

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB/A-2

(Mark One)

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

For the quarterly period ended December 31, 1997

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-18849

THE FEMALE HEALTH COMPANY

(Exact Name of Small Business Issuer as Specified in Its Charter)

Wisconsin

39-1144397

(State or Other Jurisdiction of (I.R.S. Employer Identification No.)  
Incorporation or Organization)

919 N. Michigan Avenue, Suite 2208, Chicago, IL  
(Address of Principal Executive Offices)

60611  
(Zip Code)

(312) 280-2281

(Issuer's Telephone Number, Including Area Code)

Not applicable

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last  
Report)

Check whether the issuer: (1) has filed all reports required to be filed by  
Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such  
shorter period that the issuer was required to file such reports), and (2) has  
been subject to such filing requirements for the past 90 days. YES X NO

State the number of shares outstanding of each of the issuer's classes of  
common equity, as of the latest practical date:

Common Stock, \$.01 Par Value -- 9,556,163 shares outstanding as of February 9,  
1998

Transitional Small Business Disclosure Format (check one):

FORM 10-QSB/A-2

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES

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THE FEMALE HEALTH COMPANY AND SUBSIDIARIES  
UNAUDITED RESTATED CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 1997

ASSETS	
Current Assets:	
Cash and equivalents	\$2,675,992
Accounts receivable, net	722,938
Inventories, net	637,499
Prepaid expenses and other current assets	502,768
	-----
TOTAL CURRENT ASSETS	4,539,197
Note receivable, net of unamortized discount	750,000
Intellectual property rights and other assets, net	1,167,812
PROPERTY, PLANT AND EQUIPMENT	3,979,765
Less accumulated depreciation and amortization	(1,163,645)
	-----
Net Property, plant, and equipment	2,816,120
	-----
TOTAL ASSETS	\$9,273,129
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Notes payable, net of unamortized discount	\$933,798
Trade accounts payable	643,139
Accrued expenses and other current liabilities	477,323
Debt due within one year	34,218
Preferred dividends payable	49,245
	-----
TOTAL CURRENT LIABILITIES	2,137,723
Long-term debt and capital lease obligations	565,874
Deferred gain on sale of facility (see Note 3)	1,800,785
Other long-term liabilities	288,640
	-----
TOTAL LIABILITIES	4,793,022
STOCKHOLDERS' EQUITY:	
Convertible Preferred Stock	14,099
Common Stock	95,470
Additional Paid-in-capital	42,190,547
	-----
Translation gain (loss)	262,315
Accumulated deficit	(38,082,324)
	-----
Total Stockholders' Equity	4,480,107
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$9,273,129
	=====

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	December 31,	
	1997	1996
Net revenues	\$1,305,804	\$ 605,818
Cost of products sold	1,580,653	977,700
	-----	-----
Gross margin (loss)	(274,849)	(371,882)
Advertising & Promotion	168,921	479,366
Selling, general and administrative	569,755	624,751
	-----	-----

Total Operating Expenses	738,676	1,104,117
Operating loss	(1,013,525)	(1,475,999)
Interest, net and other (income)/expense	45,631	130,663
Pretax loss	(1,059,156)	(1,606,662)
Provision for income taxes	---	---
Net loss	(1,059,156)	(1,606,662)
Preferred dividends	34,279	---
Net loss attributable to Common stockholders	(1,093,435)	(1,606,662)
Basic and diluted net loss per common share outstanding	\$ (0.11)	\$ (0.22)
Weighted average number of common shares outstanding	9,544,403	7,392,821

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter ended December 31,	
	1997	1996
<b>OPERATIONS:</b>		
Net (loss)	\$ (1,093,435)	\$ (1,606,662)
Adjusted for noncash and nonoperating items:		
Depreciation and amortization	146,921	161,738
Noncash interest	93,525	163,771
Changes in operating assets and liabilities	(59,629)	158,462
Net cash provided (used) in operating activities	(912,618)	(1,122,691)
<b>INVESTING ACTIVITIES:</b>		
Capital expenditures	(2,112)	(78,427)
Lease of facility (see Note 3)	----	3,281,923
Net cash provided (used) in investing activities	(2,112)	3,203,496
<b>FINANCING ACTIVITIES:</b>		
Debt repayments	(10,374)	(2,833,875)
Proceeds from the issuance of stock	1,959,784	222,494
Net cash provided by financing activities	1,949,410	(2,611,381)
Effect of exchange rate change on cash and equivalents	7,845	(5,365)
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>1,042,525</b>	<b>(535,940)</b>
Cash and equivalents at beginning of period	1,633,467	2,914,080
<b>CASH AND EQUIVALENTS AT END OF PERIOD</b>	<b>\$2,675,992</b>	<b>\$2,378,140</b>
Schedule of noncash financing and investing activities:		
Conversion of Convertible Debentures into Common Stock	----	\$1,134,001

NOTE 1 - Basis of Presentation

The accompanying 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 operation and cash flow for the periods presented in conformity with generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

Operating results for the three months ended December 31, 1997 are not

necessarily indicative of the results that may be expected for the fiscal year ended September 30, 1998. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the fiscal year ended September 30, 1997.

#### NOTE 2 - Earnings Per Share

Basic and diluted net (loss) per Common share outstanding is based on the weighted average number of shares of Common Stock outstanding during the period.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings Per Share. Statement No. 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants, and convertible securities. Diluted earnings per share is very similar to the previously reported fully dilutive earnings per share. All earnings per share in the accompanying financial statements have been presented to conform to Statement No. 128 requirements. The Company has "in the money" options and warrants outstanding of 762,885 and 428,919 as of December 31, 1997 and 1996, respectively. The Company also has preferred stock outstanding as of December 31, 1997, which is convertible into 1,409,927 shares of common stock (see Note 5). The inclusion of the options, warrants and convertible preferred stock in the computation of diluted earnings per share would have resulted in a reduction of the loss per share (antidilutive) and therefore both basic and diluted earnings per share amounts were the same for each of the periods presented in the accompanying financial statements.

#### NOTE 3 - Lease of Manufacturing Facility

On December 10, 1996, the Company entered into what is in essence a sale and lease-back agreement with respect to its 40,000 square foot manufacturing facility located in London, England. The Company received 1,950,000 (Pounds) representing approximately \$3,365,000 for leasing the facility to a third party for a nominal annual rental charge and for providing the third party an option to purchase the facility for one pound during the period December 2006 to December 2027.

As part of the same transaction, the Company entered into an agreement to lease the facility back from the third party for base rents per year payable

The lease is renewable through 2027. The Company was also required to make a security deposit of 195,000 (Pounds) representing approximately \$336,000 to be reduced in subsequent years. The facility had a net book value of 810,845 (Pounds) representing approximately \$1,398,819 on the date of the transaction. The 1,139,155 (Pounds) representing approximately \$1,966,181 gain which resulted from this transaction will be recognized ratably over the initial term of the lease.

Concurrent with this transaction, the Company repaid the mortgage loan on this property of 1,062,500 (Pounds) representing approximately \$1,834,000.

#### NOTE 4 - Inventories

The components of inventory consist of the following:

	December 31, 1997
Raw Material and work in process	\$ 511,865
Finished Goods	762,787
Less: Inventory reserves	(637,153)
Inventory, net	\$ 637,499

#### NOTE 5 - Sale of Convertible Preferred Stock

On December 31, 1997, the Company completed a private placement of 729,927 shares of Class A Convertible Preferred Stock - Series 2 (the "Series 2 Preferred Stock") and Warrants to purchase 240,000 shares of Common Stock. The Series 2 Preferred Stock was sold at a per share price of \$2.74, resulting in net proceeds to the Company of \$1.82 million, after commissions and expenses. The Series 2 Preferred Stock automatically converts into Common Stock on a one-for-one basis, five days after the registration statement registering the resale of the Common Stock is declared effective by the SEC. This Registration Statement was filed with the SEC on February 13, 1998. The investors received four-year Warrants to purchase 240,000 shares of Common Stock exercisable at a price per share equal to the lesser of \$3.425 or the average of the three

closing bid prices per share of Common Stock for any three consecutive trading days chosen by the investor during the 30 trading day period ending on the trading day immediately prior to the exercise of the Warrants.

In September 1997, the Company raised approximately \$1.6 million proceeds, net of issuance costs of \$96,252, in a private placement of 680,000 shares of 8% cumulative convertible Preferred Stock. In addition, 52,000 Common Stock purchase warrants were issued to the placement agents. Each share of Preferred Stock is convertible into one share of the Company's Common Stock on or after August 1, 1998. Annual Preferred Stock dividends will be paid if and as declared by the Company's Board of Directors. No dividends or other distributions will be payable on the Company's Common Stock unless dividends are paid in full on the Preferred Stock. The shares may be redeemed at the option of the Company, in whole or in part, on or after August 1, 2000, subject to certain conditions, at \$2.50 per share plus accrued and unpaid dividends. In the event of a liquidation or dissolution of the Company, the Preferred

#### NOTE 6 - Financial Condition

The Company's consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company incurred a loss of \$6.3 million for the year ended September 30, 1997, a loss of \$1.1 million for the three months ended December 31, 1997 and as of December 31, 1997 had an accumulated deficit of \$38.1 million. At December 31, 1997, the Company had working capital of \$2.4 million and stockholders' equity of \$4.5 million. In the future, the Company expects to continue to broaden distribution of the Female Condom through expanding partnerships in the major markets including the United States, the European market and the Developing World and to support its manufacturing operations to meet the increased demand. As a result, operations in the near future are expected to continue to use working capital. Management recognizes that the Company's continued operations depend on its ability to raise additional capital through a combination of equity or debt financing, strategic alliances and increased sales volumes.

At various points during the developmental stage of the product, the Company was able to secure resources, in large part through the sale of equity and debt securities, to satisfy its funding requirements. As a result, the Company was able to obtain FDA approval, worldwide rights, manufacturing facilities and equipment and to commercially launch the Female Condom. Management believes that recent developments, including the Company's agreement with the UNAIDS, a joint United Nations program on HIV/AIDS, provide an indication of the Company's early success in broadening awareness and distribution of the Female Condom and may benefit efforts to raise additional capital and to secure additional agreements to promote and distribute the Female Condom throughout other parts of the world.

Management has held preliminary discussions with potential investors and financial institutions regarding the Company's capital requirements. These parties have expressed interest in providing financing under certain circumstances that may satisfy the Company's currently anticipated requirements. Specifically, the Company entered into an agreement with Vector Securities, International, Inc. (Vector), an investment banking firm specializing in providing financial advisory services to healthcare and life-science companies. Pursuant to this agreement, for a one-year period, Vector will act as the Company's exclusive financial advisor for the purpose of identifying and evaluating opportunities available to the Company for increasing shareholder value. These opportunities may include selling all or a portion of the business, assets or stock of the Company or entering into one or more distribution arrangements relating to the Company's product. However, no specific opportunity has yet been identified and there can be no assurance that any such opportunities will be available to the Company or, if so available, that the Company will ultimately elect to consummate any such transaction. Further, there can be no assurance, assuming the Company raises additional funds or enters into business agreements with third parties, that the Company will achieve profitability or positive cashflow. If the Company is unable to obtain adequate financing, management will be required to curtail certain of

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

##### GENERAL

The Female Health Company ("FHC" or the "Company") markets, manufactures and sells the Female Condom, the only FDA-approved product under a woman's control which can prevent unintended pregnancy and sexually transmitted diseases ("STDs"), including HIV/AIDS.

The Female Condom has undergone extensive testing for efficacy, safety and acceptability, not only in the United States but also in over 25 additional

countries. Certain of these studies show that having the Female Condom available allows women to have more options, resulting in an approximately 30% increase in protected sex acts. Furthermore, the studies showed that when the Female Condom is available as a choice, there is an approximately 35% decrease in STDs, including HIV/AIDS.

The Product is currently sold to both commercial (private sector) and public sector markets in ten countries. It is commercially marketed directly by the Company in the United States and the United Kingdom and through marketing partners in Canada, Holland, Brazil, Venezuela, South Korea and Taiwan. The Company has signed distribution agreements in Japan and Bangladesh, and the Company anticipates that the product will be marketed in these countries in the coming months. The Company's partner in Japan, Taiho Pharmaceutical Co., Ltd. ("Taiho"), submitted a formal application for regulatory approval with Koseisho, the Japanese regulatory agency in October, 1997; and expects to receive approval to begin marketing the Female Condom during 1998. The Company is currently in discussions with potential distributors for India and The People's Republic of China and other countries.

In addition to the commercial market, the Female Condom is sold to the global public sector. In particular, the Product is marketed to city and state public health clinics as well as not-for-profit organizations such as Planned Parenthood in the United States. Following several years of testing the efficacy and acceptability of the Female Condom, the Product received a formal endorsement by The World Health Organization (WHO) and the Joint United Nations Programme on AIDS (UNAIDS). In 1996, the Company entered into a three-year agreement with UNAIDS, whereby UNAIDS will facilitate the availability and distribution of the Female Condom in the developing world and the Company will sell the Product to developing countries at a reduced price based on the total number of units purchased. Pursuant to this agreement, the Product is currently being marketed in Zambia and Zimbabwe with plans for 1998 market introductions in South Africa, Uganda, Tanzania, Cote d' Ivoire and other countries. As part of the UNAIDS agreement, the South African government recently ordered one and one-half million Female Condoms which were shipped by the Company after December 31, 1997.

#### Global Market

WHO estimates there are more than 300 million new cases of STDs worldwide each year, excluding HIV, and most of those diseases are more easily transmitted to women than to men. Women are currently the fastest growing group infected with HIV and are expected to comprise the majority of new cases by the year 2000. Although it is estimated the annual global male condom market now exceeds four and one-half billion units, the majority of all sex acts are still completed

study conducted by UNAIDS showed that having the Female Condom available, as compared to only having male condoms available, increased the incidence of protected sex by 25% and, correspondingly, caused a 34% decrease in STDs. A study conducted by the Philadelphia Department of Public Health showed similar results with a 30% decrease in unprotected sex. The Company believes that the Product is positioned to gain market share from the male condom as well as to achieve substantial sales volume from people who, because there is now an alternative to the male condom, will use the Product instead of having unprotected sex.

#### Advantages vs. the Male Condom

The Female Condom is currently the only available barrier method controlled by women which allows them to protect themselves from STDs, including HIV/AIDS and unintended pregnancy. Although latex male condoms also offer protection against STDs, the Female Condom possesses a certain number of advantages. The most important advantage is that a woman can control whether or not she is protected. Many men do not like to wear male condoms and may refuse to do so.

The material that is used for the Female Condom, polyurethane, offers a number of benefits over latex, the material that is most commonly used in male condoms. Polyurethane is 40% stronger than latex, reducing the probability that the Female Condom sheath will tear during use. Clinical studies and everyday use have shown that latex male condoms can tear between 4% to 8% of the times they are used, while studies show that the Female Condom tears in less than 1% of uses. Unlike latex, polyurethane quickly transfers heat, so the Female Condom immediately warms to body temperature when it is inserted, which may result in increased pleasure and sensation during use. The Product offers an additional benefit to the 7% to 20% of the population that is allergic to latex and who, as a result, may be irritated by latex male condoms. There is no reported allergy to date to polyurethane. The Female Condom is also more convenient, providing the option of insertion hours before sexual arousal and as a result is less disruptive during sex than the male condom which requires sexual arousal for application.

#### Safety and Efficacy

Based on use of the Product in clinical trials and four years of worldwide

marketing, the Female Condom has been proven to be safe and effective. There have been no safety issues or side effects noted with the Female Condom. Current studies show that the Female Condom is 95% efficacious in protecting against pregnancy when used correctly and consistently, comparable to male condoms and other barrier methods like diaphragms and cervical caps. Studies that were conducted in Japan as part of the regulatory approval process indicate that the efficacy of the Product may be even higher. As a preventive measure against STDs, the Female Condom has also proven to be highly effective, as has been documented by several studies, including the UNAIDS study.

#### Worldwide Regulatory Approvals

The Female Condom received PMA approval as a Class III Medical Device from the FDA in 1993. The extensive clinical testing and scientific data required for FDA approval laid the foundation for approvals throughout the rest of the world, including receipt of a CE Mark in 1997 which allows the Company to market the Female Condom throughout the European Union. In addition to the United States and the European Union, several other countries have approved the

Taiwan. The Company expects the Female Condom to receive approval in Japan in 1998.

The Company believes that the Female Condom's PMA approval and FDA classification as a Class III Medical Device create a significant barrier to entry. The Company estimates that it would take a minimum of four to six years to implement, execute and receive FDA approval of a PMA to market another type of Female Condom.

The Company believes there are no material issues or material costs associated with the Company's compliance with environmental laws related to the manufacture and distribution of the Female Condom.

#### Japanese Market Opportunity

In Japan, the market for male condoms exceeds 600 million units. Oral contraceptives have never been approved in Japan and, as a result, 85% of Japanese couples seeking protection use condoms. The Female Health Company's partner in Japan is Taiho Pharmaceuticals, a \$1 billion subsidiary of Otsuka Pharmaceutical Co., Ltd., which is a \$5 billion Japanese health care company. The agreement between the Company and Taiho provides that Taiho perform clinical testing of the Product in Japan and obtain necessary regulatory approvals. After approval, expected in 1998, the Company will manufacture the Product and supply it to Taiho, which will have responsibility for marketing and distributing the Female Condom in Japan. Results of the clinical tests in Japan show that the Female Condom may be more effective in preventing pregnancy than the male condom and has a high acceptance rate of 70% among Japanese women. Taiho plans to market the Female Condom under the name "Mylura Femy."

#### Relationships and Agreements with Public Sector Organizations

Currently, it is estimated more than one billion male condoms are distributed worldwide by the public sector each year. The Female Condom is seen as an important addition to prevention strategies by the public sector because studies show that the availability of the Female Condom decreases the amount of unprotected sex by as much as a third over male condoms alone.

In the U.S. currently, city and state governments in New York, Pennsylvania, Washington, Illinois, Chicago, Philadelphia, New York, San Francisco and Florida, have purchased Female Condoms for distribution, with a number of others expressing interest.

In November 1996, FHC signed an agreement with UNAIDS regarding the sale of Female Condoms to developing countries. UNAIDS solicited interest levels from approximately 180 countries in order to gauge their potential demand for Female Condoms. To date, more than 80 countries have expressed interest, indicating a near-term demand for approximately eight million Female Condoms. As part of this near-term demand, the South African government has ordered and the Company has shipped 1.5 million Female Condoms. Several countries have commenced, or are about to commence, introduction of the Product under the UNAIDS agreement, including Zambia, Zimbabwe, Uganda, Tanzania and Cote d' Ivoire.

#### Endorsements

Currently the Female Condom is endorsed for use by the World Health

International Development and a number of states and cities in the United States.

#### RESULTS OF OPERATIONS

Three Months Ended December 31, 1997 Compared to Three Months Ended December

The Female Health Company had revenues of \$1,305,804 and a net loss of \$1,093,435 (\$0.11 per common share) for the three months ended December 31, 1997 compared to revenues of \$605,818 and a net loss of \$1,606,662 (\$0.22 per common share) for the three months ended December 31, 1996. As discussed more fully below, the decrease in the Company's net loss was principally related to sales volume increases and reductions in operating expenses and an adjustment in the Company's reserves for inventory obsolescence.

For the current quarter, net sales increased \$699,986, or 116%, to \$1,305,804 from \$605,818 for the same period last year. The increased sales volume is attributable to additional global public sector sales associated with the United Nations Joint Programme on AIDS (UNAIDS), launches by new country specific partners and increased public sector sales in the U.S.

Cost of goods sold increased \$602,953, or 62%, to \$1,580,653 in the current quarter from \$977,700 for the same period last year. Increases in costs of goods sold, related to the higher sales volume, were offset, in part, by a \$250,000 reduction in the Company's reserve for inventory obsolescence. The Company adjusted the inventory reserves based upon the FDA's decision to extend the useful life of the Female Condom to five years from three years and the expectation that remaining inventories will be sold before they expire.

Advertising and promotional expenditures decreased \$310,445 to \$168,921 in the current quarter from \$479,366 for the same period in the prior year. Advertising and promotion relates almost exclusively to the U.S. consumer market, and includes the costs of print advertising, trade and consumer promotions, product samples and other marketing costs. Through expenditures to date, the Company has established that the Female Condom is responsive to promotion; but as a small company, it doesn't possess the resources to conduct a U.S. consumer program and is in discussions with potential partners for the U.S. that have the resources to penetrate the consumer market.

Selling, general and administrative expenses ("SG&A") decreased \$54,996 to \$569,755 in the current quarter from \$624,751 for the same period last year. The decrease reflected lower spending across a variety of expenses including selling, research and development and general and administrative.

Net interest and non-operating expenses decreased \$85,032 to \$45,631 for the current period compared with \$130,663 for the same period the prior year. The decrease is due to reduced interest expense attributable to decreased borrowings.

#### LIQUIDITY AND SOURCES OF CAPITAL

Historically, the Company has incurred cash operating losses relating to expenses incurred to develop and promote the Female Condom. During the first quarter, cash used in operations totaled \$0.9 million. The Company funded cash used in operations with the \$1.8 million net proceeds received from the private

will continue pursuing other avenues to obtain financing including strategies to secure additional capital from a debt or equity securities offering. Until internally generated funds are sufficient to meet cash requirements, the Company will remain dependent upon its ability to generate sufficient capital from outside sources.

At December 31, 1997, the Company had current liabilities of \$2.1 million including a \$1.0 million note payable due March 25, 1998, to Mr. Dearholt, a Director of the Company. Mr. Dearholt beneficially owns 909,777 shares of the Company's Common Stock as of January 30, 1998. The Company will need to raise additional capital to fund expected operating losses and short-term debt repayment requirements. Mr. Dearholt and the Company are currently discussing extension or conversion of this note payable. If the Company defaults on its obligation under the note payable due March 25, 1998, the Company is required to issue an additional 200,000 shares of its Common Stock to Mr. Dearholt, in addition to all other remedies to which Mr. Dearholt may be entitled.

In the near term, the Company's management expects operating and capital costs to continue to exceed funds generated from operations, due principally to the Company's fixed manufacturing costs relative to current production volumes and the ongoing need to commercialize the Female Condom around the world. It is estimated that the Company's cash burn rate, without revenues, is approximately \$0.4 million per month.

On September 29, 1997, the Company entered into an agreement with Vector Securities International, Inc. (Vector), an investment banking firm specializing in providing financial advisory services to healthcare and life-science companies. Pursuant to this agreement, for a one-year period, Vector will act as the Company's exclusive financial advisor for the purposes of identifying and evaluating opportunities available to the Company for increasing shareholder value. These opportunities may include selling all or a portion of the business, assets or stock of the Company or entering into one or



more distribution arrangements relating to the Company's product. However, no specific opportunity has yet been identified, and there can be no assurance that any such opportunities will be available to the Company or, if so available, that the Company will ultimately elect or be able to consummate any such transaction.

While management believes that revenue from sales of the Female Condom will eventually exceed operating costs, and that, ultimately, operations will generate sufficient funds to meet capital requirements, there can be no assurance that such level of operations ultimately will be achieved, or be achieved in the near term. Likewise, there can be no assurance that the Company will be able to source all or any portion of its required capital through the sale of debt or equity or, if raised, the amount will be sufficient to operate the Company until sales of the Female Condom generate sufficient revenues to fund operations. In addition, any funds raised may be costly to the Company and/or dilutive to stockholders.

If the Company is not able to source the required funds or any future capital which becomes required, the Company may be forced to sell certain of its assets or rights or cease operations. Further, if the Company is not able to source additional capital, the lack of funds to promote the Female Condom may significantly limit the Company's ability to realize value from the sale of such assets or rights or otherwise capitalize on the investments made in the

#### CONTINUED LISTING ON THE AMERICAN STOCK EXCHANGE

The Company's common stock is listed for trading on the American Stock Exchange (the "Exchange"). The Constitution of the Exchange provides that its Board of Governors may, in its discretion, at any time, remove any security from listing. Although the determination as to whether a security warrants delisting is not based on any precise mathematical formula, the Exchange has adopted a number of guidelines which it will consider when deciding whether to delist an Exchange-traded security. Certain of these guidelines address the issuer's financial condition. For example, the Exchange will consider delisting the securities of an issuer which has stockholders' equity of less than \$2 million if the Company has sustained losses from continuing operations and/or net losses in two of its three most recent fiscal years (which the Company has) or which has stockholders' equity of less than \$4 million if the Company has sustained losses from continuing operations and/or net losses in three of its four most recent fiscal years (which the Company has). The Exchange will also consider delisting the stock of a company which has incurred net losses in its five most recent fiscal years (which the Company has). As of December 31, 1997, the Company had stockholders' equity of approximately \$4.5 million. On February 5, 1998, the Company received a letter from the Exchange noting that the Company has fallen below certain of the Exchange's continued listing guidelines and indicating that the Exchange will review the Company's listing eligibility. The letter specifically noted that the Company has fallen below the Exchange's continued listing guidelines triggered by both (a) five years of losses and (b) equity below \$4 million since the Company had losses in three of its four most recent fiscal years. There can be no assurance that the Exchange will permit the continued listing of the Company's common stock on the Exchange. If the Exchange delists trading of the Company's common stock, investors would likely find it more difficult to obtain accurate quotations of the price of the Company's common stock and to sell the common stock on the open market.

#### IMPACT OF INFLATION AND CHANGING PRICES

Although the Company cannot accurately determine the precise effect of inflation, the Company has experienced increased costs of product, supplies, salaries and benefits, and increased selling, general and administrative expenses. Historically, the Company has absorbed increased costs and expenses without increasing selling prices.

#### FOREIGN CURRENCY AND MARKET RISK

The Company manufactures the Female Condom in a leased facility located in London, England. Further, a material portion of the Company's future sales are likely to be in foreign markets. Manufacturing costs and sales to foreign markets are subject to normal currency risks associated with changes in the exchange rate of foreign currencies relative to the United States Dollar. In addition, some of the Company's future international sales may be in developing nations where dramatic political or economic changes are possible. Such factors may adversely affect the Company's results of operations and financial

#### ITEM 2. RECENT SALES OF UNREGISTERED SECURITIES

On December 31, 1997, the Company completed a private placement of 729,927 shares of Class A Convertible Preferred Stock - Series 2 (the "Series 2 Preferred Stock") and Warrants to purchase 240,000 shares of Common Stock. The Series 2 Preferred Stock was sold at a per share price of \$2.74, resulting in

net proceeds to the Company of \$1.82 million, after commissions and expenses. The Series 2 Preferred Stock automatically converts into Common Stock on a one-for-one basis, five days after the registration statement registering the resale of the Common Stock is declared effective by the SEC. This Registration Statement was filed with the SEC on February 13, 1998. The investors received four-year Warrants to purchase 240,000 shares of Common Stock exercisable at a price per share equal to the lesser of \$3.425 or the average of the three closing bid prices per share of Common Stock for any three consecutive trading days chosen by the investor during the 30 trading day period ending on the trading day immediately prior to the exercise of the Warrants.

The Series 2 Preferred Stock and warrants were sold to three institutional investors. The Company's placement agent in this offering received a commission of \$140,000 and certain of its affiliated received four-year warrants to purchase an aggregate of 4,000 shares of the Company's common stock at an exercise price of \$4.11 per share.

The Series 2 Preferred Stock and warrants were offered and sold by the Company in a private transactions without registration in reliance on Section 4(2) of the Securities Act of 1933, as amended and Regulation D promulgated thereunder. Each of the purchases in the private placement made various representations to the Company, including that the investor is an "accredited investor" under Registration D, which enabled the Company to conclude that Section 4(2) and

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation. (1)
3.2	Amended and Restated By-Laws. (2)
4.1	Amended and Restated Articles of Incorporation. (1)
4.2	Articles II, VII, and XI of the Amended and Restated By-Laws (included in Exhibit 3.2). (1)
27	Financial Data Schedule
99.1	Investor relations and development services Consulting Agreement dated March 13, 1995, between C.C.R.I. Corporation and Company.(1)
99.2	Consultant Warrant Agreement dated March 13, 1995, issued by the Company to C.C.R.I. Corporation. (1)
99.3	Amendment to Consulting Agreement dated as of July 1, 1997, between C.C.R.I. Corporation and the Company. (1)
99.4	Letter from the Company to C.C.R.I. Corporation regarding the C.C.R.I. Warrant. (1)
99.5	Form of Securities Purchase Agreement dated December 31, 1997, between the Company and the purchasers set forth on an exhibit thereto. (1)
99.6	Form of Registration Rights Agreement dated December 31, 1997, between the Company and the investors in the Company's December 31, 1997, private placement.(1)
99.7	Form of Common Stock Purchase Warrant dated December 31, 1997, issued by the Company to the investors listed on the exhibit thereto. (1)

(1) Incorporated herein by reference to the Company's Registration Statement on Form S-3, filed with the Securities and Exchange Commission on February 13, 1998.

(2) Incorporated herein by reference to the Company's 1995 Form 10-KSB.

(b) Report on Form 8-K - No reports on Form 8-K were filed during the quarter

#### 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

/s/ O. B. Parrish

DATE: March 31, 1998

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O. B. Parrish, Chairman  
and Chief Executive Officer  
and Principal Accounting