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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2016

☐ **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 1-13602

The Female Health Company

(Name of registrant as specified in its charter)

Wisconsin	**39-1144397**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
515 N. State Street, Suite 2225 Chicago, IL	**60654**
(Address of principal executive offices)	**(Zip Code)**

312-595-9123
(Registrant's telephone number, including area code)

N/A
(Former Name or Former Address, if Changed Since Last Report)

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 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 the definitions 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 ☐	Smaller reporting company☐
(Do not check if smaller reporting company)	

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

As of April 27, 2016, the registrant had 29,052,667 shares of $0.01 par value common stock outstanding.

THE FEMALE HEALTH COMPANY

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Certain statements included in this quarterly report on Form 10-Q which are not statements of historical fact are intended to be, and are hereby identified as, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "could," "intend," "may," "opportunity," "plan," "predict," "potential," "estimate," "will," "would" or the negative of these terms or other words of similar meaning. The Company cautions readers that forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. Such factors include, among others, the following: the Company's inability to secure adequate capital to fund working capital requirements, advertising and promotional expenditures and strategic initiatives; factors related to increased competition from existing and new competitors includingthe potential for reduced sales, pressure on pricing for FC2 and increased spending on marketing; limitations on the Company's opportunities to enter into and/or renew agreements with international partners, the failure of the Company or its partners to successfully market, sell and deliver its product in international markets, and risks inherent in doing business on an international level, such as laws governing medical devices that differ from those in the U.S., unexpected changes in the regulatory requirements, political risks, export restrictions, tariffs and other trade barriers and fluctuations in currency exchange rates; the disruption of production at the Company's manufacturing facilities due to raw material shortages, labor shortages and/or physical damage to the Company's facilities; the Company’s reliance on its major customers and risks relating to delays in payment of accounts receivable by major customers; the Company's inability to manage its growth and to adapt its administrative, operational and financial control systems to the needs of the expanded entity and the failure of management to anticipate, respond to and manage changing business conditions; the loss of the services of executive officers and other key employees and the Company's continued ability to attract and retain highly-skilled and qualified personnel; the costs and other effects of litigation, governmental investigations, legal and administrative cases and proceedings, settlements and investigations; the risk that the Company’s proposed transaction with Aspen Park Pharmaceuticals, Inc. (APP) may not be completed in a timely manner or at all; the satisfaction of conditions to completing the transaction with APP, including the ability to secure approval by a two-thirds vote of FHC’s shareholders; the risk that the proposed transaction with APP could disrupt current plans and operations; costs, fees and expenses related to the proposed transaction with APP; risks related to the development of APP’s product portfolio, including regulatory approvals and time and cost to bring to market; risks relating to the ability of the combined company to obtain sufficient financing on acceptable terms when needed to fund development and company operations; the risk that, even if it is completed, the Company may not realize the expected benefits from the transaction with APP; and developments or assertions by or against the Company relating to intellectual property rights. Such uncertainties and other risks that may affect the Company's performance are discussed further in Part I, Item 1A, "Risk Factors," in the Company's Form 10-K for the year ended September 30, 2015. The Company undertakes no obligation to make any revisions to the forward-looking statements contained in this report or to update them to reflect events or circumstances occurring after the date of this report.

Item 1. Financial Statements

THE FEMALE HEALTH COMPANY
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2016	September 30, 2015
ASSETS		
Current Assets:		
Cash	$ 2,791,396	$ 4,105,814
Accounts receivable, net	18,570,658	14,088,390
Income tax receivable	29,702	21,251
Inventory, net	2,191,693	1,745,180
Prepaid expenses and other current assets	276,358	609,320
Deferred income taxes	362,847	1,016,000
TOTAL CURRENT ASSETS	24,222,654	21,585,955
Other assets	142,339	136,766
PLANT AND EQUIPMENT		
Equipment, furniture and fixtures	4,620,864	4,680,246
Leasehold improvements	323,147	323,147
Less accumulated depreciation and amortization	(3,928,241)	(3,763,403)
Plant and equipment, net	1,015,770	1,239,990
Deferred income taxes	14,509,000	14,509,000
TOTAL ASSETS	$ 39,889,763	$ 37,471,711
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,021,050	$ 1,077,349
Accrued expenses and other current liabilities	3,559,252	2,555,231
Accrued compensation	335,332	592,428
TOTAL CURRENT LIABILITIES	4,915,634	4,225,008
Deferred rent	8,401	15,389
Deferred income taxes	118,351	98,252
TOTAL LIABILITIES	5,042,386	4,338,649
Commitments and Contingencies		
STOCKHOLDERS' EQUITY:		
Preferred stock	—	—
Common stock	312,189	311,925
Additional paid-in-capital	69,393,844	69,205,201
Accumulated other comprehensive loss	(581,519)	(581,519)
Accumulated deficit	(26,470,532)	(27,995,940)
Treasury stock, at cost	(7,806,605)	(7,806,605)
TOTAL STOCKHOLDERS' EQUITY	34,847,377	33,133,062
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 39,889,763	$ 37,471,711

See notes to unaudited condensed consolidated financial statements.

THE FEMALE HEALTH COMPANY
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,	
	2016	2015
Net revenues	$ 4,772,801	$ 10,977,467
Cost of sales	1,927,406	4,583,360
Gross profit	2,845,395	6,394,107
Operating expenses	2,774,970	3,444,714
Operating income	70,425	2,949,393
Non-operating (expense) income:		
Interest and other expense, net	(19,356)	(3,841)
Foreign currency transaction (loss) gain	(43,848)	28,467
Total non-operating (expense) income	(63,204)	24,626
Income before income taxes	7,221	2,974,019
Income tax (benefit) expense	(27,824)	1,306,445
Net income	$ 35,045	$ 1,667,574
Net income per basic common share outstanding	$ 0.00	$ 0.06
Basic weighted average common shares outstanding	28,652,635	28,521,659
Net income per diluted common share outstanding	$ 0.00	$ 0.06
Diluted weighted average common shares outstanding	29,059,296	28,780,481

See notes to unaudited condensed consolidated financial statements.

THE FEMALE HEALTH COMPANY
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Six Months Ended March 31,	
	2016	2015
Net revenues	$ 13,003,460	$ 17,636,673
Cost of sales	4,755,728	7,422,893
Gross profit	8,247,732	10,213,780
Operating expenses	5,784,752	5,810,538
Operating income	2,462,980	4,403,242
Non-operating (expense) income:		
Interest and other expense, net	(47,152)	(3,189)
Foreign currency transaction (loss) gain	(88,791)	49,313
Total non-operating (expense) income	(135,943)	46,124
Income before income taxes	2,327,037	4,449,366
Income tax expense	801,629	1,976,875
Net income	$ 1,525,408	$ 2,472,491
Net income per basic common share outstanding	$ 0.05	$ 0.09
Basic weighted average common shares outstanding	28,642,951	28,512,005
Net income per diluted common share outstanding	$ 0.05	$ 0.09
Diluted weighted average common shares outstanding	29,046,928	28,774,785

See notes to unaudited condensed consolidated financial statements.

THE FEMALE HEALTH COMPANY
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31,	
	2016	**2015**
OPERATING ACTIVITIES		
Net income	$ 1,525,408	$ 2,472,491
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	226,681	251,383
Share-based compensation	254,116	380,158
Deferred income taxes	673,252	1,748,098
Loss on disposal of fixed assets	278	3,483
Changes in current assets and liabilities	(3,991,414)	(7,684,846)
Net cash used in operating activities	(1,311,679)	(2,829,233)
INVESTING ACTIVITIES		
Capital expenditures	(2,739)	(27,040)
Net cash used in investing activities	(2,739)	(27,040)
FINANCING ACTIVITIES		
Purchases of common stock for treasury shares	—	(950)
Dividends paid on common stock	—	(5,198)
Net cash used in financing activities	—	(6,148)
Net decrease in cash	(1,314,418)	(2,862,421)
Cash at beginning of period	4,105,814	5,796,223
CASH AT END OF PERIOD	$ 2,791,396	$ 2,933,802
Supplemental Disclosure of Cash Flow Information:		
Cash payments for income taxes	$ 168,220	$ 155,629
Schedule of noncash financing and investing activities:		
Reduction of accrued expense upon issuance of shares	$ —	$ 239,580

See notes to unaudited condensed consolidated financial statements.

THE FEMALE HEALTH COMPANY
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited but in the opinion of management contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position and the results of operations and cash flow for the periods presented in conformity with generally accepted accounting principles for interim financial information and 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 United States generally accepted accounting principles for complete financial statements.

Operating results for the three and six months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2016. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2015.

Principles of Consolidation and Nature of Operations

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, The Female Health Company Limited, and its wholly owned subsidiaries, The Female Health Company (UK) plc and The Female Health Company (M) SDN.BHD. All significant intercompany transactions and accounts have been eliminated in consolidation. The Female Health Company (FHC or the Company) is currently engaged in the marketing, manufacture and distribution of a consumer health care product, the FC2 Female Condom (FC2). The Female Health Company Limited, is the holding company of The Female Health Company (UK) plc, which is located in a 6,400 sq. ft. leased office facility located in London, England (collectively, the U.K. subsidiary). The Female Health Company (M) SDN.BHD leases a 45,800 sq. ft. manufacturing facility located in Selangor D.E., Malaysia (the Malaysia subsidiary).

Since the Company began distributing FC2 in 2007, it has been shipped to either or both commercial (private sector) and public health sector markets in 144 countries. It is marketed to consumers through distributors, public health programs and retailers in 16 countries.

The Company's standard credit terms vary from 30 to 120 days, depending on the class of trade and customary terms within a territory, so accounts receivable is affected by the mix of purchasers within the quarter. As is typical in the Company's business, extended credit terms may occasionally be offered as a sales promotion. The Company has agreed to credit terms of up to 150 days with our distributor in the Republic of South Africa. For the most recent order of 15 million units under the Brazil tender, the Company has agreed to up to 360 day credit terms with our distributor in Brazil, subject to earlier payment upon receipt of payment by the distributor from the Brazilian government. For the past twelve months, the Company's average days' sales outstanding has averaged approximately 212 days. Over the past five years, the Company's bad debt expense has been less than 0.02 percent of product sales. The balance in the allowance for doubtful accounts was $38,103 and $48,068 at March 31, 2016 and September 30, 2015, respectively.

Restricted cash

Restricted cash relates to security provided to one of the Company's U.K. banks for performance bonds issued in favor of customers. The Company has a facility of $250,000 for such performance bonds. Such security has been extended infrequently and only on occasions where it has been a contract term expressly stipulated as an absolute requirement by the funds' provider. The expiration of the bond is defined by the completion of the event such as, but not limited to, a period of time after the product has been distributed or expiration of the product shelf life. Restricted cash was $154,854 and $85,697 at March 31, 2016 and September 30, 2015, respectively, and is included in cash on the accompanying Unaudited Condensed Consolidated Balance Sheets.

Foreign Currency and Change in Functional Currency

The Company recognized a foreign currency transaction loss of $43,848 and $88,791 for the three and six months ended March 31, 2016, respectively, compared to a gain of $28,467 and $49,313 for the three and six months ended March 31, 2015, respectively. The consistent use of the U.S. dollar as functional currency across the Company reduces its foreign currency risk and stabilizes its operating results. As a result of the U.S. dollar being the functional currency of the Company and all of its subsidiaries, comprehensive income is equivalent to the reported net income.

Reclassifications

Certain items in the September 30, 2015 consolidated financial statements have been reclassified to conform to the March 31, 2016 presentation.

NOTE 2 – Earnings per Share

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period after giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential common shares consist of the incremental common shares issuable upon the exercise of stock options and unvested shares granted to employees and directors.

	Three Months Ended March 31,		Six Months Ended March 31,	
Denominator	2016	2015	2016	2015
Weighted average common shares outstanding - basic	28,652,635	28,521,659	28,642,951	28,512,005
Net effect of dilutive securities:				
Options	22,633	56,016	19,949	59,974
Unvested restricted shares	384,028	202,806	384,028	202,806
Total net effect of dilutive securities	406,661	258,822	403,977	262,780
Weighted average common shares outstanding - diluted	29,059,296	28,780,481	29,046,928	28,774,785
Income per common share – basic	$ 0.00	$ 0.06	$ 0.05	$ 0.09
Income per common share – diluted	$ 0.00	$ 0.06	$ 0.05	$ 0.09

Options to purchase approximately 90,000 shares of common stock at an exercise price of $3.92 per share that were outstanding during the three and six months ended March 31, 2016 and 2015 were not included in the computation of diluted net income per share because their effect was anti-dilutive. All other outstanding stock options and unvested restricted shares were included in the computation of diluted net income per share for the three and six months ended March 31, 2016 and 2015.

NOTE 3 - Inventory

Inventory consists of the following components at March 31, 2016 and September 30, 2015:

	March 31, 2016	September 30, 2015
Raw material	$ 442,308	$ 839,179
Work in process	80,767	77,483
Finished goods	1,702,961	868,270
Inventory, gross	2,226,036	1,784,932
Less: inventory reserves	(34,343)	(39,752)
Inventory, net	$ 2,191,693	$ 1,745,180

NOTE 4 – Line of Credit

On August 1, 2015, the Company entered into an amendment to the Second Amended and Restated Loan Agreement (as amended, the Loan Agreement) with Midland States Bank to extend the term of the Company's revolving line of credit to August 1, 2016. The credit facility consisted of a single revolving note for up to $2 million with Midland States Bank, with borrowings limited to a borrowing base determined based on 70 percent to 80 percent of eligible accounts receivable plus 50 percent of eligible inventory. Significant restrictive covenants in the Loan Agreement included prohibitions on any merger, consolidation or sale of all or a substantial portion of the Company's assets, and limits on the payment of dividends or the repurchase of shares. The Loan Agreement did not contain any financial covenants that required compliance with ratios or amounts. Dividends and share repurchases were permitted as long as after giving effect to the dividend or share repurchase the Company had a ratio of total liabilities to total stockholders' equity of no more than 1:1. Borrowings on the revolving note were to bear interest at the national prime rate published by the Wall Street Journal (3.25 percent at September 30, 2015). The note was collateralized by substantially all of the assets of the Company. No amounts were outstanding under the revolving note at September 30, 2015.

On December 29, 2015, the Company and Midland States Bank terminated the Loan Agreement. There was no penalty related to the early termination of the Loan Agreement and no amounts were outstanding under this facility.

On December 29, 2015, the Company entered into a Credit Agreement (the Credit Agreement) with BMO Harris Bank, N.A. (BMO Harris Bank). The Credit Agreement provides the Company with a revolving line of credit of up to $10 million with a term that extends to December 29, 2017. Borrowings under the Credit Agreement bear interest, at the Company's option, at a base rate or at LIBOR plus 2.25%. The Company is also required to pay a commitment fee at the rate of 0.10% per annum on the average daily unused portion of the revolving line of credit. The Company's obligations under the Credit Agreement are secured by a lien against substantially all of the assets of the Company and a pledge of 65% of the outstanding shares of The Female Health Company Limited. In addition to other customary representations, covenants and default provisions, the Company is required to maintain a minimum tangible net worth and to not to exceed a maximum total leverage ratio. Among the non-financial covenants, the Company is restricted in its ability to pay dividends, buy back shares of its common stock, incur additional debt and make acquisitions above certain amounts. No amounts are outstanding under the Credit Agreement at March 31, 2016. Completion of the proposed merger transaction with APP will constitute an event of default under the Credit Agreement as a "change of control" as defined in the Credit Agreement and require the waiver of other covenants in the Credit Agreement. As a result, the line of credit will not remain in place after the completion of the transaction, and any amounts outstanding will become due upon the completion of the transaction, unless BMO Harris Bank agrees to waive the change of control provision and other applicable provisions of the Credit Agreement in connection with the transaction. Discussions are underway between the Company and BMO Harris Bank. See Note 11 below.

NOTE 5 – Share-Based Payments

In March 2008, the Company's shareholders approved the 2008 Stock Incentive Plan which is utilized to provide equity opportunities and performance–based incentives to attract, retain and motivate those persons who make (or are expected to make) important contributions to the Company. A total of 2 million shares are available for issuance under this plan. As of March 31, 2016, 1,314,220 shares had been granted under the plan, of which 150,000 shares were in the form of stock options and the remainder were in the form of restricted stock or other share grants.

Stock Options

Under the Company's previous share based long-term incentive compensation plan, the 1997 Stock Option Plan, the Company granted non-qualified stock options to employees, directors and consultants. There are no shares available for grant under this plan which expired on December 31, 2006. Options issued under this plan expire 10 years after the date of grant and generally vested 1/36 per month, with full vesting after three years. Under the Company's 2008 Stock Incentive Plan, options issued expire 10 years after the date of grant and vest 1/36 per month, with full vesting after three years. The Company did not grant any options during the three and six months ended March 31, 2016 or 2015.

Compensation expense is recognized only for share-based payments expected to vest. The Company estimates forfeitures at the date of grant based on historical experience and future expectations. No stock compensation expense related to options was recognized for thethree and six months ended March 31, 2016 or 2015.

No stock options were exercised during thethree and six months ended March 31, 2016 or 2015.

The following table summarizes the stock options outstanding and exercisable atMarch 31, 2016:

	Options Outstanding and Exercisable at March 31, 2016	Weighted Avg. Remaining Life (years)	Weighted Avg. Exercise Price	Aggregate Intrinsic Value
Total	180,000	1.84	$ 2.60	$ 54,000

The aggregate intrinsic value in the table above is before income taxes, based on the closing price of the Company's common stock of $1.87 per share as of the last business day of the period endedMarch 31, 2016. As of March 31, 2016, the Company had no unrecognized compensation expense relating to outstanding stock options as all outstanding stock options were fully vested.

Restricted Stock

The Company issues restricted stock to employees, directors and consultants. Such issuances may have vesting periods that range fromone to three years. In addition, the Company has issued stock awards to certain employees that provide for future issuance contingent on continued employment for periods that range from one to three years.
The Company granted a total of 83,750 shares of restricted stock or shares issuable pursuant to promises to issue shares of common stock during the six months ended March 31, 2016. The stock granted during the six months ended March 31, 2016 includes rights to receive a total of 13,498 shares, or at a holder's election cash based on the fair market value of the shares, contingent on continued employment or service. The fair value of the awards granted was approximately $122,000. All such shares of restricted stock vest and all such shares must be issued at the end of the applicable period, provided the grantee has not voluntarily terminated service or been terminated for cause prior to the vesting or issuance date. There were no shares of restricted stock forfeited during the three and six months ended March 31, 2016.

The Company granted a total of 43,500 shares of restricted stock or shares issuable pursuant to promises to issue shares of common stock during the six months ended March 31, 2015. The fair value of the awards granted was approximately $144,000. All such shares of restricted stock vest and all such shares must be issued at the end of the applicable period, provided the grantee has not voluntarily terminated service or been terminated for cause prior to the vesting or issuance date. There were 3,250 shares of restricted stock forfeited during the three and six months ended March 31, 2015.

The Company recognized share-based compensation expense for restricted stock or promises to issue shares of common stock of approximately $131,000 and $254,000 for the three and six months ended March 31, 2016, respectively, $63,000 of which was included in accrued expenses at the six months then ended since the related shares had not yet been issued at March 31, 2016. Share-based compensation expense for restricted stock or promises to issue shares of common stock for the three and six months ended March 31, 2015 was approximately $180,000 and $380,000, respectively, of which $100,000 was included in accrued expenses at March 31, 2015. This compensation expense was included in operating expenses on the accompanying Unaudited Condensed Consolidated Statements of Income for the three and six months ended March 31, 2016 and 2015. As of March 31, 2016, there was approximately $556,000, representing approximately 281,000 unvested shares, of total unrecognized compensation cost related to non-vested restricted stock compensation arrangements granted under the Company's equity compensation plans. This unrecognized cost will be recognized over the weighted average period of the next 2.17 years.

NOTE 6 - Stock Repurchase Program

The Company's Stock Repurchase Program was announced on January 17, 2007. At initiation, the program's terms specified that up to 1,000,000 shares of its common stock could be purchased during the subsequent twelve months. Subsequently, the Board has amended the program a number of times to both extend its term and increase the maximum number of shares which could be repurchased. Currently, the program allows for a maximum repurchase of up to 3,000,000 shares through the period ending December 31, 2016. From the program's onset through March 31, 2016, the total number of shares repurchased by the Company is 2,183,704. The total number of shares that may yet be purchased under the program is 816,296. The Stock Repurchase Program authorizes purchases in privately negotiated transactions as well as in the open market. In October 2008, the Company's Board of Directors authorized repurchases in private transactions under the Stock Repurchase Program of shares issued under the Company's equity compensation plans to directors, employees and other service providers at the market price on the effective date of the repurchase request. Total repurchases under this provision currently are limited to an aggregate of 450,000 shares per calendar year and to a maximum of 50,000 shares annually per individual. There were no repurchases of any kind under the program for the three and six months ended March 31, 2016. During the three and six months ended March 31, 2015, private repurchase transactions were 250 shares, and there were no open market repurchase transactions.

Total repurchase activity through March 31, 2016 is as follows:

Issuer Purchases of Equity Securities	Details of Treasury Stock Purchases to Date through March 31, 2016		
Period:	Total Number of Shares Purchased	Average Price Paid Per Share	Cost of Treasury Stock
January 1, 2007 – September 30, 2015	2,183,704	$ 3.57	$ 7,806,605
October 1, 2015 - October 31, 2015	—	$ —	$ —
November 1, 2015 - November 30, 2015	—	$ —	$ —
December 1, 2015 - December 31, 2015	—	$ —	$ —
Quarterly Subtotal	—	$ —	—
January 1, 2016 - January 31, 2016	—	—	—
February 1, 2016 - February 29, 2016	—	—	—
March 1, 2016 - March 31, 2016	—	—	—
Quarterly Subtotal	—	$ —	$ —
Six Months Subtotal	—	—	—
Total	2,183,704	$ 3.57	$ 7,806,605

NOTE 7 - Industry Segments and Financial Information About Foreign and Domestic Operations

The Company currently operates in one industry segment which includes the development, manufacture and marketing of consumer health care products.

The Company operates in foreign and domestic regions. Information about the Company's operations by geographic area is as follows (in thousands):

	Net Revenues to External Customers for the Six Months Ended March 31,		Long-Lived Asset As Of March 31,	September 30,
	2016	2015	2016	2015
Brazil	$ 6,008	$ 9,955	$ —	$ —
Zimbabwe	1,652	2,113	—	—
United States	1,293	*	95	123
South Africa	*	1,181	—	—
Malaysia	*	*	957	1,134
United Kingdom	*	*	106	120
Other	4,050	4,388	—	—
Total	$ 13,003	$ 17,637	$ 1,158	$ 1,377

* Less than 5 percent of total net revenues.

At March 31, 2016 the Company had one customer whose accounts receivable balance was 66 percent of current assets. At September 30, 2015 the Company had one customer whose accounts receivable balance was 46 percent of current assets. No other single customer's accounts receivable balance accounted for more than 10 percent of current assets as of March 31, 2016 or September 30, 2015. There was one customer that exceeded 10 percent of net revenues for the six months ended March 31, 2016 and two customers that exceeded 10 percent of net revenues for the six months ended March 31, 2015.

NOTE 8 – Contingent Liabilities

The testing, manufacturing and marketing of consumer products by the Company entail an inherent risk that product liability claims will be asserted against the Company. The Company maintains product liability insurance coverage for claims arising from the use of its products. The coverage amount is currently $10 million for FHC's consumer health care product.

NOTE 9 – Income Taxes

The Company accounts for income taxes using the liability method, which requires the recognition of deferred tax assets or liabilities for the tax-effected temporary differences between the financial reporting and tax bases of its assets and liabilities, and for net operating loss and tax credit carryforwards.

The Company completes a detailed analysis of its deferred income tax valuation allowances on an annual basis or more frequently if information comes to our attention that would indicate that a revision to our estimates is necessary. In evaluating the Company's ability to realize its deferred tax assets, management considers all available positive and negative evidence on a country-by-country basis, including past operating results and forecast of future taxable income. In determining future taxable income, management makes assumptions to forecast U.S. federal and state, U.K. and Malaysia operating income, the reversal of temporary differences, and the implementation of any feasible and prudent tax planning strategies. These assumptions require significant judgment regarding the forecasts of the future taxable income in each tax jurisdiction, and are consistent with the forecasts used to manage the Company's business. It should be noted that the Company realized significant losses through 2005 on a consolidated basis. Since fiscal year 2006, the Company has consistently generated taxable income on a consolidated basis, providing a reasonable future period in which the Company can reasonably expect to generate taxable income. In management's analysis to determine the amount of the deferred tax asset to recognize, management projected future taxable income for each tax jurisdiction.

As of March 31, 2016, the Company had U.S. federal and state net operating loss carryforwards of approximately $13,023,000 and $12,587,000, respectively, for income tax purposes expiring in years 2020 to 2027. The Company's U.K. subsidiary has U.K. net operating loss carryforwards of approximately $61,938,000 as of March 31, 2016, which can be carried forward indefinitely to be used to offset future U.K. taxable income. With the demand for and profitability of FC2, the Company expects utilization of its net operating losses in both the U.K. and the U.S. will continue. The Company's net operating loss carryforwards will be utilized to reduce cash payments for income taxes based on the statutory rate in effect at the time of such utilization.

A reconciliation of income tax expense and the amount computed by applying the statutory federal income tax rate to income before income taxes for the three and six months ended March 31, 2016 and 2015, is as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Income tax expense at statutory rates	$ 2,000	$ 1,011,000	$ 791,000	$ 1,513,000
State income tax, net of federal benefits	—	271,000	119,000	364,000
Non-deductible expenses	1,000	—	3,000	2,000
Effect of AMT expense	(3,000)	64,000	27,000	91,000
Effect of lower foreign income tax rates	(47,648)	40,501	(154,773)	61,235
Other	19,824	(80,056)	16,402	(54,360)
Income tax expense	$ (27,824)	$ 1,306,445	$ 801,629	$ 1,976,875

Note 10 – Dividends

Beginning February 16, 2010, through May 7, 2014, the Company paid 18 quarterly cash dividends. The first 9 were paid at a quarterly rate per share of $0.05 through February 9, 2012, 4 were paid at a quarterly rate per share of $0.06 from May 9, 2012 through February 6, 2013, and 5 were paid at a quarterly rate per share of $0.07 from May 8, 2013 through May 7, 2014. Cumulative dividends paid totaled $29.4 million through September 30, 2014. On July 14, 2014, the Company announced that its Board of Directors has elected to suspend the payment of quarterly cash dividends in order to devote operating cash flows towards strategic growth initiatives.

Note 11 – Merger Agreement

On April 6, 2016, the Company and APP announced that they had entered into a definitive merger agreement under which the Company will reincorporate as a Delaware corporation (FHC Delaware) and then APP will become a wholly owned subsidiary of FHC Delaware. Under the terms of the merger agreement, pursuant to the reincorporation merger, each share of common stock of FHC will be converted into the right to receive one share of common stock of FHC Delaware, and then pursuant to the APP merger the shares of APP common stock and preferred stock in the aggregate will be converted into the right to receive such number of shares of common stock of FHC Delaware that will equal 45% of the total number of outstanding shares of common stock of FHC Delaware on a fully-diluted basis following such issuance. As a result, immediately following the mergers, shareholders of the Company will hold approximately 55% of the outstanding shares of common stock of FHC Delaware and shareholders of APP will hold approximately 45% of the outstanding shares of common stock of FHC Delaware. This 55%/45% allocation will be subject to dilution (which will be shared by the FHC shareholders and APP shareholders) from the issuance by FHC Delaware after the mergers of equity awards to an FHC director and an FHC consultant and the issuance of a warrant to FHC's financial advisor. Completion of the transaction will constitute an event of default under the Credit Agreement as a "change of control" as defined in the Credit Agreement and require a waiver of other covenants in the Credit Agreement. As a result, the line of credit will not remain in place after the completion of the transaction, and any amounts outstanding will become due upon the completion of the transaction, unless BMO Harris Bank agrees to waive the change of control provision and other applicable provisions of the Credit Agreement in connection with the transaction. Discussions are underway between the Company and BMO Harris Bank. The transaction is subject to approval by the Company's shareholders and the satisfaction of customary closing conditions. The transaction is expected to be completed in the fourth quarter of fiscal 2016.

APP is a privately held therapeutics company focused on the development and commercialization of pharmaceutical and consumer health products for men's and women's health, diseases and oncology. For men, product and product candidates are in the areas of benign prostatic hyperplasia, male infertility, amelioration of side effects of hormonal prostate cancer therapies, gout, sexual dysfunction, and prostate cancer. For women, product candidates are for female sexual health and advanced breast and ovarian cancers.

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

Additional Information about the Proposed Transaction and Where You Can Find It

This report contains a discussion of a proposed merger transaction involving the Company and APP. FHC plans to file a proxy statement with the SEC relating to a solicitation of proxies from its shareholders in connection with a special meeting of shareholders of FHC to be held for the purpose of voting on matters relating to the proposed merger transaction with APP. BEFORE MAKING ANY VOTING DECISION WITH RESPECT TO THE PROPOSED TRANSACTION, FHC SECURITY HOLDERS ARE URGED TO READ THE PROXY STATEMENT AND OTHER RELEVANT MATERIALS WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION.

The proxy statement and other relevant materials, and any other documents filed by FHC with the SEC, may be obtained free of charge at the SEC's website at www.sec.gov. In addition, shareholders of FHC may obtain free copies of the documents filed with the SEC by contacting FHC's Chief Financial Officer at (312) 595-9123, or by writing to Chief Financial Officer, The Female Health Company, 515 North State Street, Suite 2225, Chicago, Illinois 60654.

Interests of Certain Participants in the Solicitation

FHC and its executive officers and directors may be deemed to be participants in the solicitation of proxies from the shareholders of FHC in favor of the proposed transaction. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the proxy statement and other relevant materials to be filed with the SEC when they become available.

General

The Female Health Company manufactures, markets and sells the FC2 Female Condom. FC2 is the only currently available female-controlled product approved by the U.S. Food and Drug Administration (FDA) and cleared by the World Health Organization (WHO) for purchase by U.N. agencies that provides dual protection against unintended pregnancy and sexually transmitted infections (STIs), including HIV/AIDS. The Company's first generation product was the FC1 Female Condom, a Class III medical device approved by FDA in 1993. The Company's second generation product, FC2, has been available globally since 2007, and in the U.S. since 2009 after it was approved by the FDA as a Class III medical device. To date, FHC has manufactured and sold approximately 528 million FC1 and FC2 Female Condoms.

Products

Currently, there are only two FDA approved and marketed products that prevent the transmission of HIV/AIDS through sexual intercourse: the male condom and FC2. FC2 is currently the only FDA approved and marketed female-controlled product that prevents STIs, including HIV/AIDS. Used consistently and correctly, FC2 provides women dual protection against STIs, including HIV/AIDS, and unintended pregnancy. When used correctly the protection rates against unintended pregnancies are 95 percent for female condoms compared to 98 percent for male condoms according to the FDA. FC2 is not seen as directly competing with the male condom; it provides an alternative to either unprotected sex or male condom usage.

An economic analysis of the cost effectiveness of an FC2 HIV/AIDS prevention program conducted by Dr. David Holtgrave, the chairman of the Department of Health Behavior and Society at the Johns Hopkins Bloomberg School of Public Health, was featured in the March 26, 2012 issue of AIDS and Behavior. The study showed that the Washington, D.C. FC2 prevention program, a public-private partnership to provide and promote FC2, prevented enough HIV infections in the first year alone to save over $8 million in avoided future medical care costs (over and above the cost of approximately $445,000 for the program). This means that for every dollar spent on the program, there was a cost savings of nearly $20. In the article Dr. Holtgrave concluded, "These results clearly indicate that delivery of, and education about, Female Condoms is an effective HIV prevention intervention and an outstanding public health investment." Washington, D.C. began its program in 2010 to fight a disease that is at epidemic levels. At least 3 percent of Washington, D.C. residents have HIV or AIDS, a prevalence rate that is the highest of any U.S. city.

In May 2014, a business case was published by Global Health Visions, LLC, commissioned by Rutgers WPF, the advocacy partner of the Universal Access to Female Condoms (UAFC) Joint Programme. Part of the publication was a study comparing total expected costs with total estimated economic benefits and it determined there was an excellent return on investment for female condoms in sub-Saharan Africa. For example, in Nigeria an investment of $1 offers a $3.20 return on investment to the country's economy.

Numerous clinical and behavioral studies have been conducted regarding use of the female condom. Studies show that in many cultures, the female condom is found acceptable by women and their partners. Importantly, studies also show that when the female condom is made available as an option along with male condoms there is a significant increase in protected sex acts with a concurrent decrease in STIs. The increase in protected sex acts varies by country and averages between 10 percent and 35 percent.

FC2 has basically the same physical design, specifications, safety, and efficacy profile as FC1. Manufactured from a nitrile polymer formulation that is exclusive to the Company, FC2 is produced more economically than FC1, which was made from a more costly raw material, polyurethane. FC2 consists of a soft, loose fitting sheath and two rings: an external ring of rolled nitrile and a loose internal ring made of flexible polyurethane. FC2's soft sheath lines the vagina, preventing skin-to-skin contact during intercourse. Its external ring remains outside the vagina, partially covering the external genitalia. The internal ring is used for insertion and helps keep the device in place during use.

FC2's primary raw material, a nitrile polymer, offers a number of benefits over natural rubber latex, the raw material most commonly used in male condoms. FC2's nitrile polymer is stronger than latex, reducing the probability that the female condom sheath will tear during use. Unlike latex, FC2's nitrile polymer quickly transfers heat. FC2 can warm to body temperature immediately upon insertion, which may enhance the user's sensation and pleasure. Unlike the male condom, FC2 may be inserted in advance of arousal, eliminating disruption during sexual intimacy. FC2 is also an alternative to latex sensitive users who are unable to use latex male or female condoms without irritation. For example, 7 percent to 20 percent of the individuals with significant exposure to latex rubber (i.e., health care workers) experience such irritation. To the Company's knowledge, there is no reported allergy to the nitrile polymer. FC2 is pre-lubricated, disposable, and recommended for use during a single sex act. FC2 is not reusable.

Raw Materials

The principal raw material used to produce FC2 is a nitrile polymer. While general nitrile formulations are available from a number of suppliers, the Company has chosen to work closely with the technical market leader in synthetic polymers to develop a grade ideally suited to the bio-compatibility and functional needs of a female condom. As a result, the Company relies on supply for its principal raw material from one supplier that could produce the raw material from multiple supply points within its organization.

Global Market Potential

Because FC2 offers a woman dual protection against both unintended pregnancy and STIs, including HIV/AIDS, its market encompasses both family planning and disease prevention.

DISEASE PREVENTION

The first clinical evidence of AIDS was noted more than thirty years ago. Since then, HIV/AIDS has become the most devastating pandemic facing humankind in recorded history. In November 2009, WHO released statistics indicating that on a world-wide basis, HIV/AIDS is now the leading cause of death in women 15 to 44 years of age. According to WHO, in 2012 worldwide women comprised 50 percent of all the adults living with HIV and approximately 58 percent of all new adult cases of HIV/AIDS in Sub-Saharan Africa. In the United States the Centers for Disease Control and Prevention (CDC) and FDA both list heterosexual sex as the most common method of HIV transmission in women.

For sexually active couples, male condoms and FC2 are the only barrier methods approved by the FDA for preventing sexual transmission of HIV/AIDS. In recent years, scientists have sought to develop alternative means of preventing HIV/AIDS. Based on the complexities of such research, a viable prevention alternative is unlikely to be available in the foreseeable future. To date, it is clear that condoms, male and female, continue to play a key role in the prevention of STIs, including HIV/AIDS. The United Nations Joint Programme on HIV/AIDS (UNAIDS) has reported that, since the beginning of the HIV/AIDS epidemic, it is estimated that condoms have averted approximately 50 million new cases. FC2, when used consistently and correctly, gives a woman control over her sexual health by providing dual protection against STIs, including HIV/AIDS, and unintended pregnancy.

In the United States, the CDC continues to report that the HIV/AIDS epidemic is taking an increasing toll on women and girls. Women of color, particularly black women, have been especially hard hit. Women of color comprise both the majority of new HIV and AIDS cases among women and the majority of women living with the disease. In 2010, the CDC listed the rate of new HIV infection for black women as approximately 8 times the rate for white women in the United States. In 2010, in the United States, it estimated that one in 32 black women would be diagnosed with HIV in her lifetime, compared to the one in 526 incidence rate amongst white women.

The CDC estimates there are 20 million new cases of STIs that they track in the U.S. each year. It is also estimated that over 24,000 women each year in the U.S. lose the ability to conceive or carry a pregnancy to term due to undiagnosed or untreated STIs. In March 2008, the CDC announced that a study indicated 26 percent of female adolescents in the U.S. have at least one of the most common STIs. Led by the CDC's Sara Forhan, the study is the first to examine the combined national prevalence of common STIs among adolescent women in the U.S. In addition to overall STI prevalence, the study found that by race, African American teenage girls had the highest prevalence, with an overall prevalence of 48 percent compared to 20 percent among both whites and Mexican Americans. Overall, approximately half of all the teens in the study reported ever having sex. Among these girls, the STI prevalence was 40 percent.
The recent emergence of the Zika virus creates a global health issue. The Company can make a significant contribution to preventing the spread of Zika.

On February 1, 2016 WHO declared the Zika virus a global emergency. The Zika virus was first identified in 1947 in Uganda (name comes from Zika Forest in Uganda). There were no epidemic of major issues attributable to the virus for decades.

The outbreak of the virus was detected in Brazil in May 2015. Since May 2015:

- It has become epidemic in Brazil and detected in 20 additional Latin American countries.
- It has been detected in the U.S. (Los Angeles, Texas, and Florida to date).
- It has been detected in Spain.

The virus is spreading and could become epidemic on a global basis.

Scientists have confirmed there is a link between the virus and microencephaly, a condition that causes babies to be born with unusually small heads. There was a sharp rise in cases of microencephaly in Brazil concurrent with the Zika virus epidemic.

Women who are or become pregnant and are infected may give birth to babies with microencephaly. It has also been linked to eye issues and the Guillain-Barre Syndrome.

The Zika virus is transmitted by mosquitoes. In addition, it is transmitted through sexual intercourse. It has been reported present in both semen and urine. There has been a report the virus has also been transmitted through blood transfusions.

There is the potential for a global epidemic and related births of children withmicroencephaly and other severe brain defects. The social and economic ramifications could be devastating.

Prevention of the disease and pregnancy is critical to averting a global epidemic. Currently available prevention methods are very limited and include the following:

- Mosquito control will reduce transmission of the disease in this manner. It will not prevent pregnancy or other forms of disease transmission.
- Female and male condoms and abstinence are the only methods that can prevent pregnancy and transmission of the virus through sex.

The Company's FC2 female condom can make a major contribution to the prevention of a serious disease, the birth ofdeformed children and the extraordinary costs that would be incurred in caring for such children.

- The Company believes it is in a better position to make this contribution than any other female condom manufacturer, as the Company has 20 years of experience and a production facility with capacity of approximately 100 million units annually.
- The female condom is a better choice than male condoms due to the role of the women. The perception of risk among informed women of giving birth to a deformed baby is likely to be high.
- Education is a key factor in creating risk awareness and effecting prevention.

CONTRACEPTION

The feminization of HIV/AIDS has increased the relevance of FC2 for the prevention of unintended pregnancies as well as disease prevention. Unintended pregnancy may result in maternal and infant death, babies with HIV/AIDS, AIDS orphans, and increased health care costs.

On July 11, 2012, World Population Day, the U.K. Government and the Bill and Melinda Gates Foundation held a Summit on Family Planning in London, England (the London Summit). It was attended by public health officials, government officials, and private sector companies that supply contraceptives and related products. FHC was one of only fourteen companies, and the only condom manufacturer, invited to attend the London Summit. The primary goal of the London Summit was to increase access to contraceptives to an additional 120 million poor women in 69 developing countries by 2020.

The Condom Market

The global public health sector market for male condoms is estimated to be greater than 8-10 billion units annually. The private sector market for male condoms is estimated at 10-15 billion units annually. The combined global male condom market (public and private sector) is estimated at a value of $4.5 billion annually. The female condom market represents a very small portion of the total global condom market. Yet 50 percent of individuals living with HIV/AIDS are women. As a result a number of independent women's groups are advocating for increased investment in and distribution of female condoms on a gender equality basis.

Strategy

The Company's strategy is to fully develop global markets for FC2 for both contraception and STI prevention, including HIV/AIDS. Since the introduction of its first generation product, FC1, the Company has developed contacts and relationships with global public health sector organizations such as WHO, the United Nations Population Fund (UNFPA), the United States Agency for International Development (USAID), UNAIDS, country-specific health ministries, non-governmental organizations (NGOs), and commercial partners in various countries. The Company has representatives in various locations around the world to provide technical sales support and assist with its customers' prevention and family planning programs.

In July 2014, the Company announced a new growth strategy with twoobjectives. The first element was to accelerate demand for FC2 by strengthening key customer relationships and creating greater awareness of FC2 in our current markets through increased consumer sales and marketing efforts. As described in the next section, the Company recently completed its evaluation of the potential for FC2 in consumer markets in the U.S.

The second objective was to diversify the product line to increase shareholder opportunity and reduce the risk of being a one product company. The proposed merger transaction with APP would fulfill this objective. The rationale for diversification and selection of APP was as follows: FHC has had a solid track record in developing and marketing a first of its kind product, securing FDA approval and WHO clearance, distribution in 144 countries, 10 years of profitability and no debt. However, there are significant risks and opportunity limitations for FHC to simply continue as it is.

- First is the obvious risk of being a single product company. The need for diversification is important in light of increased competition for our product.
- Second, the volatility of the business and dependence on public sector funding.
- Third is the opportunity limitation of having an excellent public company health care platform but using it for only one product.

As a result, in July 2014 FHC committed to diversifying its business. The Company has analyzed more than 100 potential opportunities. We believe none of the companies analyzed presented the opportunities provided by APP. The potential benefits of the proposed merger are as follows:

- It results in a high potential multiple product portfolio,
- It provides proprietary product positions, three of which are subject to the potentially less risky, less costly and more expedited 505(b)(2) FDA regulatory approval process, resulting in nearer term revenue and cash flow potential for these three products,
- It may complement and enhance FC2's market opportunities,
- Due to the multiple product portfolio it may capitalize on FHC's public healthcare company status and as a result provide an opportunity for long-term growth and enhanced shareholder value, and
- It brings an experienced management team to the Company.

The FHC board approved the merger after the completion of a scientific, intellectual property, legal and financial due diligence process.

Commercial Markets - Direct to Consumers

The Company has distribution agreements and other arrangements with commercial partners which market to consumers through distributors and retailers in 16 countries, including the United States, Brazil, Spain, France, and the United Kingdom. These agreements are generally exclusive for a single country. Under these agreements, the Company sells FC2 to the distributor partners, who market and distribute the product to consumers in the established territory.

In the U.S., FHC initiated the FC2 College Health Mini-Grant Program in early 2013. The objective is to create awareness and sexual health knowledge that results in FC2 online/in-store retail purchases by young women and men. Education and training is the key content element for this program, similar to the public sector. College health and wellness centers were contacted and advised that they could apply to participate in the FC2 Program. During the pilot, FHC provided a mini-grant ($50-$500) and related education and training materials to help start or enhance an on-campus FC2 program. Grants were awarded based on a school's intention to (1) raise awareness of FC2 on campus, (2) increase access to FC2 on campus, and (3) enhance students' capacity to effectively and accurately use FC2. The pilot regions for The FC2 College Campus Program were determined through selection of the following four American College Health Associations Regional Affiliates: New England, New York, South, and South West College Health Associations. In total 30 colleges were chosen to receive grants for The FC2 College Campus Program, including Colgate University, Tulane University, and Duke University, plus student groups from institutions such as Boston College and University of Florida.

Due to the pilot program's success, the program was implemented in 2014 with 20 schools chosen to receive grants between $500 and $1,000 along with related education and training materials. In 2015, 49 schools were chosen to receive an in kind donation of 300 units of FC2 along with related education and training materials.

In March 2016, the Company completed its evaluation of the potential for FC2 in consumer markets in the U.S. The Company's board of directors approved increased consumer marketing activity in the U.S., subject to a review by the board of directors of a detailed marketing plan and budget for such marketing activity. Some recent changes in the U.S. market environment may represent an opportunity for the promotion of FC2 to consumers:

- FC2 is now reimbursable under the Affordable Care Act and most health plans. FC2 was registered and now has a UPC code to support reimbursement.
- Increased public focus on preventing unwanted pregnancy and disease in young women.
- The rise of social media in marketing to young women.
- Increased online purchasing of condoms. It is estimated 33 percent of male condoms are purchased online.

- As FC2 is non-hormonal it is a viable alternative for many U.S. women who have reported dissatisfaction with the side effects of hormonal birth control.

The Company believes the promotion of FC2 to consumers will be complementary to public sector marketing by increasing awareness of FC2.

An online store for direct-to-consumer purchases, ShopFemaleHealth.com, was launched in March 2015. Additionally, FC2 may now be purchased online through various ecommerce websites, including (but not limited to): Amazon.com, Walgreens.com, CVS.com, Drugstore.com, Kmart.com, Walmart.com and MyQuestStore.com.

The Company has formed a medical advisory board to assist with determining the optimal approach to inform health care professionals of the benefits of FC2. Sampling and support information at gynecological practices is one tactic employed.

Relationships and Agreements with Public Health Sector Organizations

The Company's customers are primarily large global agencies, NGOs, ministries of health, and other government agencies which purchase and distribute FC2 for use in HIV/AIDS prevention and family planning programs. The Company offers uniform, volume-based pricing to such agencies, rather than entering into long-term supply agreements.

In the U.S., FC2 is sold to city and state public health clinics as well as not-for-profit organizations such as Planned Parenthood. Municipal and state departments of health have been increasing access to FC2 within established condom programming. Chicago, Los Angeles, San Francisco, New York, and Washington, D.C. are all examples of cities with programs providing female and male condoms free of charge. In New York City, as of March 31, 2016, FC2 has been distributed to 1,851 locations.

The Company has encouraged growth in the U.S. through education and program development support. To make health professional education broadly available, the Company introduced its FC2 Online Training Program in March 2012.

The National Female Condom Coalition (NFCC) and UAFC sponsored the fourth annual Global Female Condom Day on September 16, 2015. The 2015 Global Female Condom Day drew greater attention and participation than in the previous years. Public events highlighting the need for access to female condoms and promoting their use in family planning and disease prevention were organized around the world and in the U.S., including events specifically initiated or co-sponsored by the Company.

Globally, the Company has a multilingual website that provides downloadable training and education information in English, Portuguese, Spanish, and French.

Outside of the U.S., training and education sessions were held in 10 countries, with an estimated 32,000 people participating in the sessions in fiscal year 2015.

Manufacturing Facilities

The Company leases production space in Selangor D.E., Malaysia for the production of FC2, which currently has manufacturing capacity of approximately 100 million units annually. In fiscal 2014 the Company added additional space, resulting in a total of 45,800 sq. ft. in the Company's Malaysia facility, comprised of production and warehouse space and which provides sufficient space to add manufacturing capacity of up to an additional 100 million units annually. The Company will consider manufacturing in other locations as the demand for FC2 develops.

Government Regulation

Female condoms as a group were classified by the FDA as a Class III medical device in 1989. Class III medical devices are deemed by the FDA to carry potential risks with use which must be tested prior to FDA approval, referred to as Premarket Approval (PMA), for sale in the U.S. As FC2 is a Class III medical device, prior to selling FC2 in the U.S., the Company was required to submit a PMA application containing technical information on the use of FC2, such as pre-clinical and clinical safety and efficacy studies, which was gathered together in a required format and content. The FC2 PMA was approved by the FDA as a Class III medical device in March 2009.

FC2 received the CE Mark which allows it to be marketed throughout the European Union. FC2 has also been approved by regulatory authorities in Brazil, India, Canada, and other jurisdictions.

In the U.S., FC2 is regulated by the FDA. Pursuant to section 515(a)(3) of the Safe Medical Amendments Act of 1990 (the SMA Act), the FDA may temporarily suspend approval and initiate withdrawal of the PMA if the FDA finds that FC2 is unsafe or ineffective, or on the basis of new information with respect to the device, which, when evaluated together with information available at the time of approval, indicates a lack of reasonable assurance that the device is safe or effective under the conditions of use prescribed, recommended, or suggested in the labeling. Failure to comply with the conditions of FDA approval invalidates the approval order. Commercial distribution of a device that is not in compliance with these conditions is a violation of the SMA Act. As an FDA approved medical device, the facilities in which FC2 is produced and tested are subject to periodic FDA inspection to ensure compliance with current Good Manufacturing Processes. The Company's most recent FDA inspection was completed in September 2010.

The FDA's approval order for FC2 includes conditions that relate to product labeling, including information on the package itself and instructions for use called a "package insert" which accompanies each product. The Company believes it is in compliance with the FDA approval order.

The Company's facility may also be subject to inspection by UNFPA, USAID, International Organization for Standardization (ISO), and country specific ministries of health.

Competition

FC2 participates in the same market as male condoms; however, it is not seen as directly competing with male condoms. Rather, studies show that providing FC2 is additive in terms of prevention and choice. Male condoms cost less and have brand names that are more widely recognized than FC2. In addition, male condoms are generally manufactured and marketed by companies with significantly greater financial resources than the Company.

Other parties have developed and marketed female condoms. None of these female condoms marketed or under development by other parties have secured FDA approval. FDA approval is required to sell female condoms in the U.S. USAID, a U.S. government funded agency, is required to procure FDA approved product; however there can be exceptions. Outside of the U.S., the Company has experienced increasing competition and pricing pressures for FC2. In addition to FC2, three female condoms have successfully completed the WHO prequalification process and been cleared by UNFPA for purchase by U.N. agencies: the Cupid female condom (which was prequalified by WHO in July 2012 and cleared by UNFPA thereafter), the Velvet female condom marketed by Hindustan Latex Limited (which was prequalified by WHO and cleared by UNFPA in March 2016) and the female condom marketed by PATH (which was prequalified by WHO and cleared by UNFPA in March 2016). The female condom marketed by Hindustan Latex Limited, which is the Company's former exclusive distributor in India, is substantially similar in design to FC2, except it uses latex. FC2 has also been competing with other female condoms in markets that do not require either FDA approval or WHO prequalification. Reflecting increased competition, Cupid received part of the last two South African tenders. Increasing competition in FC2's marketshas, and will likely continue to, put pressure on pricing for FC2 and may also adversely affect sales of FC2. Some customers, particularly in the global public sector, prioritize price over other features where FC2 may have an advantage. It is also possible that other female condoms may receive FDA approval or complete the WHO prequalification process, which would increase competition from other female condoms in FC2's markets.

An important factor to consider with respect to competition and the pricing of female condoms is the use rate of the number of condoms distributed or cost per protected sex act. Product specific education and training increases the number of available products actually used, reducing the cost per protected sex act. The public sector is beginning to focus on cost per protected sex act. The Company is the only company currently providing education and training on the use of its product.

Patents and Trademarks

FC2 patents have been issued by the United States, Europe, Canada, Australia, South Africa, the People's Republic of China, Japan, Mexico, Brazil, India and the African Regional Intellectual Property Organization (ARIPO), which includes Botswana, Gambia, Ghana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe. Further, the European patent for FC2 has been validated in the following countries: Austria, Belgium, Bulgaria, Switzerland, Republic of Cyprus, Czech Republic, Germany, Denmark, Estonia, Spain, Finland, France, United Kingdom, Greece, Hungary, Ireland, Italy, Luxembourg, Monaco, Netherlands, Portugal, Romania, Sweden, Slovenia, Slovakia, and Turkey. The patents cover the key aspects of FC2, including its overall design and manufacturing process. The patents have expiration dates in 2023 and 2024.

The Company has a registration for the trademark "FC2 Female Condom" in the United States. Furthermore, the Company has filed applications or secured registrations in 40 countries or jurisdictions around the world to protect the various names and symbols used in marketing its Female Condoms. In addition, the experience that has been gained through years of manufacturing its Female Condoms (FC1 and FC2) has allowed the Company to develop trade secrets and know-how, including certain proprietary production technologies, that further protect its competitive position.

Overview

Overview

The Company manufactures, markets and sells FC2. FC2 is the only currently available female-controlled product approved by the FDA that provides dual protection against unintended pregnancy and STIs, including HIV/AIDS.

FC2's primary use is for disease prevention and family planning, and the public health sector is the Company's main market. Within the public health sector, various organizations supply critical products such as FC2, at no cost or low cost, to those who need but cannot afford to buy such products for themselves.

FC2 has been distributed in 144 countries. A significant number of countries with the highest demand potential are in the developing world. The incidence of HIV/AIDS, other STIs and unwanted pregnancy in these countries represents a remarkable potential for significant sales of a product that benefits some of the world's most underprivileged people. However, conditions in these countries can be volatile and result in unpredictable delays in program development, tender applications and processing orders.

The Company has a relatively small customer base, with a limited number of customers who generally purchase in large quantities. Over the past few years, major customers have included large global agencies, such as UNFPA and USAID. Other customers include ministries of health or other governmental agencies, which either purchase directly or via in-country distributors, and NGOs.

Purchasing patterns vary significantly from one customer to another, and may reflect factors other than simple demand. For example, some governmental agencies purchase through a formal procurement process in which a tender (request for bid) is issued for either a specific or a maximum unit quantity. Tenders also define the other elements required for a qualified bid submission (such as product specifications, regulatory approvals, clearance by WHO, unit pricing and delivery timetable). Bidders have a limited period of time in which to submit bids. Bids are subjected to an evaluation process which is intended to conclude with a tender award to the successful bidder. The entire tender process, from publication to award, may take many months to complete. A tender award indicates acceptance of the bidder's price rather than an order or guarantee of the purchase of any minimum number of units. Many governmental tenders are stated to be "up to" the maximum number of units, which gives the applicable government agency discretion to purchase less than the full maximum tender amount. Orders are placed after the tender is awarded; there are often no set dates for orders in the tender and there are no guarantees as to the timing or amount of actual orders or shipments. Orders received may vary from the amount of the tender award based on a number of factors including vendor supply capacity, quality inspections and changes in demand. Administrative issues, politics, bureaucracy, process errors, changes in leadership, funding priorities and/or other pressures may delay or derail the process and affect the purchasing patterns of public sector customers. As a result, the Company may experience significant quarter-to-quarter sales variations due to the timing and shipment of large orders.

In October 2014, the Company announced that Semina Indústria e Comércio Ltda (Semina) was awarded an exclusive contract under a public tender. The contract was valid through August 20, 2015, allowing the Brazil Ministry of Health to place orders against this tender at its discretion. Through the end of the contract, the Company received orders for 40 million units in fulfillment of the tender, all of which were shipped prior to March 31, 2016.

Details of the quarterly unit sales for the last five fiscal years are listed below:

Period	2016	2015	2014	2013	2012
October 1 – December 31	15,380,240	12,154,570	11,832,666	17,114,630	15,166,217
January 1 – March 31	9,163,855	20,760,519	7,298,968	16,675,035	13,945,320
April 1 – June 30		14,413,032	13,693,652	12,583,460	15,198,960
July 1 - September 30		13,687,462	9,697,341	8,386,800	17,339,500
Total	24,544,095	61,015,583	42,522,627	54,759,925	61,649,997

Revenues. The Company's revenues are derived from sales of FC2, and are recognized upon shipment of the product to its customers.

The Company's strategy is to further develop a global market and distribution network for its product by maintaining relationships with public health sector groups and completing partnership arrangements with companies with the necessary marketing and financial resources and local market expertise.

The Company's most significant customers are either global public health sector agencies or those who facilitate their purchases and/or distribution of FC2 for use in HIV/AIDS prevention and/or family planning. The Company offers uniform pricing to such agencies, rather than entering into long-term supply agreements. The Company's four largest customers currently are UNFPA, USAID, Sekunjalo Investments Corporation (PTY) Ltd (Sekunjalo), and Semina. We sell to the Brazil Ministry of Health either through UNFPA or Semina. In the U.S., FC2 is sold to city and state public health clinics as well as to not-for-profit organizations such as Planned Parenthood.

Because the Company manufactures FC2 in a leased facility located in Malaysia, a portion of the Company's operating costs are denominated in foreign currencies. While a material portion of the Company's future sales are likely to be in foreign markets, all sales are denominated in the U.S. dollar. Effective October 1, 2009, the Company's U.K. and Malaysia subsidiaries adopted the U.S. dollar as their functional currency, further reducing the Company's foreign currency risk.

Expenses. The Company manufactures FC2 at its facility located in Selangor D.E., Malaysia. The Company's cost of sales consists primarily of direct material costs, direct labor costs and indirect production and distribution costs. Direct material costs include raw materials used to make FC2, principally a nitrile polymer. Indirect production costs include logistics, quality control and maintenance expenses, as well as costs for electricity and other utilities. All of the key components for the manufacture of FC2 are essentially available from either multiple sources or multiple locations within a source.

On April 1, 2015, a tariff exemption in Brazil for condoms was eliminated subjecting all shipments of FC2 clearing customs in Brazil on or after that date to a tariff. The Company agreed to share 50 percent of the tariff costs with Semina and recognized the expense as the units were shipped.

The Company's operating expenses include costs for sales, marketing, education and training relating to FC2. During the London Summit, the Company announced a program to support the London Summit's goal to provide contraceptives to an additional 120 million women by 2020. This program includes a plan for the Company to invest up to $14 million over the period from 2013 through 2018 in reproductive health and HIV/AIDS prevention marketing, education and training in collaboration with global agencies. Such investment in marketing, education and training may increase the Company's operating expenses in future periods, although the Company has not set a specific timetable for any such increased spending. In connection with the London Summit, the Company implemented a volume purchasing incentive program to award major public sector purchasers with FC2 equal to 5 percent of their total annual units purchased, at no-cost. The Company reserved for the no-cost product as a cost of sales, which impacted the Company's gross margin. Effective January 1, 2015, the Company reduced the unit price to the major public sector purchasers to reflect the 5 percent no-cost product instead of awarding no-cost product.

Merger Agreement. On April 6, 2016, the Company and APP announced that they had entered into a definitive merger agreement under which the Company will reincorporate as a Delaware corporation (FHC Delaware) and then APP will become a wholly owned subsidiary of FHC Delaware. Under the terms of the merger agreement, pursuant to the reincorporation merger, each share of common stock of FHC will be converted into the right to receive one share of common stock of FHC Delaware, and then pursuant to the APP merger the shares of APP common stock and preferred stock in the aggregate will be converted into the right to receive such number of shares of common stock of FHC Delaware that will equal 45% of the total number of outstanding shares of common stock of FHC Delaware on a fully-diluted basis following such issuance. As a result, immediately following the mergers, shareholders of the Company will hold approximately 55% of the outstanding shares of common stock of FHC Delaware and shareholders of APP will hold approximately 45% of the outstanding shares of common stock of FHC Delaware. This 55%/45% allocation will be subject to dilution (which will be shared by the FHC shareholders and APP shareholders) from the issuance by FHC Delaware after the mergers of equity awards to an FHC director and an FHC consultant and the issuance of a warrant to FHC's financial advisor. Completion of the transaction will constitute an event of default under the Credit Agreement as a "change of control" as defined in the Credit Agreement and require a waiver of other covenants in the Credit Agreement. As a result, the line of credit will not remain in place after the completion of the transaction, and any amounts outstanding will become due upon the completion of the transaction, unless BMO Harris Bank agrees to waive the change of control provision and other applicable provisions of the Credit Agreement in connection with the transaction. Discussions are underway between the Company and BMO Harris Bank. The transaction is subject to approval by the Company's shareholders and the satisfaction of customary closing conditions. The transaction is expected to be completed in the fourth quarter of fiscal 2016.

APP is a privately held therapeutics company focused on the development and commercialization of pharmaceutical and consumer health products for men's and women's health, diseases and oncology. For men, product and product candidates are in the areas of benign prostatic hyperplasia, male infertility, amelioration of side effects of hormonal prostate cancer therapies, gout, sexual dysfunction, and prostate cancer. For women, product candidates are for female sexual health and advanced breast and ovarian cancers.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2016 COMPARED TO THREE MONTHS ENDED MARCH 31, 2015

The Company generated net revenues of $4,772,801 and net income of $35,045, or $0.00 per diluted share, for the three months ended March 31, 2016, compared to net revenues of $10,977,467 and net income of $1,667,574, or $0.06 per diluted share, for the three months ended March 31, 2015.

Net revenues decreased $6,204,666 on a 56 percent decrease in unit sales for the three months ended March 31, 2016, compared with the same period last year. The principal factor in the decrease is the period to period impact of the record tender shipments to Brazil in fiscal 2015. The Company had record net revenues of $10,977,467 in the second quarter of fiscal year 2015 including net revenues of $6,452,875 from Brazil. The FC2 average sales price per unit decreased 1.5 percent compared with the same period last year due to changes in sales mix.

Cost of sales decreased $2,655,954 to $1,927,406 in the three months ended March 31, 2016 from $4,583,360 for the same period last year. The reduction is due to lower unit sales and the reduction of certain costs.

Gross profit decreased $3,548,712, or 55 percent, to $2,845,395 for the three months ended March 31, 2016 from $6,394,107 for the three months ended March 31, 2015. Gross profit margin for the three months ended March 31, 2016 increased to 60 percent of net revenues on decreasing unit sales versus 58 percent of net revenues for the same period last year.

Significant quarter-to-quarter variations in the Company's results have historically resulted from the timing and shipment of large orders rather than from any fundamental changes in the business or the underlying demand for female condoms.

Operating expenses decreased $669,744, or 19 percent, to $2,774,970 for the three months ended March 31, 2016 from $3,444,714 in the prior year period. The majority of the decrease relates to a reduction in payments to be made to our Brazilian distributor for marketing and management fees for the 2014 tender and expenses relating to employee compensation. These decreases were partially offset by increased investment expenses for a comprehensive study regarding the potential FC2 consumer program in the U.S. and for diversification, including expenses for analyzing potential portfolio diversification candidates and other expenses related to the proposed merger transaction with APP. These investment expenses with no current return related to the FC2 consumer study and diversification were $145,259 and $503,424 for the three months ended March 31, 2016, respectively, compared to $0 and $114,988 in the prior year period, respectively.

Operating income for the three months ended March 31, 2016 decreased $2,878,968, or 98 percent, to $70,425 from operating income of $2,949,393 in the second quarter of fiscal year 2015. The decrease was primarily a result of the factors discussed above.

Interest and other expense, net, for the three months ended March 31, 2016 was $19,356, an increase of $15,515 from the same period in fiscal year 2015, when interest and other expense, net, was $3,841. The Company recorded a foreign currency transaction loss of $43,848 in the most recent quarter, compared with a foreign currency transaction gain of $28,467 for the same period last year.

Income tax benefit for the three months ended March 31, 2016 was $27,824, a decrease of $1,334,269 from the same period in fiscal year 2015, when income tax expense was $1,306,445.

The Company's net income decreased $1,632,529, or 98 percent, to $35,045 in the three months ended March 31, 2016 from net income of $1,667,574 in the same period of the prior year, as a result of the factors discussed above. Net income was 1 percent and 15 percent of net revenues for the three months ended March 31, 2016 and 2015, respectively. The Company believes this reflects the volatility of the public sector business the Company often experiences rather than a change in basic demand. The fact that the Company remained profitable despite a 57% decrease in net revenues and $648,683 in investment expenses with no current return reflects its capacity to adjust to market volatility.

SIX MONTHS ENDED MARCH 31, 2016 COMPARED TO SIX MONTHS ENDED MARCH 31, 2015

The Company generated net revenues of $13,003,460 and net income of $1,525,408, or $0.05 per diluted share, for the six months ended March 31, 2016, compared to net revenues of $17,636,673 and net income of $2,472,491, or $0.09 per diluted share, for the six months ended March 31, 2015. Net revenues from Brazil were $6,008,489 and $9,955,125 for the six months ended March 31, 2016 and 2015, respectively.

Net revenues decreased $4,633,213 on a 25 percent decrease in unit sales for the six months ended March 31, 2016, compared with the same period last year. Effective January 1, 2015, the unit price was reduced for all major public sector purchases to replace the previous 5 percent no-cost product policy under the Company’s volume purchasing incentive program. The FC2 average sales price per unit decreased 1.1 percent compared with the same period last year due to changes in sales mix and the public sector price adjustment noted in the previous sentence.

Cost of sales decreased $2,667,165 to $4,755,728 in the six months ended March 31, 2016 from $7,422,893 for the same period last year. The reduction is due to lower unit sales and the favorable impact of currency exchange rates on the majority of the elements in cost of sales.

Gross profit decreased $1,966,048, or 19 percent, to $8,247,732 for the six months ended March 31, 2016 from $10,213,780 for the six months ended March 31, 2015. Gross profit margin for the six months ended March 31, 2016 was 63 percent of net revenues versus 58 percent of net revenues for the same period last year. The increase in the gross profit margin is primarily due to the favorable impact of currency exchange rates on the majority of the elements in cost of sales.

Significant quarter-to-quarter variations in the Company’s results have historically resulted from the timing and shipment of large orders rather than from any fundamental changes in the business or the underlying demand for female condoms.

Operating expenses decreased $25,786 to $5,784,752 for the six months ended March 31, 2016 from $5,810,538 in the prior year period. The decrease was a result of a reduction in payments to be made to our Brazilian distributor for marketing and management fees for the 2014 tender and expenses relating to employee compensation and other general expenses, partially offset by increased investment expenses for a comprehensive study regarding the potential FC2 consumer program in the U.S. and for diversification, including expenses for analyzing potential portfolio diversification candidates and other expenses related to the proposed merger transaction with APP. These investment expenses with no current return related to the FC2 consumer study and diversification were $308,800 and $806,647 for the six months ended March 31, 2016, respectively, compared to $0 and $181,404 in the prior year period, respectively.

Operating income for the six months ended March 31, 2016 decreased $1,940,262, or 44 percent, to $2,462,980 from operating income of $4,403,242 in the six months ended March 31, 2015. The decrease was primarily a result of the factors discussed above.

Interest and other expense, net, for the six months ended March 31, 2016 was $47,152, an increase of $43,963 from the same period in fiscal year 2015, when interest and other expense, net, was $3,189. The Company recorded a foreign currency transaction loss of $88,791 in the six months ended March 31, 2016, compared with a foreign currency transaction gain of $49,313 for the same period last year.

Income tax expense for the six months ended March 31, 2016 was $801,629, a decrease of $1,175,246 from the same period in fiscal year 2015, when income tax expense was $1,976,875. The effective tax rate was 34.4 percent and 44.4 percent for the six months ended March 31, 2016 and 2015, respectively. The reduction in the effective tax rate is due to the mix of tax jurisdictions in which the Company recognized income before income taxes and the reduction in the Illinois state income tax rate, effective January 1, 2015, from 9.5 percent to 7.75 percent. The Company's net operating loss (NOL) carryforwards will be utilized to reduce cash payments for income taxes based on the statutory rate in effect at the time of such utilization. Actual income taxes paid are reflected on the Company's consolidated statements of cash flows. During the six months ended March 31, 2016 the Company recorded income tax expense of $801,629, while due to the use of NOL carryforwards the Company made cash payments of $168,220 for income taxes, or 21 percent of income tax expense. This resulted in a cash savings of $633,409.

The Company's net income decreased $947,083, or 38 percent, to $1,525,408 in the six months ended March 31, 2016 from net income of $2,472,491 in the same period of the prior year, as a result of the factors discussed above. Net income was 12 percent and 14 percent of net revenues for the six months ended March 31, 2016 and 2015, respectively.

Reliance on a Single Product

At this time, the Company currently derives all of its revenues from FC2, its only current product. While management believes the global potential for FC2 is significant, the ultimate level of consumer demand around the world is not yet known.

Distribution Network

The Company's strategy is to develop a global distribution network for FC2 by entering into partnership arrangements with financially secure companies with appropriate marketing expertise. This strategy has resulted in distribution in 144 countries, including numerous in-country distributions in the public health sector, particularly in Africa and Latin America. The Company has also entered into several partnership agreements for the commercialization of FC2 in consumer sector markets around the world. However, the Company is dependent on country governments, global donors, as well as U.S. municipal and state public health departments to continue AIDS/HIV/STI prevention and family planning programs that include FC2 as a component of such programs. The Company's commercial market penetration is dependent on its ability to identify appropriate business partners who will effectively market and distribute FC2 within its contractual territory. Failure by the Company's partners to successfully market and distribute FC2 or failure of donors and/or country governments to establish and sustain HIV/AIDS prevention programs which include distribution of female condoms, the Company's inability to secure additional agreements with global AIDS prevention and family planning organizations, or the Company's inability to secure agreements in new markets, either in the public or private sectors, could adversely affect the Company's financial condition and results of operations.

Inventory and Supply

All of the key components for the manufacture of FC2 are essentially available from either multiple sources or multiple locations within a source.

Global Market and Foreign Currency Risks

The Company manufactures FC2 in a leased facility located in Malaysia. Although a material portion of the Company's future sales are likely to be in foreign markets, FC2 sales are denominated in U.S. dollars only. Manufacturing costs are subject to normal currency risks associated with changes in the exchange rate of the Malaysian ringgit relative to the U.S. dollar.

The Company's distributors are subject to exchange rate risk as their orders are denominated in U.S. dollars and they generally sell to their customers in the local country currency. If currency fluctuations have a material impact on a distributor it may ask the Company for pricing concessions or other financial accommodations.

Government Regulation

FC2 is subject to regulation by the FDA pursuant to the Federal Food, Drug and Cosmetic Act (the FDC Act), and by other state and foreign regulatory agencies. Under the FDC Act, medical devices must receive FDA clearance before they can be sold. FDA regulations also require the Company to adhere to certain current "Good Manufactur-ing Practices," which include testing, quality control and documentation procedures. The Company's compliance with applicable regulatory requirements is monitored through periodic inspections by the FDA. The failure to comply with applicable regulations may result in fines, delays or suspensions of clearances, seizures or recalls of products, operating restrictions, withdrawal of FDA approval and criminal prosecutions. The Company's operating results and financial condition could be materially adversely affected in the event of a withdrawal of approval from the FDA.

Liquidity and Sources of Capital

The Company's operations used cash of $1.3 million in the six months ended March 31, 2016, which included a negative impact of changes in operating assets and liabilities of $(4.0) million, compared with using cash of $2.8 million in the six months ended March 31, 2015, which included a negative impact of changes in operating assets and liabilities of $(7.7) million.

Accounts receivable increased from $14.1 million at September 30, 2015 to $18.6 million at March 31, 2016. The increase is a result of orders received under the awarded Brazil 2014 tender. Semina's accounts receivable balance represents 86 percent of the Company's accounts receivable balance at March 31, 2016. Semina normally pays upon payment from the Brazilian Government; however, due to economic issues in Brazil the government has been slower in paying vendors. The Company's credit terms vary from 30 to 120 days, depending on the class of trade and customary terms within a territory, so the accounts receivable balance is also impacted by the mix of purchasers within the quarter. As is typical in the Company's business, extended credit terms may occasionally be offered as a sales promotion. For the past twelve months, the Company's average days' sales outstanding has been approximately 212 days. Over the past five years, the Company's bad debt expense has been less than 0.02 percent of product sales.

At March 31, 2016, the Company had working capital of $19.3 million and stockholders' equity of $34.8 million compared to working capital of $14.7 million and stockholders' equity of $31.1 million as of March 31, 2015.

The Company believes its current cash position is adequate to fund operations of the Company in the next 12 months, although no assurances can be made that such cash will be adequate. If the Company needs additional cash, it may sell equity securities to raise additional capital and may borrow funds under its BMO Harris Bank credit facility.

On December 29, 2015, the Company terminated the Loan Agreement with Midland Bank and entered into the Credit Agreement with BMO Harris Bank. The Credit Agreement provides the Company with a revolving line of credit of up to $10 million with a term that extends to December 29, 2017. Borrowings under the Credit Agreement bear interest, at the Company's option, at a base rate or at LIBOR plus 2.25%. The Company is also required to pay a commitment fee at the rate of 0.10% per annum on the average daily unused portion of the revolving line of credit. The Company's obligations under the Credit Agreement are secured by a lien against substantially all of the assets of the Company and a pledge of 65% of the outstanding shares of The Female Health Company Limited. In addition to other customary representations, covenants and default provisions, the Company is required to maintain a minimum tangible net worth and to not to exceed a maximum total leverage ratio. Among the non-financial covenants, the Company is restricted in its ability to pay dividends, buy back shares of its common stock, incur additional debt and make acquisitions above certain amounts. No amounts are outstanding under the Credit Agreement at March 31, 2016 or under the Loan Agreement at September 30, 2015. Completion of the proposed merger transaction with APP will constitute an event of default under the Credit Agreement as a "change of control" as defined in the Credit Agreement and require a waiver of other covenants in the Credit Agreement As a result, the line of credit will not remain in place after the completion of the transaction, and any amounts outstanding will become due upon the completion of the transaction, unless BMO Harris Bank agrees to waive the change of control provision and other applicable provisions of the Credit Agreement in connection with the transaction. Discussions are underway between the Company and BMO Harris Bank.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk is limited to fluctuations in raw material commodity prices, particularly the nitrile polymer used to manufacture FC2, and foreign currency exchange rate risk associated with the Company's foreign operations. The Company does not utilize financial instruments for trading purposes or to hedge risk and holds no derivative financial instruments which would expose it to significant market risk. Effective October 1, 2009, the Company's U.K. subsidiary and Malaysia subsidiary each adopted the U.S. dollar as its functional currency. The consistent use of the U.S. dollar as the functional currency across the Company reduces its foreign currency risk and stabilizes its operating results. The Company's distributors are subject to exchange rate risk as their orders are denominated in U.S. dollars and they generally sell to their customers in the local country currency. If currency fluctuations have a material impact on a distributor it may ask the Company for pricing concessions or other financial accommodations. The Company currently has no significant exposure to interest rate risk. The Company has a line of credit with BMO Harris Bank, consisting of a revolving note for up to $10 million. Outstanding borrowings under the line of credit will incur interest, at the Company's option, at a base rate or at LIBOR plus 2.25%. As the Company has had no outstanding borrowings in the last five years, it currently has no significant exposure to market risk for changes in interest rates. Should the Company incur future borrowings under its line of credit, it would be subject to interest rate risk related to such borrowings.

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective. It should be noted that in designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company has designed its disclosure controls and procedures to reach a level of reasonable assurance of achieving desired control objectives and, based on the evaluation described above, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at reaching that level of reasonable assurance.

There was no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in Part I, Item 1A, "Risk Factors," of the Company's Form 10-K for the year ended September 30, 2015. Please refer to that section for disclosures regarding the risks and uncertainties relating to the Company's business.

Item 6. Exhibits

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of April 5, 2016, among the Company, Badger Acquisition Sub, Inc., Blue Hen Acquisition, Inc. and Aspen Park Pharmaceuticals, Inc. (1)
3.1	Amended and Restated Articles of Incorporation. (2)
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company increasing the number of authorized shares of common stock to 27,000,000 shares. (3)
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company increasing the number of authorized shares of common stock to 35,500,000 shares. (4)
3.4	Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company increasing the number of authorized shares of common stock to 38,500,000 shares. (5)
3.5	Amended and Restated By-Laws. (6)
4.1	Amended and Restated Articles of Incorporation (same as Exhibit 3.1).
4.2	Articles II, VII and XI of the Amended and Restated By-Laws (included in Exhibit 3.5).
10.1	Separation Agreement and General Release, dated effective as of February 6, 2016, between the Company and Susan Ostrowski. (7)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002). (8)
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter endedMarch 31, 2016, formatted in XBRL (Extensible Business Reporting Language): (1) the Unaudited Condensed Consolidated Balance Sheets, (2) the Unaudited Condensed Consolidated Statements of Income, (3) the Unaudited Condensed Consolidated Statements of Cash Flows and (4) the Notes to the Unaudited Condensed Consolidated Financial Statements.

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(1) Incorporated by reference to the Company’s Current Report on Form 8-K filed on April 6, 2016.

(2) Incorporated herein by reference to the Company's Registration Statement on Form SB-2, filed with the Securities and Exchange Commission on October 19, 1999.

(3) Incorporated by reference to the Company's Registration Statement on Form SB-2, filed with the Securities and Exchange Commission on September 21, 2000.

(4) Incorporated by reference to the Company's Registration Statement on Form SB-2, filed with the Securities and Exchange Commission on September 6, 2002.

(5) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2003.

(6)	Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 22, 2013.
(7)	Incorporated by reference to the Company's Form 8-K filed on February 12, 2016.
(8)	This certification is not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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.

THE FEMALE HEALTH COMPANY

DATE: April 28, 2016

/s/ O.B. Parrish
O.B. Parrish, Chairman and
Chief Executive Officer

DATE: April 28, 2016

/s/ Michele Greco
Michele Greco, Executive Vice President
and Chief Financial Officer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, O.B. Parrish, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Female Health Company;

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, including its consolidated subsidiaries, is made known to us by others within those entities, 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 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: April 28, 2016

/s/ O.B. Parrish
O.B. Parrish
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michele Greco, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The Female Health Company;

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, including its consolidated subsidiaries, is made known to us by others within those entities, 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 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: April 28, 2016

/s/ Michele Greco
Michele Greco
Chief Financial Officer

Exhibit 32.1

Certification of Periodic Financial Report
Pursuant to 18 U.S.C. Section 1350

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of The Female Health Company (the "Company") certifies that the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2016 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 28, 2016

/s/ O.B. Parrish
O.B. Parrish
Chief Executive Officer

Dated: April 28, 2016

/s/ Michele Greco
Michele Greco
Chief Financial Officer

This certification is made solely for purpose of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.