



Recent stock price (11/2/05)	\$1.72
52-Week Range	\$1.20 - \$2.73
Market Capitalization	\$42 Mil
Shares Outstanding (basic)	25 Mil
Fiscal year end	December 31

A.P. Pharma (NasdaqNM: APPA) is a specialty pharmaceutical company focused on the development of ethical (prescription) pharmaceuticals utilizing its proprietary polymer-based drug delivery systems. The Company's primary focus, both internally and through corporate partners, is the development and commercialization of its bioerodible injectable and implantable delivery systems under the trade name Biochronomer™. Targeted areas of application for the Company's technologies include anti-nausea, pain management, anti-inflammation, ophthalmology and orthopedic applications, among others. The Company's product development programs are partially funded by royalties from topical products currently marketed by pharmaceutical partners.

INVESTMENT HIGHLIGHTS

Three Technology Platforms: Utilizing polymers developed specifically for pharmaceutical use, the Company's technology platforms offer potential benefits for multiple therapeutic applications: anti-nausea, analgesia, anti-inflammatories, ophthalmology and orthopedic applications.

Technology Benefits: The Company's technology platforms allow for formulation flexibility, ease of manufacturing, stability, precise onset of drug release and controlled drug delivery.

Established Pharmaceutical Partnerships: The Company has marketing partnerships with Ortho Neutrogena (Johnson & Johnson) for its Retin-A Micro® product and with Dermik (a Sanofi-Aventis company) for its Carac® product.

Large Market Opportunities with High Gross Margins: The Retin-A Micro product family addresses the \$600 million prescription acne market; Carac serves the \$300 million actinic keratoses market, and the Company's parenteral technology platform will serve a potential \$10 billion market.

Strong Patent Portfolio: The Company's patent portfolio includes 132 issued and pending patents worldwide.

Royalty Streams Fund Product Development: Royalty income in 2004 was \$5.0 million, up 10% from 2003. The growing revenue streams from topical products and potential revenue streams from future products will help fund growth and product development programs. Multiple potential revenue sources include licensing fees, royalties, milestone payments and R&D fees.

Balance Sheet Strength: The Company had \$8 million in cash as of September 30, 2005 and is debt free.

R&D Expertise: The Company has a speed-to-market mentality with a focus on utilizing its drug delivery technology in pharmaceuticals with drug release times ranging from hours to weeks. A.P. Pharma has expanded its R&D efforts through strategic additions to its R&D team.

Attractive Market Sector: Innovative drug delivery technologies are likely to continue to be in demand as patients, providers and pharmaceutical partners continue to look for novel or improved approaches to therapeutic problems.

TECHNOLOGY PLATFORMS

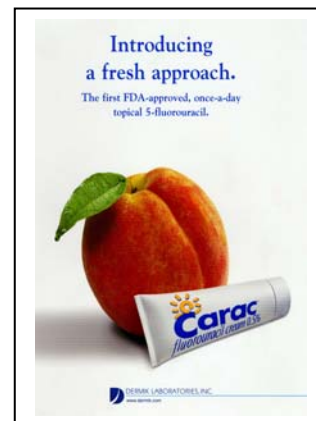


Parenteral – The Company's primary focus is the development of its Biochronomer™ systems for injectable and implantable drug delivery. This technology is believed to be applicable to a broad range of drugs and proteins with the potential to substantially improve medical treatments. The company recently successfully completed a Phase 2 study for its product candidate APF530 for the prevention of acute and delayed nausea and vomiting after chemotherapy. A.P. Pharma has also completed a Phase 2 study with its product candidate APF112 for the treatment of post-surgical pain (See current status on next page).

Topical – Two FDA-approved products incorporating the Microsponge™ technology – Retin-A Micro to treat acne, and Carac to treat pre-cancerous skin lesions (actinic keratoses) – are currently marketed. A second Retin-A Micro product received FDA clearance in May 2002 and

A.P. Pharma partner Johnson & Johnson launched this product in July 2002. The Company has received a patent extension for the Retin-A Micro formulation through 2016 and for the Carac formulation through 2021.

Also under development are biodegradable devices based on poly (ortho esters). Because both mechanical properties and erosion rates can be controlled, these polymers are emerging as promising materials for applications such as device coatings. In these applications, the ability to deliver drugs is also a distinct advantage.



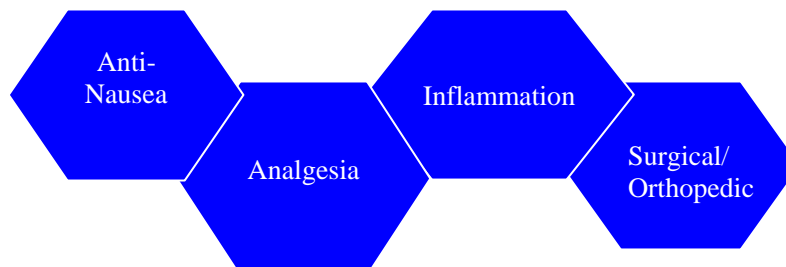
Drug Delivery

- ◆ License A.P. Pharma's technologies to pharmaceutical companies to build royalty streams
- ◆ Aggressively pursue parenteral product development programs

Product development

- ◆ Leverage R&D expertise to develop proprietary products to share development costs and profits with partners
- ◆ **Key Partnerships**
Ortho Neutrogena (J&J)
Dermik (Sanofi-Aventis)

Clinical Targets



APF530

APF530 contains the anti-emetic granisetron and is designed to provide four to five days of continuous relief from acute and delayed chemotherapy-induced nausea and vomiting (CINV) following a single subcutaneous injection. A Phase 2 study was recently completed in the U.S. in 45 patients undergoing chemotherapy for cancer with three doses of APF530. All clinical endpoints including an evaluation of safety, pharmacokinetics and tolerability were achieved and results support advancement of APF530 into pivotal clinical trials. Overall, the safety profile of APF530 in this study was excellent. The pharmacokinetic evaluation of granisetron in the plasma of patients clearly indicates dose proportionality, and the plasma profile of granisetron shows that peak values were obtained over the first 24 hours with measurable sustained levels over the next five days. The company believes that meeting target plasma levels is a critical step prior to establishing efficacy in the prevention of acute and delayed chemotherapy-induced nausea and vomiting. In addition, preliminary efficacy data are very encouraging. The company is currently developing its plans to initiate pivotal clinical studies, subject to ratification by the FDA.

APF112 STATUS

A Phase 2b clinical study using APF112 for the treatment of post-surgical pain is in the advanced stages of planning. However, due to the current and anticipated demands on resources for the planned clinical program with APF530, the company will delay the start of further studies with APF112 until a partner or additional resources have been secured.

2005 GOALS

- ◆ File IND on APF530 for the prevention of acute and delayed nausea and vomiting after chemotherapy
- ◆ Complete APF530 Phase 2 study
- ◆ Initiate pivotal studies for APF530
- ◆ Secure partner/additional resources for APF112 Phase 2b studies
- ◆ Seek additional growth opportunities for Retin-A Micro and Carac
- ◆ Keep cash burn rate to minimum
- ◆ Continue to conduct feasibility studies
- ◆ Pursue additional pharmaceutical partnerships

CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	9/30/05	9/30/04	9/30/05	9/30/04
Royalties	\$ 1,334,000	\$ 1,258,000	\$ 3,803,000	\$ 3,515,000
Total revenues	\$ 1,337,000	\$ 1,458,000	\$ 3,947,000	\$ 3,922,000
Research & Development	\$ 2,306,000	\$ 2,522,000	\$ 7,205,000	\$ 8,440,000
Net loss	\$ (1,744,000)	\$ (1,921,000)	\$ (5,607,000)	\$ (6,964,000)
Net loss per share	\$ (0.07)	\$ (0.08)	\$ (0.22)	\$ (0.31)

CONDENSED BALANCE SHEETS

	9/30/05	12/31/04
Cash, cash equivalents and marketable securities	\$ 8,091,000	\$13,596,000
Total assets	\$11,232,000	\$17,014,000
Shareholders' equity	\$ 8,725,000	\$14,154,000

COMPANY CONTACTS

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