

A.P. Pharma, Inc. APPA (NAS)

Last Close	Industry	Sector
0.90 USD	Drug Manufacturers	Health Care - Major

Profile

Pricing data through 19 Nov 2009

In addition to this comprehensive company profile, Morningstar offers in-depth analyst research and ratings on selected companies.

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Morningstar Equity Research
 +1 (312) 696-6869
 equityresearchsales@morningstar.com

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A.P. Pharma, Inc. is a specialty pharmaceutical company focused on the development of pharmaceutical products utilizing its proprietary Biochronomer™ polymer-based drug delivery system, a family of polymers known as poly(ortho esters). The company's focus is the development and commercialization of its lead product candidate, APF530, a Phase 3 candidate for the prevention of CINV.

The company has made progress in developing bioerodible polymers that potentially represent an improvement over existing drug delivery systems. APF530 is its lead product candidate for the prevention of both acute and delayed chemotherapy-induced nausea and vomiting in patients undergoing both moderately and highly emetogenic chemotherapy for cancer. APF530 contains the anti-nausea drug granisetron formulated with the company's proprietary Biochronomer bioerodible drug delivery system. The company's second Biochronomer product candidate is APF112 for the treatment of post-surgical pain. APF112 incorporates the well-known analgesic mepivacaine in its Biochronomer system.

A.P. Pharma, Inc. APPA

Sales USD Mil 1 **Mkt Cap USD Mil** 36 **Industry** Drug **Sector** Health Care
Manufacturers - Major

A.P. Pharma is a specialty pharmaceutical company focused on the development of prescription pharmaceuticals utilizing its proprietary polymer-based drug delivery systems. The company's primary focus is the development and commercialization of its bioerodible, injectable, and implantable systems under the trade name Biochronomer. Initial targeted areas of application for the company's drug delivery technology include pain management, inflammation, oncology, and ophthalmology applications.

123 Saginaw Drive Employees: 33
Redwood City, CA 94063
Phone: 1 650 366-2626
Website: <http://www.advancedpolymer.com>

Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	-10.4	-59.1	-40.3	-32.9	
Operating Income %	—	—	—	—	
Earnings/Share %	—	—	—	—	
Dividends %	—	—	—	—	
Book Value/Share %	-74.4	-37.0	-35.4	-22.1	
Stock Total Return %	50.8	-41.1	-29.2	-25.7	
+/- Industry	32.8	-37.0	-30.1	-23.3	
+/- Market	15.0	-33.2	-27.9	-23.0	

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	—	—	12.5
Return on Assets %	—	-50.7	6.0	5.9
Fixed Asset Turns	1.4	—	3.2	6.8
Inventory Turns	—	—	2.1	11.3
Revenue/Employee USD K	35.2	—*	—	871.2
Gross Margin %	100.0	—	74.0	40.7
Operating Margin %	-1031.9	—	18.4	14.4
Net Margin %	—	—	11.5	6.6
Free Cash Flow/Rev %	—	—	22.6	0.0
R&D/Rev %	787.9	—	—	11.0

Financial Position	12-08 USD Mil	09-09 USD Mil
	Cash	10
Inventories	—	—
Receivables	0	0
Current Assets	11	2
Fixed Assets	1	1
Intangibles	—	—
Total Assets	12	3
Payables	0	0
Short-Term Debt	—	—
Current Liabilities	3	2
Long-Term Debt	—	—
Total Liabilities	4	3
Total Equity	8	0

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	—	—	17.0
Forward P/E	—	—	—	16.4
Price/Cash Flow	—	—	10.3	7.1
Price/Free Cash Flow	—	—	11.8	18.0
Dividend Yield %	—	—	2.1	2.1
Price/Book	74.1	3.1	2.9	2.2
Price/Sales	24.1	—	2.7	1.2
PEG Ratio	—	—	—	1.8

Morningstar Rating — **Last Price** 0.90 **Fair Value** — **Uncertainty** — **Economic Moat™** — **Stewardship Grade** —
per share prices in USD



1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD	Stock Performance
-36.0	-30.9	17.9	-64.3	145.0	-32.6	-7.3	-10.5	-71.2	-73.4	115.5	Total Return %
-55.5	-20.8	30.9	-40.9	118.6	-41.6	-10.3	-24.1	-74.7	-34.9	94.3	+/- Market
-20.3	-57.4	29.9	-42.0	133.5	-27.2	-7.9	-22.0	-71.0	-55.9	108.0	+/- Industry
—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
69	48	57	20	51	41	39	35	49	13	36	Market Cap USD Mil

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Financials
20	3	4	6	5	5	5	0	0	0	1	Revenue USD Mil
66.4	85.2	90.0	92.3	—	—	—	—	100.0	100.0	100.0	Gross Margin %
3	-4	-7	-5	-7	-9	-8	-19	-24	-23	-12	Oper Income USD Mil
13.9	-127.9	-152.6	-82.8	-136.3	-172.6	-157.1	—	-5763.4	-6337.8	-1031.9	Operating Margin %
2	9	-3	-4	-4	-9	-8	5	-20	-23	-12	Net Income USD Mil
0.48	1.68	-0.48	-0.76	-0.84	-1.60	-1.32	0.84	-1.04	-0.75	-0.39	Earnings Per Share USD
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	Dividends USD
5	5	5	5	5	5	6	6	19	30	30	Shares Mil
2.41	4.19	3.78	3.02	2.18	2.26	0.98	1.90	0.96	0.25	0.01	Book Value Per Share USD
-1	-3	-6	-5	-7	-8	-8	9	-17	-24	-15	Oper Cash Flow USD Mil
0	0	0	0	0	0	0	0	0	0	0	Cap Spending USD Mil
-1	-3	-7	-6	-7	-8	-8	9	-18	-25	-15	Free Cash Flow USD Mil

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Profitability
10.2	33.9	-9.9	-18.3	-28.2	-61.1	-63.2	40.2	-74.4	-94.9	—	Return on Assets %
17.9	51.5	-12.5	-21.8	-32.6	-72.6	-80.7	57.7	-97.1	—	—	Return on Equity %
11.6	253.7	-57.2	-64.9	-89.9	—	—	—	—	—	—	Net Margin %
0.88	0.13	0.17	0.28	0.31	0.36	0.41	—	0.02	0.02	0.11	Asset Turnover
2.0	1.3	1.2	1.1	1.2	1.2	1.5	1.4	1.3	1.6	6.3	Financial Leverage

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	09-09	Financial Health
9	20	18	14	9	13	5	12	30	8	—	Working Capital USD Mil
2	0	—	—	—	—	—	—	—	—	—	Long-Term Debt USD Mil
12	21	19	15	11	14	6	12	29	8	0	Total Equity USD Mil
0.20	—	—	—	—	—	—	—	—	—	—	Debt/Equity

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Valuation
28.6	—	—	—	—	—	—	6.2	—	—	—	Price/Earnings
—	—	—	—	—	—	—	0.4	—	—	—	P/E vs. Market
3.4	14.3	12.9	3.5	10.4	7.0	7.1	—	74.1	35.1	24.1	Price/Sales
5.7	2.3	3.0	1.3	4.5	2.9	6.2	2.9	1.6	1.7	74.1	Price/Book
—	—	—	—	—	—	—	3.8	—	—	—	Price/Cash Flow

Quarterly Results						
Revenue USD Mil	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	0.0	0.0	0.0	1.1		
Prior Year Period	0.1	0.1	0.1	0.1		
Rev Growth %	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	-84.6	-92.3	-93.3	—		
Prior Year Period	—	—	-6.3	-50.0		
Earnings Per Share USD	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	-0.13	-0.10	-0.13	-0.04		
Prior Year Period	-0.24	-0.22	-0.20	-0.20		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
A.P. Pharma, Inc.	36	1	—	—
AstraZeneca PLC	65435	32052	9.0	40.7
Roche Holding AG	222361	44128	31.6	22.2

Major Fund Holders			% of shares
Legg Mason ClearBridge Aggressive Gr A			0.35
DFA US Small Cap Value I			0.08
Fidelity Spartan Extended Mkt Index Inv			0.01

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.



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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
TURNBULL GREG	Director	135,159	27 May 2009	-
GODDARD PAUL	Director	104,750	27 May 2009	-
ROSENBLATT TOBY	Director	100,301	27 May 2009	-
ZERBE ROBERT L MD	Director	92,139	27 May 2009	-
WINGER DENNIS L	Director	69,544	11 Aug 2006	-
PRENTKI RONALD J	Chief Executive Officer, President, Director	40,539	08 Jul 2009	-
RIEPENHAUSEN PETER	Director	27,067	28 May 2008	-
TAYLOR ARTHUR T	Director	15,000	28 May 2008	-

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Legg Mason ClearBridge Aggressive Gr A	QQQ	0.35	0.00	0	30 Jun 2009
DFA US Small Cap Value I	QQQ	0.08	0.00	0	30 Jun 2009
Fidelity Spartan Extended Mkt Index Inv	QQQ	0.01	0.00	0	31 Jul 2009
DFA US Core Equity 2 I	QQQ	0.00	0.00	0	30 Jun 2009
DFA Global Equity I	QQQ	0.00	0.00	0	30 Jun 2009

Concentrated Holders

NA	NA	NA	NA	NA
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Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA		NA	NA	NA	NA

Top 5 Sellers

NA	NA	NA	NA	NA
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Sector - Major

Industry Focus: Drug Manufacturers

Damien Conover, CFA
 Senior Stock Analyst

For the majority of pharmaceutical companies, strong pipelines should offset the approaching patent cliff.

Which Pharma Pipelines Rank Best?

17 September 2009

While the majority of pharmaceutical companies are losing patents on major blockbuster drugs over the next five years, strong pipelines should provide stability and growth opportunities over the long run. Investors with long-term horizons could benefit from seeking the firms best-positioned to balance patent expirations with inline product growth and strong pipelines. In a recent Morningstar Healthcare Observer study using Morningstar's proprietary box methodology, we ranked the top 10 pharmaceutical companies on the strength of their pipelines, inline product growth, and patent exposure over the next five years.

Overall, Novartis NVS achieved the best ranking across all the categories and remains one of our top picks in the pharmaceutical sector. Based solely on the pipeline strength, GlaxoSmithKline GSK appears best positioned over the next five years. At the bottom of the list, AstraZeneca AZN fell to the lowest ranking and remains one of the least attractive pharmaceutical stocks, in our view.

Pipeline Scores: Analyzing Late-Stage Drug Candidates

Our pipeline scores combine the number of drugs under development at each company and weigh drug candidates by market potential, launch timing, and probability of approval. GlaxoSmithKline leads the group as the company holds a very high number of near-term product launches, including human papillomavirus vaccine Cervarix and several new cancer drugs. On the flip side, Abbott's ABT pipeline is relatively weak, and we anticipate the firm will attempt to enhance it in the near future through targeted acquisitions.

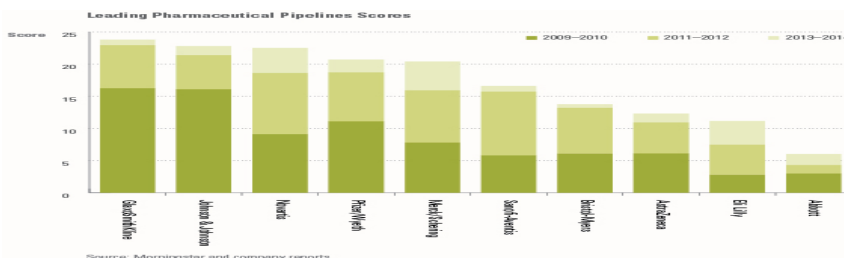
Inline Product and Patent Scores: Accessing the Impact of Currently Marketed Drugs

On top of new product development, the growth of currently marketed drugs significantly contributes to valuation and creates the cash flows necessary to fund research and development. We grade inline product growth from drug and product growth outside of pipeline drugs and drugs losing patent protection over the 2009-14 time period.

While new pipeline drugs and currently marketed drugs help paint the growth part of the picture, the patent losses facing pharmaceutical companies largely round out the main drivers of a drug company's top-line growth potential. We ranked pharmaceutical companies' patent exposure by calculating the total number of drugs facing patent losses from 2009-14 and weighing the drugs' sales magnitude, timing of patent losses, and probability that other more remote patents won't hold off generic competition.

Novartis Leads the Pack

With the best total score across all our metrics, Novartis scored well with its pipeline, inline products, and patent exposure. Novartis' focus on niche diseases and vaccines catapulted the company to a leading position in pipeline strength. Its generic division, Sandoz, along with several recently launched drugs drive the firm's best inline product growth in the pharmaceutical industry. As a result, Novartis is well positioned to fill the void created by a few significant



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Industry Focus: Drug Manufacturers

patent losses over the next five years with new drugs, and it scores the highest on our metric.

For the complete analysis of pipeline, inline product growth, and patent exposure of each large pharmaceutical company, click here: <http://www.morningstar.com/goto/pipelines> .

