U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1998

[ ] 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 Incorporation or Organization)	(I.R.S. Employer Identification No.)

919 N. Michigan Avenue, Suite 2208, Chicago, IL	60611
(Address of Principal Executive Offices)	(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 - 10,415,757 shares outstanding as of August 7, 1998

Transitional Small Business Disclosure Format (check one):

FORM 10-QSB

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Certain statements included in this Quarterly Report on Form 10-QSB 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. 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 operating losses, working capital requirements, advertising and promotional expenditures and principal and interest payments on debt obligations, factors related to increased competition from existing and new competitors including new product introduction, price reduction 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 facility due to raw material shortages, labor shortages, and/or physical damage to the Company's facilities, 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, and developments or assertions by or against the Company relating to intellectual

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	June 30, 1998
ASSETS	
Current Assets:	
Cash and equivalents	$2,203,481
Accounts receivable, net	862,357
Inventories, net	784,636
Prepaid expenses and other current assets	213,384
TOTAL CURRENT ASSETS	4,063,858
Intellectual property rights, net	938,956
Other assets	162,776
PROPERTY, PLANT AND EQUIPMENT	4,006,640
Less accumulated depreciation and amortization	(1,448,072)
Net Property, plant, and equipment	2,558,568
TOTAL ASSETS	$7,724,158
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Notes payable, net of unamortized discount	$ 767,538
Trade accounts payable	337,080

Accrued expenses and other current liabilities	301,677
Debt due within one year	641,173
Preferred dividends payable	116,686
TOTAL CURRENT LIABILITIES	2,164,154
Capital lease obligations	9,591
Deferred gain on lease of facility (see Note 3)	1,759,197
Other long-term liabilities	196,438
TOTAL LIABILITIES	4,129,380
STOCKHOLDERS' EQUITY:	
Convertible preferred stock	6,800
Common stock	104,158
Additional Paid-in-capital	43,667,433
Accumulated deficit	(40,610,254)
Translation gain	426,641
Total Stockholders' Equity	3,594,778
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 7,724,158

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

	Three Months Ended June 30,	
	1998	1997(a)
Net revenues	$1,114,919	$ 814,403
Cost of products sold	990,383	799,239
Gross margin (loss)	124,536	15,164
Advertising & Promotion	92,193	173,158
Selling, general and administrative	908,339	759,403
Total Operating Expenses	1,000,532	932,561
Operating loss	(875,996)	(917,397)
Interest, net and other expense	39,109	153,348
Pretax loss	(915,105)	(1,070,745)
Provision for income taxes	----	----
Net loss	(915,105)	(1,070,745)
Preferred dividends accreted, Series 2 (see Note 8)	----	----
Preferred dividends, Series 1	33,907	----
Net loss attributable to Common stockholders	(949,012)	(1,070,745)
Basic and diluted net loss per common share outstanding	$(0.09)	$(0.12)
Weighted average number of common shares outstanding	10,371,469	9,161,125

(a) Amounts have been restated see Note 7 of notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended June 30,	
	1998	1997(a)
Net revenues	$4,040,672	$2,016,419
Cost of products sold	4,082,175	2,859,138

Gross margin (loss)	(41,503)	(842,719)
Advertising & Promotion	371,421	1,480,639
Selling, general and administrative	2,165,007	2,102,503
Total Operating Expenses	2,536,428	3,583,142
Operating loss	(2,577,931)	(4,425,861)
Interest, net and other expense	124,714	944,080
Pretax loss	(2,702,645)	(5,369,941)
Provision for income taxes	----	----
Net loss	(2,702,645)	(5,369,941)
Preferred dividends accreted, Series 2 (see Note 8)	817,000	----
Preferred dividends, Series 1	101,720	----
Net loss attributable to Common stockholders	$(3,621,365)	(5,369,941)
Basic and diluted net loss per common share outstanding	$ (0.37)	$ (0.66)
Weighted average number of common shares outstanding	9,821,778	8,095,955

(a) Amounts have been restated see Note 7 of notes to unaudited condensed consolidated financial statements.

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

	Nine Months ended June 30,	
	1998	1997(a)
OPERATIONS:		
Net (loss)	$(2,702,645)	$(5,369,941)
Adjusted for noncash and nonoperating items:		
Depreciation and amortization	442,140	495,135
Noncash interest expense	243,419	577,574
Amortization of discounts on convertible debentures	----	642,000
Reduction in inventory reserves	(652,192)	----
Reduction in accounts receivable reserves	(101,386)	----
Amortization of other assets	8,008	----
Changes in operating assets and liabilities	148,006	(809,443)
Net cash provided (used) in operating activities	(2,614,650)	(4,464,675)
INVESTING ACTIVITIES:		
Capital expenditures	(16,918)	(82,178)
Proceeds from repayment of note receivable	750,000	----
Lease of facility (see Note 3)	----	3,291,410
Net cash provided in investing activities	733,082	3,209,232
FINANCING ACTIVITIES:		
Borrowings	1,000,000	2,507,602
Debt repayments	(1,040,347)	(4,040,848)
Proceeds from the issuance of preferred stock	1,843,384	----
Proceeds from the issuance of common stock upon exercise of options and warrants	480,175	776,352
Net cash provided (used) by financing activities	2,283,212	(756,894)
Effect of exchange rate change on cash and equivalents	168,370	(39,840)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	570,014	(2,052,177)
Cash and equivalents at beginning of period	1,633,467	2,914,080
CASH AND EQUIVALENTS AT END OF PERIOD	$2,203,481	$861,903
Schedule of noncash financing and investing activities:		
Preferred dividends declared, Series 1	$101,720	----

Preferred dividends accreted, Series 2	817,000	
Issuance of warrants on notes payable	297,500	----
Conversion of Preferred Stock into Common Stock	7,299	
Conversion of Convertible Debentures into Common Stock	----	$4,020,000

(a) Amounts have been restated see Note 7 of notes to unaudited condensed consolidated financial statements.

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1998

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 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-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.

Operating results for the three months ended June 30, 1998 are not necessarily indicative of the results that may be expected for the fiscal year ending 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 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 1,357,866 and 670,400 as of June 30, 1998 and 1997, respectively. The Company also has preferred stock outstanding as of June 30, 1998, which is convertible into 680,000 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 leaseback 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

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 quarterly until 2016 of 195,000 (Pounds) representing approximately $336,000. 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:

	June 30, 1998
Raw Material and work in process	$ 569,585
Finished Goods	459,664
Inventory, Gross	1,029,249
Less: Inventory reserves	(244,613)
Inventory, net	$ 784,636

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 converted into Common Stock on a one-for-one basis, on April 3, 1998, the date in which the registration statement registering the resale of the Common Stock was declared effective by the SEC. 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. Individuals providing services to the Company's placement agent for the above convertible Preferred Stock received Warrants to purchase 4,000 shares of Common Stock exercisable at any time prior to December 31, 2001, at $4.11 per share.

In September 1997, the Company raised approximately $1.6 million net proceeds, after issuance costs of $96,252, in a private placement of 680,000 shares of 8% cumulative convertible Preferred Stock - Series 1. In addition, warrants to purchase 52,000 shares of Common Stock 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

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 Stock - Series 1 would have priority over the Company's Common Stock.

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 $2.7 million for the nine months ended June 30, 1998 and as of June 30, 1998 had an accumulated deficit of $40.6 million. At June 30, 1998, the

Company had working capital of $1.9 million and stockholders' equity of $3.6 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 broadening of distribution of the product under the Company's agreement with the UNAIDS, a joint United Nations program on HIV/AIDS, provide an indication of the Company's continued success in broadening awareness and distribution of the Female Condom. The expanding distribution 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 short-term requirements. Previously, 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, Vector is acting 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

obtain adequate financing, management will be required to curtail certain of the Company's operations or ultimately cease operations.

Note 7 - Restatement of 1997 Financial Statements

In March 1998, the Company discovered that its reporting of a charge to interest expense for the amortization of discounts associated with a "beneficial conversion feature" on two sets of convertible debentures issued in August 1996 and February 1997 was not in accord with a March, 1997 SEC decision regarding the reporting of such transactions. The first set of debentures was issued August 12, 1996 for $2,000,000 at 8% and the second set of debentures was issued February 20, 1997 for $2,020,000 at 8%, both maturing after 3 years. Both sets of convertible debentures included a conversion feature that was "in the money" as of the date of issuance (a "beneficial conversion feature"). The beneficial conversion feature allowed the debentures to be converted into Company Common stock at the lesser of $5.275 per share for debentures No. 1 and $2.875 per share for debentures No. 2 (representing the average market price for the five days preceding the date the debentures were sold) or 80% of the market price at the time the conversion occurs. Fifty percent of the debentures could be converted into Company Common stock after 45 days from the date of issuance and the remaining after 65 days for both debentures.

In March 1997, the SEC staff concluded that a beneficial conversion feature should be recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. That amount should be calculated at the date of issue as the difference between the conversion price and the fair value of the common stock into which the security is convertible. Any discount resulting from the beneficial conversion feature increases the effective interest rate of the security and should be reflected as a charge to interest expense.

The intrinsic value of the beneficial conversion feature as of the date of issuance was $382,000 on debentures No. 1 and $398,000 on debentures No. 2 and, as a result, the Company has restated the previously reported unaudited condensed consolidated statements of operations for 1997 as follows:

	June 30, 1997	
	Three Months Ended	Six Months Ended
Increase in interest expense and increase in net loss attributable to common stockholders	$ 98,000	$ 642,000
Increase in net loss per common share outstanding	$(0.01)	$(0.08)

Note 8 - Preferred Dividends, Series 2

The Company's $2.0 million private placement of convertible Preferred Stock - Series 2 on December 31, 1997 included a beneficial conversion feature valued at $500,000 and four-year warrants to purchase additional shares of common stock valued at $317,000. In accordance with new SEC reporting requirements for such transactions, the Company recorded the value of the beneficial conversion feature and warrants, a total of $817,000 as additional paid-in

of the convertible preferred stock is a one-time, non-recurring charge that has been fully amortized and reflected as preferred dividends accreted in the consolidated statements of operations for the quarter and nine months ended June 30, 1998. The dividend accretion had no impact on the Company's cashflow

MANAGEMENT'S DISCUSSION AND ANALYSIS
OR PLAN OF OPERATION

GENERAL

The Female Health Company ("FHC" or the "Company") manufactures, markets 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.

Safety and Efficacy

Clinical trials and actual multi-country marketing have established The Female Condom as safe and effective. Studies show the following results:

Reduction in STDs 1)	34%	{Results when Female Condom was
Reduction in Unprotected Sex 1)	25%	available as an option vs. when only the male condom was available.}
Prevention of Pregnancy-Effectiveness 2)	95%	When used properly with every sex act.

1) Supported by UNAIDS
2) Supported by USAID and conducted by Family Health International.

Recent studies completed in Japan for regulatory submission indicate the efficacy of The Female Condom may be even greater than noted above.

No significant safety issues or side effects have been reported to date with The Female Condom.

Cost Effectiveness

Preliminary results from a cost effectiveness study supported by UNAIDS indicate making The Female Condom available is highly cost effective for governments in terms of reducing public health costs in both developed and developing countries.

Endorsements

Currently, The Female Condom is endorsed for use by the World Health Organization (WHO), the United Nations Joint Programme on AIDS (UNAIDS), the U.S. Agency for International Development (USAID), many NGO's (non-government organizations) around the world, and a number of city and state public health departments in the United States.

At the June 1998 World AIDS Conference in Geneva, Switzerland The Female Condom appeared in over 50 studies, speeches and exhibition booths.

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 unintended pregnancy and STDs, including HIV/AIDS. This is an important advantage as many men do not

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 as much as 8% of the times they are used. 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. To the Company's knowledge, there is no reported allergy 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.

Global Market

The market potential for The Female Condom is large and growing as highlighted by the following:

- New cases of STDs each year: 300 million
- Estimated Annual Male Condom Market: 4.7 billion units

Strategy/Goals

The Company's strategy is to act as a manufacturer selling The Female Condom to the global public sector, the U.S. public sector and commercial partners for country specific marketing. The public sector customers and partners assume the cost of shipping and marketing. As a result, as volume increases, expenses other than manufacturing costs will not increase appreciably.

Commercialization

The Product is currently available through private and public sector or special government programs in thirty 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. 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 Company's partner in Japan, Taiho Pharmaceuticals, a $1 billion subsidiary of Otsuka, submitted an application for regulatory approval to Koseisho (Japanese equivalent of FDA) in October, 1997. After approval, which is expected in 1998, the Company will manufacture the Product and supply it to Taiho. Taiho has responsibility for marketing and distributing The Female Condom in Japan. Taiho has the exclusive right to market The Female Condom in Japan provided it sells at least 1.8 million units in the first year after regulatory approval and 2 million units thereafter. The price at which Taiho will purchase the product is under negotiation. 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."

The Company is currently in discussions with potential distributors for India

In addition to the commercial market, The Female Condom is sold to U.S. and global public sector customers. In the U.S., the Product is marketed to city and state public health clinics as well as not-for-profit organizations such as Planned Parenthood. Currently, fourteen major city and state governments including New York, Pennsylvania, Florida, Connecticut, Hawaii, Louisiana, Maryland, New Jersey, South Carolina, Illinois, Chicago, Philadelphia, New York City, and Houston have purchased the Product for distribution with a number of others expressing interest. All fourteen major cities and states have reordered product after initial shipments.

In 1996, the Company entered into a three-year agreement with UNIADS, whereby UNAIDS will facilitate the availability and distribution of The Female Condom in the developing world. The Company will sell the Product to developing countries at a reduced price based on the total number of units purchased. The special reduced price is negotiated each year between the Company and UNAIDS. Currently, the price is set at 0.38 (Pounds) per unit. 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 prior to March 31, 1998. Recent orders also include 1.2 million units for Uganda. In April, UNAIDS held a three-day meeting in Pretoria, South Africa devoted exclusively to accelerating the introduction of The Female Condom in developing countries. The meeting was attended by more than 80 representatives from 15 countries from Southern and Eastern Africa. The Company is now receiving reorders from countries which initially purchased The Female Condom under the UNAIDS program.

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 Female Condom for sale, including Canada, Russia, Australia, South Korea and Taiwan. The Company expects The Female Condom to receive approval in Japan in 1998.

The Company believes that FDA's classification of The Female Condom as a Class III Medical Device, requiring a PMA approval to market by FDA, creates 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.

RESULTS OF OPERATIONS

Three Months Ended June 30, 1998 Compared to Three Months Ended June 30, 1997

For the current quarter, sales increased $300,516, or 37%, compared with the same period last year. The higher sales resulted from increased sales in the

The Female Health Company had revenues of $1,114,919 and a net loss of $915,105 ($.09 per common share) for the three months ended June 30, 1998 compared to revenues of $814,403 and a net loss of $1,070,745 ($.12 per common share) for the three months ended June 30, 1997. As discussed more fully below, the decrease in the Company's net loss was principally related to increased sales volume, reduced expenditures for advertising and promotion, adjustments to inventory reserves and reduced interest expense.

Cost of goods sold increased $191,144, or 24%, to $990,383 in the current quarter from $799,239 for the same period last year. During the quarter, the Company reduced its reserve for inventory obsolescence based upon the increased demand for product and the resulting lower inventory levels. The adjustment of the inventory reserve reduced cost of goods sold by $63,126. There were no adjustments to inventory reserves during the same period last year.

Advertising and promotional expenditures decreased $80,965, or 47%, to $92,193 in the current quarter from $173,158 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 due to the Company's size, it doesn't possess the resources to conduct a significant marketing program. Accordingly, the Company is in discussions with potential partners for the U.S. that have the resources to conduct such a marketing program. The prior period amounts largely reflect expenditures for the Company's previous print advertising campaign and single market test of the Company's television commercial.

Selling, general and administrative expenses increased $148,936, or 20%, to $908,339 in the current quarter from $759,403 for the same period last year. The Company granted employee incentive bonuses of restricted stock in lieu of cash during the quarter ended June 30, 1998 increasing total compensation expense by $307,625. The Company did not grant salary increases or employee incentive stock bonuses in the prior year. Excluding this non-cash charge, expenses for the quarter totaled $600,714, a decrease of $158,689 or 21% compared with the prior year quarter.

Net interest and non-operating expenses decreased $114,239 to $39,109, or 74%, for the current period from $153,348 for the same period the prior year. The decrease is due to lower interest expense attributable to a decreased level of debt outstanding during the quarter. During the same period last year, the Company amortized $98,000 of discounts related to certain beneficial conversion features included with the convertible debentures issued by the Company, see note 7 of Notes to Unaudited Condensed Consolidated Financial Statements.

Nine Months Ended June 30, 1998 Compared to Nine Months Ended June 30, 1997

For the nine months ended June 30, 1998, sales increased $2,024,253, or 100%, compared with the same period last year. The higher sales are due to increased unit sales to domestic public sector agencies and the global public sector.

The Female Health Company had net revenues of $4,040,672 and a net loss of $2,702,645 ($.28 per common share) for the nine months ended June 30, 1998 compared to revenues of $2,016,419 and a net loss of $5,369,941 ($.66 per common share) for the nine months ended June 30, 1997. As discussed more fully

increased sales volume, reduced expenditures for advertising and promotion, adjustments to inventory reserves and reduced interest expense.

Cost of goods sold increased $1,223,037, or 43%, to $4,082,175 in the current period from $2,859,138 for the same period last year. Increases in the costs of goods sold which are related to higher sales volumes, were offset, in part, by a $649,387 reduction in the Company's reserve for inventory obsolescence. The FDA's decision to extend the useful life of The Female Condom to five years from three years and the reduction of finished goods inventories resulting from the increased level of sales were the factors leading to the inventory reserve adjustment. The Company did not adjust inventory reserves during the same period last year.

Advertising and promotional expenditures decreased $1,109,218, or 75%, to $371,421 for the nine months ended June 30, 1998 from $1,480,639 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 due to the Company's size, it doesn't possess the resources to conduct a significant marketing program. Accordingly, the Company is in discussions with potential partners for the U.S. that have the resources to conduct such a marketing program. The prior period amounts largely reflect expenditures for the Company's previous print advertising campaign and single market test of the Company's television commercial.

Selling, general and administrative expenses increased $62,504, or 3%, to $2,165,007 in the current period from $2,102,503 for the same period last year. The Company's initiatives to reduce spending in all administrative areas have resulted in reductions in the expenses associated with telecommunication, legal, and financial matters in the United States and United Kingdom. These reductions were offset by increased compensation expense.

Net interest and non-operating expenses decreased $819,366 to $124,714 for the current period from $944,080 for the same period the prior year. During the prior year the Company had a higher level of debt resulting from the issuance of convertible debentures. The subsequent conversion of the debentures has lowered the outstanding debt and decreased interest expense.

Year to date total operating expenses were $2,536,428, a decrease of $1,046,714, or 29% compared with the prior period year to date total operating expenses of $3,583,142. In the current period, total operating expenses decreased to 63% of net revenues. For the same period last year, total operating expenses were 177% of net revenues.

In addition, during the same period last year, the Company amortized $642,000 of discounts related to certain beneficial conversion features included with the convertible debentures issued by the Company, see note 7 of Notes to Unaudited Condensed Consolidated Financial Statements.

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 nine months of fiscal 1998, cash used in operations totaled $2.6 million. The Company funded cash used in operations and improved its cash position with the

convertible Preferred Stock and the collection of $0.7 million pursuant to the prepayment of the $1 million promissory note the Company received in connection with its sale of its former wholly-owned subsidiary, WPC Holdings, Inc. The Company valued the promissory note at $0.7 million as of September 30, 1997. Management believes that cash on hand at June 30, 1998 will be sufficient to meet requirements for the balance of calendar 1998. However, 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 June 30, 1998, the Company had current liabilities of $2.2 million including a $1.0 million note payable due March 25, 1999, to Mr. Dearholt, a Director of the Company. As of June 30, 1998, Mr. Dearholt beneficially owns 1,189,777 shares of the Company's Common Stock.

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.

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 Female Condom.

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

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 June 30, 1998, the Company had stockholders' equity of approximately $3.6 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. Management of the Company met with representatives of the Exchange and, thereafter the Company received a letter from the Exchange dated April 21, 1998 in which the Exchange determined to continue to list the Company's Common Stock until the Exchange can review the Company's June 30, 1998 Form 10-QSB and subject to the Company's favorable progress in satisfying the Exchange's guidelines for continued listing and to the Exchange's routine periodic review of the Company's SEC and other filings. 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 condition.

YEAR 2000 COMPLIANCE

The Company does not believe it has a material risk associated with the Year 2000 issue in connection with its own internally-used computer software since the Company's operations are not highly dependent on computer software. Although the Company utilizes computer software for a variety of applications, including billing, it has a fairly limited customer and supplier base. Accordingly, even if the Company's computer software experiences Year 2000 problems, the Company believes it could continue to operate without incurring a material adverse effect on its financial condition or results of operations. The Company is not currently able to determine the potential effect on the

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held an Annual Meeting of its shareholders on April 8, 1998. At the meeting, shareholders were asked to elect O.B. Parrish, Mary Ann Leeper, Ph.D., William R. Gargiulo, Jr., Stephen M. Dearholt and David R. Bethune to the Board of Directors to serve until the 1999 Annual Meeting and to ratify the appointment of McGladrey & Pullen LLP as the Company's independent public accountants for the fiscal year ending September 30, 1998. The results of the shareholder voting is listed below:

Matter Voted on:	For	Against	Withheld	Abstentions	Broker non-votes
O.B. Parrish	8,745,488		243,875		
William R. Gargiulo	8,745,588		243,775		
Mary Ann Leeper Ph.D.	8,744,334		245,029		
Stephen M. Dearholt	8,745,638		243,725		
David R. Bethune	8,745,038		244,325		

Ratification of
Independent Public

PART II - OTHER INFORMATION

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). (2)
27	Financial Data Schedule

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(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

DATE: August 14, 1998 /s/O.B. Parrish

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

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