligated to maintain the effectiveness of the registration statement with respect to an investor's Registrable Securities until the investor is able to sell the Registrable Securities without limitation or restriction under Rule 144. If the Company fails to keep the registration statement continuously effective for a designated time (with limited exceptions) during the period the Company is obligated to maintain the registration statement, the Company may be obligated to pay to the holders of the Registrable Securities liquidated damages in an amount equal to 1.0% per month of such holder's pro rata interest in the total purchase price of the Private Placement, capped at a total penalty of 6.0%.

The Company received total proceeds of \$22.8 million from the financing, which was net of issuance costs of approximately \$1.2 million. During the three months ended March 31, 2013, the Company received \$0.6 million for an exercise of a warrant.

2012 Private Placement

In July 2012, the Company entered into a securities purchase agreement with certain purchasers, pursuant to which the Company agreed to sell 102,000,000 shares of its common stock (2012 Shares) at a purchase price of \$0.525 per share of common stock, for an aggregate price of approximately \$53.6 million (2012 Private Placement). The 2012 Private Placement closed on July 30, 2012. The proceeds to the Company from the offering, net of issuance costs, were approximately \$50.5 million.

In connection with entering into the securities purchase agreement, the Company also entered into a registration rights agreement. On August 24, 2012, the Company filed a registration statement with the SEC to register the 2012 Shares for resale. The registration statement was declared effective on September 6, 2012. If the Company fails to keep the registration statements continuously effective for a designated time (with limited exceptions), the Company may be obligated to pay to each holder of the 2012 Shares an amount equal to 1.5% per month of the aggregate purchase price of the unregistered 2012 Shares held by such holder, capped at a total penalty of 9.0%.

(10) SUBSEQUENT EVENT

On May 2, 2013, the Company announced that Barry D. Quart, Pharm.D. will join the Company as Chief Executive Officer, Robert Rosen, who joined the Company in October 2012 as Senior Vice President and Chief Commercial Officer, will be promoted to the role of President, and Stephen R. Davis will join the Company as Executive Vice President and Chief Operating Officer. Each executive joined the Company's Board of Directors in 2012 and will continue to serve as a director.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” as defined by the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks and uncertainties, including uncertainties associated with: the FDA’s response to our NDA when resubmitted; the progress of our research, development and clinical programs; the timing of regulatory approval and commercial introduction of APF530 and future product candidates; our ability to market, commercialize and achieve market acceptance for APF530 and other future product candidates; our ability to establish collaborations for our technology, APF530 and other future product candidates; our estimates for future performance; our estimates regarding our capital requirements and our needs for and ability to obtain additional financing; our ability to protect or enforce our intellectual property rights; volatility in the trading price of our common stock; and other risks and uncertainties identified in our filings with the Securities and Exchange Commission. We caution investors that forward-looking statements reflect our analysis only on their stated date. We do not undertake to update them except as required by law.

Overview

We are a specialty pharmaceutical company developing products using our proprietary Biochronomer™ polymer-based drug delivery platform. This drug delivery platform is designed to improve the therapeutic profile of injectable pharmaceuticals by converting them from products that must be injected once or twice per day to products that need to be injected only once every one or two weeks.

Our lead product candidate, APF530, is being developed for the prevention of acute CINV for patients undergoing both moderately and highly emetogenic chemotherapy and for the prevention of delayed CINV for patients undergoing moderately emetogenic chemotherapy. One of the most debilitating side effects of cancer chemotherapy, CINV is a leading cause of premature discontinuation of treatment. There is only one injectable 5-HT3 antagonist approved for the prevention of delayed-onset CINV. APF530 contains the 5-HT3 antagonist granisetron formulated in the Company’s proprietary Biochronomer drug delivery system, which allows therapeutic drug levels to be maintained for five days with a single subcutaneous injection. This five-day range is designed to cover the delayed phase of CINV. Granisetron was selected for APF530 because it is widely prescribed by physicians based on a well-established record of safety and efficacy.

In May 2009, we filed the original NDA seeking approval for APF530 with the FDA. The FDA issued a Complete Response Letter for the APF530 NDA in March 2010. In September 2012, we resubmitted the NDA seeking approval for APF530 with the FDA. On March 28, 2013, we announced that the FDA had issued a Complete Response Letter which identifies several issues which preclude approval of the APF530 NDA in its current form. We believe the issues that remain are addressable, and we will work expeditiously to resubmit the APF530 NDA.

We own the worldwide rights to APF530 and are in the early stages of building the commercial infrastructure necessary to commercialize APF530 in the U.S. on our own.

Critical Accounting Policies and Estimates

We prepare our condensed financial statements in accordance with U.S. generally accepted accounting principles, which require management to make estimates and assumptions. Management bases these estimates and assumptions on historical results and known trends, as well as management forecasts. Actual results could differ from these estimates and assumptions. See our Annual Report on Form 10-K for the year ended December 31, 2012 (2012 10-K), Part II, Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates.”

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2013, as compared to the recent accounting pronouncements described in our 2012 10-K, that we believe are of significance, or potential significance, to us.

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Results of Operations for the Three Months Ended March 31, 2013 and 2012

Our research and development costs consist primarily of employee salaries and other personnel-related expenses, facility-related expenses, laboratory consumables, development manufacturing, and clinical and pre-clinical related services performed by clinical research organizations, research institutions and other outside service providers.

Research and development expense for the three months ended March 31, 2013 increased by \$3.5 million to \$6.8 million, from \$3.3 million for the three months ended March 31, 2012. Compared to the prior year period, headcount-related costs and project spending for APF530 were higher in the current year period as we worked to validate our manufacturing processes and increase the scale of production. Research and development expense for the year 2013 is expected to be higher as compared to 2012 due to manufacturing-related expenses and additional efforts required to address issues raised in the Complete Response Letter we received in 2013.

General and administrative expenses consist primarily of salaries and related expenses, professional fees, directors' fees, investor relations costs, pre-commercialization costs, insurance expense and related overhead cost allocation.

General and administrative expense for the three months ended March 31, 2013 increased by \$4.6 million to \$6.0 million, from \$1.4 million for the three months ended March 31, 2012. The increase in the current fiscal period was primarily due to higher headcount-related costs, including stock compensation expense, market research, consulting costs and professional fees. General and administrative expense for the year 2013 is expected to be higher as compared to 2012 due to increased support costs related to the NDA resubmission and a full year of pre-commercialization activities.

Interest expense, net was \$0.2 million and \$0.1 million for the three months ended March 31, 2013 and 2012, respectively. Interest expense, net consists primarily of interest expense and amortization of debt discount related to the convertible note financing. Compared to the prior year period, the increase in the current fiscal period in interest expense, net was due to a higher level of convertible notes outstanding.

Loss from discontinued operations represents the loss attributable to the gross profit guaranty associated with the sale of our cosmeceutical and toiletry business. The loss from discontinued operations was \$0 and \$0.1 million for the three months ended March 31, 2013 and 2012, respectively. See Note 7 of Notes to Condensed Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for additional information.

Capital Resources and Liquidity

We had cash and cash equivalents of \$45.7 million at March 31, 2013. Cash and cash equivalents decreased by \$7.8 million from December 31, 2012 to March 31, 2013, primarily due to cash used in operations.

Net cash used in operating activities for the three months ended March 31, 2013 was \$8.0 million, compared to net cash used in operating activities of \$4.1 million for the three months ended March 31, 2012. The \$3.9 million increase in net cash used was primarily due to the increase in operating loss.

Net cash used in investing activities for the three months ended March 31, 2013 was \$0.4 million, compared to net cash used in investing activities of \$0.4 million for the three months ended March 31, 2012. The net cash used in both periods was for purchases of property and equipment.

Net cash provided by financing activities for the three months ended March 31, 2013 was \$0.6 million, compared to \$0 for the three months ended March 31, 2012. The increase of \$0.6 million was primarily due to proceeds received from the exercises of a warrant and stock options.

Historically, we have financed our operations, including technology and product research and development, primarily through sales of our common stock and other securities, royalties received on sales of Retin-A Micro and Carac, the sale of our rights to royalties on sales of Retin-A Micro and Carac, income from collaborative research and development fees, proceeds received from the sales of our Analytical Standards division and our cosmeceutical and toiletry business, and interest earned on short-term investments.

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In April 2011, we entered into definitive agreements for a convertible note financing of up to \$4.5 million. We received approximately \$1.3 million, net of issuance costs, from the initial closing, whereby \$1.5 million aggregate principal amount of convertible notes was issued. In May 2012, the purchasers exercised their rights to purchase the remaining \$3.0 million aggregate principal amount of convertible notes, and we received the additional \$3.0 million of proceeds. In June 2011, we entered into definitive agreements for a private placement of units comprised of common stock and warrants, for which we received proceeds of \$22.8 million, net of issuance costs of approximately \$1.2 million. In July 2012, we closed a common stock financing whereby the Company received approximately \$50.5 million of proceeds, net of issuance costs of approximately \$3.1 million.

We believe that our current cash resources are sufficient to fund planned operations into 2014. Our capital requirements going forward will depend on numerous factors, including: our efforts to respond to the FDA's March 2013 Complete Response Letter; an approval decision by the FDA with respect to APF530; the timing of and cost related to the manufacturing and the commercial launch of APF530, if approved; the technological and market developments from drugs that may compete with APF530; the degree of commercial success of APF530; the number and characteristics of product development programs we pursue and the pace of each program; the scope, rate of progress, results and costs of preclinical testing and clinical trials; the time, cost and outcome involved in seeking other regulatory approvals; scientific progress in our research and development programs; the magnitude and scope of our research and development programs; our ability to establish and maintain strategic collaborations or partnerships for research, development, clinical testing, manufacturing and marketing of our product candidates; the cost and timing of establishing sales, marketing and distribution capabilities for a specialty sales force if we commercialize other products independently; the cost of establishing clinical and commercial supplies of our product candidates and any products that we may develop; and general market conditions.

We may not be able to raise sufficient additional capital when we need it on favorable terms or at all. The sale of additional equity in the future may be dilutive to our stockholders. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unattractive terms.

Contractual Obligations

Below is a summary of fixed payments related to certain contractual obligations (in millions), consisting of our operating lease obligations and purchase commitments. This table excludes amounts already recorded on our balance sheet as current liabilities as of March 31, 2013.

	Total	Less than 1 year	2 to 3 years	4 to 5 years	More than 5 years
Operating lease obligations	\$ 2.9	\$ 0.9	\$ 1.5	\$ 0.5	\$ —
Purchase commitments	1.0	1.0	—	—	—
Total	<u>\$ 3.9</u>	<u>\$ 1.9</u>	<u>\$ 1.5</u>	<u>\$ 0.5</u>	<u>\$ —</u>

The holders of the convertible notes issued in May 2011 and May 2012 may require prepayment of the Notes at any time beginning on or after May 2, 2012 at each holder's option. See Note 8 of Notes to Condensed Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

As of March 31, 2013 we did not have any off-balance sheet arrangements.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risk is confined to our cash and cash equivalents. Our available-for-sale securities as of March 31, 2013 consisted of money market funds primarily containing U.S. government-backed securities, with original maturities of ninety days or less. We consider all highly liquid investments purchased with an original maturity of less than or equal to ninety days to be cash equivalents. We did not hold any marketable securities at March 31, 2013.

Our debt obligations consist of our convertible debt, which carries a fixed interest rate and, as a result, we are not exposed to interest rate risk on our convertible debt.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures: We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) and 15(d)-15(e) of the Securities and Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2013, the end of period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in internal control over financial reporting: During the three months ended March 31, 2013, there have been no significant changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes to the legal proceedings described in the Company's Annual Report on Form 10-K for the period ended December 31, 2012.

Item 1A. Risk Factors

Please see the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012 (the "Annual Report"). The risk factors set forth in the Annual Report, along with those risks described above under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere herein should be reviewed carefully, in conjunction with the other information contained in this Quarterly Report on Form 10-Q and our financial statements. These factors, among others, could cause actual results to differ materially from those currently anticipated and contained in forward-looking statements made in this Quarterly Report on Form 10-Q and presented elsewhere by our management from time to time. See the discussion of forward-looking statements in Part I, Item 2—"Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit 10-AI – Executive Employment Agreement, dated May 1, 2013, by and between the Company and Barry Quart.*

Exhibit 10-AJ – Executive Employment Agreement, dated May 1, 2013, by and between the Company and Robert Rosen.*

Exhibit 10-AK – Executive Employment Agreement, dated May 1, 2013, by and between the Company and Stephen Davis.*

Exhibit 31.1 – Certification of Chief Executive Officer pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934 as amended.

Exhibit 31.2 – Certification of Chief Financial Officer pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934 as amended.

Exhibit 32.1 – Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†

Exhibit 32.2 – Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.†

Exhibit 101.INS† XBRL Instance Document

Exhibit 101.SCH† XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL† XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF† XBRL Extension Definition

Exhibit 101.LAB† XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE† XBRL Taxonomy Extension Presentation Linkbase Document

† Furnished herewith.

* Management contract or compensatory plans.

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.

/S/ JOHN B. WHELAN

John B. Whelan

Chief Financial Officer

Date: May 10, 2013

EXECUTIVE EMPLOYMENT AGREEMENT

This **EMPLOYMENT AGREEMENT** (the "**Agreement**") is made and entered into effective as of May 1, 2013 (the "**Effective Date**"), by and between A.P. PHARMA, INC. (the "**Company**"), and DR. BARRY QUART (the "**Executive**"). The Company and the Executive are hereinafter collectively referred to as the "**Parties**", and individually referred to as a "**Party**".

AGREEMENT

In consideration of the foregoing and the mutual promises and covenants herein contained, and for other good and valuable consideration, the Parties, intending to be legally bound, agree as follows:

1. EMPLOYMENT.

1.1 Title. The Executive shall initially have the title of Chief Executive Officer of the Company and shall serve in such other capacity or capacities as the Company may from time to time prescribe and to which the Executive agrees. The Executive shall initially report to the Board of Directors of the Company (the "**Board**").

1.2 Duties. The Executive shall do and perform all services, acts or things necessary or advisable to manage and conduct the business of the Company and which are normally associated with the position of Chief Executive Officer, consistent with the Bylaws of the Company and as required by the Board.

1.3 Directorship. The Executive shall continue to serve as a member of the Board, subject to reelection by the Company's stockholders in accordance with the Company's Certificate of Incorporation, as amended and Bylaws; provided, however, that the Executive shall tender his resignation as a member of the Board concurrent with his termination of service as Chief Executive Officer, which resignation shall be conditional and subject to majority acceptance by the disinterested members of the Board. The Executive shall devote such time to the business of the Company as is necessary for the fulfillment of the Executive's duties as a member of the Board. The Executive shall not be paid a fee for serving as a member of the Board. The Company shall reimburse the Executive for reasonable expenses incurred in connection with his service as a member of the Board.

1.4 Policies and Practices. The employment relationship between the Parties shall be governed by the policies and practices established by the Company and the Board. The Executive acknowledges that he has read the Company's employee handbook and other governing policies, which will govern the terms and conditions of his employment with the Company, along with this Agreement. In the event that the terms of this Agreement differ from or are in conflict with the Company's policies or practices or the Company's employee handbook, this Agreement shall control.

1.5 Location. Unless the Parties otherwise agree in writing, during the term of this Agreement, it is expected that the Executive will work primarily at the Company's offices in Nevada or Connecticut; provided, however, that the Company may from time to time require the Executive to travel temporarily to other locations in connection with the Company's business. The Company shall pay for all travel expenses in connection with Executive's duties.

2. LOYAL AND CONSCIENTIOUS PERFORMANCE; NONCOMPETITION.

2.1 Loyalty. During the Executive's employment by the Company, the Executive shall devote the Executive's full business energies, interest, abilities and productive time to the proper and efficient performance of the Executive's duties under this Agreement. Notwithstanding the foregoing, the Executive may continue to serve as a member of the Board of Directors of Synageva, Ardea Biosciences and NeuroGenetic and the Executive may provide occasional consulting that are not competitive with the Company. The Executive is also permitted to participate in movie production, ownership and distribution as well as associated services and acts in connection with his movie production ownership interest.

2.2 Covenant Not to Compete. Except with the prior written consent of the Board, which shall not be unreasonably withheld, and except the provisions included in Section 2.1 above, the Executive will not, during his employment by the Company, engage in competition with the Company and/or any of its Affiliates, either directly or indirectly, in any manner or capacity, as adviser, principal, agent, affiliate, promoter, partner, officer, director, employee, stockholder, owner, co-owner, consultant, or member of any association or otherwise, in any phase of the business of developing, manufacturing and marketing of products or services which are in the same field of use or which otherwise compete with the products or services or proposed products or services of the Company and/or any of its Affiliates. For purposes of this Agreement, "**Affiliate**" means, with respect to any specific entity, any other entity that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with such specified entity.

2.3 Agreement Not to Participate in Company's Competitors. During the term of this agreement, and except the provisions included in Section 2.1 above, the Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known by the Executive to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise or in any company, person or entity that is, directly or indirectly, in competition with the business of the Company or any of its Affiliates. Ownership by the Executive, as a passive investment, of less than two percent (2%) of the outstanding shares of capital stock of any corporation with one or more classes of its capital stock listed on a national securities exchange or publicly traded on the Nasdaq Stock Market or in the over-the-counter market shall not constitute a breach of this paragraph.

3. COMPENSATION OF THE EXECUTIVE.

3.1 Base Salary. The Company shall pay the Executive a base salary of at least \$525,000 per year, less payroll deductions and all required withholdings payable in regular periodic payments in accordance with Company policy. Such base salary shall be prorated for any partial year of employment on the basis of a 365-day fiscal year. Salary and bonus shall be paid through the Nevada office of the Company and is intended to be considered Nevada-sourced income.

3.2 Performance Bonus. In addition to the Executive's base salary, the Executive shall be eligible for a performance bonus based upon the Executive's and the Company's achievement of specified objectives established by the Board during the first quarter of each year after consultation with the Executive, as evaluated by the Board in its discretion. The target bonus for full achievement of all objectives shall be 55% of the Executive's Base Salary.

3.3 Equity Incentives.

(a) As of the Effective Date, Executive will be granted an option to purchase up to 22,500,000 shares of the Company's common stock (the "**Option**"). Subject to the Executive continuing to serve as Chief Executive Officer of the Company (except as set forth below), vesting of the Option will be as follows: (i) 11,250,000 shares (the "**Time-Based Shares**") vesting over a four-year period, with 2,812,500 shares vesting on the first anniversary of the date of grant, and then 234,375 shares vesting monthly thereafter over the next three years; (ii) 3,750,000 shares vesting upon receipt by the Company of FDA approval for its investigational new drug APF530 or any other drug product utilizing the Company's Biochronomer technology (either being a "**Qualified Drug**"), (iii) 3,750,000 shares as of the end of the first quarter in which the Company achieves Qualified Drug net sales of at least \$10 million, and (iv) 3,750,000 as of the end of the quarter in which the Company achieves total Qualified Drug net sales of at least \$100 million in any consecutive four-quarter period (the shares subject to vesting in each of above clauses (ii), (iii) and (iv) being the "**Performance-Based Shares**"). If any vesting condition for the Performance-Based Shares is met within 60 days following Executive's termination of service either by the Company without Cause or by the Executive for Good Reason, then the vesting condition will be deemed satisfied with respect to that condition (such circumstance being a "**Post-Termination Vesting Event**"). The Option will have a ten-year term and will be treated as an incentive stock option to the maximum extent possible under applicable regulations, with the remainder being non-statutory stock options. The portion of the Option that is vested as of the date of termination of the Executive's service with the Company shall remain exercisable for a period of 90 days following termination. Any portion of the Option that vests as a result of a Post-Termination Vesting Event shall remain exercisable for a period of 90 days following the occurrence of such event.

(b) With respect to all stock options previously granted to Executive by the Company, which options are listed on Schedule A attached hereto (the "**Prior Options**"), the Company and Executive hereby agree that the Prior Options shall be vested with respect to that number of shares reflected under the "Options Considered Vested" column of Schedule A, with the remainder of the Prior Options to be forfeited as of the Effective Date.

3.4 Changes to Compensation. The Executive's compensation will be reviewed on a regular basis by the Company and may be changed from time to time as deemed appropriate. For clarity, the provisions of this Section 3.4 are not meant to supersede the right of the Executive to terminate for Good Reason in the event of a material reduction of Executive's Base Salary as provided in Section 4.5.3.

3.5 Employment Taxes. All of the Executive's compensation shall be subject to customary withholding taxes and any other employment taxes as are commonly required to be collected or withheld by the Company.

4. TERMINATION.

4.1 Termination by the Company. The Executive's employment by the Company shall be at will. The Executive's employment with the Company may be terminated by the Company at any time and for any reason or no reason, with or without "**Cause**" (as defined below), subject to the provisions of this Section 4.

4.2 Termination by Mutual Agreement of the Parties. The Executive's employment pursuant to this Agreement may be terminated at any time upon a mutual agreement in writing of the Parties. Any such termination of employment shall have the consequences specified in such agreement.

4.3 Termination by the Executive. The Executive's employment by the Company shall be at will. The Executive shall have the right to resign or terminate the Executive's employment at any time and for any reason, or no reason, with or without "**Good Reason**" (as defined below), subject to the provisions of this Section 4.

4.4 Compensation Upon Termination.

4.4.1 With Cause or Without Good Reason. If the Executive's employment shall be terminated by the Company for Cause, or if the Executive terminates employment hereunder for other than Good Reason, the Company shall pay the Executive's base salary and accrued and unused vacation benefits earned through the date of termination at the rate in effect at the time of termination, less standard deductions and withholdings, and the Company shall thereafter have no further obligations to the Executive under this Agreement.

4.4.2 Without Cause or With Good Reason. If the Executive's employment shall be terminated by the Company without Cause, or by the Executive for Good Reason, the Executive shall receive the payments specified in Section 4.4.1, and, in addition, within ten days of the Executive's delivery to the Company of a fully effective Release and Waiver in the form attached hereto as **Exhibit A**, within the applicable time period set forth therein, but in no event later than 45 days following termination of the Executive's employment, the Executive shall receive the following: (i) a lump sum payment equal to the sum of the Executive's annual base salary then in effect and the Executive's target performance bonus then in effect, less required deductions and withholdings; (ii) accelerated time-based vesting of shares subject to all stock awards issued by the Company, for the number of shares which would have vested accordingly had the Executive continued employment with the Company for a period of 12 months after termination (for the avoidance of doubt, which shall include partial accelerated vesting of the Time-Based Shares, but not the Performance-Based Shares); and (iii) reimbursement for or continuation of payment by the Company of its portion of the health insurance benefits provided to Executive immediately prior to termination pursuant to the terms of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**") or other applicable law for a period of up to 24 months from the date of termination.

4.4.3 Change in Control. If the Executive's employment shall be terminated by the Company without Cause, or by the Executive for Good Reason within three months before or within 12 months following a Change in Control, the Executive shall receive the payments specified in Section 4.4.1, and, in addition, within ten days of the Executive's delivery to the Company of a fully effective Release and Waiver in the form attached hereto as *Exhibit A*, within the applicable time period set forth therein, but in no event later than 45 days following termination of the Executive's employment, the Executive shall receive the following: (i) a lump sum payment equal to 150% of the Executive's annual base salary then in effect, less required deductions and withholdings; (ii) the greater of the Executive's target performance bonus then in effect, less required deductions and withholdings, or the Executive's performance bonus paid in the year preceding the year in which termination occurs, less required deductions and withholdings; and (iii) provided that the Executive timely elects continued coverage under COBRA, the COBRA benefit for a period of up to 24 months.

4.4.4 Parachute Payment. If any payment or benefit Executive would receive pursuant to a Change in Control or otherwise ("**Payment**") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then such Payment shall be reduced to the Reduced Amount. The "**Reduced Amount**" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the Executive's receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting "parachute payments" is necessary so that the Payment equals the Reduced Amount, reduction shall occur in the following order: reduction of cash payments; cancellation of accelerated vesting of stock awards; reduction of employee benefits. In the event that acceleration of vesting of stock award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant of Executive's stock awards.

The accounting firm engaged by the Company for general audit purposes as of the day prior to the effective date of the Change in Control shall perform the foregoing calculations. If the accounting firm so engaged by the Company is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, then the Company shall appoint a nationally recognized accounting firm to make the determinations required hereunder. The Company shall bear all expenses with respect to the determinations by such accounting firm required to be made hereunder.

The accounting firm engaged to make the determinations hereunder shall provide its calculations, together with detailed supporting documentation, to the Executive and the Company within 15 calendar days after the date on which the Executive's right to a Payment is triggered (if requested at that time by the Executive or the Company) or such other time as requested by the Executive or the Company. If the accounting firm determines that no Excise Tax is payable with respect to a Payment, either before or after the application of the Reduced Amount, it shall furnish the Executive and the Company with an opinion reasonably acceptable to the Executive that no Excise Tax will be imposed with respect to such Payment. Any good faith determinations of the accounting firm made hereunder shall be final, binding and conclusive upon the Executive and the Company.

4.4.5 Application of Section 409A. Notwithstanding anything to the contrary set forth herein, any payments and benefits provided under this Agreement (the “**Severance Benefits**”) that constitute “deferred compensation” within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the “**Code**”) and the regulations and other guidance thereunder and any state law of similar effect (collectively “**Section 409A**”) shall not commence in connection with Executive’s termination of employment unless and until Executive has also incurred a “separation from service” (as such term is defined in Treasury Regulation Section 1.409A-1(h) (“**Separation From Service**”)), unless the Company reasonably determines that such amounts may be provided to Executive without causing Executive to incur the additional 20% tax under Section 409A.

It is intended that each installment of the Severance Benefits payments provided for in this Agreement is a separate “payment” for purposes of Treasury Regulation Section 1.409A-2(b)(2)(i). For the avoidance of doubt, it is intended that payments of the Severance Benefits set forth in this Agreement satisfy, to the greatest extent possible, the exemptions from the application of Section 409A provided under Treasury Regulation Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9). However, if the Company (or, if applicable, the successor entity thereto) determines that the Severance Benefits constitute “deferred compensation” under Section 409A and Executive is, on the termination of Executive’s service, a “specified employee” of the Company or any successor entity thereto, as such term is defined in Section 409A(a)(2)(B)(i) of the Code, then, solely to the extent necessary to avoid the incurrence of the adverse personal tax consequences under Section 409A, the timing of the Severance Benefit payments shall be delayed until the earlier to occur of: (i) the date that is six months and one day after Executive’s Separation From Service or (ii) the date of Executive’s death (such applicable date, the “**Specified Employee Initial Payment Date**”), and the Company (or the successor entity thereto, as applicable) shall (A) pay to Executive a lump sum amount equal to the sum of the Severance Benefit payments that Executive would otherwise have received through the Specified Employee Initial Payment Date if the commencement of the payment of the Severance Benefits had not been so delayed pursuant to this Section and (B) commence paying the balance of the Severance Benefits in accordance with the applicable payment schedules set forth in this Agreement.

Except to the extent that payments may be delayed until the Specified Employee Initial Payment Date pursuant to the preceding paragraph, on the first regular payroll pay day following the effective date of the Release and Waiver, the Company will pay Executive the Severance Benefits Executive would otherwise have received under the Agreement on or prior to such date but for the delay in payment related to the effectiveness of the Release and Waiver, with the balance of the Severance Benefits being paid as originally scheduled. All amounts payable under the Agreement will be subject to standard payroll taxes and deductions.

4.5 Definitions.

4.5.1 Cause. For purposes of this Agreement, “*Cause*” means that, in the reasonable determination of the Company, the Executive has:

- (i) been indicted for or convicted of or pleaded guilty or no contest to any felony or crime involving dishonesty that is likely to inflict or has inflicted demonstrable and material injury on the business of the Company;
- (ii) participated in any fraud against the Company;
- (iii) willfully and materially breached a Company policy;
- (iv) intentionally damaged any property of the Company thereby causing demonstrable and material injury to the business of the Company; or
- (v) engaged in conduct that, in the reasonable determination of the Company, demonstrates gross unfitness to serve.

Notwithstanding the foregoing, Cause shall not exist based on conduct described in clause (iii) above unless the conduct described in such clause has not been cured within 15 days following the Executive’s receipt of written notice from the Company specifying the particulars of the conduct constituting Cause.

4.5.2 Change in Control. For purposes of this Agreement, “*Change in Control*” means the occurrence of any of the following:

(i) an Ownership Change Event or a series of related Ownership Change Events (collectively, a “*Transaction*”) in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company’s voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or such surviving entity immediately outstanding after the Transaction, or, in the case of an Ownership Change Event the entity to which the assets of the Company were transferred (the “*Transferee*”), as the case may be; or

(ii) the liquidation or dissolution of the Company.

For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Board shall have the right to determine whether multiple sales or exchanges of the voting securities in the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive. The Board may also, but need not, specify that other transactions or events constitute a Change in Control.

4.5.3 Good Reason. “Good Reason” for the Executive to terminate the Executive’s employment hereunder shall mean the occurrence of any of the following events without the Executive’s consent:

(i) a material reduction (20% or more) by the Company of the Executive’s Base Salary as initially set forth herein or as the same may be increased from time to time;

(ii) a material reduction by the Company of the Executive’s management responsibilities;

(iii) a material breach of this Agreement by the Company;

provided however, that any resignation by the Executive due to any of the following conditions shall only be deemed for Good Reason if: (i) the Executive gives the Company written notice of the intent to terminate for Good Reason within 90 days following the first occurrence of the condition(s) that the Executive believes constitutes Good Reason, which notice shall describe such condition(s); (ii) the Company fails to remedy, if remediable, such condition(s) within 15 days following receipt of the written notice (the “**Cure Period**”) of such condition(s) from the Executive; and (iii) Executive actually resigns his employment within the first 15 days after expiration of the Cure Period.

4.5.4 Ownership Change Event. For purposes of this Agreement, “**Ownership Change Event**” means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than 50% of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company.

5. ASSIGNMENT AND BINDING EFFECT.

This Agreement shall be binding upon and inure to the benefit of the Executive and the Executive’s heirs, executors, personal representatives, assigns, administrators and legal representatives. Because of the unique and personal nature of the Executive’s duties under this Agreement, neither this Agreement nor any rights or obligations under this Agreement shall be assignable by the Executive. This Agreement shall be binding upon and inure to the benefit of the Company and its successors, assigns and legal representatives.

6. CHOICE OF LAW.

This Agreement is made in California. This Agreement shall be construed and interpreted in accordance with the internal laws of the State of Delaware.

7. INTEGRATION.

This Agreement, including *Exhibit A*, contains the complete, final and exclusive agreement of the Parties relating to the terms and conditions of the Executive's employment and the termination of Executive's employment, and supersedes all prior and contemporaneous oral and written employment agreements or arrangements between the Parties. To the extent this Agreement conflicts with the terms of the Company's employee handbook, governing policies, or bylaws, this Agreement controls.

8. AMENDMENT.

This Agreement cannot be amended or modified except by a written agreement signed by the Executive and the Company.

9. WAIVER.

No term, covenant or condition of this Agreement or any breach thereof shall be deemed waived, except with the written consent of the Party against whom the waiver is claimed, and any waiver or any such term, covenant, condition or breach shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other term, covenant, condition or breach.

10. SEVERABILITY.

The finding by a court of competent jurisdiction of the unenforceability, invalidity or illegality of any provision of this Agreement shall not render any other provision of this Agreement unenforceable, invalid or illegal. Such court shall have the authority to modify or replace the invalid or unenforceable term or provision with a valid and enforceable term or provision which most accurately represents the Parties' intention with respect to the invalid or unenforceable term or provision.

11. INTERPRETATION; CONSTRUCTION.

The headings set forth in this Agreement are for convenience of reference only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel representing the Company, but the Executive has been encouraged to consult with, and has consulted with, the Executive's own independent counsel and tax advisors with respect to the terms of this Agreement. The Parties acknowledge that each Party and its counsel has reviewed and revised, or had an opportunity to review and revise, this Agreement, and the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

12. REPRESENTATIONS AND WARRANTIES.

The Executive represents and warrants that the Executive is not restricted or prohibited, contractually or otherwise, from entering into and performing each of the terms and covenants contained in this Agreement, and that the Executive's execution and performance of this Agreement will not violate or breach any other agreements between the Executive and any other person or entity.

13. COUNTERPARTS.

This Agreement may be executed in two counterparts, each of which shall be deemed an original, all of which together shall contribute one and the same instrument.

14. ARBITRATION.

To ensure the rapid and economical resolution of disputes that may arise in connection with the Executive's employment with the Company, the Executive and the Company agree that any and all disputes, claims, or causes of action, in law or equity, arising from or relating to the Executive's employment, or the termination of that employment, will be resolved pursuant to the Federal Arbitration Act and to the fullest extent permitted by law, by final, binding and confidential arbitration conducted by the Judicial Arbitration and Mediation Services ("**JAMS**"), or its successors, under the then current rules of JAMS for employment disputes; provided that the arbitrator shall: (i) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (ii) issue a written arbitration decision including the arbitrator's essential findings and conclusions and a statement of the award. Both the Executive and the Company shall be entitled to all rights and remedies that either the Executive or the Company would be entitled to pursue in a court of law. The Company shall pay all fees, including the arbitrator's fee. Nothing in this Agreement is intended to prevent either the Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration.

15. TRADE SECRETS OF OTHERS.

It is the understanding of both the Company and the Executive that the Executive shall not divulge to the Company and/or its subsidiaries any confidential information or trade secrets belonging to others, including the Executive's former employers, nor shall the Company and/or its Affiliates seek to elicit from the Executive any such information. Consistent with the foregoing, the Executive shall not provide to the Company and/or its Affiliates, and the Company and/or its Affiliates shall not request, any documents or copies of documents containing such information.

16. ADVERTISING WAIVER.

The Executive agrees to permit the Company and/or its Affiliates, and persons or other organizations authorized by the Company and/or its Affiliates, to use, publish and distribute advertising or sales promotional literature concerning the products and/or services of the Company and/or its Affiliates, or the machinery and equipment used in the provision thereof, in which the Executive's name and/or pictures of the Executive taken in the course of the Executive's provision of services to the Company and/or its Affiliates, appear. The Executive hereby waives and releases any claim or right the Executive may otherwise have arising out of such use, publication or distribution during the term of this Agreement.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

A.P. PHARMA, INC.

/s/ Kevin C. Tang

Kevin C. Tang
Chairman

Dated: _____

EXECUTIVE:

/s/ Barry Quart

BARRY QUART

Dated: 01 May 2013

EXHIBIT A
RELEASE AND WAIVER OF CLAIMS
TO BE SIGNED AT TIME OF TERMINATION WITHOUT CAUSE OR
RESIGNATION FOR GOOD REASON

In consideration of the payments and other benefits set forth in Section 4.4 of the Executive Employment Agreement dated May 1, 2013, to which this form is attached, I, DR. BARRY QUART hereby furnish A.P. PHARMA, INC. (the "**Company**"), with the following release and waiver (the "**Release and Waiver**").

In exchange for the consideration provided to me by the Employment Agreement that I am not otherwise entitled to receive, I hereby generally and completely release the Company and its directors, officers, employees, stockholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, Affiliates, and assigns from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring prior to my signing this Release and Waiver. This general release includes, but is not limited to: (1) all claims arising out of or in any way related to my employment with the Company or the termination of that employment; (2) all claims related to my compensation or benefits from the Company, including, but not limited to, salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (4) all tort claims, including, but not limited to, claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including, but not limited to, claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) ("**ADEA**"), and the California Fair Employment and Housing Act (as amended).

I also acknowledge that I have read and understand Section 1542 of the California Civil Code which reads as follows: "**A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.**" I hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to any claims I may have against the Company.

I acknowledge that, among other rights, I am waiving and releasing any rights I may have under ADEA, that this Release and Waiver is knowing and voluntary, and that the consideration given for this Release and Waiver is in addition to anything of value to which I was already entitled as an executive of the Company. If I am 40 years of age or older upon execution of this Release and Waiver, I further acknowledge that I have been advised, as required by the Older Workers Benefit Protection Act, that: (a) the release and waiver granted herein does not relate to claims under the ADEA which may arise after this Release and Waiver is executed; (b) I should consult with an attorney prior to executing this Release and Waiver; (c) I have twenty-one (21) days in which to consider this Release and Waiver (although I may choose voluntarily to execute this Release and Waiver earlier); (d) I have seven (7) days following the execution of this Release and Waiver to revoke my consent to this Release and Waiver; and (e) this Release and Waiver shall not be effective until the eighth day after I execute this Release and Waiver and the revocation period has expired (the "**Effective Date**").

I understand that among other things, I must not use or disclose any confidential or proprietary information of the Company and I must immediately return all Company property and documents (including all embodiments of proprietary information) and all copies thereof in my possession or control.

This Release and Waiver constitutes the complete, final and exclusive embodiment of the entire agreement between the Company and me with regard to the subject matter hereof. I am not relying on any promise or representation by the Company that is not expressly stated herein. This Release and Waiver may only be modified by a writing signed by both me and a duly authorized officer of the Company.

Date: _____

By: _____
BARRY QUART

Schedule A

Barry Quart

Option Vesting Summary

5/1/2013

	<u>Number of Options</u>	<u>Exercise Price</u>	<u>Grant Date</u>	<u>Vesting Period (Months)</u>	<u>Grant Date to 5/1/13 (Months)</u>	<u>% Considered Vested on 4/19/13</u>	<u>Options Considered Vested</u>
	1,000,000	\$ 0.63	6/17/2012	36	10.45	29%	290,411
	500,000	\$ 0.63	6/17/2012	12	10.45	87%	435,616
	3,500,000	\$ 0.63	6/17/2012	48	10.45	22%	762,329
Total	5,000,000					30%	1,488,356

EXECUTIVE EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "**Agreement**") is made and entered into effective as of May 1, 2013 (the "**Effective Date**"), by and between A.P. PHARMA, INC. (the "**Company**"), and ROBERT ROSEN (the "**Executive**"). The Company and the Executive are hereinafter collectively referred to as the "**Parties**", and individually referred to as a "**Party**".

AGREEMENT

In consideration of the foregoing and the mutual promises and covenants herein contained, and for other good and valuable consideration, the Parties, intending to be legally bound, agree as follows:

1. EMPLOYMENT.

1.1 Title. The Executive shall initially have the title of President of the Company and shall serve in such other capacity or capacities as the Company may from time to time prescribe and to which the Executive agrees. The Executive shall initially report to the Board of Directors of the Company (the "**Board**").

1.2 Duties. The Executive shall do and perform all services, acts or things necessary or advisable to manage and conduct the business of the Company and which are normally associated with the position of President, consistent with the Bylaws of the Company and as required by the Board.

1.3 Directorship. The Executive shall continue to serve as a member of the Board, subject to reelection by the Company's stockholders in accordance with the Company's Certificate of Incorporation, as amended and Bylaws; provided, however, that the Executive shall tender his resignation as a member of the Board concurrent with his termination of service as President, which resignation shall be conditional and subject to majority acceptance by the disinterested members of the Board. The Executive shall devote such time to the business of the Company as is necessary for the fulfillment of the Executive's duties as a member of the Board. The Executive shall not be paid a fee for serving as a member of the Board. The Company shall reimburse the Executive for reasonable expenses incurred in connection with his service as a member of the Board.

1.4 Policies and Practices. The employment relationship between the Parties shall be governed by the policies and practices established by the Company and the Board. The Executive acknowledges that he has read the Company's employee handbook and other governing policies, which will govern the terms and conditions of his employment with the Company, along with this Agreement. In the event that the terms of this Agreement differ from or are in conflict with the Company's policies or practices or the Company's employee handbook, this Agreement shall control.

1.5 Location. Unless the Parties otherwise agree in writing, during the term of this Agreement, it is expected that the Executive will primarily work at the Company's offices in Connecticut and work as necessary the Company's offices in Redwood City, California; provided, however, that the Company may from time to time require the Executive to travel temporarily to other locations in connection with the Company's business. The Company shall pay for all travel expenses in connection with Executive's duties.

2. LOYAL AND CONSCIENTIOUS PERFORMANCE; NONCOMPETITION.

2.1 Loyalty. During the Executive's employment by the Company, the Executive shall devote the Executive's full business energies, interest, abilities and productive time to the proper and efficient performance of the Executive's duties under this Agreement. Notwithstanding the foregoing, the may provide occasional consulting, including but not limited to Scotia Nordic LLC.

2.2 Covenant Not to Compete. Except with the prior written consent of the Board, which shall not be unreasonably withheld, and except the provisions included in Section 2.1 above, the Executive will not, during his employment by the Company, engage in competition with the Company and/or any of its Affiliates, either directly or indirectly, in any manner or capacity, as adviser, principal, agent, affiliate, promoter, partner, officer, director, employee, stockholder, owner, co-owner, consultant, or member of any association or otherwise, in any phase of the business of developing, manufacturing and marketing of products or services which are in the same field of use or which otherwise compete with the products or services or proposed products or services of the Company and/or any of its Affiliates. For purposes of this Agreement, "**Affiliate**" means, with respect to any specific entity, any other entity that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with such specified entity.

2.3 Agreement Not to Participate in Company's Competitors. During the term of this agreement, and except the provisions included in Section 2.1 above, the Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known by the Executive to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise or in any company, person or entity that is, directly or indirectly, in competition with the business of the Company or any of its Affiliates. Ownership by the Executive, as a passive investment, of less than two percent (2%) of the outstanding shares of capital stock of any corporation with one or more classes of its capital stock listed on a national securities exchange or publicly traded on the Nasdaq Stock Market or in the over-the-counter market shall not constitute a breach of this paragraph.

3. COMPENSATION OF THE EXECUTIVE.

3.1 Base Salary. The Company shall pay the Executive a base salary of at least \$525,000 per year, less payroll deductions and all required withholdings payable in regular periodic payments in accordance with Company policy. Such base salary shall be prorated for any partial year of employment on the basis of a 365-day fiscal year.

3.2 Performance Bonus. In addition to the Executive's base salary, the Executive shall be eligible for a performance bonus based upon the Executive's and the Company's achievement of specified objectives established by the Board during the first quarter of each year after consultation with the Executive, as evaluated by the Board in its discretion. The target bonus for full achievement of all objectives shall be 55% of the Executive's Base Salary.

3.3 Equity Incentives.

(a) As of the Effective Date, Executive will be granted an option to purchase up to 22,500,000 shares of the Company's common stock (the "**Option**"). Subject to the Executive continuing to serve as an officer of the Company (except as set forth below), vesting of the Option will be as follows: (i) 11,250,000 shares (the "**Time-Based Shares**") vesting over a four-year period, with 2,812,500 shares vesting on the first anniversary of the date of grant, and then 234,375 shares vesting monthly thereafter over the next three years; (ii) 3,750,000 shares vesting upon receipt by the Company of FDA approval for its investigational new drug APF530 or any other drug product utilizing the Company's Biochronomer technology (either being a "**Qualified Drug**"), (iii) 3,750,000 shares as of the end of the first quarter in which the Company achieves Qualified Drug net sales of at least \$10 million, and (iv) 3,750,000 as of the end of the quarter in which the Company achieves total Qualified Drug net sales of at least \$100 million in any consecutive four-quarter period (the shares subject to vesting in each of above clauses (ii), (iii) and (iv) being the "**Performance-Based Shares**"). If any vesting condition for the Performance-Based Shares is met within 60 days following Executive's termination of service either by the Company without Cause or by the Executive for Good Reason, then the vesting condition will be deemed satisfied with respect to that condition (such circumstance being a "**Post-Termination Vesting Event**"). The Option will have a ten-year term and will be treated as an incentive stock option to the maximum extent possible under applicable regulations, with the remainder being non-statutory stock options. The portion of the Option that is vested as of the date of termination of the Executive's service with the Company shall remain exercisable for a period of 90 days following termination. Any portion of the Option that vests as a result of a Post-Termination Vesting Event shall remain exercisable for a period of 90 days following the occurrence of such event.

(b) With respect to all stock options previously granted to Executive by the Company, which options are listed on Schedule A attached hereto (the "**Prior Options**"), the Company and Executive hereby agree that the Prior Options shall be vested with respect to that number of shares reflected under the "Options Considered Vested" column of Schedule A, with the remainder of the Prior Options to be forfeited as of the Effective Date.

3.4 Changes to Compensation. The Executive's compensation will be reviewed on a regular basis by the Company and may be changed from time to time as deemed appropriate. For clarity, the provisions of this Section 3.4 are not meant to supersede the right of the Executive to terminate for Good Reason in the event of a material reduction of Executive's Base Salary as provided in Section 4.5.3.

3.5 Employment Taxes. All of the Executive's compensation shall be subject to customary withholding taxes and any other employment taxes as are commonly required to be collected or withheld by the Company.

4. TERMINATION.

4.1 Termination by the Company. The Executive's employment by the Company shall be at will. The Executive's employment with the Company may be terminated by the Company at any time and for any reason or no reason, with or without "**Cause**" (as defined below), subject to the provisions of this Section 4.

4.2 Termination by Mutual Agreement of the Parties. The Executive's employment pursuant to this Agreement may be terminated at any time upon a mutual agreement in writing of the Parties. Any such termination of employment shall have the consequences specified in such agreement.

4.3 Termination by the Executive. The Executive's employment by the Company shall be at will. The Executive shall have the right to resign or terminate the Executive's employment at any time and for any reason, or no reason, with or without "**Good Reason**" (as defined below), subject to the provisions of this Section 4.

4.4 Compensation Upon Termination.

4.4.1 With Cause or Without Good Reason. If the Executive's employment shall be terminated by the Company for Cause, or if the Executive terminates employment hereunder for other than Good Reason, the Company shall pay the Executive's base salary and accrued and unused vacation benefits earned through the date of termination at the rate in effect at the time of termination, less standard deductions and withholdings, and the Company shall thereafter have no further obligations to the Executive under this Agreement.

4.4.2 Without Cause or With Good Reason. If the Executive's employment shall be terminated by the Company without Cause, or by the Executive for Good Reason, the Executive shall receive the payments specified in Section 4.4.1, and, in addition, within ten days of the Executive's delivery to the Company of a fully effective Release and Waiver in the form attached hereto as **Exhibit A**, within the applicable time period set forth therein, but in no event later than 45 days following termination of the Executive's employment, the Executive shall receive the following: (i) a lump sum payment equal to the sum of the Executive's annual base salary then in effect and the Executive's target performance bonus then in effect, less required deductions and withholdings; (ii) accelerated time-based vesting of shares subject to all stock awards issued by the Company, for the number of shares which would have vested accordingly had the Executive continued employment with the Company for a period of 12 months after termination (for the avoidance of doubt, which shall include partial accelerated vesting of the Time-Based Shares, but not the Performance-Based Shares); and (iii) reimbursement for or continuation of payment by the Company of its portion of the health insurance benefits provided to Executive immediately prior to termination pursuant to the terms of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**") or other applicable law for a period of up to 24 months from the date of termination.

4.4.3 Change in Control. If the Executive's employment shall be terminated by the Company without Cause, or by the Executive for Good Reason within three months before or within 12 months following a Change in Control, the Executive shall receive the payments specified in Section 4.4.1, and, in addition, within ten days of the Executive's delivery to the Company of a fully effective Release and Waiver in the form attached hereto as *Exhibit A*, within the applicable time period set forth therein, but in no event later than 45 days following termination of the Executive's employment, the Executive shall receive the following: (i) a lump sum payment equal to 150% of the Executive's annual base salary then in effect, less required deductions and withholdings; (ii) the greater of the Executive's target performance bonus then in effect, less required deductions and withholdings, or the Executive's performance bonus paid in the year preceding the year in which termination occurs, less required deductions and withholdings; and (iii) provided that the Executive timely elects continued coverage under COBRA, the COBRA benefit for a period of up to 24 months.

4.4.4 Parachute Payment. If any payment or benefit Executive would receive pursuant to a Change in Control or otherwise ("**Payment**") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then such Payment shall be reduced to the Reduced Amount. The "**Reduced Amount**" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the Executive's receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting "parachute payments" is necessary so that the Payment equals the Reduced Amount, reduction shall occur in the following order: reduction of cash payments; cancellation of accelerated vesting of stock awards; reduction of employee benefits. In the event that acceleration of vesting of stock award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant of Executive's stock awards.

The accounting firm engaged by the Company for general audit purposes as of the day prior to the effective date of the Change in Control shall perform the foregoing calculations. If the accounting firm so engaged by the Company is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, then the Company shall appoint a nationally recognized accounting firm to make the determinations required hereunder. The Company shall bear all expenses with respect to the determinations by such accounting firm required to be made hereunder.

The accounting firm engaged to make the determinations hereunder shall provide its calculations, together with detailed supporting documentation, to the Executive and the Company within 15 calendar days after the date on which the Executive's right to a Payment is triggered (if requested at that time by the Executive or the Company) or such other time as requested by the Executive or the Company. If the accounting firm determines that no Excise Tax is payable with respect to a Payment, either before or after the application of the Reduced Amount, it shall furnish the Executive and the Company with an opinion reasonably acceptable to the Executive that no Excise Tax will be imposed with respect to such Payment. Any good faith determinations of the accounting firm made hereunder shall be final, binding and conclusive upon the Executive and the Company.

4.4.5 Application of Section 409A. Notwithstanding anything to the contrary set forth herein, any payments and benefits provided under this Agreement (the “**Severance Benefits**”) that constitute “deferred compensation” within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the “**Code**”) and the regulations and other guidance thereunder and any state law of similar effect (collectively “**Section 409A**”) shall not commence in connection with Executive’s termination of employment unless and until Executive has also incurred a “separation from service” (as such term is defined in Treasury Regulation Section 1.409A-1(h) (“**Separation From Service**”)), unless the Company reasonably determines that such amounts may be provided to Executive without causing Executive to incur the additional 20% tax under Section 409A.

It is intended that each installment of the Severance Benefits payments provided for in this Agreement is a separate “payment” for purposes of Treasury Regulation Section 1.409A-2(b)(2)(i). For the avoidance of doubt, it is intended that payments of the Severance Benefits set forth in this Agreement satisfy, to the greatest extent possible, the exemptions from the application of Section 409A provided under Treasury Regulation Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9). However, if the Company (or, if applicable, the successor entity thereto) determines that the Severance Benefits constitute “deferred compensation” under Section 409A and Executive is, on the termination of Executive’s service, a “specified employee” of the Company or any successor entity thereto, as such term is defined in Section 409A(a)(2)(B)(i) of the Code, then, solely to the extent necessary to avoid the incurrence of the adverse personal tax consequences under Section 409A, the timing of the Severance Benefit payments shall be delayed until the earlier to occur of: (i) the date that is six months and one day after Executive’s Separation From Service or (ii) the date of Executive’s death (such applicable date, the “**Specified Employee Initial Payment Date**”), and the Company (or the successor entity thereto, as applicable) shall (A) pay to Executive a lump sum amount equal to the sum of the Severance Benefit payments that Executive would otherwise have received through the Specified Employee Initial Payment Date if the commencement of the payment of the Severance Benefits had not been so delayed pursuant to this Section and (B) commence paying the balance of the Severance Benefits in accordance with the applicable payment schedules set forth in this Agreement.

Except to the extent that payments may be delayed until the Specified Employee Initial Payment Date pursuant to the preceding paragraph, on the first regular payroll pay day following the effective date of the Release and Waiver, the Company will pay Executive the Severance Benefits Executive would otherwise have received under the Agreement on or prior to such date but for the delay in payment related to the effectiveness of the Release and Waiver, with the balance of the Severance Benefits being paid as originally scheduled. All amounts payable under the Agreement will be subject to standard payroll taxes and deductions.

4.5 Definitions.

4.5.1 Cause. For purposes of this Agreement, "**Cause**" means that, in the reasonable determination of the Company, the Executive has:

- (i) been indicted for or convicted of or pleaded guilty or no contest to any felony or crime involving dishonesty that is likely to inflict or has inflicted demonstrable and material injury on the business of the Company;
- (ii) participated in any fraud against the Company;
- (iii) willfully and materially breached a Company policy;
- (iv) intentionally damaged any property of the Company thereby causing demonstrable and material injury to the business of the Company; or
- (v) engaged in conduct that, in the reasonable determination of the Company, demonstrates gross unfitness to serve.

Notwithstanding the foregoing, Cause shall not exist based on conduct described in clause (iii) above unless the conduct described in such clause has not been cured within 15 days following the Executive's receipt of written notice from the Company specifying the particulars of the conduct constituting Cause.

4.5.2 Change in Control. For purposes of this Agreement, "**Change in Control**" means the occurrence of any of the following:

- (i) an Ownership Change Event or a series of related Ownership Change Events (collectively, a "**Transaction**") in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or such surviving entity immediately outstanding after the Transaction, or, in the case of an Ownership Change Event the entity to which the assets of the Company were transferred (the "**Transferee**"), as the case may be; or
- (ii) the liquidation or dissolution of the Company.

For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Board shall have the right to determine whether multiple sales or exchanges of the voting securities in the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive. The Board may also, but need not, specify that other transactions or events constitute a Change in Control.

4.5.3 Good Reason. “Good Reason” for the Executive to terminate the Executive’s employment hereunder shall mean the occurrence of any of the following events without the Executive’s consent:

- (i) a material reduction (20% or more) by the Company of the Executive’s Base Salary as initially set forth herein or as the same may be increased from time to time;
- (ii) a material reduction by the Company of the Executive’s management responsibilities;
- (iii) a material breach of this Agreement by the Company;

provided however, that any resignation by the Executive due to any of the following conditions shall only be deemed for Good Reason if: (i) the Executive gives the Company written notice of the intent to terminate for Good Reason within 90 days following the first occurrence of the condition(s) that the Executive believes constitutes Good Reason, which notice shall describe such condition(s); (ii) the Company fails to remedy, if remediable, such condition(s) within 15 days following receipt of the written notice (the **“Cure Period”**) of such condition(s) from the Executive; and (iii) Executive actually resigns his employment within the first 15 days after expiration of the Cure Period.

4.5.4 Ownership Change Event. For purposes of this Agreement, **“Ownership Change Event”** means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than 50% of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company.

5. ASSIGNMENT AND BINDING EFFECT.

This Agreement shall be binding upon and inure to the benefit of the Executive and the Executive’s heirs, executors, personal representatives, assigns, administrators and legal representatives. Because of the unique and personal nature of the Executive’s duties under this Agreement, neither this Agreement nor any rights or obligations under this Agreement shall be assignable by the Executive. This Agreement shall be binding upon and inure to the benefit of the Company and its successors, assigns and legal representatives.

6. CHOICE OF LAW.

This Agreement is made in California. This Agreement shall be construed and interpreted in accordance with the internal laws of the State of Delaware.

7. INTEGRATION.

This Agreement, including *Exhibit A*, contains the complete, final and exclusive agreement of the Parties relating to the terms and conditions of the Executive's employment and the termination of Executive's employment, and supersedes all prior and contemporaneous oral and written employment agreements or arrangements between the Parties, including, without limitation that certain Management Retention Agreement, dated as of October 15, 2012. To the extent this Agreement conflicts with the terms of the Company's employee handbook, governing policies, or bylaws, this Agreement controls.

8. AMENDMENT.

This Agreement cannot be amended or modified except by a written agreement signed by the Executive and the Company.

9. WAIVER.

No term, covenant or condition of this Agreement or any breach thereof shall be deemed waived, except with the written consent of the Party against whom the waiver is claimed, and any waiver or any such term, covenant, condition or breach shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other term, covenant, condition or breach.

10. SEVERABILITY.

The finding by a court of competent jurisdiction of the unenforceability, invalidity or illegality of any provision of this Agreement shall not render any other provision of this Agreement unenforceable, invalid or illegal. Such court shall have the authority to modify or replace the invalid or unenforceable term or provision with a valid and enforceable term or provision which most accurately represents the Parties' intention with respect to the invalid or unenforceable term or provision.

11. INTERPRETATION; CONSTRUCTION.

The headings set forth in this Agreement are for convenience of reference only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel representing the Company, but the Executive has been encouraged to consult with, and has consulted with, the Executive's own independent counsel and tax advisors with respect to the terms of this Agreement. The Parties acknowledge that each Party and its counsel has reviewed and revised, or had an opportunity to review and revise, this Agreement, and the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

12. REPRESENTATIONS AND WARRANTIES.

The Executive represents and warrants that the Executive is not restricted or prohibited, contractually or otherwise, from entering into and performing each of the terms and covenants contained in this Agreement, and that the Executive's execution and performance of this Agreement will not violate or breach any other agreements between the Executive and any other person or entity.

13. COUNTERPARTS.

This Agreement may be executed in two counterparts, each of which shall be deemed an original, all of which together shall contribute one and the same instrument.

14. ARBITRATION.

To ensure the rapid and economical resolution of disputes that may arise in connection with the Executive's employment with the Company, the Executive and the Company agree that any and all disputes, claims, or causes of action, in law or equity, arising from or relating to the Executive's employment, or the termination of that employment, will be resolved pursuant to the Federal Arbitration Act and to the fullest extent permitted by law, by final, binding and confidential arbitration conducted by the Judicial Arbitration and Mediation Services ("**JAMS**"), or its successors, under the then current rules of JAMS for employment disputes; provided that the arbitrator shall: (i) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (ii) issue a written arbitration decision including the arbitrator's essential findings and conclusions and a statement of the award. Both the Executive and the Company shall be entitled to all rights and remedies that either the Executive or the Company would be entitled to pursue in a court of law. The Company shall pay all fees, including the arbitrator's fee. Nothing in this Agreement is intended to prevent either the Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration.

15. TRADE SECRETS OF OTHERS.

It is the understanding of both the Company and the Executive that the Executive shall not divulge to the Company and/or its subsidiaries any confidential information or trade secrets belonging to others, including the Executive's former employers, nor shall the Company and/or its Affiliates seek to elicit from the Executive any such information. Consistent with the foregoing, the Executive shall not provide to the Company and/or its Affiliates, and the Company and/or its Affiliates shall not request, any documents or copies of documents containing such information.

16. ADVERTISING WAIVER.

The Executive agrees to permit the Company and/or its Affiliates, and persons or other organizations authorized by the Company and/or its Affiliates, to use, publish and distribute advertising or sales promotional literature concerning the products and/or services of the Company and/or its Affiliates, or the machinery and equipment used in the provision thereof, in which the Executive's name and/or pictures of the Executive taken in the course of the Executive's provision of services to the Company and/or its Affiliates, appear. The Executive hereby waives and releases any claim or right the Executive may otherwise have arising out of such use, publication or distribution during the term of this Agreement.

[Signature Page Follows.]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

A.P. PHARMA, INC.

/s/ Kevin C. Tang

Kevin C. Tang

Chairman

Dated: _____

EXECUTIVE:

/s/ Robert Rosen

ROBERT ROSEN

Dated: 5/1/2013

EXHIBIT A
RELEASE AND WAIVER OF CLAIMS
TO BE SIGNED AT TIME OF TERMINATION WITHOUT CAUSE OR
RESIGNATION FOR GOOD REASON

In consideration of the payments and other benefits set forth in Section 4.4 of the Executive Employment Agreement dated May 1, 2013, to which this form is attached, I, ROBERT ROSEN hereby furnish A.P. PHARMA, INC. (the "**Company**"), with the following release and waiver (the "**Release and Waiver**").

In exchange for the consideration provided to me by the Employment Agreement that I am not otherwise entitled to receive, I hereby generally and completely release the Company and its directors, officers, employees, stockholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, Affiliates, and assigns from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring prior to my signing this Release and Waiver. This general release includes, but is not limited to: (1) all claims arising out of or in any way related to my employment with the Company or the termination of that employment; (2) all claims related to my compensation or benefits from the Company, including, but not limited to, salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (4) all tort claims, including, but not limited to, claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including, but not limited to, claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) ("**ADEA**"), and the California Fair Employment and Housing Act (as amended).

I also acknowledge that I have read and understand Section 1542 of the California Civil Code which reads as follows: "**A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.**" I hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to any claims I may have against the Company.

I acknowledge that, among other rights, I am waiving and releasing any rights I may have under ADEA, that this Release and Waiver is knowing and voluntary, and that the consideration given for this Release and Waiver is in addition to anything of value to which I was already entitled as an executive of the Company. If I am 40 years of age or older upon execution of this Release and Waiver, I further acknowledge that I have been advised, as required by the Older Workers Benefit Protection Act, that: (a) the release and waiver granted herein does not relate to claims under the ADEA which may arise after this Release and Waiver is executed; (b) I should consult with an attorney prior to executing this Release and Waiver; (c) I have twenty-one (21) days in which to consider this Release and Waiver (although I may choose voluntarily to execute this Release and Waiver earlier); (d) I have seven (7) days following the execution of this Release and Waiver to revoke my consent to this Release and Waiver; and (e) this Release and Waiver shall not be effective until the eighth day after I execute this Release and Waiver and the revocation period has expired (the "**Effective Date**").

I understand that among other things, I must not use or disclose any confidential or proprietary information of the Company and I must immediately return all Company property and documents (including all embodiments of proprietary information) and all copies thereof in my possession or control.

This Release and Waiver constitutes the complete, final and exclusive embodiment of the entire agreement between the Company and me with regard to the subject matter hereof. I am not relying on any promise or representation by the Company that is not expressly stated herein. This Release and Waiver may only be modified by a writing signed by both me and a duly authorized officer of the Company.

Date: _____

By: _____
ROBERT ROSEN

Schedule A

Robert Rosen
Option Vesting Summary
 5/1/2013

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Grant Date</u>	<u>Vesting Period (Months)</u>	<u>Grant Date to 5/1/13 (Months)</u>	<u>% Considered Vested on 5/1/13</u>	<u>Options Considered Vested</u>
1,000,000	\$ 0.66	7/30/2012	36	9.04	25%	251,142
500,000	\$ 0.66	7/30/2012	12	9.04	75%	376,712
8,555,556	\$ 0.62	10/15/2012	41 ¹	6.51	16%	1,358,370
1,444,444	\$ 0.62	10/15/2012	18 ²	6.51	36%	522,374
350,000	\$ 0.75	2/8/2013	48	2.70	6%	19,658
Total					21%	2,528,256

1 - 2,500,000 Options vest at month 12, with the remainder vesting monthly from months 13 through 41

2 - Options vest at month 18

EXECUTIVE EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "**Agreement**") is made and entered into effective as of May 1, 2013 (the "**Effective Date**"), by and between A.P. PHARMA, INC. (the "**Company**"), and STEPHEN DAVIS (the "**Executive**"). The Company and the Executive are hereinafter collectively referred to as the "**Parties**", and individually referred to as a "**Party**".

AGREEMENT

In consideration of the foregoing and the mutual promises and covenants herein contained, and for other good and valuable consideration, the Parties, intending to be legally bound, agree as follows:

1. EMPLOYMENT.

1.1 Title. The Executive shall initially have the title of Executive Vice President and Chief Operating Officer of the Company and shall serve in such other capacity or capacities as the Company may from time to time prescribe and to which the Executive agrees. The Executive shall initially report to the Chief Executive Officer and the Board of Directors of the Company (the "**Board**").

1.2 Duties. The Executive shall do and perform all services, acts or things necessary or advisable to manage and conduct the business of the Company and which are normally associated with the position of Executive Vice President and Chief Operating Officer, consistent with the Bylaws of the Company and as required by the Board.

1.3 Directorship. The Executive shall continue to serve as a member of the Board, subject to reelection by the Company's stockholders in accordance with the Company's Certificate of Incorporation, as amended and Bylaws; provided, however, that the Executive shall tender his resignation as a member of the Board concurrent with his termination of service as Executive Vice President and Chief Operating Officer, which resignation shall be conditional and subject to acceptance by the disinterested members of the Board. The Executive shall devote such time to the business of the Company as is necessary for the fulfillment of the Executive's duties as a member of the Board. The Executive shall not be paid a fee for serving as a member of the Board. The Company shall reimburse the Executive for reasonable expenses incurred in connection with his service as a member of the Board.

1.3 Policies and Practices. The employment relationship between the Parties shall be governed by the policies and practices established by the Company and the Board. The Executive acknowledges that he has read the Company's employee handbook and other governing policies, which will govern the terms and conditions of his employment with the Company, along with this Agreement. In the event that the terms of this Agreement differ from or are in conflict with the Company's policies or practices or the Company's employee handbook, this Agreement shall control.

2. LOYAL AND CONSCIENTIOUS PERFORMANCE; NONCOMPETITION.

2.1 Loyalty. During the Executive's employment by the Company, the Executive shall devote the Executive's full business energies, interest, abilities and productive time to the proper and efficient performance of the Executive's duties under this Agreement. Notwithstanding the foregoing, the Executive may continue to serve as a member of the Board of Directors of Synageva, BioPharma Corp. and Furiex Pharmaceuticals Inc., and the Executive may provide occasional consulting that are not competitive to the Company.

2.2 Covenant Not to Compete. Except with the prior written consent of the Board, which shall not be unreasonably withheld, and except the provisions included in Section 2.1 above, the Executive will not, during his employment by the Company, engage in competition with the Company and/or any of its Affiliates, either directly or indirectly, in any manner or capacity, as adviser, principal, agent, affiliate, promoter, partner, officer, director, employee, stockholder, owner, co-owner, consultant, or member of any association or otherwise, in any phase of the business of developing, manufacturing and marketing of products or services which are in the same field of use or which otherwise compete with the products or services or proposed products or services of the Company and/or any of its Affiliates. For purposes of this Agreement, "**Affiliate**" means, with respect to any specific entity, any other entity that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with such specified entity.

2.3 Agreement Not to Participate in Company's Competitors. During the term of this agreement, and except the provisions included in Section 2.1 above, the Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known by the Executive to be adverse or antagonistic to the Company, its business or prospects, financial or otherwise or in any company, person or entity that is, directly or indirectly, in competition with the business of the Company or any of its Affiliates. Ownership by the Executive, as a passive investment, of less than two percent (2%) of the outstanding shares of capital stock of any corporation with one or more classes of its capital stock listed on a national securities exchange or publicly traded on the Nasdaq Stock Market or in the over-the-counter market shall not constitute a breach of this paragraph.

3. COMPENSATION OF THE EXECUTIVE.

3.1 Base Salary. The Company shall pay the Executive a base salary of at least \$400,000 per year, less payroll deductions and all required withholdings payable in regular periodic payments in accordance with Company policy. Such base salary shall be prorated for any partial year of employment on the basis of a 365-day fiscal year.

3.2 Performance Bonus. In addition to the Executive's base salary, the Executive shall be eligible for a performance bonus based upon the Executive's and the Company's achievement of specified objectives established by the Board during the first quarter of each year after consultation with the Executive, as evaluated by the Board in its discretion. The target bonus for full achievement of all objectives shall be 40% of the Executive's Base Salary.

3.3 Equity Incentives.

(a) As of the Effective Date, Executive will be granted an option to purchase up to 11,000,000 shares of the Company's common stock (the "**Option**"). Subject to the Executive continuing to serve as Chief Executive Officer of the Company (except as set forth below), vesting of the Option will be as follows: (i) 8,250,000 shares (the "**Time-Based Shares**") vesting over a four-year period, with 2,062,500 shares vesting on the first anniversary of the date of grant, and then 171,875 shares vesting monthly thereafter over the next three years; (ii) 916,667 shares vesting upon receipt by the Company of FDA approval for its investigational new drug APF530 or any other drug product utilizing the Company's Biochronomer technology (either being a "**Qualified Drug**"), (iii) 916,667 shares as of the end of the first quarter in which the Company achieves Qualified Drug net sales of at least \$10 million, and (iv) 916,666 as of the end of the quarter in which the Company achieves total Qualified Drug net sales of at least \$100 million in any consecutive four-quarter period (the shares subject to vesting in each of above clauses (ii), (iii) and (iv) being the "**Performance-Based Shares**"). If any vesting condition for the Performance-Based Shares is met within 60 days following Executive's termination of service either by the Company without Cause or by the Executive for Good Reason, then the vesting condition will be deemed satisfied with respect to that condition (such circumstance being a "**Post-Termination Vesting Event**"). The Option will have a ten-year term and will be treated as an incentive stock option to the maximum extent possible under applicable regulations, with the remainder being non-statutory stock options. The portion of the Option that is vested as of the date of termination of the Executive's service with the Company shall remain exercisable for a period of 90 days following termination. Any portion of the Option that vests as a result of a Post-Termination Vesting Event shall remain exercisable for a period of 90 days following the occurrence of such event.

(b) With respect to all stock options previously granted to Executive by the Company, which options are listed on Schedule A attached hereto (the "**Prior Options**"), the Company and Executive hereby agree that the Prior Options shall be vested with respect to that number of shares reflected under the "Options Considered Vested" column of Schedule A, with the remainder of the Prior Options to be forfeited as of the Effective Date.

3.4 Changes to Compensation. The Executive's compensation will be reviewed on a regular basis by the Company and may be changed from time to time as deemed appropriate. For clarity, the provisions of this Section 3.4 are not meant to supersede the right of the Executive to terminate for Good Reason in the event of a material reduction of Executive's Base Salary as provided in Section 4.5.3.

3.5 Employment Taxes. All of the Executive's compensation shall be subject to customary withholding taxes and any other employment taxes as are commonly required to be collected or withheld by the Company.

4. TERMINATION.

4.1 Termination by the Company. The Executive's employment by the Company shall be at will. The Executive's employment with the Company may be terminated by the Company at any time and for any reason or no reason, with or without "**Cause**" (as defined below), subject to the provisions of this Section 4.

4.2 Termination by Mutual Agreement of the Parties. The Executive's employment pursuant to this Agreement may be terminated at any time upon a mutual agreement in writing of the Parties. Any such termination of employment shall have the consequences specified in such agreement.

4.3 Termination by the Executive. The Executive's employment by the Company shall be at will. The Executive shall have the right to resign or terminate the Executive's employment at any time and for any reason, or no reason, with or without "**Good Reason**" (as defined below), subject to the provisions of this Section 4.

4.4 Compensation Upon Termination.

4.4.1 With Cause or Without Good Reason. If the Executive's employment shall be terminated by the Company for Cause, or if the Executive terminates employment hereunder for other than Good Reason, the Company shall pay the Executive's base salary and accrued and unused vacation benefits earned through the date of termination at the rate in effect at the time of termination, less standard deductions and withholdings, and the Company shall thereafter have no further obligations to the Executive under this Agreement.

4.4.2 Without Cause or With Good Reason. If the Executive's employment shall be terminated by the Company without Cause, or by the Executive for Good Reason, the Executive shall receive the payments specified in Section 4.4.1, and, in addition, within ten days of the Executive's delivery to the Company of a fully effective Release and Waiver in the form attached hereto as **Exhibit A**, within the applicable time period set forth therein, but in no event later than 45 days following termination of the Executive's employment, the Executive shall receive the following: (i) a lump sum payment equal to the sum of (A) the Executive's annual base salary then in effect and (B) the Executive's target performance bonus then in effect, less required deductions and withholdings; (ii) accelerated time-based vesting of shares subject to all stock awards issued by the Company, for the number of shares which would have vested accordingly had the Executive continued employment with the Company for a period of 12 months after termination (for the avoidance of doubt, which shall include partial accelerated vesting of the Time-Based Shares, but not the Performance-Based Shares); and (iii) reimbursement for or continuation of payment by the Company of its portion of the health insurance benefits provided to Executive immediately prior to termination pursuant to the terms of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**") or other applicable law for a period of up to 24 months from the date of termination.

4.4.3 Change in Control. If the Executive's employment shall be terminated by the Company without Cause, or by the Executive for Good Reason within three months before or within 12 months following a Change in Control, the Executive shall receive the payments specified in Section 4.4.1, and, in addition, within ten days of the Executive's delivery to the Company of a fully effective Release and Waiver in the form attached hereto as **Exhibit A**, within the applicable time period set forth therein, but in no event later than 45 days following termination of the Executive's employment, the Executive shall receive the following: (i) a lump sum payment equal to 150% of the Executive's annual base salary then in effect, less required deductions and withholdings; (ii) the greater of the Executive's target performance bonus then in effect, less required deductions and withholdings, or the Executive's performance bonus paid in the year preceding the year in which termination occurs, less required deductions and withholdings; and (iii) provided that the Executive timely elects continued coverage under COBRA, the COBRA benefit for a period of up to 24 months.

4.4.4 Parachute Payment. If any payment or benefit Executive would receive pursuant to a Change in Control or otherwise (“**Payment**”) would (i) constitute a “parachute payment” within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then such Payment shall be reduced to the Reduced Amount. The “**Reduced Amount**” shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the Executive’s receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting “parachute payments” is necessary so that the Payment equals the Reduced Amount, reduction shall occur in the following order: reduction of cash payments; cancellation of accelerated vesting of stock awards; reduction of employee benefits. In the event that acceleration of vesting of stock award compensation is to be reduced, such acceleration of vesting shall be cancelled in the reverse order of the date of grant of Executive’s stock awards.

The accounting firm engaged by the Company for general audit purposes as of the day prior to the effective date of the Change in Control shall perform the foregoing calculations. If the accounting firm so engaged by the Company is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, then the Company shall appoint a nationally recognized accounting firm to make the determinations required hereunder. The Company shall bear all expenses with respect to the determinations by such accounting firm required to be made hereunder.

The accounting firm engaged to make the determinations hereunder shall provide its calculations, together with detailed supporting documentation, to the Executive and the Company within 15 calendar days after the date on which the Executive’s right to a Payment is triggered (if requested at that time by the Executive or the Company) or such other time as requested by the Executive or the Company. If the accounting firm determines that no Excise Tax is payable with respect to a Payment, either before or after the application of the Reduced Amount, it shall furnish the Executive and the Company with an opinion reasonably acceptable to the Executive that no Excise Tax will be imposed with respect to such Payment. Any good faith determinations of the accounting firm made hereunder shall be final, binding and conclusive upon the Executive and the Company.

4.4.5 Application of Section 409A. Notwithstanding anything to the contrary set forth herein, any payments and benefits provided under this Agreement (the “**Severance Benefits**”) that constitute “deferred compensation” within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the “**Code**”) and the regulations and other guidance thereunder and any state law of similar effect (collectively “**Section 409A**”) shall not commence in connection with Executive’s termination of employment unless and until Executive has also incurred a “separation from service” (as such term is defined in Treasury Regulation Section 1.409A-1(h) (“**Separation From Service**”)), unless the Company reasonably determines that such amounts may be provided to Executive without causing Executive to incur the additional 20% tax under Section 409A.

It is intended that each installment of the Severance Benefits payments provided for in this Agreement is a separate “payment” for purposes of Treasury Regulation Section 1.409A-2(b)(2)(i). For the avoidance of doubt, it is intended that payments of the Severance Benefits set forth in this Agreement satisfy, to the greatest extent possible, the exemptions from the application of Section 409A provided under Treasury Regulation Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9). However, if the Company (or, if applicable, the successor entity thereto) determines that the Severance Benefits constitute “deferred compensation” under Section 409A and Executive is, on the termination of Executive’s service, a “specified employee” of the Company or any successor entity thereto, as such term is defined in Section 409A(a)(2)(B)(i) of the Code, then, solely to the extent necessary to avoid the incurrence of the adverse personal tax consequences under Section 409A, the timing of the Severance Benefit payments shall be delayed until the earlier to occur of: (i) the date that is six months and one day after Executive’s Separation From Service or (ii) the date of Executive’s death (such applicable date, the “**Specified Employee Initial Payment Date**”), and the Company (or the successor entity thereto, as applicable) shall (A) pay to Executive a lump sum amount equal to the sum of the Severance Benefit payments that Executive would otherwise have received through the Specified Employee Initial Payment Date if the commencement of the payment of the Severance Benefits had not been so delayed pursuant to this Section and (B) commence paying the balance of the Severance Benefits in accordance with the applicable payment schedules set forth in this Agreement.

Except to the extent that payments may be delayed until the Specified Employee Initial Payment Date pursuant to the preceding paragraph, on the first regular payroll pay day following the effective date of the Release and Waiver, the Company will pay Executive the Severance Benefits Executive would otherwise have received under the Agreement on or prior to such date but for the delay in payment related to the effectiveness of the Release and Waiver, with the balance of the Severance Benefits being paid as originally scheduled. All amounts payable under the Agreement will be subject to standard payroll taxes and deductions.

4.5 Definitions.

4.5.1 Cause. For purposes of this Agreement, “**Cause**” means that, in the reasonable determination of the Company, the Executive has:

(i) been indicted for or convicted of or pleaded guilty or no contest to any felony or crime involving dishonesty that is likely to inflict or has inflicted demonstrable and material injury on the business of the Company;

- (ii) participated in any fraud against the Company;
- (iii) willfully and materially breached a Company policy;
- (iv) intentionally damaged any property of the Company thereby causing demonstrable and material injury to the business of the Company; or
- (v) engaged in conduct that, in the reasonable determination of the Company, demonstrates gross unfitness to serve.

Notwithstanding the foregoing, Cause shall not exist based on conduct described in clause (iii) above unless the conduct described in such clause has not been cured within 15 days following the Executive's receipt of written notice from the Company specifying the particulars of the conduct constituting Cause.

4.5.2 Change in Control. For purposes of this Agreement, "**Change in Control**" means the occurrence of any of the following:

- (i) an Ownership Change Event or a series of related Ownership Change Events (collectively, a "**Transaction**") in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately before the Transaction, direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or such surviving entity immediately outstanding after the Transaction, or, in the case of an Ownership Change Event the entity to which the assets of the Company were transferred (the "**Transferee**"), as the case may be; or
- (ii) the liquidation or dissolution of the Company.

For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Board shall have the right to determine whether multiple sales or exchanges of the voting securities in the Company or multiple Ownership Change Events are related, and its determination shall be final, binding and conclusive. The Board may also, but need not, specify that other transactions or events constitute a Change in Control.

4.5.3 Good Reason. "**Good Reason**" for the Executive to terminate the Executive's employment hereunder shall mean the occurrence of any of the following events without the Executive's consent:

- (i) a material reduction (20% or more) by the Company of the Executive's Base Salary as initially set forth herein or as the same may be increased from time to time;

(ii) a material reduction by the Company of the Executive's management responsibilities;

(iii) a material breach of this Agreement by the Company;

provided however, that any resignation by the Executive due to any of the following conditions shall only be deemed for Good Reason if: (i) the Executive gives the Company written notice of the intent to terminate for Good Reason within 90 days following the first occurrence of the condition(s) that the Executive believes constitutes Good Reason, which notice shall describe such condition(s); (ii) the Company fails to remedy, if remediable, such condition(s) within 15 days following receipt of the written notice (the "**Cure Period**") of such condition(s) from the Executive; and (iii) Executive actually resigns his employment within the first 15 days after expiration of the Cure Period.

4.5.4 Ownership Change Event. For purposes of this Agreement, "**Ownership Change Event**" means the occurrence of any of the following with respect to the Company: (i) the direct or indirect sale or exchange in a single or series of related transactions by the stockholders of the Company of more than 50% of the voting stock of the Company; (ii) a merger or consolidation in which the Company is a party; or (iii) the sale, exchange, or transfer of all or substantially all of the assets of the Company.

5. ASSIGNMENT AND BINDING EFFECT.

This Agreement shall be binding upon and inure to the benefit of the Executive and the Executive's heirs, executors, personal representatives, assigns, administrators and legal representatives. Because of the unique and personal nature of the Executive's duties under this Agreement, neither this Agreement nor any rights or obligations under this Agreement shall be assignable by the Executive. This Agreement shall be binding upon and inure to the benefit of the Company and its successors, assigns and legal representatives.

6. CHOICE OF LAW.

This Agreement is made in California. This Agreement shall be construed and interpreted in accordance with the internal laws of the State of Delaware.

7. INTEGRATION.

This Agreement, including **Exhibit A**, contains the complete, final and exclusive agreement of the Parties relating to the terms and conditions of the Executive's employment and the termination of Executive's employment, and supersedes all prior and contemporaneous oral and written employment agreements or arrangements between the Parties. To the extent this Agreement conflicts with the terms of the Company's employee handbook, governing policies, or bylaws, this Agreement controls.

8. AMENDMENT.

This Agreement cannot be amended or modified except by a written agreement signed by the Executive and the Company.

9. WAIVER.

No term, covenant or condition of this Agreement or any breach thereof shall be deemed waived, except with the written consent of the Party against whom the waiver is claimed, and any waiver or any such term, covenant, condition or breach shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other term, covenant, condition or breach.

10. SEVERABILITY.

The finding by a court of competent jurisdiction of the unenforceability, invalidity or illegality of any provision of this Agreement shall not render any other provision of this Agreement unenforceable, invalid or illegal. Such court shall have the authority to modify or replace the invalid or unenforceable term or provision with a valid and enforceable term or provision which most accurately represents the Parties' intention with respect to the invalid or unenforceable term or provision.

11. INTERPRETATION; CONSTRUCTION.

The headings set forth in this Agreement are for convenience of reference only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel representing the Company, but the Executive has been encouraged to consult with, and has consulted with, the Executive's own independent counsel and tax advisors with respect to the terms of this Agreement. The Parties acknowledge that each Party and its counsel has reviewed and revised, or had an opportunity to review and revise, this Agreement, and the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement.

12. REPRESENTATIONS AND WARRANTIES.

The Executive represents and warrants that the Executive is not restricted or prohibited, contractually or otherwise, from entering into and performing each of the terms and covenants contained in this Agreement, and that the Executive's execution and performance of this Agreement will not violate or breach any other agreements between the Executive and any other person or entity.

13. COUNTERPARTS.

This Agreement may be executed in two counterparts, each of which shall be deemed an original, all of which together shall contribute one and the same instrument.

14. ARBITRATION.

To ensure the rapid and economical resolution of disputes that may arise in connection with the Executive's employment with the Company, the Executive and the Company agree that any and all disputes, claims, or causes of action, in law or equity, arising from or relating to the Executive's employment, or the termination of that employment, will be resolved pursuant to the Federal Arbitration Act and to the fullest extent permitted by law, by final, binding and confidential arbitration conducted by the Judicial Arbitration and Mediation Services ("**JAMS**"), or its successors, under the then current rules of JAMS for employment disputes; provided that the arbitrator shall: (i) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (ii) issue a written arbitration decision including the arbitrator's essential findings and conclusions and a statement of the award. Both the Executive and the Company shall be entitled to all rights and remedies that either the Executive or the Company would be entitled to pursue in a court of law. The Company shall pay all fees, including the arbitrator's fee. Nothing in this Agreement is intended to prevent either the Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration.

15. TRADE SECRETS OF OTHERS.

It is the understanding of both the Company and the Executive that the Executive shall not divulge to the Company and/or its subsidiaries any confidential information or trade secrets belonging to others, including the Executive's former employers, nor shall the Company and/or its Affiliates seek to elicit from the Executive any such information. Consistent with the foregoing, the Executive shall not provide to the Company and/or its Affiliates, and the Company and/or its Affiliates shall not request, any documents or copies of documents containing such information.

16. ADVERTISING WAIVER.

The Executive agrees to permit the Company and/or its Affiliates, and persons or other organizations authorized by the Company and/or its Affiliates, to use, publish and distribute advertising or sales promotional literature concerning the products and/or services of the Company and/or its Affiliates, or the machinery and equipment used in the provision thereof, in which the Executive's name and/or pictures of the Executive taken in the course of the Executive's provision of services to the Company and/or its Affiliates, appear. The Executive hereby waives and releases any claim or right the Executive may otherwise have arising out of such use, publication or distribution during the term of this Agreement.

[Signature Page Follows.]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

A.P. PHARMA, INC.

/s/ Barry Quart

Barry Quart

Chief Executive Officer

Dated: 01 May 2013

EXECUTIVE:

/s/ Stephen Davis

STEPHEN DAVIS

Dated: 5/1/13

EXHIBIT A
RELEASE AND WAIVER OF CLAIMS
TO BE SIGNED AT TIME OF TERMINATION WITHOUT CAUSE OR
RESIGNATION FOR GOOD REASON

In consideration of the payments and other benefits set forth in Section 4.4 of the Executive Employment Agreement dated May 1, 2013, to which this form is attached, I, STEPHEN DAVIS hereby furnish A.P. PHARMA, INC. (the "**Company**"), with the following release and waiver (the "**Release and Waiver**").

In exchange for the consideration provided to me by the Employment Agreement that I am not otherwise entitled to receive, I hereby generally and completely release the Company and its directors, officers, employees, stockholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, Affiliates, and assigns from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring prior to my signing this Release and Waiver. This general release includes, but is not limited to: (1) all claims arising out of or in any way related to my employment with the Company or the termination of that employment; (2) all claims related to my compensation or benefits from the Company, including, but not limited to, salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (4) all tort claims, including, but not limited to, claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including, but not limited to, claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) ("**ADEA**"), and the California Fair Employment and Housing Act (as amended).

I also acknowledge that I have read and understand Section 1542 of the California Civil Code which reads as follows: "**A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.**" I hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to any claims I may have against the Company.

I acknowledge that, among other rights, I am waiving and releasing any rights I may have under ADEA, that this Release and Waiver is knowing and voluntary, and that the consideration given for this Release and Waiver is in addition to anything of value to which I was already entitled as an executive of the Company. If I am 40 years of age or older upon execution of this Release and Waiver, I further acknowledge that I have been advised, as required by the Older Workers Benefit Protection Act, that: (a) the release and waiver granted herein does not relate to claims under the ADEA which may arise after this Release and Waiver is executed; (b) I should consult with an attorney prior to executing this Release and Waiver; (c) I have twenty-one (21) days in which to consider this Release and Waiver (although I may choose voluntarily to execute this Release and Waiver earlier); (d) I have seven (7) days following the execution of this Release and Waiver to revoke my consent to this Release and Waiver; and (e) this Release and Waiver shall not be effective until the eighth day after I execute this Release and Waiver and the revocation period has expired (the "**Effective Date**").

I understand that among other things, I must not use or disclose any confidential or proprietary information of the Company and I must immediately return all Company property and documents (including all embodiments of proprietary information) and all copies thereof in my possession or control.

This Release and Waiver constitutes the complete, final and exclusive embodiment of the entire agreement between the Company and me with regard to the subject matter hereof. I am not relying on any promise or representation by the Company that is not expressly stated herein. This Release and Waiver may only be modified by a writing signed by both me and a duly authorized officer of the Company.

Date: _____

By: _____

STEPHEN DAVIS

Schedule A

Steve Davis
Option Vesting Summary
 5/1/2013

	<u>Number of Options</u>	<u>Exercise Price</u>	<u>Grant Date</u>	<u>Vesting Period (Months)</u>	<u>Grant Date to 5/1/13 (Months)</u>	<u>% Considered Vested on 4/19/13</u>	<u>Options Considered Vested</u>
	1,000,000	\$ 0.63	6/17/2012	36	10.45	29%	290,411
	500,000	\$ 0.63	6/17/2012	12	10.45	87%	435,616
	3,500,000	\$ 0.63	6/17/2012	48	10.45	22%	762,329
Total	5,000,000					30%	1,488,356

SECTION 302 CERTIFICATIONS

I, Barry D. Quart, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A.P. Pharma, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2013

/s/ Barry D. Quart

Barry D. Quart, Pharm.D.

Chief Executive Officer

SECTION 302 CERTIFICATIONS

I, John B. Whelan, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of A.P. Pharma, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2013

/s/ John B. Whelan

John B. Whelan

Chief Financial 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, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barry D. Quart, 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 Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 10, 2013

/s/ Barry D. Quart

Barry D. Quart, Pharm.D.
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, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John B. Whelan, 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 Section 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 10, 2013

/s/ John B. Whelan

John B. Whelan
Chief Financial Officer