FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

[X] Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 1999

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

For the transition period from -------- to --------

Commission file Number 0-16109

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

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

123 Saginaw Drive, Redwood City, CA 94063
(Address of principal executive offices)

(650) 366-2626
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No ---

At October 31, 1999, the number of outstanding shares of the Company's common stock, par value $.01, was 20,115,664.

INDEX

Signatures

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited):

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 1999	December 31, 1998 (As Restated - See Note 11)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,152,576	$ 4,088,173
Trade accounts receivable, net	3,026,752	2,532,527
Receivables for royalties, license and option fees and R&D fees	2,053,564	2,296,852
Inventory	4,423,929	2,959,443
Advances and loans to officers and employees	343,748	338,947
Prepaid expenses and other	730,875	596,400
Total current assets	13,731,444	12,812,342
Property and equipment, net	8,163,899	8,643,856
Deferred loan costs, net	39,601	90,428
Goodwill and other intangible assets, net	1,219,421	1,351,813
Other long-term assets	422,892	182,892
Total assets	$ 23,577,257	$ 23,081,331
LIABILITIES & SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,486,763	$ 1,347,737
Accrued expenses	1,229,978	1,057,287
Accrued settlement liability	--	1,300,000
Deferred revenue	1,284,284	1,291,540
Current portion - long-term debt	872,906	3,055,460
Total current liabilities	4,873,931	8,052,024
Deferred revenue - non-current	4,884,170	5,993,245
Long-term debt	2,643,386	--
Total liabilities	12,401,487	14,045,269
Commitments and Contingencies		
Shareholders' equity:		
Common stock and common stock warrants	85,390,664	84,903,633
Accumulated deficit	(74,214,894)	(75,867,571)
Total shareholders' equity	11,175,770	9,036,062
Total liabilities and shareholders' equity	$ 23,577,257	$ 23,081,331

See accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 1999	September 30, 1998 (As Restated - See Note 11)	September 30, 1999	September 30, 1998 (As Restated - See Note 11)
Product revenues	$ 3,924,012	$ 3,445,262	$10,402,984	$10,593,410
Royalties, license and option fees and R&D fees	1,257,123	1,540,311	4,512,676	4,079,983
Total revenues	5,181,135	4,985,573	14,915,660	14,673,393
Cost of sales	1,889,475	1,950,668	5,117,201	5,653,621
Operating expenses:				
Research & development, net	1,028,466	996,052	3,111,688	3,195,894
Selling & marketing	629,951	684,585	2,046,251	2,299,311
General & administration	923,204	859,585	2,663,065	2,451,686
Total operating expenses	2,581,621	2,540,222	7,821,004	7,946,891
Operating income	710,039	494,683	1,977,455	1,072,881
Interest income	52,291	51,001	133,021	205,360
Interest expense	(150,340)	(193,127)	(454,236)	(633,326)
Other income (expense), net	(1,919)	2,105	(3,563)	(18,254)
Net income	$ 610,071	$ 354,662	$ 1,652,677	$ 626,661
Basic earnings per common share	$ 0.03	$ 0.02	$ 0.08	$ 0.03
Diluted earnings per common share	$ 0.03	$ 0.02	$ 0.08	$ 0.03
Weighted average common shares outstanding-basic	20,092,148	19,969,391	20,066,263	19,807,934
Weighted average common shares outstanding-diluted	20,335,481	20,248,716	20,295,550	20,349,075

See accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the nine months ended September 30, 1999	For the nine months ended September 30, 1998 (As Restated - See Note 11)
Cash flows from operating activities:		
Net income	$ 1,652,677	$ 626,661
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	796,157	761,470
Amortization of deferred loan costs	50,827	197,448
Stock issued to directors	24,000	--
Stock compensation awards to non-employees	--	27,276
Restricted stock awards	149,788	49,928
Changes in operating assets and liabilities:		
Trade accounts receivable	(494,225)	(1,457,957)
Receivables for royalties, license and option fees and R&D fees	243,288	(1,093,632)
Inventory	(1,464,486)	(192,110)
Prepaid expenses and other	(139,276)	(604,370)
Other long-term assets	(240,000)	71,289
Accounts payable and accrued expenses	311,717	(1,462,282)
Accrued settlement liability	(1,300,000)	--
Deferred revenues	(1,116,331)	314
Net cash used in operating activities	(1,525,864)	(3,075,965)
Cash flows from investing activities:		
Purchases of property and equipment	(183,808)	(2,439,999)
Net cash used in investing activities	(183,808)	(2,439,999)
Cash flows from financing activities:		
Proceeds from the exercise of common stock options and warrants and issuance of restricted stock	229,525	2,054,376
Proceeds from issuance of shares under the Employee Stock Purchase Plan	83,718	109,635
Proceeds from long-term debt	4,000,000	--
Repayment of debt	(3,539,168)	(1,882,284)
Net cash provided by financing activities	774,075	281,727
Net decrease in cash and cash equivalents	(935,597)	(5,234,237)
Cash and cash equivalents, beginning of the period	4,088,173	8,672,021
Cash and cash equivalents, end of the period	$ 3,152,576	$ 3,437,784
Cash paid for interest	$ 358,530	$ 448,026

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1999 AND 1998 (UNAUDITED)

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as those in the Annual Report on Form 10-K/A (Amendment No. 2) for the year ended December 31, 1998 and include all adjustments necessary to present fairly the financial position of Advanced Polymer Systems, Inc. and subsidiaries ("the Company" or "APS") as of September 30, 1999 and the results of their operations for the three and nine months ended September 30, 1999 and 1998.

These condensed consolidated statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 1998 included in the Company's Annual Report on Form 10-K/A (Amendment No. 2).

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

The Company considers all short-term investments in debt securities which have original maturities of less than three months at date of purchase to be cash equivalents. Investments which have original maturities longer than three months are classified as marketable securities in the accompanying balance sheets.

Certain reclassifications have been made to the prior period financial statements to conform with the presentation in 1999.

(2) Common Shares Outstanding and Earnings Per Share Information

Common stock outstanding as of September 30, 1999 is as follows:

	Number of Shares
Common stock outstanding as of December 31, 1998	19,993,311
Warrants exercised after December 31, 1998	70,000
Shares issued to Directors after December 31, 1998	5,230
Shares issued under the Employee Stock Purchase Plan	20,173
Shares issued upon exercise of stock options	3,719
Total shares	20,092,433

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
		(As Restated - See Note 11)		(As Restated - See Note 11)
Net income (numerator)	$ 610,071	$ 354,662	$ 1,652,677	$ 626,661

Shares calculation (denominator):				
Weighted average shares outstanding - basic	20,092,148	19,969,391	20,066,263	19,807,934
Effect of dilutive securities:				
Stock options and employee stock purchase plan	225,281	142,023	173,909	393,347
Warrants	18,052	137,302	55,378	147,794
Weighted average shares outstanding - diluted	20,335,481	20,248,716	20,295,550	20,349,075
Earnings per share - basic	$ 0.03	$ 0.02	$ 0.08	$ 0.03
Earnings per share - diluted	$ 0.03	$ 0.02	$ 0.08	$ 0.03

The following options with expiration dates ranging from July 23, 2001 to June 16,2009 were outstanding during the periods presented, but were not included in the computation of diluted earnings per share since the exercise prices of the options were greater than the average market price of the common shares:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Number outstanding	1,921,411	1,844,556	2,732,738	1,185,630
Range of exercise prices	$5.56-$15.00	$5.63-$15.00	$5.25-$15.00	$6.82-$15.00

(3) Revenue Recognition

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

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

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

(5) Related Party Transactions

As of September 30, 1999, the Company has an outstanding secured loan receivable of $276,000 from an officer of the Company. The loan bears an interest rate of the lower of 13.87% or the highest rate permitted under the applicable law. The loan was approved by the Compensation Committee of the Company's Board of Directors. Repayment of the loan is due by December 31, 1999.

(6) Inventory

The major components of inventory are as follows:

	September 30, 1999	December 31, 1998
Raw materials and work-in-process	$1,110,020	$ 743,383
Finished goods	3,313,909	2,216,060
Total inventory	$4,423,929	$2,959,443

(7) Note Receivable

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

(8) Debt

In March 1999, the Company received a $4,000,000 term loan with a fixed interest rate of 13.87%. The loan is secured by the assets of the Company's manufacturing facility in Louisiana and a portion of the Company's accounts receivable. Principal and interest payments are due in equal monthly installments over a period of forty-eight months commencing March 1999. The term loan was obtained mainly to refinance scheduled debt payments made in the first quarter of 1999.

(9) Income Taxes

The Company does not anticipate incurring significant amounts of income taxes in 1999 due to the use of its net operating loss carry forwards from prior years. Currently, any income tax expense is being offset by recognition of a corresponding change in the valuation allowance for deferred tax assets.

(10) Legal Proceedings

In November 1997, Biosource Technologies, Inc. ("Biosource") filed a complaint against the Company in the San Mateo Superior Court. Biosource claimed damages from the Company on the grounds that the Company had failed to pay certain minimum amounts allegedly due under a contract for the supply of melanin.

In December 1998, the Company reached a settlement agreement with Biosource for a net amount of $1,300,000, which consisted of a $1,500,000 settlement of Biosource's claims and a $200,000 settlement of the Company's cross claims. Pursuant to the agreement, the Company paid Biosource $300,000 in January, 1999 and $1,000,000 on May 31, 1999. The settlement agreement also provided for the termination of the license and supply agreement between the parties.

(11) Restatement

Subsequent to the issuance of the Company's 1998 financial statements and the filing of its 1998 Form 10-K, March 31, 1999 Form 10Q and June 30, 1999 Form 10Q with the Securities and Exchange Commission (SEC), and following discussions with the staff of the SEC concerning its review of the Company's financial statements, APS decided to restate its financial statements for the fiscal years ended December 31, 1992 through 1998 and the first and second quarters of 1999. The accompanying condensed consolidated financial statements for the three and nine months ended September 30, 1998 and as of December 31, 1998 present restated results to reflect a change in accounting such that license fees are now amortized over the estimated life of the product to which they relate. In prior presentations, the Company recognized as earned license fees which were non-refundable and not subject to material contingencies or commitments. The change results in a difference in the timing of revenue recognition of license fees and has no effect on the Company's cash flows.

A comparison of the restated and previously reported condensed consolidated statements of operations for the three and nine months ended September 30, 1998 follows:

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended		Nine Months Ended	
	As Restated September 30, 1998	As Previously Reported September 30, 1998	As Restated September 30, 1998	As Previously Reported September 30, 1998
Product revenues	$ 3,445,262	$ 3,445,262	$10,593,410	$10,593,410
Royalties, license and option fees and R&D fees	1,540,311	1,707,600	4,079,983	4,229,072
Total revenues	4,985,573	5,152,862	14,673,393	14,822,482
Cost of sales	1,950,668	1,950,668	5,653,621	5,653,621
Operating expenses:				
Research & development, net	996,052	996,052	3,195,894	3,195,894
Selling & marketing	684,585	684,585	2,299,311	2,299,311
General & administration	859,585	859,585	2,451,686	2,451,686
Total operating expenses	2,540,222	2,540,222	7,946,891	7,946,891
Operating income	494,683	661,972	1,072,881	1,221,970
Interest income	51,001	51,001	205,360	205,360
Interest expense	(193,127)	(193,127)	(633,326)	(633,326)
Other income (expense), net	2,105	2,105	(18,254)	(18,254)
Net income	$ 354,662	$ 521,951	$ 626,661	$ 775,750
Basic earnings per common share	$ 0.02	$ 0.03	$ 0.03	$ 0.04
Diluted earnings per common share	$ 0.02	$ 0.03	$ 0.03	$ 0.04
Weighted average common shares outstanding-basic	19,969,391	19,969,391	19,807,934	19,807,934
Weighted average common shares outstanding-diluted	20,248,716	20,248,716	20,349,075	20,349,075

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (all dollar amounts rounded to the nearest thousand)

Results of Operations for the Three Months Ended September 30, 1999 and 1998

Except for statements of historical fact, the statements herein are forward-looking and are subject to a number of risks and uncertainties that could cause actual results to differ materially from the statements made. These include, among others, uncertainty associated with timely approval, launch and acceptance of new products, establishment of new corporate alliances, progress in research and development programs, risks of consummation of contemplated action to maximize stockholder value (as to which there is no assurance) and other risks described below or identified from time to time in the Company's Securities and Exchange Commission filings.

The Company's revenues are derived principally from product sales, license fees, royalties and R&D fees. Under strategic alliance arrangements entered into with certain corporations, APS can receive access/license fees, milestone payments, commitments for future minimum purchases, royalties based on third party product sales or a share of partners' revenues, and revenues from the sale of Microsponge and Polytrap systems. The Company is currently manufacturing and selling Microsponge(R) and Polytrap (R) delivery systems for use by customers in approximately 100 different personal care and cosmetic products.

Total revenues for the three months ended September 30, 1999 were $5,181,000 which represents an increase of $196,000 or 4% over the corresponding period of the prior year, as restated. Product revenues increased by $479,000 or 14% to $3,924,000. This was due mainly to a 50% increase in sales of Microsponge-entrapped retinol and Vitamin K formulations which reflected U.S. launches by new customers. This was partially offset by a 32% decrease in sales of toiletries, due in part to the absence of shipments to a customer for a baby-wipe product which was discontinued in 1998.

Royalties, license and R&D fees totaled $1,257,000, a decrease of $283,000 or 18% from the year-ago quarter, as restated, due mainly to the absence of R&D fees which rely on the timing and status of various R&D projects.

Gross profit on product revenues of $2,035,000 increased as a percentage of product revenues by nine percentage points to 52% due to the sales mix, as sales of higher-margin cosmeceutical products replaced sales of lower-margin toiletries.

Research and development expenses increased by $32,000 or 3% to $1,028,000 due mainly to higher professional fees relating to the Company's proprietary patent estate partially offset by a decrease in clinical studies from the year-ago quarter.

Selling and marketing expenses decreased by $55,000 or 8% to $630,000 due mainly to decreased headcount and lower commission payments compared to the year-ago quarter.

General and administrative expenses increased by $64,000 or 7% to $923,000 due mainly to increased directors' and professional fees.

Interest expense decreased by $43,000 or 22% to $150,000 due to lower average debt compared to the year-ago quarter.

Results of Operations for the Nine Months Ended September 30, 1999 and 1998

Total revenues for the nine months ended September 30, 1999 increased by $242,000 or 2% to $14,916,000 compared to the corresponding period of the prior year. Product revenues decreased by $190,000 or 2% to $10,403,000, as restated. This was due mainly to the absence of shipments in the current year of Microsponge entrapments for a baby-wipe product which was discontinued in 1998, partially offset by shipments of Microsponge-based retinol and Vitamin K formulations for U.S. launches by new customers. Royalties, license and R&D fees increased by $433,000 or 11% due mainly to the exercise of an option by a cosmeceutical customer for rights to a proprietary product and its subsequent sale to a third party, and an increase in license fees recognized in the period.

Gross profit on product revenues for the nine months ended September 30, 1999 increased by $346,000 or 7% to $5,286,000 over the corresponding period of the prior year due to the improved sales mix, as sales of higher-margin cosmeceutical products replaced sales of lower-margin toiletries.

Research and development expenses decreased by $84,000 or 3% to $3,112,000 for the nine months ended September 30, 1999 due mainly to the absence of clinical study costs and higher expense reimbursement in the period. Selling and marketing expense for the nine months ended September 30, 1999 decreased by $253,000 or 11% due mainly to reduced headcount.

General and administrative expenses for the nine months ended September 30, 1999 increased by $211,000 or 9% to $2,663,000 due mainly to increased directors' fees and professional fees resulting from a potential proxy contest which was resolved in the second quarter of 1999.

Interest income for the nine months ended September 30, 1999 decreased by $72,000 or 35% due to lower average cash balances. Interest expense decreased by $179,000 or 28% to $454,000 due to the repayment of debt in the first quarter of 1999.

Capital Resources and Liquidity

Total assets as of September 30, 1999 were $23,577,000 compared with $23,081,000 at December 31, 1998. Working capital increased to $8,857,000 from $4,760,000, as restated, for the nine-month period ending September 30, 1999 and cash and cash equivalents decreased to $3,153,000 from $4,088,000. During the first nine months of 1999, the Company's operating activities used $1,526,000 of cash compared to $3,076,000 in the first nine months of the prior year. The Company invested approximately $3,112,000 in product research and development and $2,046,000 in selling and marketing the Company's products and technologies during the first nine months of 1999.

Trade accounts receivable increased to $3,027,000 at September 30, 1999 from $2,533,000 at December 31, 1998. Days sales outstanding were 79 days at September 30, 1999 compared to 68 days at December 31, 1998 due mainly to the timing of shipments during the third quarter. Receivables from royalties, license and option fees and R&D fees decreased to $2,054,000 at September 30, 1999 compared to $2,297,000 at December 31, 1998.

Inventory increased to $4,424,000 at September 30, 1999 from $2,959,000 at December 31, 1998 due mainly to a planned build-up of the Microsponge and Polytrap systems as part of the Company's contingency plans for possible disruptions caused by Year 2000 problems.

Capital expenditures for the nine months ended September 30, 1999 decreased substantially to $184,000 compared to $2,440,000 in the same period of the prior year. The first nine months of the prior year included capital expenditures related to expansion of the Company's manufacturing facility in Louisiana and leasehold improvements to the Company's new facility in Redwood City, which are now complete.

In March 1999, the Company received a $4,000,000 term loan with a fixed interest rate of 13.87%. The loan is secured by the assets of the Company's manufacturing facility in Louisiana and a portion of the Company's accounts receivable. Principal and interest payments are due in equal monthly installments over a period of forty-eight months commencing March 1999. The term loan was obtained mainly to refinance scheduled debt repayments made in the first quarter of 1999.

In accordance with the terms of the settlement agreement with Biosource (Note 10), the Company paid Biosource the final settlement amount of $1,000,000 in cash in May 1999 in lieu of issuing shares of the Company's common stock in payment.

The Company has financed its operations, including technology and product research and development, from amounts raised in debt and equity financings, the sale of Microsponge and Polytrap delivery systems and analytical standard products, payments received under licensing agreements, and interest earned on short-term investments.

The Company's existing cash and cash equivalents, collections of trade accounts receivable, together with interest income and other revenue producing activities including royalties, license and option fees and R&D fees, are expected to be sufficient to meet the Company's working capital requirements for the foreseeable future, assuming no changes to existing business plans.

Year 2000
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The Company is conducting a comprehensive review of its internal computer systems to ensure these systems are adequate to address the issues expected to arise in connection with the Year 2000. These issues include the possibility that software which uses only the last two digits to refer to the year will no longer function properly for years that begin with 20 rather than 19. In addition, the Company is reviewing the status of its customers and suppliers with regard to this issue and assessing the potential impact of non-compliance by such parties on the Company's operations.

The Company developed a three-phased program to address Year 2000 issues. The first phase consisted of identifying necessary changes to application software used by the Company. The Company utilizes an integrated ERP system for the majority of its manufacturing and financial systems and has received the Year 2000 compliant version of the software from the vendor. Implementation of the upgraded software was completed on September 30, 1998.

The second phase consisted of identifying and determining whether Company systems not addressed in Phase One (including non-IT systems) are Year 2000 compliant. The Company believes that upgrades and replacements of systems that are not Year 2000 compliant have been substantially completed.

The third phase consisted of determining the extent to which the Company may be impacted by third parties' systems, which may not be Year 2000-compliant. The Year 2000 computer issue creates risk for the Company from third parties with whom the Company deals on financial transactions worldwide. Although the Company has received assurances from third parties that their systems are either currently Year 2000 compliant or will be Year 2000 compliant by the end of the year, there can be no assurance that the systems of other companies with which the Company deals or on which the Company's systems rely will be converted on a timely basis, or that any such failure to convert by another company could not have an adverse effect on the Company.

The Company has incurred approximately $600,000 to remediate non-compliant systems since the project was started in early 1998. Most of the costs incurred were for purchases of new systems and related equipment. The Company has funded all costs to upgrade or replace systems that are not Year 2000-compliant through operating cash flows.

As part of its Year 2000 contingency plans the Company has incurred a build-up of inventories of approximately $1,000,000.

The Company is currently in the process of considering potential Year 2000 scenarios and developing formal contingency plans for addressing any problems which may result if the work performed in phase two and three do not successfully resolve all issues by the Year 2000.

Failure to complete any necessary remediation by the Year 2000 may have a material adverse impact on the operations of the Company. Failure of third parties, such as customers and suppliers, to remediate Year 2000 problems in their IT and non-IT systems would also have a material adverse impact on the operations of the Company.

New Accounting Standards
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In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) which as amended by SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities, Deferral of the Effective Date of FASB Statement No. 133, and Amendment of FASB Statement No. 133" will be effective for all fiscal quarters of fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS 133 generally provides for matching the timing of gain or loss recognition on the hedging instrument with the recognition of (a) the changes in the fair value of the hedged asset or liability that are attributed to the hedged risk or (b) the earnings effect of hedged forecasted transactions. Earlier application of all provisions of this statement is encouraged but it is permitted only as of the beginning of any fiscal quarter that begins after issuance of this statement. The Company anticipates that adoption of this statement will not have a material effect on the consolidated financial statements.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

In November, 1997 Biosource Technologies, Inc. ("Biosource") filed a complaint against the Company in the San Mateo Superior Court. Biosource claimed damages from the Company on the grounds that the Company has failed to pay certain minimum amounts allegedly due under a contract for the supply of melanin.

In December 1998, the Company reached a settlement agreement with Biosource for a net amount of $1,300,000, which consists of a $1,500,000 settlement of Biosource's claims and a $200,000 settlement of the Company's cross claims. Pursuant to the agreement, the Company paid Biosource $300,000 in January 1999 and $1,000,000 in May 1999. The settlement agreement also provided for the termination of the license and supply agreement between the parties.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits: 27 Financial Data Schedules as of and for the nine months ended September 30, 1999 and September 30, 1998.

SIGNATURES

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

ADVANCED POLYMER SYSTEMS, INC.

Date: November 18, 1999 By: /S/ John J. Meakem, Jr.

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

Date: November 18, 1999 By: /S/ Michael O'Connell

Michael O'Connell
Executive Vice President,
Chief Administrative Officer
and Chief Financial Officer;
President of Pharmaceutical
Sciences

EXHIBIT INDEX

Form 10-Q

EXHIBIT	DESCRIPTION
27	Financial Data Schedules

5
THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION
EXTRACTED FROM THE UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET AS
OF SEPTEMBER 30, 1999, AND UNAUDITED CONDENSED CONSOLIDATED
STATEMENT OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30,
1999, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH
FINANCIAL STATEMENTS.

1
9-MOS
DEC-31-1999
SEP-30-1999
3,152,576
0
5,080,316
13,226
4,423,929
13,731,444
18,106,607
9,942,708
23,577,257
4,873,931
2,643,386
0
0
200,924
10,974,846
23,577,257
10,402,984
14,915,660
5,117,201
5,117,201
7,821,004
6,283
454,236
1,652,677
0
1,652,677
0
0
0
1,652,677
0.08
0.08

5
THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDITED RESTATED CONDENSED CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 1998, AND UNAUDITED RESTATED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1
9-MOS
DEC-31-1998
SEP-30-1998
3,437,784
0
5,940,254
49,149
2,831,239
13,354,798
17,647,451
9,050,628
23,704,058
9,852,184
24,295
0
0
199,701
6,753,681
23,704,058
10,593,410
14,673,393
5,653,621
5,653,621
7,946,891
(6,321)
633,326
626,661
0
626,661
0
0
0
626,661
0.03
0.03