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 December 31, 1999

[ ] 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.) |

| 875 N. Michigan Avenue, Suite 3660, Chicago, IL | 60611 |
|---|---|
| (Address of Principal Executive Offices) | (Zip Code) |

(312) 280-1119
(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 - 12,479,367 shares outstanding as of February 9, 2000

Transitional Small Business Disclosure Format (check one):

Yes ____ No X

FORM 10-QSB

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES

INDEX

## 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; the ultimate level of consumer demand for the female condom; 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; 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; 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; and 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 property rights.



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

<TABLE>
<CAPTION>

| | DECEMBER 31, 1999 |
|---|---|
| ASSETS | |
| <S> | <C> |
| Current Assets: | |
| Cash. . . . . | $ 548,376 |
| Accounts receivable, net. . . . . | 663,726 |
| Inventories, net. . . . . | 1,266,574 |
| Prepaid expenses and other current assets . . . . . | 404,546 |
| TOTAL CURRENT ASSETS . . . . . | 2,883,222 |
| Intellectual property rights, net. . . . . | 732,577 |
| Other assets . . . . . | 158,311 |
| PROPERTY, PLANT AND EQUIPMENT. . . . . | 3,930,922 |
| Less accumulated depreciation and amortization . . . . . | (2,103,546) |
| Net Property, plant, and equipment . . . . . | 1,867,376 |

| | |
|---|---|
| TOTAL ASSETS | $ 5,641,486 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Current Liabilities: | |
| Notes payable, related party, net of unamortized discount | $ 1,248,003 |
| Convertible debenture, net of unamortized discount. | 1,082,105 |
| Accounts payable. | 518,682 |
| Accrued expenses and other current liabilities. | 385,147 |
| Preferred dividends payable | 28,631 |
| TOTAL CURRENT LIABILITIES. | 3,262,568 |
| Deferred gain on lease of facility | 1,572,227 |
| Other long-term liabilities. | 73,176 |
| TOTAL LIABILITIES. | 4,907,971 |
| STOCKHOLDERS' EQUITY: | |
| Convertible preferred stock. | 6,600 |
| Common stock | 148,975 |
| Additional paid-in-capital | 47,093,988 |
| Unearned consulting compensation | (147,414) |
| Accumulated deficit. | (46,521,158) |
| Accumulated other comprehensive income | 184,600 |
| Treasury Stock, at cost. | (32,076) |
| Total Stockholders' Equity | 733,515 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 5,641,486 |

</TABLE>

See notes to unaudited condensed consolidated financial statements.



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

<TABLE>
<CAPTION>

| | Three Months Ended December 31, | |
|---|---|---|
| | 1999 | 1998 |
| <S> | <C> | <C> |
| Net revenues. | $ 847,295 | $ 703,998 |
| Cost of products sold | 916,893 | 861,451 |
| Gross Profit (Loss) | (69,598) | (157,453) |
| Advertising & promotion | 38,810 | 92,463 |
| Selling, general and administrative | 843,281 | 605,634 |
| Total operating expenses. | 882,091 | 698,097 |
| Operating (Loss). | (951,689) | (855,550) |
| Interest, net and other expense | 355,138 | 70,935 |
| Pretax (Loss) | (1,306,827) | (926,485) |
| Provision for income taxes. | ---- | ---- |
| Net (Loss). | (1,306,827) | (926,485) |
| Preferred dividends, Series 1 | 33,441 | 35,555 |
| Net (Loss) attributable to Common stockholders. | $ (1,340,268) | $ (962,040) |
| Net (Loss) Per Common Share Outstanding | $ (0.11) | $ (0.09) |
| Weighted Average of Common Shares Outstanding | 12,292,449 | 10,441,227 |

</TABLE>

See notes to unaudited condensed consolidated financial statements.



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

<TABLE>
<CAPTION>

| | Three Months ended December 31, | |
|---|---|---|
| | 1999 | 1998 |
| OPERATIONS: | | |
| <S> | <C> | <C> |
| Net (loss) | $ (1,340,268) | $ (962,040) |
| Adjusted for noncash items: | | |
| Depreciation and amortization | 271,566 | 140,091 |
| Amortization of discounts on notes payable and convertible debentures | 326,129 | 73,975 |
| Recovery of inventory reserves. | (16,865) | (1,510) |
| Provision for(recovery of) doubtful accounts, returns and discounts | (8,649) | 10,035 |
| Changes in operating assets and liabilities | 503,228 | (106,974) |
| Net cash (used in) operating activities. | (264,859) | (846,423) |
| INVESTING ACTIVITIES: | | |
| Capital expenditures, Net cash (used in) investing activities. | (11,307) | ---- |
| FINANCING ACTIVITIES: | | |
| Dividend paid on preferred stock | (39,000) | (146,228) |
| Purchase of Common Stock held in Treasury. | ---- | (6,568) |
| Proceeds from issuance of common stock | 315,863 | 29,974 |
| Net cash provided by (used in) financing activities. | 276,863 | (122,822) |
| Effect of exchange rate changes on cash. | (23,030) | (6,502) |
| INCREASE (DECREASE) IN CASH. | (22,333) | (975,747) |
| Cash at beginning of period. | 570,709 | 1,480,287 |
| CASH AT END OF PERIOD. | $ 548,376 | $ 504,540 |
| Schedule of noncash financing and investing activities: | | |
| Common stock issued for payment of preferred stock dividends. | $ 39,363 | $ 16,626 |
| Preferred dividends declared, Series 1 | 33,441 | 35,555 |

</TABLE>

See notes to unaudited condensed consolidated financial statements.



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

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 December 31, 1999 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2000. 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, 1999.

Principles of consolidation and nature of operations:

- ----------

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, The Female Health Company - UK and The Female Health Company - UK, plc. 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 known as the Reality female condom, "Reality," in the U.S. and "femidom" or "femy" outside the U.S. The Female Health Company - UK, is the holding company of The Female Health Company - UK, plc, which operates a 40,000 sq. ft. leased manufacturing facility located in London, England.

NOTE 2 - Earnings Per Share

Earnings per share (EPS): The Company has adopted the provisions of Statement of
- ----------
Financial Accounting Standards (FAS) No. 128, Earnings Per Share. FAS No. 128 requires the presentation of "basic" and "diluted" EPS. Basic EPS is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed 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 conversion of convertible preferred or convertible debt and the exercise of stock options and warrants for all periods. Fully diluted (loss) per share is not presented since the effect would be anti-dilutive.



NOTE 3 - Comprehensive Income (Loss)

Total Comprehensive Loss was $(1,345,515) for the 3 months ended December 31, 1999 and $(911,204) for the 3 months ended December 31, 1998.

NOTE 4 - Inventories

The components of inventory consist of the following:

<TABLE>
<CAPTION>

| | DECEMBER 31, 1999 |
|---|---|
| <S> | <C> |
| Raw Material and work in process | $ 295,691 |
| Finished Goods . . . . . | 992,716 |
| Inventory, Gross . . . . . | 1,288,407 |
| Less: Inventory reserves . . . . | (21,833) |
| Inventory, net . . . . . | $ 1,266,574 |

</TABLE>

NOTE 5 - Sale of Convertible Preferred Stock

The Company has outstanding 660,000 shares of 8% cumulative Convertible Preferred Stock - Series 1. 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 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 net loss of $1.3 million for the three months ended December 31, 1999 and as of December 31, 1999 had an accumulated deficit of $46.5 million. At December 31, 1999, the Company had working capital of $(0.4) million and stockholders' equity of $0.7 million. In the near term, the Company 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. 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 future efforts to raise additional capital and to secure additional agreements to promote and distribute the Female Condom throughout other parts of the world.

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, as extended, Vector has acted as the Company's exclusive financial advisor through December 31, 1999 for the purposes of identifying and evaluating opportunities available to the Company for increasing shareholder value. The Company and Vector are discussing extending these arrangements. 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. 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. Management is currently determining whether the Company should seek to extend this arrangement.

In May 19, 1999 and June 3, 1999 the Company issued an aggregate $1.5 million of convertible debentures and warrants to purchase 1,875,000 shares of the Company's common stock to five accredited investors. See Note 7 of the Notes to Unaudited Condensed Consolidated Financial Statements for additional detail.

On November 19, 1998, the Company executed an agreement with a private investor (the "Equity Line Agreement"). This agreement provides for the Company, at its sole discretion, subject to certain restrictions, to sell ("put") to the investor up to $6.0 million of the Company's Common Stock, subject to a minimum put of $1.0 million over the duration of the agreement. The Equity Line Agreement expires on February 12, 2001 and, among other things, provides for minimum and maximum puts ranging from $100,000 to $1,000,000 depending on the Company's stock price and trading volume. Puts cannot occur more frequently than every 20 trading days. Upon a proper put under this agreement, the investor purchases Common Stock at a discount of (a) 12% from the then current average market price of the Company's Common Stock, as determined



under the Equity Line Agreement, if such average market price is at least $2 or (b) 18% from the then current average market price if such average market price is less than $2. In addition, the Company is required to pay its placement agent sales commissions in Common Stock or cash, at the placement agent's discretion, equal to 7% of the funds raised under the Equity Line Agreement and issue warrants to the placement agent to purchase shares of Common Stock, at an exercise price of $2.17 per share, equal to 10% of the shares sold by the Company under the Equity Line Agreement. Pursuant to the Equity Line Agreement, the Company issued the investor a Warrant to purchase 200,000 shares of Common Stock at $2.17 per share.

The Company is required to draw down a minimum of $1 million during the term of the Equity Line Agreement. If the Company does not draw down the minimum, the Company is required to pay the investor a 12% fee on that portion of the $1 million minimum not drawn down at the end of the term of the Equity Line Agreement. As of December 31, 1999, the Company has placed three puts for the combined cash proceeds of $485,000 providing the investor with a total of 482,964 shares of the Company's Common Stock. Each put was executed while the Company's stock price was below $2.00 per share and, therefore, the common stock was sold at the 18% discount. The timing and amount of the stock sales under the agreement are totally at the Company's discretion, subject to the Company's compliance with each of the following conditions at the time the Company requests a stock sale under the agreement:

- - the registration statement the Company filed with the SEC for sales of

stock under the Equity Line Agreement must remain in effect;

- - all of the Company's representations and warranties in the Equity Line Agreement must be accurate and the Company must have complied with all of the Company's obligations in the Equity Line Agreement;

- - there may not be any injunction, legal proceeding or law prohibiting the Company's sale of the stock to the investor;

- - the Company's counsel must issue a legal opinion to the investor;

- - the sale must not cause the investor's ownership of the Company's common stock to exceed 9.9% of the outstanding shares of the Company's common stock;

- - the trading price of the Company's common stock over a five trading day preceding the date of the sale must equal or exceed $1.00 per share; and

- - the average daily trading volume of the Company's common stock for a 20 trading day period preceding the date of the sale must equal or exceed 17,000 shares.



While the Company believes that its existing capital resources will be adequate to fund its currently anticipated capital needs, if they are not, the Company may need to raise additional capital until its sales increase sufficiently to cover operating expenses. In addition, there can be no assurance that the Company will satisfy the conditions required for it to exercise puts under the Equity Line Agreement. Accordingly, the Company may not be able to realize all of the funds available to it under the Equity Line Agreement.

Further, there can be no assurances, assuming the Company successfully raises additional funds or enters into business agreements with third parties, that the Company will achieve profitability or positive cash flow. If the Company is unable to obtain adequate financing, management will be required to sharply curtail the Company's efforts to commercialize the Female Condom and to curtail certain other of its operations or, ultimately, cease operations.

NOTE 7 - Sale of Convertible Debentures
---

On May 19 and June 3, 1999, the Company issued an aggregate of $1.5 million of convertible debentures and warrants to purchase 1,875,000 shares of the Company's common stock to five accredited investors. Interest on the convertible debentures is payable quarterly at a rate of 8% annually in cash or, at the investors' option, common stock at its then current fair market value. From December 2, 1999 until February 11, 2000, interest on the convertible debentures was at the rate of 10% annually, and then returned to 8% annually. Repayment of the convertible debentures is secured by a first security interest in all our assets. The original principal balance plus any accrued but unpaid interest of the convertible debentures may be convertible into the Company's common stock at the investor's election at any time after one year based on a per share price equal to the lesser of (a) 70% of the market price of the Company's Common Stock at the time of conversion or (b) $1.00. The convertible debentures are payable one year after issuance or, if the Company elects, two years after issuance. If the term is extended for the extra one year, the Company must issue to the investor at the time of extension, additional warrants to purchase 375,000 shares of Common Stock on the same term as the other warrants. Interest on the convertible debentures is payable at 8% quarterly in cash or, at the investor's option, Common Stock at its then current fair market value. Repayment of the Convertible Debentures is secured by a first security interest in all of the Company's assets. Additionally, warrants to purchase 337,500 shares of Common Stock were issued to the Company's placement agent in this offering. The warrants have a term of five years and are exercisable at an exercise price equal to the lesser of 70% of the market price of the Common Stock at the time of the exercise or $1.00.

The convertible debentures beneficial conversion feature is valued at $336,400 and the warrants to purchase 1,875,000 shares of common stock are valued at $715,100. In accordance with SEC reporting requirements for such



transactions, the Company recorded the value of the beneficial conversion feature and warrants (a total of $1,051,500) as additional paid in capital. The corresponding amount of $1,051,500 was recorded as a discount on convertible debentures and is amortized over 1 year using the interest rate method.

NOTE 8 - Industry Segments And Financial Information About Foreign and Domestic Operations
---

The Company currently operates primarily 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 in different geographic areas (determined by the location of the operating unit) is as follows:

<TABLE>
<CAPTION>

| (Amounts in Thousands) | Three Months Ended December 31, 1999 | 1998 |
|---|---|---|
| <S> | <C> | <C> |
| Net revenues: | | |
| United States . . . . . | $ 647 | $ 451 |
| International . . . . . | 200 | 253 |
| Operating profit (loss): | | |
| United States . . . . . | (1,183) | (690) |
| International . . . . . | (158) | (272) |
| Identifiable assets | | |
| United States . . . . . | 1,865 | 1,337 |
| International . . . . . | 3,954 | 4,780 |

</TABLE>

On occasion, the Company's U.S. unit sells product directly to customers located outside the U.S. Were such transactions reported by geographic destination of the sale rather than the geographic location of the unit, U.S. revenues would be decreased and International revenues increased by $11,000 and $1,900 as of December 31, 1999 and 1998, respectively.





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.

The female condom has undergone extensive testing for efficacy, safety and acceptability, not only in the United States but also in over 40 additional countries. Certain of these studies show that having the female condom available allows women to have more options, resulting in an approximately 25% increase in protected sex acts. Furthermore, certain studies show that when the female condom is available as a choice in addition to the male condom, there is an approximately 34% decrease in STDs, including HIV/AIDS.

The product is currently sold or available in either or both commercial sector and public sector markets in over 31 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, Denmark, and France. 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"), received regulatory approval from Koseisho, the Japanese regulatory agency in November 1999. Taiho plans to introduce the female condom as My Femy in the first half of calendar year 2000. The Company is currently in discussions with potential distributors for key European countries, India, The People's Republic of China and other countries.

As noted above, the female condom is sold to the global public sector. 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. Following several years of testing the efficacy and acceptability of the female condom, in 1996, the Company entered into a three-year agreement with the Joint United Nations Programme on AIDS (UNAIDS) which has subsequently been extended. In the agreement, UNAIDS facilitates the availability and distribution of the female condom in the developing world and the Company sells the product to developing countries at a reduced price based on the total number of units purchased. The current price per unit is approximately 0.38 Pounds, or $0.62. Pursuant to this agreement, the product is currently being marketed in Zambia, Zimbabwe, Tanzania, Cote d' Ivoire, Bolivia, Haiti, South Africa and other countries. The

Company anticipates multiple launches will occur during the next two years under this agreement, including launches in Kenya, Nigeria, Ghana, Cambodia, Bangladesh, Columbia and Central American countries.



Product

The female condom is made of polyurethane, a thin but strong material which is resistant to rips and tears during use. The female condom consists of a soft, loose fitting sheath and two flexible O rings. One of the rings is used to insert the device and helps to hold it in place. The other ring remains outside the vagina after insertion. The female condom lines the vagina, preventing skin from touching skin during intercourse. The female condom is prelubricated and disposable and is intended for use during only one sex act.

Global Market Potential

The World Health Organization (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. UNAIDS estimates that there are currently approximately 33 million people worldwide who are infected with HIV/AIDS and there are approximately 15,000 people per day who are newly infected. In the United States, the Center for Disease Control noted that in 1995, five of the ten most frequently reported diseases were STDs. The Center also has noted that one in five Americans over the age of 12 has Herpes and 1 in every 3 sexually active people will get an STD by age 24. Women are currently the fastest growing group infected with HIV and are expected to comprise the majority of the new cases by the coming year.

Currently there are only two products that prevent the transmission of HIV/AIDS through sexual intercourse --the latex male condom and the female condom.

The United Nations recently established a goal to reduce the incidence of HIV/Aids in young people in developing countries by 25% by 2005. The Company is currently in discussion with WHO and UNAIDS regarding the role the Female Condom can play in achieving the UN goal.

MALE CONDOM MARKET: It is estimated the global annual market for male condoms is 4.7 billion units. However, the majority of all acts of sexual intercourse, excluding those intended to result in pregnancy, are completed without protection. As a result, it is estimated the potential market for barrier contraceptives is much larger than the identified male condom market.

Advantages vs. the Male Condom

The female condom is currently the only available barrier contraceptive method controlled by women which allows them to protect themselves from unintended pregnancy and STDs, including HIV/AIDS. The most important advantage is that a woman can control whether or not she is protected as many men do not like to wear male condoms and may refuse to do so.

The polyurethane material that is used for the female condom 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 4% to 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 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 sexual intimacy than the male condom which requires sexual arousal for application.

Cost Effectiveness

At the 1998 World AIDS Conference held in Geneva, Switzerland, UNAIDS presented the results from its cost-effectiveness study which indicated that making the female condom available is highly cost effective in reducing public health costs in developing countries.

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 EU. In addition to the United States and the EU, several other countries have approved the female condom for sale, including

Canada, Russia, Australia, South Korea and Taiwan. The Company's partner in Japan, Taiho, received regulatory approval from Koseisho, the Japanese regulatory agency in November 1999.

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.

Strategy

The Company's strategy is to act as a manufacturer, selling the female condom to the global public sector, United States public sector and commercial partners for country-specific marketing. The public sector and commercial partners assume the cost of shipping and marketing the product. As a result, as volume increases, the Company's operating expenses will not increase significantly.



Commercial Markets

The Company markets the product directly in the United States and United Kingdom. The Company has commercial partners which have recently launched the product in Canada, Brazil, Venezuela, Denmark, South Korea, Holland and France. The Company has signed agreements with partners in Japan and Bangladesh where launches are expected during the coming year.

Japanese Market

In Japan, the market for male condoms exceeds 600 million units. Oral contraceptives have only recently 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, a $1 billion Japanese health care company. Taiho has more than 600 salespersons and distribution in 40,000 drug stores. The agreement between the Company and Taiho required Taiho to perform clinical testing of the product in Japan and obtain the necessary regulatory approvals. Approval was received in November 1999. The Company will manufacture the product and supply it to Taiho, which will have responsibility for marketing and distributing the female condom in Japan. Taiho plans to market the female condom under the name "My Femy" during the last week of April 2000.

Relationships and Agreements with Public Sector Organizations

Currently, it is estimated more than 1.5 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 25% over male condoms alone. Currently, the female condom is promoted by WHO, UNAIDS, the United States Agency for International Development, many nongovernment organizations around the world and a number of city and state public health departments in the United States.

The Company has a multi-year agreement with UNAIDS to supply the female condom to developing countries at a reduced price which is negotiated each year to be equal to the Company's production costs directly attributable to the production of the female condom in the prior year. The current price is approximately 38 pence sterling, or $0.62, per unit. This agreement has been automatically renewed for a term expiring on December 31, 2000, and will continue to automatically renew for additional one-year periods unless the Company or UNAIDS give prior notice of termination. During the last year, the female condom has been launched in the countries of Zimbabwe, Tanzania, Bolivia, Haiti, South Africa and Zambia. It is anticipated that multiple product launches will occur in several countries during the next two years, including in the countries of Kenya, Nigeria, Ghana, Cambodia, Bangladesh, Columbia and Central American countries.



In the United States, the product is marketed to city and state public health clinics, as well as not-for-profit organizations such as Planned Parenthood. Currently 10 major cities and 15 state governments, including the states of New York, Pennsylvania, Florida, Connecticut, Hawaii, Louisiana, Maryland, New Jersey, South Carolina and Illinois and the cities of Chicago, Philadelphia, New York and Houston have purchased the product for distribution with a number of others expressing interest. All major cities and states have reordered product after their initial shipments.

State-of-the-Art Manufacturing Facility

The Company manufactures the female condom in a 40,000 square-foot leased facility in London, England. The facility is currently capable of producing 60

million units per year. With additional equipment, this capacity can be significantly increased.

Government Regulation

In the U.S., the female condom is regulated by the U.S. Food and Drug Administration ("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 Pre-Market Approval ("PMA") if the FDA finds that the female condom 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.

Competition

The Company's female condom participates in the same market as male condoms but is not seen as competing - rather additive in terms of prevention and choice. However, it should be noted that latex male condoms cost less and have brand names that are more widely recognized than the female condom. In addition, male condoms are generally manufactured and marketed by companies with significantly greater financial resources than the Company. It is also possible that other parties may develop a female condom. These competing products could be manufactured, marketed and sold by companies with significantly greater financial resources than those of the Company.

Patents and Trademarks

The Company currently holds product and technology patents in the United States, Japan, the United Kingdom, France, Italy, Germany, Spain, the European Patent Convention, Canada, The People's Republic of China, New Zealand, Singapore, Hong Kong and Australia. These patents expire between 2005 and 2113. Additional product and technology patents are pending in Brazil, South Korea, Germany, Japan and several other countries. The patents cover the key aspects of the female condom, including its overall design and manufacturing process. The Company licenses the trademark "Reality" in the United States and has trademarks on the names "femidom" and "femy" in certain foreign countries. The Company has also secured, or applied for, 27 trademarks in 14 countries to protect the various names and symbols used in marketing the product around the world. In addition, the experience that has been gained through years of



manufacturing the female condom has allowed the Company to develop trade secrets and know-how, including certain proprietary production technologies, that further secure its competitive position.

licenses the trademark "Reality" in the United States and has trademarks on the names "femidom" and "femy" in certain foreign countries. The Company has also secured, or applied for, 27 trademarks in 14 countries to protect the various names and symbols used in marketing the product around the world. In addition, the experience that has been gained through years of manufacturing the female condom has allowed the Company to develop trade secrets and know-how, including certain proprietary production technologies, that further secure its competitive position.

RESULTS OF OPERATIONS
- ----------------------

THREE MONTHS ENDED DECEMBER 31, 1999 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 1998

Sales increased $143,297 in the current quarter, or 20%, compared with the same period last year. Units shipped and orders in-house totaled 5.4 million units at December 31, 1999 compared to 3.4 million at December 31, 1998 for an increase of 58%. The Company expects significant quarter to quarter variation due to the timing of receipt of large orders, subsequent production scheduling, and shipping of products as various countries launch the product. The Company believes this variation between quarters will continue for several quarters to come until reorders form an increasing portion of total sales.

The Company had revenues of $847,295 and a net loss of $1,340,268 for the three months ended December 31, 1999 compared to revenues of $703,998 and a net loss of $962,040 for the three months ended December 31, 1998. As discussed more fully below, the increase in the Company's net loss was primarily related to increases in operating expenses and non-operating interest expenses associated with the Company's issuance of convertible debentures during the third quarter of fiscal year 1999.

Cost of goods sold increased $55,442 to $916,893 in the current quarter from $861,451 for the same period last year. The percentage increase in cost of goods sold between the comparative quarters is slightly less than the related

percentage sales increase.

Advertising and promotional expenditures decreased $53,653 to $38,810 in the current quarter from $92,463 for the same period in the prior year.

Selling, general and administrative expenses increased $237,647, or 39%, to $843,281 in the current quarter from $605,634 for the same period last year. The increase reflects an increase in selling, accounting and financing costs. The increase in selling expenses is a result of an expansion of sales staff utilized for public sector sales compared to that which was in existence during the prior period. As a result of the need to obtain additional financing the Company incurred accounting costs and non-cash expenses related to warrants issued for investment service personnel at a cost substantially greater than incurred in the prior fiscal year's first quarter.



Net interest and non-operating expenses increased $284,203 to $355,138 for the current period from $70,935 for the same period last year. The increase exists because the Company had a higher level of debt outstanding than the same period last year, as a result of the issuance of convertible debentures. The result is a larger amount of non-cash expenses incurred from the amortization of discounts on notes payable and convertible debentures than the first quarter of the prior year.

Factors That May Affect Operating Results and Financial Condition

The Company's future operating results and financial condition are dependent on the Company's ability to increase demand for and to cost-effectively manufacture sufficient quantities of the female condom. Inherent in this process are a number of factors that the Company must successfully manage in order to achieve favorable future results and improve its financial condition.

Reliance on a Single Product

The Company expects to derive the vast majority, if not all, of its future revenues from the female condom, its sole current product. While management believes the global potential for the female condom is significant, the product is in the early stages of commercialization and, as a result, the ultimate level of consumer demand around the world is not yet known. To date, sales of the female condom have not been sufficient to cover the Company's fixed operating costs.

Distribution Network

The Company's strategy is to act as a manufacturer and to develop a global distribution network for the product by completing partnership arrangements with companies with the necessary marketing and financial resources and local market expertise. To date, this strategy has resulted in numerous in-country distributions in the public sector, particularly in Africa and Latin America. Several partnership agreements have been completed for the commercialization of the female condom in private sector markets around the world. However, the Company is dependent on country governments as well as city and state public health departments within the United States to continue their commitment to prevention of STDs, including AIDS, by including female condoms in their programs. The Company is also dependent on finding appropriate partners for the private sector markets around the world. Once an agreement is completed, the Company is reliant on the effectiveness of its partners to market and distribute the product. Failure by the Company's partners to successfully market and distribute the female condom or failure of country governments to implement prevention programs which include distribution of barrier methods against the AIDS crisis, or an inability of the Company to secure additional agreements for AIDS crisis, or an inability of the Company to secure additional agreements for 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 the female condom are essentially available from either multiple sources or multiple locations within a source.

Global Market and Foreign Currency Risks

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. To date, the Company's management has not deemed it necessary to utilize currency hedging strategies to manage its currency risks. On an ongoing basis, management continues to evaluate its commercial transactions and is prepared to employ currency hedging strategies when it believes such strategies are

appropriate. 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.

Government Regulation

The female condom is subject to regulation by the FDA, pursuant to the federal Food, Drug and Cosmetic Act ("the FDA 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 "Good Manufacturing 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

Historically, the Company has incurred cash operating losses relating to expenses incurred to develop and promote the Female Condom. During the first three months of fiscal 2000, cash used in operations totaled $0.3 million. The Company used net proceeds from the issuance of the Company's common stock in order to fund cash used in operations; thereby avoiding a reduction of its cash position.

While the Company believes that its existing capital resources (including expected proceeds from sales of common stock pursuant to the Equity Line Agreement) will be adequate to fund its currently anticipated capital needs, if they are not, the Company will need to raise additional capital until its



sales increase sufficiently to cover operating expenses. 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. See Note 6 to Unaudited Condensed Consolidated Financial Statements for additional information regarding the Company's liquidity and capital resources.

At December 31, 1999, the Company had current liabilities of $3.3 million including a $1.0 million note payable due March 25, 2000 and a $250,000 note payable due February 12, 2000 both to Mr. Dearholt, a Director of the Company. As of December 31, 1999, Mr. Dearholt beneficially owns 1,734,220 shares of the Company's Common Stock.

The Company also secured a $50,000 note payable due February 18, 2000 from Mr. Parrish, the Chairman of the Board and Chief Executive Officer of the Company. As of December 31, 1999, Mr. Parrish beneficially owns 484,001 shares of the Company's Common Stock.

As of the date of the filing of this report, the Company, Mr. Dearholt and Mr. Parrish plan to extend the aforementioned notes in the current fiscal year as each notes' terms expire.

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 $0.3 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.

DELISTING ON THE AMERICAN STOCK EXCHANGE

On February 5, 1999, the Company's Common Stock was delisted from the American

Stock Exchange since it did not meet all of the criteria for continued listing. Commencing on February 9, 1999, the Common Stock has been quoted on the OTC Bulletin Board under the symbol "FHCO". Although the



Company believes the OTC Bulletin Board has and will continue to provide an efficient market for the purchase and sale of the Company's Common Stock, investors may 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 than was the case when the stock was listed on the American Stock Exchange. In addition, companies whose stock is listed on the American Stock Exchange must adhere to the rules of such exchange. These rules include various corporate governance procedures which, among other items, require the company to obtain shareholder approval prior to completing certain transactions such as, among others, issuances of common stock equal to 20% or more of the company's then outstanding common stock for less than the greater of book or market value or the issuance of certain stock options. Companies whose stock is quoted on the OTC Bulletin Board are not subject to these or any comparable rules.

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.



## PART II - OTHER INFORMATION

ITEMS 1-5. Not Applicable except as provided below.

ITEM 2(c) The Company sold 316,668 shares of common stock to three investors in November 1999. The Company received cash proceeds of $237,500 from these sales. The Company believes it has satisfied the exemption from the securities registration requirement provided by section 4(2) of the Securities Act and Regulation D promulgated thereunder in this offering since the securities were sold in a private placement to sophisticated, accredited investors, who provided representations which the Company deemed necessary to satisfy itself that they were accredited investors and were purchasing for investment and not with a view to resale in connection with a public offering.

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) |
| 4.3 | Amended and Restated Articles of Incorporation. |
| 27 | Financial Data Schedule |

---

(1) Incorporated herein by reference to the Company's Registration Statement on Form SB-2, filed with the Securities and Exchange Commission on October 16, 1999.

(2) Incorporated herein by reference to the Company's Registration Statement on Form S-18, filed with the Securities and Exchange Commission on May 25, 1990.

(b) Report on Form 8-K - No reports on Form 8-K were filed during the quarter ended December 31, 1999.



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: February 14, 2000

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

/s/o/Robert R. Zic
---
Robert R. Zic, Chief Financial Officer

<TABLE> <S> <C>

<ARTICLE> 5

| <S> | <C> | |
|---|---|---|
| <PERIOD-TYPE> | 3-MOS | |
| <FISCAL-YEAR-END> | | SEP-30-2000 |
| <PERIOD-END> | | DEC-31-1999 |
| <CASH> | | 548,376 |
| <SECURITIES> | | 0 |
| <RECEIVABLES> | | 663,726 |
| <ALLOWANCES> | | (353,818) |
| <INVENTORY> | | 1,266,574 |
| <CURRENT-ASSETS> | | 2,883,222 |
| <PP&E> | | 3,970,922 |
| <DEPRECIATION> | | (2,103,546) |
| <TOTAL-ASSETS> | | 5,641,486 |
| <CURRENT-LIABILITIES> | | 3,262,568 |
| <BONDS> | | 0 |
| <PREFERRED-MANDATORY> | | 0 |
| <PREFERRED> | | 6,600 |
| <COMMON> | | 148,975 |
| <OTHER-SE> | | 577,940 |
| <TOTAL-LIABILITY-AND-EQUITY> | | 5,641,486 |
| <SALES> | | 847,295 |
| <TOTAL-REVENUES> | | 847,295 |
| <CGS> | | 916,893 |
| <TOTAL-COSTS> | | 882,091 |
| <OTHER-EXPENSES> | | (37,754) |
| <LOSS-PROVISION> | | 12,295 |
| <INTEREST-EXPENSE> | | 392,892 |
| <INCOME-PRETAX> | | (1,340,268) |
| <INCOME-TAX> | | 0 |
| <INCOME-CONTINUING> | | (1,340,268) |
| <DISCONTINUED> | | 0 |
| <EXTRAORDINARY> | | 0 |
| <CHANGES> | | 0 |
| <NET-INCOME> | | (1,340,268) |
| <EPS-BASIC> | | (.11) |
| <EPS-DILUTED> | | (.11) |

</TABLE>