

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **September 30, 2012**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number **1-13602**

The Female Health Company

(Name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of incorporation or organization)

39-1144397
(I.R.S. Employer Identification No.)

515 N. State Street, Suite 2225, Chicago, Illinois
(Address of principal executive offices)

60654
(Zip Code)

Registrant's telephone number, including area code **(312) 595-9123**
Securities registered under Section 12(b) of the Act:

Title of each class
Common stock, \$.01 par value

Name of each exchange on which registered
NASDAQ Stock Market

Securities registered under Section 12(g) of the Act:

None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated file (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 30, 2012, was approximately \$112.9 million based on the per share closing price as of March 30, 2012 quoted on the NASDAQ Capital Market for the registrant's common stock, which was \$5.42.

There were 28,672,416 shares of the registrant's common stock, \$0.01 par value per share outstanding at November 30, 2012.

DOCUMENTS INCORPORATED BY REFERENCE:

None

THE FEMALE HEALTH COMPANY

FORM 10-K

SEPTEMBER 30, 2012

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FORWARD-LOOKING STATEMENTS

Certain statements included in this Annual Report on Form 10-K 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 achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, those described under the caption "Risk Factors" in Item 1A. of this report. The Company undertakes no obligation to make any revisions to the forward-looking statements contained in this report or to update them to reflect events or circumstances occurring after the date of this report.

As used in this report, the terms "we," "us," "our," "The Female Health Company," "FHC" and the "Company" mean The Female Health Company and its subsidiaries, unless the context indicates another meaning, and the term "common stock" means shares of our common stock, par value of \$0.01 per share.

PART I

Item 1. Business

General

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

The FC2 female condom provides women dual protection against STI's (including HIV/AIDS) and unintended pregnancy. The public health sector is the Company's main market. Within the public health sector, various organizations supply critical products such as FC2, at no cost or low cost, to those who need but cannot afford to buy such products for themselves.

The Company has a relatively small customer base, with a limited number of customers who generally purchase in large quantities. Over the past few years, significant customers have included large global agencies, such as the United Nations Population Fund (UNFPA) and the United States Agency for International Development (USAID), through its facilitator, John Snow, Inc. Other customers include ministries of health or other governmental agencies, which either purchase directly or via in-country distributors, and non-governmental organizations.

FC2 is currently available in 138 countries. A significant number of countries with the highest demand potential are in the developing world. The incidence of HIV/AIDS, other STI's and unwanted pregnancy in these countries represents a remarkable potential for significant sales of a product that benefits some of the world's most underprivileged people. However, conditions in these countries can be volatile and result in unpredictable delays in program development, tender applications and processing orders.

Purchasing patterns vary significantly from one customer to another, and may reflect factors other than simple demand. For example, some governmental agencies purchase through a formal procurement process in which a tender (request for bid) is issued for either a specific or a maximum unit quantity. Tenders also define other requirements for a qualified bid submission (such as product specifications, regulatory approvals, clearance by WHO, unit pricing and delivery timetable). Bidders have a limited period of time in which to submit bids. Bids are subjected to an evaluation process which is intended to conclude with a tender award to the successful bidder. The entire tender process, from publication to award, may take many months to complete. Administrative issues, politics, bureaucracy, process errors, changes in leadership, funding priorities and/or other pressures may delay or derail the process and affect the purchasing patterns of public sector customers. As a result, the Company may experience significant quarter to quarter sales variations due to the timing and shipment of large orders.

In the past few years, the Company's business model, which includes high gross margins, modest capital expenditures and low expense requirements compared to production volumes, has permitted the Company to sustain profitable operations without debt and maintain dividend payments during periods of delayed orders. Continuation of these accomplishments in the future periods will be contingent on a number of factors, including the degree and period of sales volatility and on the strength of global demand for the Company's product.

The Company currently operates in one industry segment which includes the development, manufacture and marketing of consumer health care products. Therefore, no segment data is disclosed in the Notes to the Consolidated Financial Statements contained in this report. Information regarding the Company's operations by geographic area is included in Note 10 in the Notes to the Consolidated Financial Statements contained in this report.

Company History

The female condom was invented by a Danish physician who obtained a U.S. patent for the FC1 product in 1988. The physician subsequently sold certain rights to the condom to Chartex Resources Limited. In the years that followed, Chartex, with resources provided by a Danish entrepreneur and a nonprofit Danish foundation, developed the manufacturing processes and completed other activities associated with bringing the female condom to market in certain non-U.S. countries. The Wisconsin Pharmacal Company, Inc. ("Wisconsin Pharmacal", the Company's predecessor) owned certain rights to the female condom in the U.S., Canada and Mexico. Wisconsin Pharmacal pursued the pre-clinical and clinical studies and overall development of the product, necessary for U.S. FDA approval and worldwide distribution of the product.

The Female Health Company is the successor to Wisconsin Pharmacal, a company which manufactured and marketed disparate specialty chemical and branded consumer products. The Company was originally incorporated in 1971.

In fiscal 1995, the Company's Board of Directors approved a plan to complete a series of actions designed, in part, to maximize the potential of the female condom. First, the Company restructured and transferred the Wisconsin Pharmacal name and all of the assets and liabilities of the Company other than those related to the female condom to a newly formed, wholly-owned subsidiary of the Company, WPC Holdings, Inc. ("Holdings"). In January 1996, the Company sold Holdings to an unrelated third party. Then, in February 1996, the Company acquired Chartex. At the same time, the Company was renamed The Female Health Company. As a result of the sale of Holdings and the acquisition of Chartex, The Female Health Company evolved to its current state with its sole business consisting of the manufacture, marketing and sale of the female condoms.

The FDA approved FC1 for distribution in the U.S. in 1993 and approved the Company's U.K. FC1 manufacturing facility in 1994. In 2005, the Company introduced a second generation female condom, FC2, which had been developed to:

1. Expand access to female-initiated prevention by offering a more affordable product
2. Increase HIV/AIDS prevention and family planning options
3. Lower health care costs
4. Increase gross margins

FC2 was first marketed internationally in March 2007 and has been marketed in the U.S. since August 2009. In October 2009, the Company completed the transition from its first generation product, FC1, to its second generation product, FC2, and production of FC1 ceased. The Company retains ownership of certain world-wide rights, as well as various patents, regulatory approvals and other intellectual property related to FC1.

FC2 was approved by the FDA as a Class III medical device on March 10, 2009. In addition to FDA approval, the FC2 female condom has been approved by other regulatory agencies, including in the European Union, India and Brazil. Based on a rigorous scientific review, WHO agreed that FC2 performs in the same manner as FC1 and cleared FC2 for purchase by U.N. agencies in 2006.

Since FC2's introduction in March 2007 through September 30, 2012, approximately 170 million FC2 female condoms have been distributed in 138 countries. It is sold directly to consumers in 16 countries. Since the first FDA approval in 1993, the Company has sold over 345 million FC female condoms (FC1 and FC2).

Strategy

The Company's strategy is to fully develop global markets for the FC2 female condom for both contraception and STI prevention. Since the introduction of its first generation product, FC1, the Company has developed contacts and relationships with global public health sector organizations such as WHO, UNFPA, USAID, the United Nations Joint Programme on HIV/AIDS ("UNAIDS"), country-specific health ministries and non-governmental organizations (NGOs), and commercial partners in various countries. The Company has representatives in various locations around the world to provide technical support and assist with its customers' prevention and family planning programs. As announced during the July 2012 London Summit on Family Planning, the Company has pledged to significantly increase its global educational and training investment over the next six years.

The Company's first generation product, FC1, was produced from a costly raw material (polyurethane), in a labor intensive manufacturing process in a suburb of London, England. To expand women's access to the female condom, increase sales volume, reduce costs, and significantly increase gross margin, the Company developed its second generation product, FC2. The second generation product is made from a less costly raw material, nitrile polymer. FC2's production process is more efficient and less labor intensive than that of FC1, making it less costly to produce. Its price is now approximately 49% less than FC1's final unit sales price. FC2 is currently being produced at the Company's facility in Selangor D.E., Malaysia and in Kochi, India, in conjunction with FHC's exclusive distributor in India, Hindustan Lifecare Limited ("HLL"). The Company made its first substantial sales of FC2 in fiscal 2007. Since October 2009, all of the Company's unit sales have been FC2. Production in London was discontinued with the final shipment of FC1 in October 2009. As a result of the successful development of FC2, the Company was able to both reduce the price to the public health sector and increase its gross margin.

Since the product's primary market is currently the public health sector, the Company incurs minimal sales and marketing expense. Thus, as the demand for the female condom continues to grow in the public health sector, the Company's operating expenses are likely to grow at a much lower rate than that of volume.

Products

Currently, there are only two FDA approved and marketed products that prevent the transmission of HIV/AIDS through sexual intercourse: the male condom and the FC2 female condom. The FC2 female condom is currently the only FDA approved and marketed product controlled by women that prevents STI's, including HIV/AIDS. Used consistently and correctly, it provides women dual protection against STI's (including HIV/AIDS) and unintended pregnancy. The FC2 female condom does not compete with the male condom, but is an alternative to either unprotected sex or male condom usage.

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

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

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

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

FC2 received FDA approval as a Class III medical device on March 10, 2009, and has been available in the United States since August 2009. In addition to FDA approval, the FC2 female condom has been approved by other regulatory agencies, including in the European Union, India and Brazil. Based on a rigorous scientific review, WHO agreed that FC2 performs in the same manner as FC1 and cleared FC2 for purchase by U.N. agencies in 2006.

Global Market Potential

Because the FC2 female condom offers a woman dual protection against both unintended pregnancy and STI's, including HIV/AIDS, its market encompasses both family planning and disease prevention.

Prevention. The first clinical evidence of AIDS was noted more than thirty years ago. Since then, HIV/AIDS has become the most devastating pandemic facing humankind in recorded history. In November 2009, WHO released statistics indicating that on a world-wide basis, HIV/AIDS is now the leading cause of death in women 15 to 44 years of age. According to the World Health Organization, in 2010 worldwide more than half of all the adults living with HIV were women and almost 50% of all new adult cases of HIV/AIDS were women. In the United States the Centers for Disease Control and Prevention (CDC) and FDA both list heterosexual sex as the most common method of HIV transmission in women.

For sexually active couples, male condoms and the FC2 female condom are the only barrier methods approved by FDA for preventing sexual transmission of HIV/AIDS. In recent years, scientists have sought to develop alternative means of preventing HIV/AIDS. Based on the complexities of such research, a viable prevention alternative is unlikely to be available in the foreseeable future. To date, it is clear that condoms, male and female, continue to play a key role in the prevention of STI's, including HIV/AIDS. The Company's FC2 female condom, when used consistently and correctly, gives a woman control over her sexual health by providing dual protection against STI's (including HIV/AIDS) and unintended pregnancy.

In the United States, the CDC continues to report that the HIV/AIDS epidemic is taking an increasing toll on women and girls. Women of color, particularly black women, have been especially hard hit. Women of color comprise both the majority of new HIV and AIDS cases among women, and the majority of women living with the disease.

In 2009, the CDC lists the rate of new HIV infection for black women as approximately 15 times the rate for white women in the United States. In 2009, in the United States, it is estimated that one in 32 black women would be diagnosed with HIV in her lifetime, compared to the one in 526 incidence rate amongst white women.

The CDC estimates there are 19 million new sexual transmitted infections in the United States each year. It is also estimated that over 24,000 women each year in the US lose the ability to conceive or carry a pregnancy to term due to undiagnosed or untreated STI's. In March 2008, the CDC announced that a study indicated that 26% of female adolescents in the United States have at least one of the most common STI's. Led by the CDC's Sara Forhan, the study is the first to examine the combined national prevalence of common STI's among adolescent women in the United States.

In addition to overall STI prevalence, the study found that by race, African American teenage girls had the highest prevalence, with an overall prevalence of 48% compared to 20% among both whites and Mexican Americans. Overall, approximately half of all the teens in the study reported ever having sex. Among these girls, the STI prevalence was 40%.

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

The value of FC2 as a contraceptive device was highlighted on World AIDS Day, December 1, 2011, when the British Government pledged 5 million British pounds (approximately \$7.6 million) for the purchase of female condoms. In the announcement, the British Government noted the prevention of unintended pregnancies as a reason for the donation.

On July 11, 2012, World Population Day, the UK Government and the Bill and Melinda Gates Foundation held a Summit on Family Planning in London, England (the "London Summit"). It was attended by public health officials, government officials, and private sector companies that supply contraceptives and related products.

The primary goal of the London Summit was to increase access to contraceptives to an additional 120 million poor women in 69 developing countries by 2020. Achievement of this goal will reduce maternal and infant mortality, HIV/AIDS babies and orphans and health care costs.

At the close of the London Summit it was announced that commitments of \$4.6 billion had been made to fund the 2012-2020 program. This included commitments by the British Government, other specific countries, the Bill & Melinda Gates Foundation, other foundations, Bloomberg Philanthropies, and other private sector donors.

FHC was one of only fourteen companies invited to attend the London Summit. O.B. Parrish, the Company's Chairman and Chief Executive Officer, participated on a panel "Partnering for Progress: The Role of Public/Private Partnerships".

FHC announced a program to support the goal to provide contraceptives to an additional 120 million women by 2020. FHC's program includes the following:

- Aggregate annual public sector purchases from all large buyers to set prospectively volume-based unit pricing
- Award major purchasers with free product equal to 5% of total annual units purchased
- Invest up to \$14 million over the next six years in reproductive health and HIV/AIDS prevention education and training in collaboration with global agencies.

The Company believes achievement of the London Summit's goals will increase the market for contraceptives over the long-term. It also believes it will increase the market for the female condom, as it is the only female-initiated product that provides dual protection against unintended pregnancy and STI's including HIV/AIDS.

The Condom Market

The global male condom market (public and private sector) is estimated to be \$3 billion annually. The global public health sector market for male condoms is estimated to be greater than 10 billion units annually. Given the rapid spread of HIV/AIDS in India and China, UNAIDS estimates that the annual public health sector demand for condoms, both male and female, will reach 19 billion units by 2015.

Government Regulation

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

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

The Company believes that FC2's PMA and FDA classification as Class III medical devices create a significant barrier to entry in the U.S. market. 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.

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

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

Significant Customers

Because FC2 provides dual protection against both sexually transmitted infections, (including HIV/AIDS), and unintended pregnancy, it is an integral part of both HIV/AIDS prevention and family planning programs throughout the world. These programs are typically supplied by global public health sector buyers who purchase products for distribution, at low cost or no cost, to those who need but cannot afford to buy such products themselves. Within the global public health sector are large global agencies such as UNFPA (U.N. Population Fund), USAID (United States Agency for International Development), DFID (U.K.'s Department for International Development), PSI (Population Services International) and other social marketing groups, various government health agencies and NGO's (non-governmental agencies). The Company's most significant customers are either global public health sector agencies, country specific ministries of health or those who facilitate their purchases and/or distribution.

The Company's three largest customers currently are UNFPA, John Snow, Inc., facilitator of USAID I DELIVER project, and Sekunjalo Investments Corporation (PTY) Ltd. UNFPA accounted for 40% of unit sales in fiscal 2012, 25% of unit sales in fiscal 2011, and 37% of unit sales in fiscal 2010. John Snow, Inc. accounted for 25% of unit sales in fiscal 2012, 26% of unit sales in fiscal 2011, and 33% of unit sales in fiscal 2010. Sekunjalo Investments Corporation (PTY) Ltd., accounted for 20% of unit sales in 2012. Sekujalo's purchases were less than 10% of total annual units sold in fiscal 2011 and 2010. No other single customer accounted for more than 10% of unit sales in fiscal 2012, 2011 or 2010.

Commercial Markets – Direct to Consumers

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

Relationships and Agreements with Public Health Sector Organizations

The Company's customers are primarily large global agencies, non-government organizations, ministries of health and other government agencies which purchase and distribute the FC2 female condom for use in HIV/AIDS prevention and family planning programs. The Company offers uniform, volume-based pricing to such agencies, rather than entering into long-term supply agreements. In the United States, FC2 is sold to city and state public health clinics as well as not-for-profit organizations such as Planned Parenthood. FC2 is being distributed as part of New York City's Female Condom Education and Distribution Project being conducted by the Bureau of HIV/AIDS Prevention and Control. As of September 30, 2012, FC2 was available in 1,001 locations in New York City, as compared to 609 at September 30, 2011; including both community based organizations and the N.Y.C. Department of Health and Mental Hygiene units.

The Company, in collaboration with the National Female Condom Coalition, is encouraging FC2 usage through city-specific programs as well as other coordinated efforts. To make "train the trainer" education broadly available, the Company introduced its FC2 On-line Training Program in March 2012. The National Female Condom Coalition support of the female condom was evidenced by its initiation of the first-ever Global Female Condom Day on September 12, 2012.

Employees

As of November 30, 2012, the Company had 144 full-time employees including 10 located in the U.S., 13 in the U.K., 116 in Malaysia and 5 in other countries to implement training and programs, and no part-time employees. None of the Company's employees are represented by a labor union. The Company believes that its employee relations are good. In Malaysia, direct labor is supplied primarily by a contracted work force.

Research and Development

In September 2005, the Company announced that development of its second generation product, FC2, was complete. Throughout fiscal 2006, the Company developed and scaled-up the FC2 manufacturing process, which was completed by approximately March 31, 2007. During the remainder of fiscal 2007 and throughout fiscal 2008 and fiscal 2009, the Company conducted various activities in preparation and support of a PMA to secure FDA approval for FC2.

Environmental Regulation

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 FC2. The Company has not incurred environmental expenses in fiscal 2012, 2011 or 2010, nor does it anticipate environmental expenses in the foreseeable future.

Raw Materials

The principal raw material used to produce FC2 is a nitrile polymer. While general nitrile formulations are available from a number of suppliers, the Company has chosen to work closely with the technical market leader in synthetic polymers to develop a grade ideally suited to the bio-compatibility and functional needs of a female condom. The supplier has agreed that the Company is the sole and exclusive owner of the unique polymer formulation that was developed for FC2.

Manufacturing Facilities

The Company leases 16,000 sq. ft. of production space in Selangor D.E., Malaysia for the production of FC2. In fiscal 2012, expansion of the facility's manufacturing capacity by 20% to approximately 100 million units annually was begun. The expansion was completed in October 2012, when the new lines went into production.

The Company's India-based FC2 end-stage production capacity for supply to the Indian market is located at a facility owned by its exclusive distributor, Hindustan Lifecare Limited (HLL) in the Cochin Special Export Zone. In December 2007, production began at that facility which has a capacity of 7.5 million units per year.

FHC's total FC2 production capacity is approximately 100 million units annually. The Company intends to expand its capacity at existing locations and/or manufacture at additional locations as the demand for FC2 develops.

Competition

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

Other parties have developed and marketed female condoms. None of these female condoms marketed or under development by other parties have secured FDA approval. The Cupid female condom became the second female condom design to successfully complete the WHO prequalification process in July 2012 and be cleared for purchase by UN agencies. It is possible that other female condoms may receive FDA approval or complete the WHO prequalification process or may otherwise compete with the Company's FC2 female condom.

Patents and Trademarks

FC2 patents have been issued by the United States, the European Union, Canada, Australia, South Africa, The People's Republic of China, Greece, Turkey, Spain, Japan and the African Regional Intellectual Property Organization (ARIPO), which includes Botswana, The Gambia, Ghana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Sierra Leone, Somalia, Sudan, Swaziland, Uganda, United Republic of Tanzania, Zambia and Zimbabwe. Patent applications for FC2 are pending in various other countries around the world through the Patent Cooperation Treaty. The patents cover the key aspects of FC2, including its overall design and manufacturing process. There can be no assurance that pending patents provide the Company with protection against copycat products entering markets during the pendency of the patents.

The Company has the registered trademark "FC2 Female Condom" in the United States. The Company has also secured, or applied for, 12 trademarks in 22 countries to protect the various names and symbols used in marketing the product around the world. These include "femidom" and "femy," "Reality" and others. In addition, the experience that has been gained through years of manufacturing the FC female condoms (FC1 and FC2) has allowed the Company to develop trade secrets and know-how, including certain proprietary production technologies that further protects its competitive position.

Backlog

Unfilled product orders totaled \$11,382,572 at November 30, 2012 and \$6,482,000 at December 1, 2011. Unfilled orders materially fluctuate from quarter to quarter, and the amount at November 30, 2012 includes orders with requested delivery dates later in fiscal 2013. The Company expects current unfilled orders to be filled during fiscal 2013.

Available Information

The Company maintains its corporate website at www.femalehealth.com and it makes available, free of charge, through this website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports that the Company files with or furnishes to the Securities and Exchange Commission (the "SEC"), as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. Information on the Company's website is not part of this report.

Item 1A. Risk Factors

You should carefully consider the risks described below, together with all of the other information included in this Annual Report and our other SEC filings, in considering our business and prospects. The risks described below are not the only risks we face. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business operations. If any of the events or circumstances described in the following risks occur, our business, financial condition or results of operations could be materially adversely affected. In such cases, the trading price of our common stock could decline.

Our success is dependent upon the success of FC2.

We expect to derive virtually all of our future revenues from sales of our only product, the FC2 female condom. The ultimate level of demand for FC2 is uncertain, and we may not be able to grow our business if demand for FC2 does not increase. We also depend on public sector agencies around the world to continue to include FC2 in their STI prevention and family planning programs; and on our commercial sector distribution partners to successfully market and distribute FC2. A decline in demand for FC2 would reduce our net revenues and profitability.

Our business may be affected by contracting risks with government and other international health agencies.

Our customers are primarily large international agencies and government health agencies which purchase and distribute FC2 for use in family planning and HIV/AIDS prevention programs. Sales to such agencies may be subject to government contracting risks, including the appropriations process and funding priorities, potential bureaucratic delays in awarding contracts, process errors, politics or other pressures, and the risk that contracts may be subject to cancellation, delay or restructuring. These contracting risks may cause significant quarter to quarter variations in our operating results and could adversely affect our net revenues and profitability. Budget issues and spending cuts affecting government health agencies may also adversely affect demand for our product and our net revenues.

We depend on three major customers for a significant portion of our net revenues.

In fiscal 2012, our three largest customers, UNFPA, John Snow, Inc., facilitator of USAID I DELIVER project, and Sekunjalo Investments Corporation (PTY) Ltd., together accounted for 85% of our total unit sales. In fiscal 2011, USAID and UNFPA collectively purchased 51% of units sold. In fiscal 2010, USAID and UNFPA collectively purchased 70% of the units sold. Sekunjalo's purchases in fiscal 2011 and 2010 were less than 10% of total annual units sold. An adverse change in our relationship with our largest customers could have a material adverse effect on our net revenues and profitability.

Since we sell product in foreign markets, we are subject to international business risks that could adversely affect our operating results.

Our international operations subject us to risks, including:

- economic and political instability;
- changes in international regulatory requirements, import duties or export restrictions, including limitations on the repatriation of earnings;
- difficulties in staffing and managing foreign operations;
- complications in complying with trade and foreign tax laws;
- price controls and other restrictions on foreign currency; and
- difficulties in our ability to enforce legal rights and remedies.

Any of these risks might disrupt the supply of our products, increase our expenses or decrease our net revenues. The cost of compliance with trade and foreign tax laws increases our expenses, and actual or alleged violations of such laws could result in enforcement actions or financial penalties that could result in substantial costs.

Increases in the cost of raw materials, labor and other costs used to manufacture our product could increase our cost of sales and reduce our gross margins.

We may experience increased costs of raw materials, including the nitrile polymer used in FC2, and increased labor costs. We may not be able to pass along such cost increases to our customers. As a result, an increase in the cost of raw materials, labor or other costs associated with manufacturing FC2 could increase our cost of sales and reduce our gross margins.

Currency exchange rate fluctuations could increase our expenses.

Because we manufacture FC2 in a leased facility located in Malaysia, a portion of our operating costs are denominated in a foreign currency. While a material portion of our future sales of FC2 are likely to be in foreign markets, all sales of FC2 are denominated in United States dollars. Manufacturing costs are subject to normal currency risks associated with fluctuations in the exchange rate of the Malaysian ringgit (MYR) relative to the United States dollar. Historically, we have not hedged our foreign currency risk.

We rely primarily on a single facility to manufacture FC2, which subjects us to the risk of supply disruptions.

We manufacture FC2 in a single leased facility located in Malaysia. Difficulties encountered by this facility, such as fire, accident, natural disaster or an outbreak of a contagious disease, could halt or disrupt production at the facility, delay the completion of orders or cause the cancellation of orders. Any of these risks could increase our expenses or reduce our net revenues.

Our product is subject to substantial government regulation which exposes us to risks that we will be fined or exposed to civil or criminal liability, receive negative publicity or be prevented from selling our product.

FC2 is subject to regulation by the FDA under the Food, Drug and Cosmetic Act, and by foreign regulatory agencies. Under the Food, Drug and Cosmetic Act, medical devices must receive FDA clearance before they can be sold. FDA regulations also require us to adhere to "Good Manufacturing Practices," which include testing, quality control and documentation procedures. Our compliance with applicable regulatory requirements is monitored through periodic inspections by the FDA and foreign regulatory agencies. If we fail to comply with applicable regulations, we could:

- be fined or exposed to civil or criminal liability;
- face suspensions of clearances, seizures or recalls of products or operating restrictions;
- receive negative publicity; or

· be prohibited from selling our product in the United States or in foreign markets.

Uncertainty and adverse changes in the general economic conditions may negatively affect our business.

If the recent decline in general economic conditions in the United States and other global markets in which we operate continues, or if consumers fear that economic conditions will continue to decline, consumers may reduce expenditures for products such as our product. Adverse changes may occur as a result of adverse global or regional economic conditions, fluctuating oil prices, declining consumer confidence, unemployment, fluctuations in stock markets, contraction of credit availability or other factors affecting economic conditions generally. These changes may negatively affect the sales of our product, increase the cost and decrease the availability of financing, or increase costs associated with producing and distributing our product. In addition, a substantial portion of the sales of FC2 are made in the public market to government agencies, including USAID and other government agencies around the world. Worsening economic conditions as well as budget deficits and austerity measures may cause pressures on government budgets and result in a reduction in purchases of FC2 from us by governmental agencies.

Because our product faces significant competition from other products, including other female condoms as well as the male condom, we may not be able to achieve anticipated growth levels or profit margins.

We may be unable to compete successfully against current and future competitors, and competitive pressures could have a negative effect on our net revenues, cash flows and profit margins. Some parties have developed and marketed female condoms, although only one such product has WHO pre-clearance and none of these female condoms have been approved by the FDA. It is also possible that other parties will develop a female condom. These products, if developed, could be distributed by companies with greater financial resources and customer contacts than us. In addition, there are a number of other products currently marketed which have a higher degree of accepted efficacy for preventing pregnancy than does the female condom. These products include male condoms, birth control pills, and Depo Provera. However, other than the FC2 female condom, only the latex male condom is generally recognized as being efficacious in preventing both unintended pregnancies and sexually transmitted diseases. Companies manufacturing these competing products are generally much larger than we are and have access to significantly greater resources than we do. In addition, FC2 is generally sold at prices comparatively greater than the price of the latex male condom. Accordingly, FC2 will not be able to compete with the latex male condom solely on the basis of price.

Sales of our product fluctuate, which causes our operating results to vary from quarter to quarter.

Sales of our product fluctuate based upon demand from our commercial partners and the public sector and the nature of government procurement processes. Historically, our net revenues and profitability have varied from quarter to quarter due to such buying patterns. Quarterly variations in operating results may cause us to fail to meet our earnings guidance or market expectations for our operating results and may tend to depress our stock price during such quarters.

Material adverse or unforeseen legal judgments, fines, penalties or settlements could have an adverse impact on our profits and cash flows.

We may, from time to time, become a party to legal proceedings incidental to our business, including, but not limited to, alleged claims relating to product liability, environmental compliance, patent infringement, commercial disputes and employment matters. Future litigation could require us to record reserves or make payments which could adversely affect our profits and cash flows. Even the successful defense of legal proceedings may cause us to incur substantial legal costs and may divert management's attention and resources away from our business.

Our success depends, in part, on our ability to protect our intellectual property.

We rely on our patented and other proprietary technology relating to our FC2 female condom. The actions taken by us to protect our proprietary rights may not be adequate to prevent imitation of our product, processes or technology. We cannot assure you that our proprietary technology will not become known to competitors, or that others will not independently develop a substantially equivalent or better female condom that does not infringe on our intellectual property rights, or will not challenge or assert rights in, and ownership of, our patents and other proprietary rights.

A limited number of our shareholders can exercise substantial influence over our company.

As of November 30, 2012, our directors and executive officers and their affiliates beneficially owned in the aggregate approximately 25.6% of the outstanding shares of our common stock. If these shareholders were to vote together as a group, they would have the ability to exert significant influence over our Board of Directors and policies. For instance, these shareholders would be able to exert a significant influence over the outcome of all shareholder votes, including votes concerning director elections, amendments to our articles of incorporation and possible mergers, corporate control contests and other significant corporate transactions.

We may not be able to continue paying dividends on our common stock.

Although we have paid a quarterly cash dividend to the holders of our common stock since the second quarter of fiscal 2010, holders of our common stock are not entitled to receive dividends. Downturns in the domestic and global economies or in our operating results could cause our Board of Directors to consider, among other things, the reduction or elimination of dividends paid on our common stock. This could adversely affect the market price of our common stock. In addition, under our credit facility with Heartland Bank, dividends are only permitted as long as after giving effect to the dividend we have a ratio of total liabilities to total stockholders' equity of no more than 1:1.

Anti-takeover provisions in our charter documents, Wisconsin law and change of control agreements with our officers could prevent or delay a change in control of our company.

We are subject to a number of provisions in our charter documents, Wisconsin law and change of control agreements that may discourage, delay or prevent a merger or acquisition that a shareholder may consider favorable. These anti-takeover provisions include the following:

- the authority provided to our Board of Directors in our Amended and Restated Articles of Incorporation to issue preferred stock without further action by our shareholders;
- change of control agreements we have entered into with five of our employees which provide for up to three years of compensation following a change of control as defined in the agreements;
- the provision under Wisconsin law that permits shareholders to act by written consent only if such consent is unanimous;
- the provision under Wisconsin law that requires for a corporation such as us that was formed before January 1, 1973, the affirmative vote of the holders of at least two-thirds of the outstanding shares of our voting stock to approve an amendment to our articles of incorporation, a merger submitted to a vote of our shareholders or a sale of substantially all of our assets; and
- the Wisconsin control share acquisition statute and Wisconsin's "fair price" and "business combination" provisions which limit the ability of an acquiring person to engage in certain transactions or to exercise the full voting power of acquired shares under certain circumstances.

The trading price of our common stock has been volatile, and investors in our common stock may experience substantial losses.

The trading price of our common stock has been volatile and may become volatile again in the future. The trading price of our common stock could decline or fluctuate in response to a variety of factors, including:

- our failure to meet our earnings guidance or market expectations for our performance;
- changes in the rate at which we pay dividends;
- the timing of announcements by us or our competitors concerning significant product developments, acquisitions or financial performance;
- fluctuation in our quarterly operating results;

- substantial sales of our common stock;
- general stock market conditions; or
- other economic or external factors.

You may be unable to sell your stock at or above your purchase price.

Item 1B. Unresolved Staff Comments

Not Applicable

Item 2. Properties

The Company leases approximately 5,100 square feet of office space at 515 North State Street, Suite 2225, Chicago, IL 60654. The lease expires October 31, 2016. The Company utilizes warehouse space and sales fulfillment services of an independent public warehouse located in Wood Dale, IL for storage and distribution of the FC2 female condom. In June 2010, the Company entered a new lease agreement for 6,400 square feet of office space located in London, England. The lease, which expires in June 2020, includes an option by the Company to terminate the lease in 2015. The Company manufactures and warehouses FC2 within a leased facility with 16,000 sq. ft. of production space, in Selangor D.E., Malaysia. The FDA-approved manufacturing process is subject to periodic inspections by the FDA as well as the U.K. based “notified body”, which is responsible for CE and ISO accreditation. The lease currently has an expiration date of September 1, 2013 and is renewable at the option of the Company for an additional three year term. The Company’s Malaysian production capacity is approximately 100 million units annually. In February 2012, the Company extended the lease for 11,000 square feet of warehouse space in Selangor, Malaysia. The lease term is two years, beginning March 1, 2012 and ending on February 29, 2014. The lease terms include an option by the Company to extend the lease for an additional year.

Item 3. Legal Proceedings.

The Company is not currently involved in any pending legal proceedings.

Item 4. Mine Safety Disclosures

Not Applicable

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Shares of our common stock trade on the NASDAQ Capital Market under the symbol "FHCO". The approximate number of record holders of our common stock at November 30, 2012 was 319. In January 2010, the Board of Directors adopted a quarterly cash dividend policy and declared the first cash dividend in the Company's history, which was paid in February 2010. In total, the Board has declared twelve quarterly dividends, the most recent of which was paid in November 2012. All dividends have been paid from the Company's cash on hand. Any future quarterly dividends and the record date for any such dividend will be considered each quarter by the Company's Board of Directors and announced by the Company. Payment of future dividends is at the discretion of the Board of Directors and the Company may not have sufficient cash flows to continue to pay dividends. Under the Company's credit facility with Heartland Bank, dividends and share repurchases are permitted as long as after giving effect to the dividend or share repurchase the Company has a ratio of total liabilities to total stockholders' equity of not more than 1:1. Information regarding the high and low reported closing prices for our common stock and dividends paid on our common stock for the quarters indicated is set forth in the table below.

	Quarters			
	FIRST	SECOND	THIRD	FOURTH
2012 Fiscal Year				
Price per common share – High	\$ 4.69	\$ 5.49	\$ 5.95	\$ 7.30
Price per common share – Low	\$ 3.70	\$ 4.58	\$ 5.07	\$ 5.59
Dividends paid	\$ 0.05	\$ 0.05	\$ 0.06	\$ 0.06
2011 Fiscal Year				
Price per common share – High	\$ 6.24	\$ 5.63	\$ 5.13	\$ 4.92
Price per common share – Low	\$ 4.63	\$ 4.18	\$ 4.33	\$ 3.95
Dividends paid	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05

Stock Repurchase Program

The Company has had a Stock Repurchase Program in effect since January 2007. The Stock Repurchase Program currently authorizes a total of 3,000,000 shares to be acquired through December 31, 2012. From the program's onset through September 30, 2012, the total number of shares repurchased by the Company is 1,958,829. The Stock Repurchase Program authorizes purchases in privately negotiated transactions as well as in the open market.

In October 2008 the Company's Board of Directors authorized repurchases in private transactions under the Stock Repurchase Program of shares issued under the Company's equity compensation plans to directors, employees and other service providers at the market price on the effective date of the repurchase request. Total repurchases under this amendment are limited to an aggregate of 250,000 shares per calendar year and to a maximum of 25,000 shares annually per individual. Purchases under this amendment for fiscal 2012, 2011 and 2010 were 34,000, 5,750 and 65,274 shares, respectively.

Issuer Purchases of Equity Securities:	Details of Treasury Stock Purchases to Date through September 30, 2012:			
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Program	Maximum Number of Shares that May yet be Purchased Under the Program
January 1, 2007 – June 30, 2012	1,925,829	\$ 3.34	1,925,829	1,074,171
July 1, 2012– July 31, 2012	-	-	1,925,829	1,074,171
August 1, 2012– August 31, 2012	-	-	1,925,829	1,074,171
September 1, 2012– September 30, 2012	33,000	6.99	1,958,829	1,041,171
Quarterly Subtotal	33,000	6.99	33,000	-
Total	1,958,829	\$ 3.41	1,958,829	1,041,171

Recent Sales of Unregistered Securities

On July 24, 2012, a warrant holder exercised 10,000 warrants for cash which provided the Company with proceeds of \$13,000, and on September 28, 2012, the warrant holder exercised 18,000 warrants using the cashless exercise option available in the warrant which entitled the warrant holder to 14,795 shares of our common stock. The Company believes that these issuances of our common stock in connection with the warrant exercises were exempt from registration under section 4(2) of the Securities Act of 1933 and/or Regulation D promulgated under the Securities Act of 1933 because such issuances were made to a person who is an accredited investor. The accredited investor represented to the Company that he was purchasing for investment without a view to further distribution.

Item 6. Selected Financial Data

The data set forth below should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and Notes thereto appearing in this Annual Report on Form 10-K. The Consolidated Statement of Income Data for the years ended September 30, 2012, 2011 and 2010, and the Consolidated Balance Sheet Data as of September 30, 2012 and 2011, are derived from the Consolidated Financial Statements included elsewhere in this report. The Consolidated Statement of Income Data for the years ended September 30, 2009 and 2008, and the Consolidated Balance Sheet Data as of September 30, 2010, 2009 and 2008, are derived from Consolidated Financial Statements that are not included in this report. The historical results are not necessarily indicative of results to be expected for future periods.

Consolidated Statement of Income Data:	Year ended September 30,				
	2012	2011	2010	2009	2008
	<i>(In thousands, except per share data)</i>				
Product sales	\$ 35,012	\$ 18,516	\$ 22,188	\$ 27,383	\$ 25,528
Royalty income	22	49	34	160	106
Net revenues	35,034	18,565	22,222	27,543	25,634
Cost of sales	14,413	8,700	9,297	14,026	14,904
Gross profit	20,621	9,865	12,925	13,518	10,730
Operating expenses:					
Advertising	53	33	77	108	95
Selling, general and administrative	9,628	6,537	6,569	7,195	7,451
Restructuring costs	-	-	1,930	1,497	-
Total operating expenses, net	9,681	6,570	8,576	8,800	7,546
Operating income	10,940	3,295	4,349	4,718	3,184
Non-operating (expense) income:					
Interest and other (expense) income	-	(2)	29	56	53
Foreign currency transaction (loss) gain	(148)	(61)	(154)	276	967
Total non-operating (expense) income	(148)	(63)	(125)	332	1,020
Income before income taxes	10,792	3,232	4,224	5,050	4,204
Income tax benefit	(4,507)	(2,167)	(2,513)	(1,485)	(763)
Net income	15,299	5,399	6,737	6,535	4,967
Preferred dividends, Class A, Series 1	-	-	-	-	8
Preferred dividends, Class A, Series 3	-	-	-	80	129
Net income attributable to common stockholders	\$ 15,299	\$ 5,399	\$ 6,737	\$ 6,456	\$ 4,829
Net income per basic common share outstanding	\$ 0.55	\$ 0.20	\$ 0.25	\$ 0.25	\$ 0.18
Basic weighted average common shares outstanding	27,694	27,287	26,981	25,652	26,116
Net income per diluted common share outstanding	\$ 0.53	\$ 0.19	\$ 0.24	\$ 0.24	\$ 0.18
Diluted weighted average common shares outstanding	28,933	28,971	28,545	27,807	27,983
Cash dividends declared per share	\$ 0.22	\$ 0.20	\$ 0.15	\$ 0.00	\$ 0.00

Consolidated Balance Sheet Data:	September 30,				
	2012	2011	2010	2009	2008
	<i>(In thousands)</i>				
Cash and cash equivalents	\$ 5,291	\$ 4,313	\$ 2,919	\$ 2,810	\$ 1,922
Restricted cash	5	5	5	105	212
Working capital	10,966	7,454	9,853	9,209	9,249
Total assets	30,446	19,443	18,368	18,540	13,831
Accumulated deficit	(35,594)	(44,697)	(44,544)	(47,143)	(53,599)
Long-term obligations	174	209	145	192	1,090
Total stockholders' equity	\$ 24,218	\$ 16,753	\$ 16,132	\$ 12,954	\$ 9,709

Overview

The Female Health Company manufactures, markets and sells the FC2 female condom. FC2 is the only currently available female-initiated product approved by the U.S. Food and Drug Administration (FDA) that provides dual protection against unintended pregnancy and sexually transmitted infections ("STIs"), including HIV/AIDS.

In 2005, the Company introduced a second generation female condom, FC2, which had been developed to:

1. Expand access to female-initiated prevention by offering a more affordable product
2. Increase HIV/AIDS prevention and family planning options
3. Lower health care costs
4. Increase gross margins

In August 2006, after a stringent technical review, the World Health Organization (WHO) cleared FC2 for purchase by U.N. agencies. The first substantial sales of FC2 occurred in fiscal 2007. FC2 received FDA approval as a Class III medical device on March 10, 2009 and became available in the United States in August 2009. In addition to FDA approval, the FC2 female condom has been approved by other regulatory agencies, including in the European Union, India, and Brazil.

In October 2009, the Company completed the transition from its first generation product, FC1, to its second generation product, FC2, and production of FC1 ceased. Although FC1 production has ceased, the Company retains ownership of certain world-wide rights to FC1, as well as various patents, regulatory approvals and other intellectual property related to FC1.

From its introduction in March 2007 through September 30, 2012, approximately 170 million FC2 female condoms have been distributed in 138 countries. Since the last shipments of FC1 were produced and sold in October 2009, all units sold have been FC2.

The FC2 female condom provides women dual protection against STI's (including HIV/AIDS) and unintended pregnancy. Because FC2's primary usage is that of disease prevention, the public health sector is the Company's main market. Within the public health sector, various organizations supply critical products such as FC2, at no cost or low cost, to those who need but cannot afford to buy such products for themselves.

FC2 is currently available in 138 countries. A significant number of countries with the highest demand potential are in the developing world. The incidence of HIV/AIDS, other STI's and unwanted pregnancy in these countries represents a remarkable potential for significant sales of a product that benefits some of the world's most underprivileged people. However, conditions in these countries can be volatile and result in unpredictable delays in program development, tender applications and processing orders.

The Company has a relatively small customer base, with a limited number of customers who generally purchase in large quantities. Over the past few years, major customers have included large global agencies, such as the United Nations Population Fund (UNFPA) and the United States Agency for International Development (USAID), through its facilitator, John Snow, Inc. Other customers include ministries of health or other governmental agencies, which either purchase directly or via in-country distributors, and non-governmental organizations.

Purchasing patterns vary significantly from one customer to another, and may reflect factors other than simple demand. For example, some governmental agencies purchase through a formal procurement process in which a tender (request for bid) is issued for either a specific or a maximum unit quantity. Tenders also define the other elements required for a qualified bid submission (such as product specifications, regulatory approvals, clearance by WHO, unit pricing and delivery timetable). Bidders have a limited period of time in which to submit bids. Bids are subjected to an evaluation process which is intended to conclude with a tender award to the successful bidder. The entire tender process, from publication to award, may take many months to complete. Administrative issues, politics, bureaucracy, process errors, changes in leadership, funding priorities and/or other pressures may delay or derail the process and affect the purchasing patterns of public sector customers. As a result, the Company may experience significant quarter to quarter sales variations due to the timing and shipment of large orders.

In the past few years, the Company's business model, which includes high gross margins, modest capital expenditures and low expense requirements compared to production volumes, has permitted the Company to sustain profitable operations without debt and maintain dividend payments during periods of delayed orders. Continuation of these accomplishments in the future periods will be contingent on a number of factors, including the degree and period of sales volatility and on the strength of global demand for the Company's product.

During fiscal 2011, the Company's unit shipments, revenues and net income were adversely affected by bureaucratic delays and other timing issues involving the receipt and shipment of large orders from Brazil and the Republic of South Africa (RSA). Significant orders for both countries were received in the first quarter of fiscal 2012. The 20 million unit order received for shipment to Brazil was the largest order in the Company's history. Receipt of these orders positively impacted fiscal 2012 results.

Revenues. Most of the Company's revenues have been derived from sales of the FC female condoms (FC1 and FC2), and are recognized upon shipment of the product to its customers. Since fiscal 2008, revenue is also being derived from licensing its intellectual property to its exclusive distributor in India, Hindustan Lifecare Limited ("HLL"). HLL is authorized to manufacture FC2 at HLL's facility in Kochi, India for sale in India. HLL is the Company's exclusive distributor in India and the Company receives a royalty based on the number of units sold by HLL in India. Such revenue appears as royalties on the Audited Consolidated Statements of Income for the years ended September 30, 2012, 2011 and 2010, and is recognized in the period in which the sale is made by HLL.

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

The Company's most significant customers are either global public health sector agencies or those who facilitate their purchases and/or distribution. The Company's three largest customers currently are UNFPA, John Snow, Inc., facilitator of USAID I DELIVER project, and Sekunjalo Investments Corporation (PTY) Ltd. UNFPA accounted for 40% of unit sales in fiscal 2012, 25% of unit sales in fiscal 2011, and 37% of unit sales in fiscal 2010. John Snow, Inc. accounted for 25% of unit sales in fiscal 2012, 26% of unit sales in fiscal 2011, and 33% of unit sales in fiscal 2010. Sekunjalo Investments Corporation (PTY) Ltd., accounted for 20% of unit sales in 2012. Sekunjalo's purchases were less than 10% of total annual units sold in fiscal 2011 and 2010. No other single customer accounted for more than 10% of unit sales in fiscal 2012, 2011 or 2010.

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

Expenses. The Company previously manufactured FC1 at a facility located in the United Kingdom and manufactures FC2 at its facility located in Selangor D.E., Malaysia. The Company's cost of sales consists primarily of direct material costs, direct labor costs and indirect production and distribution costs. Direct material costs include raw materials used to make the female condoms, principally polyurethane for FC1 and a nitrile polymer for FC2. Indirect product costs include logistics, quality control and maintenance expenses, as well as costs for helium, nitrogen, electricity and other utilities. All of the key components for the manufacture of the FC2 female condom are essentially available from multiple sources.

In fiscal 2010, the Company incurred a one-time charge of \$1.9 million for restructuring expenses related to exiting the lease of its former U.K. manufacturing facility, following the cessation of FC1 production.

The Company's operating expenses include costs for promotion, education and training relating to FC2. During the London Summit, the Company announced a program to support the London Summit's goal to provide contraceptives to an additional 120 million women by 2020. This program includes a plan for the Company to invest up to \$14 million over the next six years in reproductive health and HIV/AIDS prevention education and training in collaboration with global agencies. Such investment in education and training may increase the Company's operating expenses in future periods, although the Company has not set a specific timetable for any such increased spending on education and training. The Company believes that increased spending on education and training will increase the market for FC2. In connection with the London Summit, the Company also plans to award major purchasers with free product equal to 5% of total annual units purchased beginning in fiscal 2013. The Company will reserve for the cost of the free product as a cost of sales, which may affect the Company's gross margin. The Company believes that such free product awards will provide an incentive for increased unit sale volumes from major purchasers.

Operating Highlights. The Company had net revenues of \$35,033,897 during the fiscal year 2012, compared to \$18,565,102 in the fiscal year ended September 30, 2011. The Company's fiscal 2012 unit sales were 88% higher than fiscal 2011 due to increased volume and several large orders from major customers during fiscal 2012. During fiscal 2011, the Company's unit shipments, revenues and net income were adversely affected by bureaucratic delays and other timing issues involving the receipt and shipment of large orders from Brazil and the Republic of South Africa (RSA). Significant orders for both countries were received in the first quarter of fiscal 2012. The average sales price of FC2 increased 1% in fiscal 2012 from fiscal 2011.

The Company generated cash flow from operations of \$10,356,054 for fiscal year 2012 compared to \$6,968,155 for fiscal 2011.

The Company had net income of \$15,299,321, or \$0.53 per diluted share, in fiscal 2012 compared to net income of \$5,399,051, or \$0.19 per diluted share, in fiscal 2011.

During fiscal 2012, the Company continued to pay quarterly dividends, raising the quarterly dividend rate from \$0.05 per share to \$0.06 per share mid-year. The Company remains debt free.

Results of Operations. The Company had net revenues of \$35,033,897 and net income of \$15,299,321, or \$0.53 per diluted share, in fiscal 2012, compared to net revenues of \$18,565,102 and net income of \$5,399,051, or \$0.19 per diluted share, in fiscal 2011. Net revenues increased \$16,468,795, or 89%, in fiscal 2012 over the prior fiscal year, as a result of higher unit sales. In fiscal 2012 and fiscal 2011, net revenues included royalties of \$21,721 and \$49,011, respectively, earned from licensing intellectual property to the Company's exclusive distributor in India, Hindustan Lifecare Limited.

Gross profit increased \$10,755,823, or 109%, to \$20,621,013 in fiscal 2012 from \$9,865,190 in fiscal 2011. Gross profit as a percentage of net revenues increased to 59% in fiscal 2012 from 53% in fiscal 2011. The increase in gross profit was the result of higher unit sales which improved the absorption of fixed overhead costs.

Cost of sales increased \$5,712,972, or 66%, to \$14,412,884 in fiscal 2012 from \$8,699,912 in fiscal 2011. The increase is due to higher volume.

Advertising expenses increased \$20,091 to \$52,949 in fiscal 2012 from \$32,858 in fiscal 2011. The increase is due to the expansion of the US training and education program.

Selling, general and administrative expenses increased \$3,091,144 to \$9,628,134 in fiscal 2012 from \$6,536,990 in fiscal 2011. The increase was primarily due to increased spending in education and training and incentive payments based on the achievement of performance goals relating to the Company's unit sales and operating income.

Total operating expenses increased \$3,111,235 to \$9,681,083 in fiscal 2012 from \$6,569,848 in fiscal 2011.

The Company's operating income increased \$7,644,588 to \$10,939,930 in fiscal 2012 from \$3,295,342 in fiscal 2011. The increase reflects the impact of significantly higher unit sales.

The Company recorded non-operating expense of \$147,907 in fiscal 2012 compared to non-operating expense of \$63,367 in fiscal 2011. The increase was the result of an increased foreign currency loss of \$148,269 in fiscal 2012 versus a foreign currency loss of \$61,258 in fiscal 2011.

An entity is able to recognize a tax benefit for current or past losses when it can demonstrate that the tax loss carry forward will be utilized before expiration. Management believes that the Company's recent and projected future growth and profitability has made it more likely than not that the Company will utilize a portion of its net operating loss carryforwards in the future. The Company recorded a deferred tax benefit in the amount of \$4.9 million (gross tax benefit) during the year ended September 30, 2012 compared to \$2.5 million for the year ended September 30, 2011 as a result of the decrease in the valuation allowance on these assets.

Fiscal Year Ended September 30, 2011 Compared to Fiscal Year Ended September 30, 2010

Operating Highlights. The Company's net revenues were reduced as a result of lower unit sales, primarily due to delays in two large orders. The Company had net revenues of \$18,565,102 in the fiscal year ended September 30, 2011 compared to \$22,221,955 in the fiscal year ended September 30, 2010. The Company's fiscal 2011 unit sales were 16% lower than fiscal 2010 due to reduced sales volume. The average sales price of FC2 decreased 1% in fiscal 2011 from fiscal 2010.

The Company generated cash flow from operations of \$6,968,155 for fiscal 2011, compared to \$3,991,855 for fiscal 2010.

The Company had net income of \$5,399,051, or \$0.19 per diluted share, in fiscal 2011 compared to net income of \$6,737,078, or \$0.24 per diluted share, in fiscal 2010.

The Company paid quarterly dividends of \$0.05 per share and remained debt free.

Results of Operations. The Company had net revenues of \$18,565,102 and net income of \$5,399,051, or \$0.19 per diluted share, in fiscal 2011 compared to net revenues of \$22,221,955 and net income of \$6,737,078, or \$0.24 per diluted share, in fiscal 2010.

Net revenues decreased \$3,656,853, or 16%, in fiscal 2011 over the prior fiscal year, as a result of lower unit sales, primarily due to delays in two large orders. In fiscal 2011 and fiscal 2010, net revenues included royalties of \$49,011 and \$33,863, respectively, earned from licensing intellectual property to the Company's exclusive distributor in India, Hindustan Lifecare Limited.

Gross profit decreased \$3,059,629, or 24%, to \$9,865,190 in fiscal 2011 from \$12,924,819 in fiscal 2010. Gross profit as a percentage of net revenues decreased to 53% in fiscal 2011 from 58% in fiscal 2010. The decrease in gross profit was the result of lower unit sales which reduced the absorption of fixed overhead costs.

Cost of sales decreased \$597,224, or 6%, to \$8,699,912 in fiscal 2011 from \$9,297,136 in fiscal 2010. The decrease is due to lower volume.

Advertising expenses decreased \$43,849 to \$32,858 in fiscal 2011 from \$76,707 in fiscal 2010.

Selling, general and administrative expenses decreased \$32,040 to \$6,536,990 in fiscal 2011 from \$6,569,030 in fiscal 2010. The decrease was due to a reduction in selling and marketing expenses and lower consulting fees somewhat offset by higher legal fees and stock compensation expenses.

In fiscal 2010, the Company incurred a one-time charge of \$1,929,922 for restructuring expenses related to exiting the lease of its former U.K. manufacturing facility. Included in that amount are lease surrender payments, excess capacity costs, and dilapidation expenses, partially offset by the proportionate recognition of deferred gain on the original sale/leaseback of the plant. There were no restructuring related costs in fiscal 2011.

Total operating expenses decreased \$2,005,811 to \$6,569,848 in fiscal 2011 from \$8,575,659 in fiscal 2010. The reduction resulted primarily from the lack of one-time restructuring costs and reduced selling and marketing costs, somewhat offset by higher legal fees and stock compensation expenses.

The Company's operating income decreased \$1,053,818 to \$3,295,342 in fiscal 2011 from \$4,349,160 in fiscal 2010. That reduction was the result of lower unit sales.

The Company recorded non-operating expense of \$63,367 in fiscal 2011 compared to non-operating expense of \$125,028 in fiscal 2010. The reduction was the result of a reduced foreign currency loss of \$61,258 in fiscal 2011 versus a foreign currency loss of \$154,196 in fiscal 2010.

An entity is able to recognize a tax benefit for current or past losses when it can demonstrate that the tax loss carry forward will be utilized before expiration. Management believes that the Company's recent and projected future growth and profitability has made it more likely than not that the Company will utilize a portion of its net operating loss carryforwards in the future. The Company recorded a deferred tax benefit in the amount of \$2.5 million (gross tax benefit) during the year ended September 30, 2011 compared to \$2.7 million for the year ended September 30, 2010 as a result of the decrease in the valuation allowance on these assets.

Liquidity and Sources of Capital

We generally fund our operations and working capital needs through cash generated from operations. Our operating activities generated cash of \$10.4 million in fiscal 2012, \$7.0 million in fiscal 2011, and \$4.0 million in fiscal 2010. The increase of \$3.4 million in cash generated from operating activities in fiscal 2012 as compared to fiscal 2011 was primarily due to the increase in revenues partially offset by the increase of accounts receivable. In fiscal 2012, investing activities consumed about \$0.7 million for the purchase of fixed assets related to the expansion of the Company's Malaysian facility. Financing activities used a net of \$8.7 million, most of which was used to pay quarterly cash dividends and tax withholding in connection with cashless stock option exercises where the option holders' surrendered shares to satisfy their withholding obligations. The increase of \$3.0 million in cash generated from operating activities in fiscal 2011 as compared to fiscal 2010 was primarily due to a \$2.2 million decrease in accounts receivable as well as miscellaneous fluctuations in the other assets and liabilities. In fiscal 2011, investing activities consumed about \$0.05 million for the purchase of fixed assets. Financing activities used a net of \$5.6 million, most of which was used to pay quarterly cash dividends.

At September 30, 2012, the Company had working capital of \$11.0 million and stockholders' equity of \$24.2 million compared to working capital of \$7.5 million and stockholders' equity of \$16.8 million as of September 30, 2011.

Since the Company's Board of Directors instituted a quarterly cash dividend program in January 2010, the Company has paid a total of twelve consecutive dividends, the most recent of which was paid on November 7, 2012. The first nine quarterly dividends were paid at the rate of \$0.05 per share. In May 2012, the quarterly cash dividend rate was increased to \$0.06 per share. A cumulative total of \$17.6 million has been paid since the program's initiation.

Any future quarterly dividends and the record date for such dividends will be approved each quarter by the Company's Board of Directors and announced by the Company. Payments of any future dividends are at the discretion of the Board of Directors and the Company may not have sufficient cash flows to pay dividends.

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

On August 1, 2012, the Company entered into an amendment to its Second Amended and Restated Loan Agreement (as amended, the "Loan Agreement") with Heartland Bank (the "Bank") to extend the term of the Company's revolving line of credit to August 1, 2013. The credit facility consists of a revolving note for up to \$2,000,000 with the Bank, with borrowings limited to a borrowing base determined based on 70% to 80% of eligible accounts receivable plus 50% of eligible inventory. Significant restrictive covenants in the Loan Agreement include prohibitions on any merger, consolidation or sale of all or a substantial portion of the Company's assets and limits on the payment of dividends or the repurchase of shares. The Loan Agreement does not contain any financial covenants that require compliance with ratios or amounts. Dividends and share repurchases are permitted as long as after giving effect to the dividend or share repurchase the Company has a ratio of total liabilities to total stockholders' equity of no more than 1:1. Borrowings on the revolving note bear interest at a rate of the base rate (4.5% at September 30, 2012) plus 0.5%. The note is collateralized by substantially all of the assets of the Company. No amounts were outstanding under the revolving notes at September 30, 2012 or 2011.

As of November 30, 2012, the Company had approximately \$4.2 million in cash, net trade accounts receivable of \$6.9 million and current trade accounts payable of \$0.9 million. Presently, the Company has no required debt service obligations.

The following table includes information relating to our contractual obligations as of September 30, 2012 in future fiscal years:

Contractual Obligations	Total	2013	2014	2015	2016	2017	Thereafter
Long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital lease obligations	-	-	-	-	-	-	-
Operating lease obligations	1,456,008	356,865	311,246	216,802	218,349	129,101	223,645
Purchase obligations	-	-	-	-	-	-	-
Other long-term obligations	-	-	-	-	-	-	-
Total	\$ 1,456,008	\$ 356,865	\$ 311,246	\$ 216,802	\$ 218,349	\$ 129,101	\$ 223,645

Critical Accounting Estimates

The preparation of financial statements requires management to make estimates and use assumptions that affect certain reported amounts and disclosures. Critical accounting estimates include the deferred income tax valuation allowance. Actual results may differ from those estimates.

The Company files separate income tax returns for its foreign subsidiaries. ASC Topic 740 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are also provided for carryforwards for income tax purposes. In addition, the amount of any future tax benefits is reduced by a valuation allowance to the extent such benefits are not expected to be realized.

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

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

Although management uses the best information available, it is reasonably possible that the estimates used by the Company will be materially different from the actual results. These differences could have a material effect on the Company's future results of operations and financial condition.

Our effective tax rates have differed from the statutory rate primarily due to the tax impact of foreign operations, state taxes, certain benefits realized related to equity-based awards, and utilization of NOL carryforwards. The effective tax rates, before considering the reversal of the valuation allowance, were 3.6%, 10.3%, and 6.8% for fiscal 2012, 2011, and 2010, respectively. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws, regulations, and accounting principles. In addition, we are subject to the continuous examination of our income tax returns by the IRS and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

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 general and administrative expenses. The Company has, where possible, increased selling prices to offset such increases in costs.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as defined in Item 303(a) (4) of Regulation S-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk is limited to fluctuations in raw material commodity prices, particularly the nitrile polymer used to manufacture FC2, and foreign currency exchange rate risk associated with the Company's foreign operations. The Company does not utilize financial instruments for trading purposes or to hedge risk and holds no derivative financial instruments which would expose it to significant market risk. Effective October 1, 2009, the Company's U.K. subsidiary and Malaysia subsidiary each adopted the U.S. dollar as its functional currency. The consistent use of the U.S. dollar as the functional currency across the Company reduces its foreign currency risk and stabilizes its operating results. The Company currently has no significant exposure to interest rate risk. The Company has a line of credit with Heartland Bank, consisting of a revolving note for up to \$2,000,000 with borrowings limited to a percentage of eligible accounts receivable and eligible inventory. Outstanding borrowings under the line of credit will incur interest at a rate equal to a base rate plus 0.5%. As the Company has had no outstanding borrowings in the last five years, it currently has no significant exposure to market risk for changes in interest rates. Should the Company incur future borrowings under its line of credit, it would be subject to interest rate risk related to such borrowings.

Item 8. Financial Statements and Supplementary Data

The response to this item is submitted in a separate section of this report. See “Index to Consolidated Financial Statements” for a list of the financial statements being filed herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

Management's Report on Internal Control Over Financial Reporting

The report of management required under this Item 9A is contained on page F-1 of this Annual Report on Form 10-K under the heading "Management's Report on Internal Control over Financial Reporting."

Report of Independent Registered Public Accounting Firm

The attestation report required under this Item 9A is contained on pages F-2 and F-3 of this Annual Report on Form 10-K under the heading "Report of Independent Registered Public Accounting Firm."

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers and Corporate Governance

Certain information about the Company's executive officers, directors and certain key employees as of November 30, 2012, is as follows:

Name	Position	Age
O.B. Parrish	Chairman of the Board, Chief Executive Officer, acting President and Director	79
Mary Ann Leeper, Ph.D.	Senior Strategic Adviser and Director	72
William R. Gargiulo, Jr.	Secretary and Director	84
Michael Pope	Vice President of FHC and General Manager of The Female Health Company (UK) Plc	55
Donna Felch	Vice President, Chief Financial Officer and Director	65
Janet Lee	Controller	48
David R. Bethune	Director	72
Stephen M. Dearholt	Director	66
Michael R. Walton	Director	75
Richard E. Wenninger	Director	65
Mary Margaret Frank	Director	43

O.B. PARRISH

Age: 79; Elected Director: 1987; Present Term Ends: 2013 Annual Meeting

O.B. Parrish has served as Chief Executive Officer of the Company since 1994, as acting President since May 2006, as acting Chief Financial and Accounting Officer from February 1996 to March 1999 and as the Chairman of the Board and a Director of the Company since 1987. Mr. Parrish is a shareholder and has served as the President and as a Director of Phoenix Health Care of Illinois, Inc. ("Phoenix of Illinois") since 1987. Phoenix of Illinois owns approximately 233,501 shares of our common stock. Mr. Parrish also is Chairman and a Director of Abiant, Inc., a neuroimaging company, and an advisor to Algasol Renewables, a technology company developing micro algae biomass as a fuel source. Mr. Parrish is also a trustee of Lawrence University. From 1977 until 1986, Mr. Parrish was the President of the Global Pharmaceutical Group of G.D. Searle & Co. ("Searle"), a pharmaceutical/consumer products company. From 1974 until 1977, Mr. Parrish was the President of Searle International, the foreign sales operation of Searle. Prior to that, Mr. Parrish was Executive Vice President of Pfizer's International Division. Mr. Parrish's extensive experience as a health care executive and as an executive of the Company and his skills in the areas of corporate transactions, operations and manufacturing, international business, corporate communications and enterprise risk management, along with his familiarity with the Company's business and industry and his role as the Company's Chief Executive Officer, led to the conclusion that he should serve as a director of the Company and Chairman of the Board.

MARY ANN LEEPER, Ph.D.

Age: 72; Elected Director: 1987; Present Term Ends: 2013 Annual Meeting

Dr. Leeper has served as Senior Strategic Adviser since May 2006. Dr. Leeper served as the President and Chief Operating Officer of the Company from February 1996 to April 2006, as President and Chief Executive Officer of The Female Health Company Division from May 1994 until January 1996, as Senior Vice President - Development of the Company from 1988 until January 1996 and as a Director of the Company since 1987. Dr. Leeper is a shareholder and has served as a Vice President and Director of Phoenix of Illinois since 1987. From 1981 until 1986, Dr. Leeper served as Vice President - Market Development for Searle's Pharmaceutical Group and in various Searle research and development management positions. As Vice President - Market Development, Dr. Leeper was responsible for worldwide licensing and acquisition, marketing and market research. In earlier positions, she was responsible for preparation of new drug applications and was a liaison with the FDA. Dr. Leeper serves on the Board of Neenah Paper, Inc. and is chair of its nominating and governance committee. She is also an adjunct professor at the University of Virginia, Darden School of Business. She has received various awards recognizing her commitment and pioneering efforts in the work of women's health. Ms. Leeper's background as the former President of the Company, her knowledge of the Company's business, her relationships with its customers and her long term commitment to women's health issues led to the conclusion that she should serve as a director of the Company.

WILLIAM R. GARGIULO, JR.

Age: 84; Elected Director: 1987; Present Terms Ends: 2013 Annual Meeting

William R. Gargiulo, Jr. has served as Secretary of the Company from 1996 to present, as Vice President of the Company from 1996 to September 30, 1998, as Assistant Secretary of the Company from 1989 to 1996, as Vice President - International of The Female Health Company Division from 1994 until 1996, as Chief Operating Officer of the Company from 1989 to 1994, and as General Manager of the Company from 1988 to 1994. Mr. Gargiulo has also served as a Director of the Company since 1987. Mr. Gargiulo is a trustee of a trust which is a shareholder of Phoenix of Illinois. From 1984 until 1986, Mr. Gargiulo was the Executive Vice-President of the Pharmaceutical Group of Searle, in charge of Searle's European operations. From 1976 until 1984, Mr. Gargiulo was the Vice President of Searle's Latin American operations. Mr. Gargiulo's years of experience as an officer of the Company and his extensive international sales and marketing experience led to the conclusion that he should serve as a director of the Company.

MICHAEL POPE

Age: 55; Vice President, Global Manufacturing of FHC, General Manager and Director of - The Female Health Company (UK) Plc.

Mr. Pope has served as Vice President of the Company since 1996 and as General Manager of The Female Health Company (UK) Plc. (formerly Chartex International, Plc.) since the Company's 1996 acquisition of Chartex. Mr. Pope has also served as a Director of The Female Health Company, Ltd. (formerly Chartex Resources Limited) and The Female Health Company (UK) Plc. since 1995. He has been responsible for the technical development of FC2, including design of the manufacturing process and manufacturing scale-up, and the manufacturing section of the Pre-Market Approval Application submitted to FDA. He is also responsible for the Malaysian subsidiary that manufactures FC2, which includes engineering, process development and quality assurance. From 1990 until 1996, Mr. Pope was Director of Technical Operations for Chartex with responsibility for manufacturing, engineering, process development and quality assurance. Mr. Pope was responsible for the development of the high speed proprietary manufacturing technology for the female condom and securing the necessary approvals of the manufacturing process by regulatory organizations, including the FDA. Mr. Pope was also instrumental in developing and securing Chartex's relationship with its Japanese marketing partner. Prior to joining Chartex, from 1986 to 1990, Mr. Pope was Production Manager and Technical Manager for Franklin Medical, a manufacturer of disposable medical devices. From 1982 to 1986, Mr. Pope was Site Manager, Engineering and Production Manager, Development Manager and Silicon Manager for Warne Surgical Products.

DONNA FELCH

Age 65; Vice President and Chief Financial Officer; Elected Director: 2012; Present Term Ends: 2013 Annual Meeting

Ms. Felch has served as Vice President and Chief Financial Officer of the Company since February 2006 and as a Director of the Company since November 2012. Prior to joining the Company, Ms. Felch was Vice President and Treasurer of American Pharmaceutical Partners, Inc., a pharmaceutical company that develops, manufactures and markets injectible pharmaceutical products, from November 2002 until June 2005. In these positions, she directed the treasury, tax, financial planning and analysis, credit and collections and risk management functions. Ms. Felch joined American Pharmaceutical Partners in 1998 and during such time held the positions of Senior Director of Corporate Accounting and Director of General Accounting and Tax. In these roles her responsibilities included internal and external financial reporting, tax, treasury, financial planning, credit and risk management. Previously, Ms Felch served as Director of Corporate Tax with Fujisawa USA, a subsidiary of a major Japanese pharmaceutical company. Ms. Felch had formerly worked as a Tax Manager for LyphoMed, Inc., a generic pharmaceutical manufacturer. Ms. Felch was appointed to the Board of Directors in connection with her planned retirement as the Company's Vice President and Chief Financial Officer effective January 1, 2013. Her background as the Vice President and Chief Financial Officer of the Company, her knowledge of the Company's business and her background and experience in public accounting led to the conclusion that she should serve as a director of the Company.

JANET LEE
Age: 48; Controller

Ms. Lee has served as Controller of the Company since May 2007. From November 2002 until May 2007, Ms. Lee served the Society of Thoracic Surgeons as Accounting Manager/Analyst. Previously, she held various financial positions at RR Donnelley and Sons Company and ServiceMaster.

DAVID R. BETHUNE
Age: 72; Elected Director: 1996; Present Term Ends: 2013 Annual Meeting

Mr. Bethune has served as a Director of the Company since January 1996. He was Chairman of Zila, Inc., an oral cancer screening company, from August 2007 to September 2009 and Chief Executive Officer of Zila, Inc. from March 2008 to September 2009. He served as a member of the Board of Directors of the CAMBREX Corporation, a life sciences company dedicated to providing products and services that accelerate and improve the discovery and commercialization of human therapeutics, from 2005 to March 2012. Mr. Bethune served as Chairman and Chief Executive Officer of Atrix Laboratories, Inc. from 1999 until his retirement in 2004. From 1997 to 1998, Mr. Bethune held the positions of President and Chief Operating Officer of the IVAX Corporation. From 1996 to 1997, Mr. Bethune was a consultant to the pharmaceutical industry. From 1995 to 1996, Mr. Bethune was President and Chief Executive Officer of Aesgen, Inc., a generic pharmaceutical company. From 1992 to 1995, Mr. Bethune was Group Vice President of American Cyanamid Company and a member of its Executive Committee until the sale of the company to American Home Products. He had global executive authority for human biologicals, consumer health products, pharmaceuticals and ophthalmics, as well as medical research. In 1989 he became president of Lederle Laboratories, a division of American Cyanamid and held that position until 1992. Mr. Bethune is a founding trustee of the American Cancer Society Foundation. He is the founding chairman of the Corporate Council of the Children's Health Fund in New York City and served on the Arthritis Foundation Corporate Advisory Council. Mr. Bethune's impressive track record of achievements in leadership positions, including with public companies in the pharmaceutical and medical products industries, led to the conclusion that he should serve as a director of the Company and a member of the audit committee.

STEPHEN M. DEARHOLT
Age: 66; Elected Director: 1996; Present Term Ends: 2013 Annual Meeting

Mr. Dearholt has served as a Director of the Company since April 1996. Mr. Dearholt is a co-founder of, and partner in, Insurance Processing Center, Inc., one of the largest privately owned life insurance marketing organizations in the United States, since 1972. He has over 39 years of experience in direct response advertising and data based marketing of niche products. In late 1995, Mr. Dearholt arranged, on very short notice, a \$1 million bridge loan which assisted the Company in its purchase of Chartex. He is a past board member of the Children's Hospital Foundation of Wisconsin, the Zoological Society of Milwaukee, Planned Parenthood Association of Wisconsin, and past Chairman of the Board of the New Day Club, Inc. Mr. Dearholt's achievements as a successful business owner and his long term commitment to the Company led to the conclusion that he should serve on the Company's Board of Directors.

MICHAEL R. WALTON

Age: 75; Elected Director: 1999; Present Term Ends: 2013 Annual Meeting

Mr. Walton has served as a Director of the Company since April 1999. Mr. Walton is President and owner of Sheboygan County Broadcasting Co., Inc., a company he founded in 1972. The company has focused on start-up situations, and growing value in under-performing, and undervalued radio stations and newspapers. Sheboygan County Broadcasting Co. has owned and operated businesses in Wisconsin, Illinois, Michigan and New York. It has specialized in creating, building and managing news media properties and has acquired existing companies as well. Prior to 1972, Mr. Walton was owner and President of Walton Co., an advertising representative firm he founded in New York City. He has held sales and management positions with Forbes Magazine, The Chicago Sun Times and Gorman Publishing Co. Mr. Walton has served on the Boards of the American Red Cross, the Salvation Army, the Sheboygan County Chamber of Commerce and the Rogers Memorial Hospital Foundation, and the Economic Club of Sheboygan. Mr. Walton's background in sales and marketing, his extensive experience as a successful business owner and his long term commitment to the Company led to the conclusion that he should serve as a director of the Company.

RICHARD E. WENNINGER

Age: 65; Director: 2001; Present Term Ends: 2013 Annual Meeting

Mr. Wenninger has served as a Director of the Company since July 2001. Mr. Wenninger is former Chairman of Wenninger Company, Inc., a mechanical contracting and engineering company. From 1976 to 2001, Mr. Wenninger served as President and Chief Executive Officer of Wenninger Company, Inc. He is also Secretary of Wenn Soft, Inc., a software development, sales and service company he founded in 1997. From 1992 to 1999, Mr. Wenninger served as Secretary of Liftco, Inc. Mr. Wenninger is a former board member of the Boys & Girls Club of Milwaukee, a former President and board member of the Milwaukee Athletic Club, a former board member of the Wisconsin Psychoanalytic Foundation, a former board member of University Lake School, the former President and a former board member of the Plumbing and Mechanical Contractors Association of Milwaukee, the former President and a former board member of the Sheet Metal Contractors Association of Milwaukee and a former board member of the Mechanical Contractors Association of America. Mr. Wenninger's years of experience as a successful entrepreneur and his long term commitment to the Company led to the conclusion that he should serve as a director of the Company.

MARY MARGARET FRANK

Age: 43; Director: 2004; Present Term Ends: 2013 Annual Meeting

Dr. Frank has served as a Director of the Company since October 2004. Dr. Frank has served as an Associate Professor of Accounting at the Darden Graduate School of Business at the University of Virginia where she teaches financial and tax accounting since 2002. From 1999 to 2002, Dr. Frank was an Assistant Professor at the University of Chicago Booth School of Business. During 1997, Dr. Frank was an accounting instructor at the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill. From 1992 to 1994, Dr. Frank served as a Senior Tax Consultant at Arthur Andersen. She has her master's degree and Ph.D. in accounting from the University of North Carolina at Chapel Hill and was issued her CPA in 1994. Dr. Frank's background and experience in both public accounting and financial education and her qualification as an "audit committee financial expert" under the SEC's rules led to the conclusion that she should serve as a director of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC on Forms 3, 4 and 5. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish the Company with copies of all Forms 3, 4 and 5 they file.

Based solely on a review of the copies of such forms furnished to the Company, or written representations that no Forms 5 were required, the Company believes that during the year ended September 30, 2012, all reports required by Section 16(a) to be filed by the Company's officers, directors and more than 10% shareholders were filed on a timely basis, except that Mr. Bethune filed a Form 4 on October 27, 2011 reporting transactions occurring on October 18, 2011.

Code of Ethics

The Company has adopted a Code of Business Ethics that applies to all of the Company's employees, including the Company's Chief Executive Officer and Chief Financial Officer. A copy of the Code of Business Ethics is available on the Company's corporate website which is located at www.femalehealth.com. The Company also intends to disclose any amendments to, or waivers from, the Code of Business Ethics on its corporate website.

Audit Committee

The members of the Audit Committee of the Company's Board of Directors are Mary Margaret Frank, Ph.D. (Chairperson), David R. Bethune and Michael Walton. The Company's Board of Directors has determined that Dr. Frank qualifies as an "audit committee financial expert" as defined by the rules of the SEC based on her work experience and education. Dr. Frank and the other members of the Audit Committee are independent directors in accordance with the listing standards of the NASDAQ Stock Market. The Audit Committee is an "audit committee" for purposes of Section 3(a)(58)(A) of the Securities Exchange Act of 1934.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This section discusses the principles underlying the Company's compensation decisions for fiscal 2012 for the Company's named executive officers and the most important factors relevant to an analysis of these decisions. It also provides information regarding the manner and context in which compensation is awarded to and earned by the named executive officers. In fiscal 2012, the Company had three executive officers, and we refer to these executive officers as the "named executive officers" throughout this section:

- O. B. Parrish, Chairman of the Board, Chief Executive Officer and Acting President;
- Donna Felch, Vice President and Chief Financial Officer; and
- Michael Pope, Vice President of the Company and General Manager of The Female Health Company (UK) Plc.

The compensation of these individuals is presented in the tables and other quantitative information that follow this section.

Overview

The Company experienced very strong operating results in fiscal 2012, with unit sales increasing by 88% over fiscal 2011, net revenues increasing by 89% over fiscal 2011 and operating income increasing by 232% over fiscal 2011. Because the Company's executive compensation program is heavily weighted towards pay for performance, particularly through the Company's annual performance award program, the named executive officers received significant cash incentive compensation payouts for fiscal 2012. By contrast, in fiscal 2010 and fiscal 2011 when the performance objectives were not met, the named executive officers did not receive cash incentive compensation payouts under the annual performance award program.

The Company's compensation strategy is to closely align its compensation programs with shareholders' interests by providing effective incentives for performance and a level of compensation needed to attract, motivate and maintain key executives who are important to the Company's continued success. Nearly all of the compensation to the named executive officers consists of only three components: a modest base salary, an annual performance award program and periodic restricted stock grants. As part of aligning executive compensation with shareholders' interests, the Company's annual performance award program is based solely on achievement of corporate goals (unit sales and operating income targets). The program is straightforward and rewards management with cash incentives only if 100% of both corporate goals are achieved. For fiscal year 2012, the program offered an enhanced performance award if achievement reaches 110% of both goals and a maximum performance reward if achievement reaches 115% of both goals. If both goals are achieved, the amount of the cash payout is based on the average closing price of the Company's common stock for the last ten trading days of the fiscal year. In fiscal 2012, achievement exceeded 115% of both goals, resulting in payment of the maximum performance award to participants.

The Company's executive compensation program is clear and straightforward. The Company does not have employment agreements with any of the named executive officers and, therefore, unless there is a change of control of the Company, the named executive officers do not have a contractual right to any minimum level of base salary, incentive awards or other compensation or any right to annual increases in base salary. None of the named executive officers have any rights to severance payments except in connection with a change of control. Change of control agreements provide for payment of three times a named executive officer's base salary and bonus and certain additional benefits upon termination of employment following a change of control under the agreements. The Company offers limited perquisites to its named executive officers and does not offer supplemental retirement benefits to any of the named executive officers. The only retirement benefit the Company offers to the named executive officers is participation in a Simple Individual Retirement Account plan by Ms. Felch.

Key Compensation Actions in Fiscal 2012

The compensation actions taken by the Compensation Committee in fiscal 2012 included the following:

- In December 2011, the Compensation Committee approved increases in the base salaries of the named executive officers based on the rate of inflation for the twelve months ended November 30, 2011, in their respective countries (the U.S. for Mr. Parrish and Ms. Felch and the U.K. for Mr. Pope). These base salary increases took retroactive effect as of October 1, 2011.
- In December 2011, the Compensation Committee approved a change in the Company's annual performance award program to provide that in addition to payout at achievement of 100% and 110% of corporate goals, an additional payout will be made upon achievement of 115% of corporate goals. The Compensation Committee also set specific objectives for achievement of performance goals under the Company's annual performance award program.
- The Compensation Committee did not make any equity awards to the named executive officers in fiscal 2012 as the grants made in December 2010 are still subject to continued vesting. In December 2010, Mr. Parrish and Ms. Felch each received an award of 45,000 shares of restricted common stock while Mr. Pope received an award of the right to receive 45,000 shares of common stock. Half of the shares will vest (or, in the case of Mr. Pope, will be issued) on the second anniversary of the grant date (December 16, 2012) and the other half will vest (or, in the case of Mr. Pope, will be issued) on the third anniversary of the grant date (December 16, 2013). Should a recipient terminate employment, or be terminated for cause, any unvested shares issued will be forfeited (or, in the case of Mr. Pope, will not be issued).

At the Company's 2011 Annual Meeting of Shareholders, pursuant to a non-binding, advisory vote, shareholders approved the compensation of the Company's named executive officers as disclosed in the proxy statement for the meeting by a vote of 11,081,787 shares in favor to 177,224 against. The Compensation Committee has considered the results of this advisory shareholder vote and believes that it shows support by the Company's shareholders for the Company's compensation philosophy and the executive compensation programs that implement the Company's compensation philosophy. The Company has not significantly changed its executive compensation program following the shareholder advisory vote. The Board of Directors has determined that future shareholder advisory votes on executive compensation will occur every three years. Accordingly, the next shareholder advisory vote on executive compensation will be held at our 2014 Annual Meeting of Shareholders.

Executive Compensation Program Objectives and Philosophy

The Company has designed the compensation program for its named executive officers to align the interests of the named executive officers with those of shareholders. To do so, the Company provides a modest level of base pay and incentivizes executives to achieve corporate goals through restricted stock grants and an annual performance award program that ties cash incentives to performance goal achievement and year-end stock prices. The Company believes its executive compensation package, as a whole, is competitive with companies of a similar size in the HIV/AIDS product arena.

A named executive officer's compensation opportunity is impacted by the Company's performance and stock price. By design, the annual performance awards are paid only if the performance goals are attained, and, if the performance goals are surpassed by either 10%, or 15%, the program provides for higher levels of award payouts. With restricted stock grants, the value is not realized until the vesting requirement is met. Enhanced value is possible if the stock price increases after the grant is awarded.

Process for Determining Executive Compensation

Information Reviewed by the Compensation Committee

Compensation for the named executive officers and other senior managers is reviewed and approved by the Compensation Committee. The Compensation Committee views compensation as an ongoing process. The Compensation Committee receives and reviews materials in advance of each meeting, including materials that management believes will be helpful to the Compensation Committee as well as materials specifically requested by members of the Compensation Committee.

The Compensation Committee annually reviews performance information provided by the Chief Executive Officer, including an assessment of overall corporate performance and an assessment of individual performance and compensation recommendations for each named executive officer, other than himself. The Chief Executive Officer does not submit an assessment of his own performance or present a recommendation on his own compensation, and does not participate in the portion of the meeting where his compensation is approved. The Compensation Committee considers the assessment and the input it receives from management, and exercises its own judgment in evaluating performance.

The Compensation Committee's charter requires that the Company provide the Compensation Committee with adequate funding to engage any compensation consultants or other advisers the Compensation Committee deems it appropriate to engage. During fiscal 2012 and 2013 to date, the Compensation Committee did not engage any consultants to assist it in reviewing the Company's compensation practices and levels.

Involvement of Management

Management plays a significant role in assisting the Compensation Committee in its oversight of compensation. Management's role includes assisting the Compensation Committee with evaluating employee performance, establishing individual performance targets and objectives, recommending salary levels and equity incentive grants, and providing financial data on company performance, calculations and reports on achievement of performance objectives, and other information requested by the Compensation Committee. The Chief Executive Officer works with the Compensation Committee in making recommendations regarding overall compensation policies and plans as well as specific compensation levels for the named executive officers and other key employees, other than the Chief Executive Officer. Members of management who were present during a part of the Compensation Committee meetings in fiscal 2012 and the first part of fiscal 2013 included the Chief Executive Officer and the Chief Financial Officer. The Compensation Committee makes all decisions regarding the compensation of the Chief Executive Officer without the Chief Executive Officer or any other member of management present.

Use of Market Compensation Data

Although the Compensation Committee does not use benchmarking to determine executive compensation, it has reviewed market compensation data to help in evaluating the competitiveness of the Company's executive compensation program. In 2010, at the Compensation Committee's request, the Company conducted a survey of 2009 executive compensation levels for three comparison groups of public companies with a market capitalization under \$200 million, consisting of (1) companies involved in HIV diagnosis, prevention or treatment, (2) companies involved in health care and (3) companies that market medical devices. The named executive officers' base salaries are below both the mean and the median in each group of the survey while potential bonus and stock compensation are above both the mean and the median. The Compensation Committee intends to conduct such an analysis every three years, consistent with the frequency in which the Company intends to hold future "say on pay" votes.

Components of Executive Compensation

Mix of Compensation

The Company's compensation program features three main components:

- base salaries;
- an annual performance award program; and
- periodic restricted stock grants.

The mix of compensation is determined largely by the Compensation Committee's intent to align compensation with the shareholders' interests. As such, base pay is a modest part of the overall package. The annual performance award, which increases with a higher year-end share price, provides the named executive officers with an incentive to meet corporate targets that are likely to impact stock price. The restricted stock grants offer the named executive officers an additional opportunity to share in the stock value created for shareholders when growth targets are achieved.

Base Salaries

The Compensation Committee annually reviews the base salaries for the named executive officers. During its review in December 2011, the Compensation Committee determined that a modest increase in the base salaries for the named executive officers based on the rate of inflation for the twelve months ended November 30, 2011, in each executive's country of residence (the U.S. for Mr. Parrish and Ms. Felch and the U.K. for Mr. Pope) was the appropriate adjustment for fiscal 2012. As a result, the Compensation Committee approved the base salary increases for Mr. Parrish and Ms. Felch of approximately 3.0% and for Mr. Pope of approximately 5.0%. These base salary increases took retroactive effect as of October 1, 2011.

Annual Performance Awards

Each year, the named executive officers have the opportunity to receive a cash incentive under the Company's annual performance award program. Participants are eligible to receive a target payment upon achievement of corporate goals. The target award is calculated by multiplying the designated award quantity by the average closing price of the Company's common stock for the last ten trading days of the fiscal year. Thus, the value of the performance award, if achieved, is impacted by the Company's year-end stock price.

At the beginning of fiscal 2012, the Company established the performance goals under the annual performance award program for fiscal 2012 operating results in the following areas:

- specific rate of increase in unit sales in fiscal 2012 as compared to fiscal 2011; and
- specific rate of increase in operating income in 2012 as compared to fiscal 2011.

Achievement of 100% of both corporate goals will trigger annual incentive performance awards to the named executive officers at the target level. Achievement of at least 110% of both corporate goals triggers an enhanced annual award, while achievement of at least 115% of both corporate goals triggers the maximum annual award. The corporate goals for fiscal 2012 were set at levels that were challenging to achieve, representing significant growth from the prior fiscal year. Both unit sales and operating profit for fiscal 2012 were greater than 115% of both corporate goals, which entitled participants to the maximum performance award.

Under exceptional circumstances the Compensation Committee has the authority to award discretionary cash bonuses outside of the annual performance award program. These discretionary bonuses allow the Company to recognize superior performance by the named executive officers and to have the flexibility to maintain competitive compensation when needed. No discretionary bonuses were awarded to the named executive officers for fiscal 2012, 2011 or 2010.

Restricted Stock Grants

The Company uses restricted stock grants for its equity incentive awards to be consistent with its objective to align the interests of shareholders and its named executive officers. Stock grants were selected as a long-term incentive, in part, because the value of the grant is impacted by the stock price. The restricted stock grants generally vest over a period of years, in a number of tranches. The staggered vesting schedule was selected because the Compensation Committee believes it is consistent with industry practice, while providing a relatively long retention benefit. Instead of annual grants of stock, the Company has generally staggered the grants so that the named executive officers generally hold some unvested shares at all times to promote the Company's retention objectives.

Prior to the Compensation Committee setting the size of restricted stock grants, the Chief Executive Officer makes a recommendation to the Compensation Committee for the other named executive officers. The Chief Executive Officer generally uses historic awards and stock price trends as a starting point in developing his recommendation (other than for himself). That information is also available to the Compensation Committee when it makes its decisions. Following review of the Chief Executive Officer's recommendations, the Compensation Committee also considers, in its collective experience and judgment, the Chief Executive Officer's individual performance assessments of the other named executive officers and other factors regarding executive retention considerations. No formal weightings are applied to these factors in determining the size of restricted stock grants.

No equity awards were granted in fiscal 2012. Restricted stock grants were awarded in fiscal 2011 to retain certain key employees who were viewed by the Compensation Committee as important to continuing to achieve the Company's corporate goals. A total of 180,000 shares were granted in December 2010 to a total of four executives and employees, including 45,000 shares to each of Mr. Parrish, Ms. Felch and Mr. Pope. Half of the restricted stock granted in December 2010 vest in twenty-four months (December 2012), with the other half vesting in thirty-six months (December 2013). The shares of restricted stock have all the rights of our common stock, including voting and dividend rights. Unvested shares are subject to forfeiture if the holder voluntarily leaves the Company or is terminated for cause. All shares will vest immediately if there is a change in control of the Company. As Mr. Pope is a resident of the U.K., rather than an immediate grant of restricted stock, his grant of 45,000 shares was in the form of the right to receive 22,500 shares in December 2012 and 22,500 shares in December 2013, unless Mr. Pope voluntarily leaves the Company or his employment is terminated for cause prior to such dates. Any remaining grants will be immediately issued to Mr. Pope if there is a change in control of the Company. In connection with dividends declared by the Company on its common stock, an amount equal to the dividend that would have been payable on the 45,000 shares that Mr. Pope is entitled to receive pursuant to this grant will be credited to Mr. Pope, with such credit payable when and to the extent the applicable shares are subsequently issued.

The Company does not currently maintain any formal policy regarding executive officer stock ownership or the hedging of economic risk related to such stock ownership nor does it have any program, plan or obligation that requires it to grant equity compensation to any executive officer on specified dates. The authority to make equity grants to executive officers rests with the Compensation Committee, although, as noted above, the Compensation Committee does consider the recommendations of the Chief Executive Officer in setting the compensation of the other named executive officers.

Change of Control Agreements

The Company has entered into a change of control agreement with each of the named executive officers. These agreements act as springing employment agreements which take effect upon a change of control. The Company provides these agreements based on competitive market practice, and to ensure that the executives' interests remain aligned with shareholders while the Company considers, or during the pendency of, a transaction that involves a change of control. Additional information regarding these agreements, including a description of key terms and a quantification of benefits that would be received by the named executive officers had termination or a change in control occurred on September 30, 2012, is found below under the heading "Potential Payments on Termination After a Change of Control."

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to a public corporation for compensation over \$1.0 million paid for any fiscal year to each of the individuals who were, at the end of the fiscal year, the corporation's chief executive officer and the three other most highly compensated executive officers other than the chief financial officer. Performance-based compensation that has been approved by shareholders is excluded from the \$1.0 million deductibility limit if certain requirements are met. Neither the Company's annual performance award program nor its 1997 Stock Option Plan were approved by its shareholders, and therefore any compensation the Company pays under such plans does not qualify for the exclusion from the \$1.0 million deductibility limit in Section 162(m).

The Company does not believe that any of the compensation it paid to its named executive officers prior to fiscal 2012 exceeded the limit on deductibility in Section 162(m). During fiscal 2012, the Company's Chief Executive Officer exercised stock options granted under the 1997 Stock Option Plan which resulted in compensation in excess of \$2.1 million based on the spread between the market price of our common stock and the exercise price of options on the date of exercise, which will cause his fiscal 2012 compensation for purposes of Section 162(m) to exceed the \$1.0 million deductibility limit by more than \$1.2 million. Section 162(m) will disallow the Company from deducting the amount of such compensation to the Chief Executive Officer for fiscal 2012 in excess of \$1.0 million. After this stock option exercise, no stock options under the 1997 Stock Option Plan are held by any of the Company's named executive officers. In addition, due to the achievement of the goals for payment of enhanced awards under the Company's annual performance award program for fiscal 2012, the Company's Chief Executive Officer will receive a cash incentive payout of \$910,000. For federal income tax accounting purposes, the Company's deduction, if any, for the compensation relating to the Chief Executive Officer's fiscal 2012 cash incentive payout will accrue in fiscal 2013. As a result, the Chief Executive Officer's compensation will likely exceed the \$1.0 million deductibility limit in Section 162(m) for fiscal 2013. Section 162(m) will disallow the Company from deducting the amount of such compensation to the Chief Executive Officer for fiscal 2013 in excess of \$1.0 million.

The Compensation Committee intends to continue to monitor the applicability of Section 162(m) in connection with future compensation to the Company's named executive officers. Although the Compensation Committee may consider tax deductibility in connection with future compensation decisions, it believes that it is generally not in the shareholders' interest to restrict the Compensation Committee's discretion and flexibility in developing appropriate compensation programs and establishing compensation levels and, in some instances, the Compensation Committee may approve compensation that is not fully deductible.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis section of this report. Based on its review and discussions with management, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this report.

Compensation Committee:

Stephen Dearholt (Chair)
David Bethune
Michael Walton
Richard Wenninger
Mary Margaret Frank

SUMMARY COMPENSATION TABLE

The table shown below provides information for the Company's last three fiscal years regarding compensation paid by the Company to its Chief Executive Officer, its Chief Financial Officer and its only other executive officer. The individuals listed in this table are referred to elsewhere in this report as the "named executive officers."

Name and Principal Position	Year	Salary	Stock Awards (1)	Non-equity Incentive Plan Compensation (2)	All Other Compensation (3)	Total
O.B. Parrish, Chairman, Chief Executive Officer and Acting President	2012	\$ 164,925	-	\$ 910,000	\$ 19,516	\$ 1,094,441
	2011	\$ 159,944	\$ 261,000	-	\$ 19,516	\$ 440,460
	2010	\$ 157,548	-	-	\$ 19,516	\$ 177,064
Donna Felch, Vice President and Chief Financial Officer	2012	\$ 205,743	-	\$ 350,000	\$ 14,142	\$ 569,885
	2011	\$ 198,978	\$ 261,000	-	\$ 5,998	\$ 465,976
	2010	\$ 195,935	-	-	\$ 10,423	\$ 206,358
Mike Pope, Vice President of the Company and General Manager of Female Health Company (UK) Plc (4)	2012	\$ 194,831	-	\$ 350,000	\$ 32,880	\$ 577,711
	2011	\$ 189,480	\$ 261,000	-	\$ 32,631	\$ 483,111
	2010	\$ 177,120	-	-	\$ 29,823	\$ 206,943

- (1) The 2011 amounts reflect the grant date fair value of the restricted stock awards granted to Mr. Parrish and Ms. Felch on December 16, 2010 and the right to receive shares of common stock granted to Mr. Pope on December 16, 2010, computed in accordance with Accounting Standards Codification Topic 718-10 (formerly FAS No. 123R) excluding estimated forfeitures. The stock awards are valued at the closing market price (\$5.80) of our common stock on the date of grant.
- (2) Amounts for 2012 represent payouts under the Company's annual performance award program based on achieving 115% of unit sales and operating income targets for fiscal 2012. Under this program, each named executive officer is entitled to receive a cash incentive on the Company exceeding target amounts of both unit sales and operating income, with the amount of the payout based on the average closing price of the Company's common stock for the last ten trading days of the fiscal year. The targets for fiscal 2010 and 2011 under the Company's annual performance award program were not met and, as a result, no payouts were made under the program for fiscal 2010 and fiscal 2011.
- (3) The amount of "All Other Compensation" for Mr. Parrish consists of premiums paid by the Company for term life insurance under which Mr. Parrish or his designee is the beneficiary; for Ms. Felch consists of matching contributions by the Company under the Company's Simple Individual Retirement Account plan for its employees; and for Mr. Pope consists of health coverage, use of a leased automobile and reimbursement of expenses relating to the use of the automobile.
- (4) Mr. Pope's salary and all other compensation are paid in U.K. pounds. Amounts shown for Mr. Pope's salary and all other compensation are based on the 12-month average exchange rate for the year, which was 1.5768 U.S. dollars per U.K. pound in fiscal 2012, 1.6071 in fiscal 2011 and 1.5592 in fiscal 2010.

GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Non-Equity Incentive Plan Awards: Number of Units (1)		Threshold	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)	
		Target	Maximum		Target	Maximum
O.B. Parrish	-	110,000	130,000	-	\$ 770,000	\$ 910,000
Donna Felch	-	30,000	50,000	-	\$ 210,000	\$ 350,000
Michael Pope	-	30,000	50,000	-	\$ 210,000	\$ 350,000

- (1) These amounts show the range of target and maximum payouts for fiscal 2012 performance under the Company's annual performance award program. Payouts under the awards would be made only if 100% of unit sale and operating income goals for fiscal 2012 are achieved. There is an enhanced performance award if 110% of both goals are achieved. The maximum performance award is earned if 115% of both goals are achieved. The size of the payout is based on the number of units awarded to each participant multiplied by the average closing price of our common stock for the last ten trading days of the fiscal year. The dollar amounts for the target and maximum awards for each named executive officer in the table are based on the number of units multiplied by the average closing price of our common stock for the last ten trading days of fiscal 2012, which was \$7.00 per share.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table provides information regarding unvested restricted stock and rights to receive stock held by the named executive officers at September 30, 2012. None of the named executive officers held any unexercised stock options as of September 30, 2012.

Name	Stock Awards	
	Number of Shares of Stock That Have Not Vested	Market Value of Shares of Stock That Have Not Vested
O.B. Parrish	45,000(1)	\$ 321,750(2)
Donna Felch	45,000(1)	\$ 321,750(2)
Michael Pope	45,000(3)	\$ 321,750(4)

- (1) 22,500 shares vest on each of December 16, 2012 and December 16, 2013.
- (2) Market value equals the number of shares of restricted stock that have not vested multiplied by \$7.15 per share, the closing price of our common stock on September 28, 2012, which was the last trading day of fiscal 2012.
- (3) Represents the right to receive 22,500 shares on December 16, 2012 and 22,500 shares on December 16, 2013.
- (4) Market value equals the number of shares of our common stock that Mr. Pope has the right to receive multiplied by \$7.15 per share, the closing price of our common stock on September 28, 2012, which was the last trading day of the fiscal year.

OPTION EXERCISES AND STOCK VESTED

The following table provides information regarding the stock options exercised by the named executive officers during fiscal 2012 and the shares of restricted stock held by, or shares of stock issued pursuant to rights to received stock held by, the named executive officers that vested or were issued during fiscal 2012.

	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
O.B. Parrish	464,000(1)	\$ 2,101,920(2)	-	-
Donna Felch	-	-	30,000(3)	\$ 135,900(4)
Michael Pope	-	-	30,000(5)	\$ 135,900(6)

-
- (1) Mr. Parrish exercised 464,000 stock options using the cashless exercise option available under the plan, which entitled Mr. Parrish to receive 242,849 shares of our common stock net of 221,151 shares used to pay the exercise price and tax withholding obligations.
 - (2) Value realized equals the market price of the common stock on July 16, 2012, which was \$5.93 per share, minus the exercise price of \$1.40 per share, multiplied by the 464,000 shares exercised.
 - (3) Shares vested on December 10, 2011.
 - (4) Market value equals the number of shares of restricted stock that vested multiplied by the closing price of our common stock on December 10, 2011, which was \$4.53 per share.
 - (5) Represents shares issued on December 10, 2011 pursuant to the right to receive shares held by Mr. Pope.
 - (6) Market value equals the number of shares of the Company's common stock that were issued to Mr. Pope multiplied by the closing price of our common stock on December 10, 2011, which was \$4.53 per share.

POTENTIAL PAYMENTS ON TERMINATION AFTER A CHANGE OF CONTROL

Effective October 1, 2005, the Company entered into an Amended and Restated Change of Control Agreement with each of O.B. Parrish and Michael Pope, and effective February 8, 2006, the Company entered into a Change of Control Agreement with Donna Felch. These agreements essentially act as springing employment agreements which provide that, upon a change of control, as defined in the agreement, the Company will continue to employ the executive for a period of three years in the same capacities as prior to the change of control, with an annual base salary equal to 12 times the highest monthly base salary paid during the 12 months prior to the change of control, an annual bonus equal to the higher of (1) the average of the three highest bonuses paid with respect to the five fiscal years prior to the change of control or (2) the bonus paid for the most recent fiscal year prior to the change of control, and other benefits substantially equivalent to what the executive was receiving prior to the change of control, in each case as specified in the agreements. If the executive is terminated without cause or if he or she resigns for good reason, in each case as defined in the agreements, after the change of control and during the three year employment period, including a termination by the executive for any reason within 180 days after the change of control, the executive is generally entitled to receive the following benefits:

- a lump sum payment equal to three times the executive's base salary;
- a lump sum payment equal to three times the highest of (1) the average of the three highest bonuses paid with respect to the five fiscal years prior to the change of control, (2) the bonus paid for the most recent fiscal year prior to the change of control or (3) the bonus paid or payable for the most recent fiscal year prior to the date of termination of employment;
- continuation of health and other similar benefits for a period of three years after the termination date; and
- a "gross-up" payment which will, in general, effectively reimburse the executive for any amounts paid under federal excise taxes relating to change of control benefits.

The terms of the grant agreements for the stock awards granted to the named executive officers also provide for immediate vesting (or, in the case of Mr. Pope, immediate issuance) upon a change of control.

The following table sets forth the compensation that the named executive officers would have been eligible to receive if the applicable named executive officer's employment had been terminated as of September 30, 2012, under circumstances requiring payment of severance benefits as described above in connection with a change of control as well as the value as of September 30, 2012 of the outstanding unvested stock awards of the named executive officers that would vest upon a change of control (or, in the case of Mr. Pope, be issued).

Name	Salary	Stock Awards (1)	Cash Incentive	Continued Benefits (2)	Excise Tax Gross-Up (3)	Total
O.B. Parrish	\$ 494,775	\$ 321,750	\$ 2,730,000	\$ 109,937	\$ 1,406,536	\$ 5,062,998
Donna Felch	\$ 617,230	\$ 321,750	\$ 1,050,000	\$ 180,527	\$ 761,210	\$ 2,930,717
Michael Pope	\$ 599,356	\$ 321,750	\$ 1,050,000	\$ 37,516	-	\$ 2,008,622

- (1) Represents the value of the stock awards of 45,000 shares for each of Mr. Parrish, Ms. Felch and Mr. Pope multiplied by \$7.15 per share, the closing price of our common stock on September 28, 2012, which was the last trading day of the fiscal year.
- (2) The benefits consist of health and similar benefits and outplacement services.
- (3) Under the change of control agreement of each named executive officer, the Company agrees to make an additional tax gross-up payment to the executive if any amounts paid or payable to the executive would be subject to the excise tax imposed on certain so-called "excess parachute payments" under Section 4999 of the Internal Revenue Code. Mr. Pope, as a resident of the U.K., is not subject to a similar excise tax.

DIRECTOR COMPENSATION

Overview

In December 2010, the Board of Directors approved a new arrangement to compensate non-employee directors for their service as Board members. Non-employee directors were given an election to receive either a restricted stock grant or quarterly cash compensation. Each director who elected a restricted stock grant would receive 21,000 shares of restricted stock, vesting in three tranches of 7,000 shares on the first, second and third anniversary of the grant, as compensation for a three year period. Each director who elected cash would receive a quarterly compensation payment of \$7,500. Four out of five independent directors chose the restricted stock compensation option. The independent director who initially chose the cash compensation changed the election after twelve months and received a proportionate grant of restricted stock. In addition, in fiscal 2012, Dr. Frank received fees for committee participation and Mr. Bethune received fees for committee participation and for providing special assistance to management in connection with designated projects.

As described below, one of the Company's directors, Mary Ann Leeper, receives compensation as the Company's Senior Strategic Adviser pursuant to an employment agreement, and another director, William R. Gargiulo, Jr. receives consulting fees. They do not receive compensation as directors.

Director Summary Compensation Table

The following table provides information concerning the compensation paid by the Company in fiscal 2012 to each of its directors who are not executive officers of the Company.

Name	Fees Earned or Paid in Cash (1)	Stock Awards (2)	Non-equity Incentive Plan Compensation (3)	All Other Compensation (4)	Total
Mary Ann Leeper	-	-	\$ 350,000	\$ 187,767	\$ 537,767
William R. Gargiulo, Jr.	-	-	\$ 175,000	\$ 62,909	\$ 237,909
David R. Bethune	\$ 84,000	-	-	-	\$ 84,000
Stephen M. Dearholt	-	-	-	-	-
Mary Margaret Frank	\$ 17,500	\$ 65,660	-	-	\$ 83,160
Michael R. Walton	-	-	-	-	-
Richard E. Wenninger	-	-	-	-	-

- (1) The amount for Mr. Bethune represents \$9,000 of fees paid for committee participation and \$75,000 of fees paid for providing special assistance to management in connection with designated projects. The amount for Dr. Frank represents \$10,000 of fees paid for committee participation and \$7,500 of fees paid pursuant to her election to receive board compensation for the first quarter of fiscal 2012 in the form of cash.
- (2) The amount for Mary Margaret Frank reflects the grant date fair value of the restricted stock awards granted to her on December 16, 2011, computed in accordance with Accounting Standards Codification Topic 718-10 (formerly FAS No. 123R) excluding estimated forfeitures. The stock award is valued at the closing market price (\$4.69) of our common stock on the date of grant.

- (3) Amounts for 2012 represent payouts under the Company's annual performance award program based on achieving 115% of unit sales and operating income targets for fiscal 2012. Under this program, each of Dr. Leeper and Mr. Gargiulo is entitled to receive a cash incentive on the Company exceeding target amounts of both unit sales and operating income, with the amount of the payout based on the average closing price of the Company's common stock for the last ten trading days of the fiscal year.
- (4) The amount of "All Other Compensation" for Dr. Leeper consists of salary of \$168,867 as well as \$14,000 in matching contributions by the Company under the Company's Simple Individual Retirement Account plan for its employees and \$4,900 of premiums paid by the Company for life insurance under which Dr. Leeper or her designee is the beneficiary. Dr. Leeper is employed as a Senior Strategic Advisor and she participates as a member of the Executive Operation Committee. Dr. Leeper's compensation is for the execution of these responsibilities. She does not receive compensation for her role as a director of the Company. Mr. Gargiulo is a consultant to the Company and serves as the Corporate Secretary. In this role, he is responsible for scheduling all board and board committee meetings and distribution of material and preparation and approval of minutes for each meeting. In addition, he is responsible for the Company's relationship with its transfer agent and the issuance of shares. Mr. Gargiulo also assists Ms. Felch with investor relations. Mr. Gargiulo's compensation for the execution of these responsibilities was \$62,909. He does not receive compensation for being a director of the Company.

As of September 30, 2012, the directors who are not executive officers of the Company held the following number of stock options and shares of unvested restricted stock:

Name	Option Awards		Unvested Stock Awards
	Vested	Unvested	
Mary Ann Leeper	-	-	45,000(1)
William R. Gargiulo, Jr.	-	-	-
David R. Bethune	6,250	-	14,000(2)
Stephen M. Dearholt	90,000	-	14,000(2)
Mary Margaret Frank	60,000	-	14,000(2)
Michael R. Walton	30,000	-	14,000(2)
Richard E. Wenninger	90,000	-	14,000(2)

(1) 22,500 shares vest on December 16, 2012 and 22,500 shares vest on December 16, 2013.

(2) 7,000 shares vest on each of December 16, 2012 and December 16, 2013.

Dr. Leeper has served as the Company's Senior Strategic Adviser since May 2006 when she retired from the positions of President and Chief Operating Officer of the Company. Dr. Leeper's services as Senior Strategic Adviser are governed by the terms of an employment agreement dated January 20, 2006, between the Company and Dr. Leeper. The employment agreement took effect as of May 1, 2006, and originally was to expire on September 30, 2006, but has been extended a number of times with the most recent extension lasting until December 31, 2007. Since the contract expiration, the Company has continued to employ Dr. Leeper based on the same terms. Pursuant to the employment agreement, Dr. Leeper receives an annual base salary of at least \$150,000 and is entitled to participate in the Company's bonus plans, stock incentive plan and other employee benefit plans. Additionally, Dr. Leeper is eligible to participate in any medical, health, dental, disability and life insurance policy that is in effect for the Company's other senior management. Pursuant to the employment agreement, Dr. Leeper has agreed not to compete with the Company during employment and for a period of two years following termination of employment (six months if employment is terminated by the Company after a "change of control") and has agreed to maintain the confidentiality of the Company's proprietary information and trade secrets during the term of employment and for three years thereafter. The employment agreement provides that if Dr. Leeper's employment is terminated by the Company without "cause" or by Dr. Leeper for "good reason," Dr. Leeper will be entitled to a severance payment of \$125,000 and a payment of \$50,000 in consideration of the noncompetition and confidentiality covenants, except that if such termination occurs at any time after or in anticipation of a "change of control" with respect to the Company, Dr. Leeper will be entitled solely to those amounts to which she is entitled under the Amended and Restated Change of Control Agreement dated October 1, 2005 by and between the Company and Dr. Leeper. The terms of such Amended and Restated Change of Control Agreement are substantially the same as those summarized under the heading "Potential Payments on Termination After a Change of Control." If the termination of Dr. Leeper's employment occurs as a result of the death or disability of Dr. Leeper, then she shall be entitled to receive the greater of (a) her base salary or (b) the remaining amounts due her under the terms of the employment agreement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information regarding the beneficial ownership of common stock as of November 30, 2012 with respect to (a) each person known to the Company to own beneficially more than 5% of the outstanding shares of common stock, (b) each named executive officer and each director of the Company and (c) all directors and executive officers as a group.

The Company has determined beneficial ownership in accordance with the rules of the SEC. Unless otherwise indicated, the persons and entities included in the table have sole voting and investment power with respect to all shares beneficially owned, except to the extent authority is shared by spouses under applicable law. Shares of the common stock subject to options that are either currently exercisable or exercisable within 60 days of November 30, 2012 are treated as outstanding and beneficially owned by the holder for the purpose of computing the percentage ownership of the holder. However, these shares are not treated as outstanding for the purpose of computing the percentage ownership of any other person. The table lists applicable percentage ownership based on 28,672,416 shares outstanding as of November 30, 2012.

Name and Address of Beneficial Owner (1)	Shares Beneficially Owned	
	Number	Percent
Bares Capital Management (2)	4,140,153	14.4%
O.B. Parrish (3)	1,097,950	3.8%
William R. Gargiulo, Jr. (4)	100,000	*
Mary Ann Leeper, Ph.D. (5)	403,155	1.4%
Stephen M. Dearholt (6)	3,081,428	10.7%
David R. Bethune (7)	183,665	*
Michael R. Walton (8)	151,958	*
Richard E. Wenninger (9)	2,121,320	7.4%
Mary Margaret Frank (10)	90,962	*
Michael Pope (11)	250	*
Donna Felch (12)	172,500	*
All directors and executive officers as a group (10 persons) (3)(4)(5)(6)(7)(8)(9)(10)(11)(12)	7,403,188	25.6%

* Less than 1 percent.

- (1) Unless otherwise indicated, the address of each beneficial owner is 515 North State Street, Suite 2225, Chicago, IL 60654; the address of Mr. Dearholt is 36365 Trail Ridge Road, Steamboat Springs, CO 80488; the address of Mr. Walton is 929 North Astor, Unit 2101, Milwaukee, WI 53202; the address of Mr. Wenninger is 14000 Gypsum Creek Road, Gypsum, CO 81637; and the address of Dr. Frank is P.O. Box 6550, Charlottesville, VA 22906.
- (2) Bares Capital Management, Inc. filed an amendment to Schedule 13G dated February 14, 2012 reporting that as of December 31, 2011, Bares Capital Management, Inc. beneficially owned 4,140,153 shares of common stock, with sole voting and dispositive power over 112,228 shares of common stock and shared voting and dispositive power over 4,027,925 shares of common stock. The address of Bares Capital Management, Inc. is 12600 Hill Country Boulevard, Suite R-230, Austin, Texas 78738.
- (3) Includes 233,501 shares owned by Phoenix of Illinois. Under the rules of the SEC, Mr. Parrish may be deemed to have voting and dispositive power as to such shares since Mr. Parrish is an officer, director and the majority shareholder of Phoenix of Illinois. Also includes 864,449 shares of common stock owned directly by Mr. Parrish, of which 220,000 shares have been pledged by Mr. Parrish to a bank to secure a personal loan.
- (4) Consists of 100,000 shares of common stock owned directly by Mr. Gargiulo.
- (5) Consists of 403,155 shares of common stock owned directly by Dr. Leeper.
- (6) Includes 2,404,466 shares of common stock owned directly by Mr. Dearholt. Also includes 125,150 shares of common stock held in a self-directed IRA, 61,812 shares of common stock held by the Mary C. Dearholt Trust of which Mr. Dearholt is a co-trustee with a sibling, and 400,000 shares of common stock held by the John W. Dearholt Trust of which Mr. Dearholt is a co-trustee with a sibling. Mr. Dearholt shares the power to vote and dispose of 461,812 shares of common stock held by the Mary C. Dearholt Trust and the John W. Dearholt Trust. Mr. Dearholt has sole power to vote and dispose of the remaining shares of common stock. Also includes 90,000 shares of common stock subject to stock options.
- (7) Consists of 177,415 shares of common stock owned directly by Mr. Bethune and 6,250 shares of common stock subject to stock options held by Mr. Bethune.
- (8) Consists of 121,958 shares of common stock owned directly by Mr. Walton and 30,000 shares of common stock subject to stock options held by Mr. Walton.

- (9) Consists of (a) 21,000 shares of common stock owned directly by Mr. Wenninger, (b) 17,448 shares of common stock held by Mr. Wenninger's spouse (Mr. Wenninger disclaims beneficial ownership of the shares held by his spouse), (c) 1,742,872 shares of common stock held by a trust of which Mr. Wenninger is trustee and a beneficiary, (d) 250,000 shares of common stock held by a charitable remainder trust of which Mr. Wenninger is a trustee and Mr. Wenninger and his spouse are beneficiaries (Mr. Wenninger disclaims beneficial ownership except to the extent of his pecuniary interest therein), and (e) 90,000 shares of common stock subject to stock options.
- (10) Consists of 30,962 shares of common stock owned directly by Dr. Frank and 60,000 shares of common stock subject to stock options held by Dr. Frank.
- (11) Consists of 250 shares of common stock owned directly by Mr. Pope.
- (12) Consists of 172,500 shares of common stock owned directly by Ms. Felch.

The above beneficial ownership information is based on information furnished by the specified person and is determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as required for purposes of this annual report. This information should not be construed as an admission of beneficial ownership for other purposes.

Equity Compensation Plan Information

The following table summarizes share information, as of September 30, 2012, for the Company's equity compensation plans and arrangements. The plans and arrangements dated prior to July 2007 were not required to be approved by the Company's shareholders, and, accordingly, none of these plans or arrangements have been approved by the Company's shareholders. In March 2008, the Company's shareholders approved the 2008 Stock Incentive Plan and authorized 2,000,000 shares (subject to adjustment in the event of stock splits and other similar events) for issuance under the plan.

Equity Plan Category	Number of Shares To Be Issued Upon Exercise Of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price Of Outstanding Options, Warrants and Rights	Shares Remaining Available For Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by shareholders	199,750(1)	\$ 4.35	1,233,068
Equity compensation plans not approved by shareholders	202,000	\$ 1.39	-
Total	401,750	\$ 2.86	1,233,068

- (1) Includes rights to receive a total of 73,500 shares contingent on continued employment.

The Company's equity compensation plans not approved by shareholders include the 1997 Stock Option Plan and a warrant issuance to a consultant. Options granted under the 1997 Stock Option Plan are nonqualified stock options under the Internal Revenue Code. Options expire at such time as the Board of Directors determines, provided that no stock option may be exercised later than the tenth anniversary of the date of its grant. Options cannot be exercised until the vesting period, if any, specified by the Board of Directors. Options are not transferable other than by will or the laws of descent and distribution, and may be exercised during the life of the participant only by him or her. The option price per share is determined by the Board of Directors, but cannot be less than 100% of the fair market value of the common stock on the date such option is granted. The 1997 Stock Option Plan expired as of December 31, 2006, thus no further shares can be issued under this plan.

In July 2006, the Company issued 200,000 warrants to purchase shares of common stock to a consultant in part for payment to assist in evaluating strategic growth opportunities. Through September 30, 2012, a total of 148,000 warrants had been exercised, including 48,000 warrants exercised using the cashless exercise option available within the warrants, resulting in the issuance of a total of 137,880 shares of common stock. At September 30, 2012, 52,000 warrants were outstanding, with an exercise price of \$1.30 per share and an expiration date of July 10, 2016. On October 8, 2012, the remaining 52,000 warrants were exercised using the cashless exercise option available within the warrants, resulting in the issuance of 43,465 shares of common stock.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Transactions with Related Persons

It has been and currently is the policy of the Company that transactions between the Company and its officers, directors, principal shareholders or affiliates are to be on terms no less favorable to the Company than could be obtained from unaffiliated parties. The Company intends that any future transactions between the Company and its officers, directors, principal shareholders or affiliates will be approved by a majority of the directors who are not financially interested in the transaction.

Director Independence

The Company's Board of Directors currently consists of nine members: O.B. Parrish, Mary Ann Leeper, Ph.D., Donna Felch, William R. Gargiulo, Jr., Stephen M. Dearholt, David R. Bethune, Michael R. Walton, Richard E. Wenninger and Mary Margaret Frank, Ph.D. The Board of Directors has reviewed the independence of the directors under the applicable standards of the NASDAQ Stock Market, and based on this review, the Board of Directors determined that all of the directors are independent under the NASDAQ Stock Market listing standards other than O.B. Parrish, Mary Ann Leeper, Donna Felch and William R. Gargiulo, Jr.

Item 14. Principal Accountant Fees and Services.

The following table summarizes the fees the Company paid for audit and non-audit services rendered by the Company's independent auditors, McGladrey LLP, during fiscal 2012 and 2011:

Service Type	2012	2011
Audit Fees (1)	\$ 318,928	\$ 304,657
Audit-Related Fees	-	-
Tax Fees (2)	35,500	46,665
All Other Fees	-	-
Total Fees	\$ 354,428	\$ 351,322

- (1) Consists of fees for professional services rendered in connection with the audit of the Company's financial statements for the fiscal years ended September 30, 2012 and 2011; the reviews of the financial statements included in each of the Company's quarterly reports on Form 10-Q during those fiscal years; and consents and assistance with documents filed by the Company with the SEC.
- (2) Consists of fees for professional services rendered in connection with preparation of federal and state income tax returns, including foreign tax filings, and assistance with foreign tax structuring.

The Audit Committee of the Board of Directors of the Company considered that the provision of the services and the payment of the fees described above are compatible with maintaining the independence of McGladrey LLP.

The Audit Committee is responsible for reviewing and pre-approving any non-audit services to be performed by the Company's independent auditors. The Audit Committee has delegated its pre-approval authority to the Chairperson of the Audit Committee to act between meetings of the Audit Committee. Any pre-approval given by the Chairperson of the Audit Committee pursuant to this delegation is presented to the full Audit Committee at its next regularly scheduled meeting. The Audit Committee or Chairperson of the Audit Committee reviews and, if appropriate, approves non-audit service engagements, taking into account the proposed scope of the non-audit services, the proposed fees for the non-audit services, whether the non-audit services are permissible under applicable law or regulation and the likely impact of the non-audit services on the independence of the independent auditors.

Each new engagement of the Company's independent auditors to perform non-audit services set forth in the table above has been approved in advance by the Audit Committee or the Chairperson of the Audit Committee pursuant to the foregoing procedures.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of this report:

1. Financial Statements

The following consolidated financial statements of the Company are included in Item 8 of this report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of September 30, 2012 and 2011

Consolidated Statements of Income for the Years Ended September 30, 2012, 2011 and 2010

Consolidated Statements of Stockholders' Equity for the Years Ended September 30, 2012, 2011 and 2010

Consolidated Statements of Cash Flows for the Years Ended September 30, 2012, 2011 and 2010

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions, are inapplicable or the required information is shown in the financial statements or notes thereto, and therefore, have been omitted.

3. Exhibits

- 3.1 Amended and Restated Articles of Incorporation of the Company. (1)
- 3.2 Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company increasing the number of authorized shares of common stock to 27,000,000 shares. (2)
- 3.3 Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company increasing the number of authorized shares of common stock to 35,500,000 shares. (3)
- 3.4 Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company increasing the number of authorized shares of common stock to 38,500,000 shares. (4)
- 3.5 Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company designating the terms and preferences for the Class A Preferred Stock – Series 3. (5)
- 3.6 Amended and Restated By-Laws of the Company.
- 4.1 Amended and Restated Articles of Incorporation, as amended (same as Exhibits 3.1, 3.2, 3.3, 3.4 and 3.5).
- 4.2 Articles II, VII and XI of the Amended and Restated By-Laws of the Company (included in Exhibit 3.6).
- 10.1 Trademark License Agreement for Reality Trademark. (6)
- 10.2 1997 Stock Option Plan, as amended. (7)
- 10.3 Amended and Restated Change of Control Agreement between the Company and O.B. Parrish dated October 1, 2005. (8)
- 10.4 Amended and Restated Change of Control Agreement between the Company and Mary Ann Leeper dated October 1, 2005. (8)
- 10.5 Amended and Restated Change of Control Agreement between the Company and Michael Pope dated October 1, 2005. (8)
- 10.6 Change of Control Agreement between the Company and Donna Felch dated February 8, 2006. (9)
- 10.7 Employment Agreement between the Company and Mary Ann Leeper dated effective as of May 1, 2006. (10)

- 10.8 The Female Health Company 2008 Stock Incentive Plan. (11)
- 10.9 Form of Nonstatutory Stock Option Grant Agreement for The Female Health Company 2008 Stock Incentive Plan. (12)
- 10.10 Second Amended and Restated Loan Agreement, dated as of August 1, 2011, between the Company and Heartland Bank. (13)
- 10.11 First Amendment to Second Amended and Restated Loan Agreement, dated as of August 1, 2012, between the Company and Heartland Bank.
- 10.12 Commercial Security Agreement, dated as of July 20, 2004, between the Company and Heartland Bank. (14)
- 10.13 First Amendment to Commercial Security Agreement, dated as of July 1, 2010, between the Company and Heartland Bank. (15)
- 10.14 Second Amendment to Commercial Security Agreement, dated as of August 1, 2011, between the Company and Heartland Bank. (13)
- 10.15 Share Charge, dated as of August 30, 2011, between the Company and Heartland Bank. (16)
- 21 Subsidiaries of Registrant.
- 23.1 Consent of McGladrey LLP.
- 24.1 Power of Attorney (included as part of the signature page hereof).
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002. (17)
- 101 The following materials from the Company's Annual Report on Form 10-K for the year ended September 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.
- (1) Incorporated herein by reference to the Company's Form SB-2 Registration Statement filed on October 19, 1999.

- (2) Incorporated herein by reference to the Company's Form SB-2 Registration Statement filed on September 21, 2000.
- (3) Incorporated by reference herein to the Company's Form SB-2 Registration Statement filed on September 6, 2002.
- (4) Incorporated herein by reference to the Company's March 31, 2003 Form 10-QSB.
- (5) Incorporated herein by reference to the Company's March 31, 2004 Form 10-QSB.
- (6) Incorporated herein by reference to the Company's 1992 Form 10-KSB.
- (7) Incorporated herein by reference to the Company's Form S-8 Registration Statement filed on March 26, 2010.
- (8) Incorporated herein by reference to the Company's September 30, 2005 Form 10-KSB.
- (9) Incorporated herein by reference to the Company's Form 8-K filed on February 8, 2006.
- (10) Incorporated hereby by reference to the Company's Form 8-K/A filed on February 21, 2006.
- (11) Incorporated hereby by reference to the Company's Form 8-K filed on March 31, 2008.
- (12) Incorporated herein by reference to the Company's September 30, 2009 Form 10-K.
- (13) Incorporated by reference to the Company's June 30, 2011 Form 10-Q.
- (14) Incorporated by reference to the Company's March 31, 2010 Form 10-Q.
- (15) Incorporated herein by reference to the Company's June 30, 2010 Form 10-Q.
- (16) Incorporated by reference to the Company's September 30, 2011 Form 10-K.
- (17) This certification is not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Exchange Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

The response to this portion of Item 15 is submitted as a separate section of this report.

(c) Financial Statement Schedules

<u>/s/ Donna Felch</u> Donna Felch	Vice President, Chief Financial Officer and Director (Principal Accounting and Financial Officer)	December 4, 2012
<u>/s/ William R. Gargiulo</u> William R. Gargiulo	Secretary and Director	December 4, 2012
<u>/s/ David R. Bethune</u> David R. Bethune	Director	December 4, 2012
_____ Stephen M. Dearholt	Director	December 4, 2012
<u>/s/ Michael R. Walton</u> Michael R. Walton	Director	December 4, 2012
_____ Richard E. Wenninger	Director	December 4, 2012
<u>/s/ Mary Margaret Frank</u> Mary Margaret Frank	Director	December 4, 2012

The Female Health Company and Subsidiaries
Index to Consolidated Financial Statements

<u>Document</u>	<u>Page No.</u>
Audited Consolidated Financial Statements.	
Management's Report on Internal Control over Financial Reporting.	F-1
Report of McGladrey LLP, Independent Registered Public Accounting Firm.	F-2 and F-3
Consolidated Balance Sheets as of September 30, 2012 and 2011.	F-4
Consolidated Statements of Income for the years ended September 30, 2012, 2011 and 2010.	F-5
Consolidated Statements of Stockholders' Equity for the years ended September 30, 2012, 2011 and 2010.	F-6 through F-8
Consolidated Statements of Cash Flows for the years ended September 30, 2012, 2011 and 2010.	F-9
Notes to Consolidated Financial Statements.	F-10 through F-25

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements. The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on its assessment, management believes that, as of September 30, 2012, the Company's internal control over financial reporting was effective based on those criteria.

The effectiveness of our internal control over financial reporting as of September 30, 2012 has been audited by McGladrey LLP, an independent registered public accounting firm, as stated in their report. See "Report of Independent Registered Public Accounting Firm," which appears on pages F-2 and F-3 of this report.

December 4, 2012



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
The Female Health Company

We have audited the accompanying consolidated balance sheets of The Female Health Company and Subsidiaries (the Company) as of September 30, 2012 and 2011, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the three-year period ended September 30, 2012. We also have audited The Female Health Company and Subsidiaries' internal control over financial reporting as of September 30, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Female Health Company and Subsidiaries' management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Member of the RSM International network of Independent accounting, tax and consulting firms.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Female Health Company and Subsidiaries as of September 30, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the three-year period ended September 30, 2012, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, The Female Health Company and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ McGladrey LLP

Chicago, Illinois
December 4, 2012

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2012 AND 2011

	2012	2011
ASSETS		
Current Assets		
Cash	\$ 5,290,780	\$ 4,249,324
Certificate of deposit	-	63,875
Restricted cash	4,682	4,526
Accounts receivable, net of allowance for doubtful accounts 2012 \$41,625 and 2011 \$10,000	7,268,917	2,305,473
Income tax receivable	27,369	-
Inventories	1,458,199	2,026,528
Prepaid expenses and other current assets	624,268	297,267
Deferred income taxes	2,152,000	800,000
TOTAL CURRENT ASSETS	16,826,215	9,746,993
Other Assets	122,336	116,360
PLANT AND EQUIPMENT		
Equipment, furniture and fixtures	3,969,888	3,465,745
Leasehold improvements	322,814	301,179
Construction in progress	268,765	-
Less accumulated depreciation and amortization	(2,211,591)	(1,787,486)
Plant and equipment, net	2,349,876	1,979,438
Deferred income taxes	11,148,000	7,600,000
TOTAL ASSETS	\$ 30,446,427	\$ 19,442,791
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 1,775,327	\$ 1,076,994
Accrued expenses and other current liabilities	1,120,302	846,591
Accrued compensation	2,964,812	369,825
TOTAL CURRENT LIABILITIES	5,860,441	2,293,410
LONG-TERM LIABILITIES		
Deferred rent	90,902	101,133
Deferred grant income	82,650	107,481
Deferred income taxes	194,244	188,177
TOTAL LIABILITIES	6,228,237	2,690,201
Commitments and Contingencies		
STOCKHOLDERS' EQUITY		
Convertible preferred stock, Class A Series 1, par value \$.01 per share; authorized 5,000,000 shares; no shares issued and outstanding in 2012 and 2011.	-	-
Convertible preferred stock, Class A Series 3, par value \$.01 per share; authorized 700,000 shares; no shares issued and outstanding in 2012 and 2011.	-	-
Convertible preferred stock, Class B, par value \$.50 per share; authorized 15,000 shares; no shares issued and outstanding in 2012 and 2011.	-	-
Common Stock, par value \$.01 per share; authorized 38,500,000 shares; issued 30,550,030 and 29,649,003 shares, and 28,591,201 and 27,734,174 shares outstanding in 2012 and 2011, respectively.	305,500	296,490
Additional paid-in capital	66,760,907	68,117,382
Accumulated other comprehensive loss	(581,519)	(581,519)
Accumulated deficit	(35,594,455)	(44,697,131)
Treasury stock, at cost, 1,958,829 and 1,914,829 shares of common stock in 2012 and 2011, respectively	(6,672,243)	(6,382,632)
TOTAL STOCKHOLDERS' EQUITY	24,218,190	16,752,590
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 30,446,427	\$ 19,442,791

See notes to consolidated financial statements.

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED SEPTEMBER 30, 2012, 2011 and 2010

	2012	2011	2010
Product sales	\$ 35,012,176	\$ 18,516,091	\$ 22,188,092
Royalty income	21,721	49,011	33,863
Net revenues	<u>35,033,897</u>	<u>18,565,102</u>	<u>22,221,955</u>
Cost of sales	<u>14,412,884</u>	<u>8,699,912</u>	<u>9,297,136</u>
Gross profit	20,621,013	9,865,190	12,924,819
Operating expenses:			
Advertising	52,949	32,858	76,707
Selling, general and administrative	9,628,134	6,536,990	6,569,030
Restructuring costs	-	-	1,929,922
Total operating expenses	<u>9,681,083</u>	<u>6,569,848</u>	<u>8,575,659</u>
Operating income	<u>10,939,930</u>	<u>3,295,342</u>	<u>4,349,160</u>
Non-operating (expense) income:			
Interest and other income (expense)	362	(2,109)	29,168
Foreign currency transaction loss	<u>(148,269)</u>	<u>(61,258)</u>	<u>(154,196)</u>
Total non-operating expense	<u>(147,907)</u>	<u>(63,367)</u>	<u>(125,028)</u>
Income before income taxes	10,792,023	3,231,975	4,224,132
Income tax benefit	<u>(4,507,298)</u>	<u>(2,167,076)</u>	<u>(2,512,946)</u>
Net income	<u>\$ 15,299,321</u>	<u>\$ 5,399,051</u>	<u>\$ 6,737,078</u>
Net income per basic common share outstanding	\$ 0.55	\$ 0.20	\$ 0.25
Basic weighted average common shares outstanding	27,693,721	27,287,342	26,981,275
Net income per diluted common share outstanding	\$ 0.53	\$ 0.19	\$ 0.24
Diluted weighted average common shares outstanding	28,933,144	28,971,011	28,545,391

See notes to consolidated financial statements.

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 2012, 2011 and 2010

	Preferred Stock			Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Cost of Treasury Stock	Total
	Class A Series 1	Class A Series 3	Class B							
Balance at September 30, 2009	\$ -	\$ -	\$ -	28,382,766	\$ 283,828	\$ 66,395,902	\$ (581,519)	\$ (47,143,309)	\$ (6,000,511)	\$ 12,954,391
Share-based compensation	-	-	-	38,932	389	357,432	-	-	-	357,821
Issuance of 110,000 shares of Common Stock upon exercise of options	-	-	-	110,000	1,100	156,800	-	-	-	157,900
Issuance of 186,220 shares of Common Stock upon cashless exercise of 325,000 options	-	-	-	186,220	1,862	(315,622)	-	-	-	(313,760)
Issuance of 626,500 shares of Common Stock upon exercise of warrants	-	-	-	626,500	6,265	719,335	-	-	-	725,600
Issuance of 23,085 shares of Common Stock upon cashless exercise of 30,000 warrants	-	-	-	23,085	231	(231)	-	-	-	-
Stock repurchase – Total 65,274 Treasury Shares	-	-	-	-	-	-	-	-	(349,058)	(349,058)
Common Stock Dividends	-	-	-	-	-	-	-	(4,137,842)	-	(4,137,842)
Net income and comprehensive income	-	-	-	-	-	-	-	6,737,078	-	6,737,078
Balance at September 30, 2010	\$ -	\$ -	\$ -	29,367,503	\$ 293,675	\$ 67,313,616	\$ (581,519)	\$ (44,544,073)	\$ (6,349,569)	\$ 16,132,130

See notes to consolidated financial statements.

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 2012, 2011 and 2010

	Preferred Stock			Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Cost of Treasury Stock	Total
	Class A Series 1	Class A Series 3	Class B	Shares	Amount					
Balance at September 30, 2010 (balance forward)	\$ -	\$ -	\$ -	29,367,503	\$ 293,675	\$ 67,313,616	\$ (581,519)	\$ (44,544,073)	\$ (6,349,569)	\$ 16,132,130
Share-based compensation	-	-	-	281,500	2,815	803,766	-	-	-	806,581
Stock repurchase – Total 5,750 Treasury Shares	-	-	-	-	-	-	-	-	(33,063)	(33,063)
Common Stock Dividends	-	-	-	-	-	-	-	(5,552,109)	-	(5,552,109)
Net income and comprehensive income	-	-	-	-	-	-	-	5,399,051	-	5,399,051
Balance at September 30, 2011	\$ -	\$ -	\$ -	29,649,003	\$ 296,490	\$ 68,117,382	\$ (581,519)	\$ (44,697,131)	\$ (6,382,632)	\$ 16,752,590

See notes to consolidated financial statements.

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 2012, 2011 and 2010

	Preferred Stock			Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Cost of Treasury Stock	Total
	Class A Series 1	Class A Series 3	Class B	Shares	Amount					
Balance at September 30, 2011 (balance forward)	\$ -	\$ -	\$ -	29,649,003	\$ 296,490	\$ 68,117,382	\$ (581,519)	\$ (44,697,131)	\$ (6,382,632)	\$ 16,752,590
Share-based compensation	-	-	-	73,250	732	816,746	-	-	-	817,478
Issuance of 10,000 shares of Common Stock upon exercise of warrants	-	-	-	10,000	100	12,900	-	-	-	13,000
Issuance of 14,795 shares of Common Stock upon cashless exercise of 18,000 warrants	-	-	-	14,795	148	(148)	-	-	-	-
Issuance of 802,982 shares of Common Stock upon cashless exercise of 1,557,750 options	-	-	-	802,982	8,030	(2,185,973)	-	-	-	(2,177,943)
Stock repurchase – Total 44,000 Treasury Shares	-	-	-	-	-	-	-	-	(289,611)	(289,611)
Common Stock Dividends	-	-	-	-	-	-	-	(6,196,645)	-	(6,196,645)
Net income and comprehensive income	-	-	-	-	-	-	-	15,299,321	-	15,299,321
Balance at September 30, 2012	\$ -	\$ -	\$ -	30,550,030	\$ 305,500	\$ 66,760,907	\$ (581,519)	\$ (35,594,455)	\$ (6,672,243)	\$ 24,218,190

See notes to consolidated financial statements.

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2012, 2011 and 2010

	2012	2011	2010
OPERATIONS			
Net income	\$ 15,299,321	\$ 5,399,051	\$ 6,737,078
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	461,447	464,909	466,544
Amortization of deferred gain on sale and leaseback of building	-	-	(657,605)
Amortization of deferred income from grant - BLCF	(24,831)	(24,831)	(24,831)
Provision for obsolete inventory	128,360	177,726	(2,066)
Provision for bad debts	42,375	6,036	-
Interest added to certificate of deposit	(252)	(3,223)	(2,613)
Share-based compensation	842,512	796,453	471,811
Deferred income taxes	(4,893,933)	(2,464,050)	(2,538,624)
Loss on disposal of fixed assets	11,220	-	8,145
Changes in operating assets and liabilities:			
Accounts receivable	(5,005,819)	2,149,008	3,345,490
Income tax receivable	(27,369)	28,179	39,927
Inventories	439,969	(9,924)	(989,201)
Prepaid expenses and other assets	(332,977)	(10,618)	56,175
Accounts payable	573,531	490,398	(15,600)
Accrued expenses and other current liabilities	2,842,500	(30,959)	(2,902,775)
Net cash provided by operating activities	<u>10,356,054</u>	<u>6,968,155</u>	<u>3,991,855</u>
INVESTING ACTIVITIES			
(Increase) decrease in restricted cash	(156)	52	100,496
Proceeds from redemption of Certificate of Deposit	64,127	-	-
Capital expenditures	(718,303)	(46,287)	(51,133)
Net cash (used in) provided by investing activities	<u>(654,332)</u>	<u>(46,235)</u>	<u>49,363</u>
FINANCING ACTIVITIES			
Payments on capital lease obligations	(13,037)	(12,999)	(29,279)
Proceeds from exercise of stock options	-	-	157,900
Proceeds from exercise of common stock warrants	13,000	-	725,600
Purchases of common stock for treasury shares	(289,611)	(33,063)	(349,058)
Taxes paid in lieu of shares	(2,177,943)	-	(313,760)
Dividends paid on common stock	(6,192,675)	(5,545,310)	(4,124,042)
Net cash used in financing activities	<u>(8,660,266)</u>	<u>(5,591,372)</u>	<u>(3,932,639)</u>
Net increase in cash	1,041,456	1,330,548	108,579
Cash at beginning of year	4,249,324	2,918,776	2,810,197
CASH AT END OF YEAR	<u>\$ 5,290,780</u>	<u>\$ 4,249,324</u>	<u>\$ 2,918,776</u>
Supplemental Disclosure of Cash Flow Information:			
Cash payments for income taxes	926,434	57,148	111,929
Schedule of noncash financing and investing activities:			
Dividends declared (unpaid dividends on restricted stock)	19,320	16,100	13,800
Reduction of accrued expense upon issuance of shares	174,185	221,970	92,180
Fixed asset additions in accounts payable at year end	124,802	-	-

See notes to consolidated financial statements.

Note 1. Nature of Business and Significant Accounting Policies

Principles of consolidation and nature of operations: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, The Female Health Company – UK, and its wholly owned subsidiaries, The Female Health Company - UK, plc and The Female Health Company (M) SDN.BHD. All significant intercompany transactions and accounts have been eliminated in consolidation. The Female Health Company ("FHC" or the "Company") is currently engaged in the marketing, manufacture and distribution of a consumer health care product, the FC2 female condom ("FC2"). The Female Health Company - UK, is the holding company of The Female Health Company - UK, plc, which is located in a 6,400 sq. ft. leased office facility located in London, England. The Female Health Company (M) SDN.BHD leases a 16,000 sq. ft. manufacturing facility located in Selangor D.E., Malaysia.

The FC2 female condom is currently sold or available in either or both commercial (private sector) and public health sector markets in 138 countries as compared to 120 countries at September 30, 2011. The product is marketed directly to consumers in 16 countries by various country-specific commercial partners.

The Company also derives revenue from licensing its intellectual property under an agreement with its exclusive distributor in India, Hindustan Lifecare Limited ("HLL"). HLL is authorized to manufacture FC2 at HLL's facility in Kochi, India for sale in India, and the Company receives a royalty based on the number of units sold by HLL in India. Such revenue appears as royalty income on the Consolidated Statements of Income for the years ended September 30, 2012, 2011, and 2010, and is recognized in the period in which the sale is made by HLL.

The Company's standard credit terms vary from 30 to 90 days, depending on the class of trade and customary terms within a territory, so accounts receivable is affected by the mix of purchasers within the period. As is typical in the Company's business, extended credit terms may occasionally be offered as a sales promotion. For the past twelve months, the Company's average days' sales outstanding has averaged approximately 56 days. Over the past five years, the Company's bad debt expense has been less than .04% of product sales.

Use of estimates: The preparation of financial statements requires management to make estimates and use assumptions that affect certain reported amounts and disclosures. Significant accounting estimates include the deferred income tax valuation allowance and value of equity-based compensation. Actual results may differ from those estimates.

Cash concentration: The Company's cash is maintained primarily in three financial institutions, one located in Clayton, Missouri, one located in London, England and the other in Kuala Lumpur, Malaysia.

Accounts receivable and concentration of credit risk: Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. As of September 30, 2012, the \$7,268,917 accounts receivable balance was comprised of \$7,205,144 trade receivables and \$63,773 other receivables, compared to an accounts receivable balance of \$2,305,473 as of September 30, 2011, which was comprised of \$2,287,172 trade receivables and \$18,301 in other receivables. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments on accounts receivable. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Management also periodically evaluates individual customer receivables and considers a customer's financial condition, credit history, and the current economic conditions. Accounts receivable are written off when deemed uncollectible. The table below sets forth the components of the allowance for doubtful accounts for the years ended September 30:

Notes to Consolidated Financial Statements

Note 1. Nature of Business and Significant Accounting Policies – continued

Year	Balance at October 1	Provision Charges to Expenses	Write offs/Recoveries	Balance at September 30
2010	\$ 39,805	\$ -	\$ -	\$ 39,805
2011	\$ 39,805	\$ 6,036	\$ (35,841)	\$ 10,000
2012	\$ 10,000	\$ 42,375	\$ (10,750)	\$ 41,625

Recoveries of accounts receivable previously written off are recorded when received. The Company's customers are primarily large global agencies, non-government organizations, ministries of health and other governmental agencies which purchase and distribute the female condom for use in HIV/AIDS prevention and family planning programs. In fiscal year 2012, significant customers were UNFPA, John Snow, Inc., facilitator of USAID I DELIVER project, and Sekunjalo Investments Corporation (PTY) Ltd. In fiscal year 2011 and 2010, significant customers were John Snow, Inc., facilitator of USAID I DELIVER project and UNFPA. No other single customer accounted for more than 10% of unit sales during those periods.

Significant Customers	Percentage of Unit Sales		
	2012	2011	2010
UNFPA	40%	25%	37%
John Snow, Inc. (USAID I DELIVER)	25%	26%	33%
Sekunjalo Investments Corp. (PTY) Ltd.	20%	-	-
Total Percentage of Unit Sales	85%	51%	70%

Inventories: Inventories are valued at the lower of cost or market. The cost is determined using the first-in, first-out (FIFO) method. Inventories are also written down for management's estimates of product which will not sell prior to its expiration date. Write-downs of inventories establish a new cost basis which is not increased for future increases in the market value of inventories or changes in estimated obsolescence.

Foreign currency translation and operations: Effective October 1, 2009, the Company determined that there were significant changes in facts and circumstances, triggering an evaluation of its subsidiaries' functional currency. The evaluation indicated that the U.S. dollar is the currency with the most significant influence upon the subsidiaries. Because all of the Company's U.K. subsidiary's future sales and cash flows would be denominated in U.S. dollars following the October 2009 cessation of FC1 production, the U.K. subsidiary adopted the U.S. dollar as its functional currency effective October 1, 2009. As the Malaysia subsidiary is a direct and integral component of the U.K. parent's operations, it, too, adopted the U.S. dollar as its functional currency as of October 1, 2009. The consistent use of the U.S. dollar as functional currency across the Company reduces its foreign currency risk and stabilizes its operating results. The Company recognized foreign currency transaction losses of \$148,269, \$61,258 and \$154,196 for the years ended September 30, 2012, 2011 and 2010, respectively. The cumulative foreign currency translation loss included in accumulated other comprehensive loss was \$581,519 as of September 30, 2012 and 2011. Assets located outside of the United States totaled approximately \$14,000,000 and \$7,700,000 at September 30, 2012 and 2011, respectively.

Equipment, furniture and fixtures: Depreciation and amortization are computed using primarily the straight-line method. Depreciation and amortization are computed over the estimated useful lives of the respective assets which range as follows:

Manufacturing equipment	5 – 10 years
Office equipment	3 years
Furniture and fixtures	7 – 10 years

Note 1. Nature of Business and Significant Accounting Policies – continued

Depreciation on leased assets is computed over the lesser of the remaining lease term or the estimated useful lives of the assets. Depreciation on leased assets is included with depreciation on owned assets.

Patents and trademarks: FC2 patents have been issued by the United States, the European Union, Canada, Australia, South Africa, The People's Republic of China, Greece, Turkey, Spain, Mexico, Japan and the African Regional Intellectual Property Organization (ARIPO), which includes Botswana, The Gambia, Ghana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Sierra Leone, Somalia, Sudan, Swaziland, Uganda, United Republic of Tanzania, Zambia and Zimbabwe. Patent applications for FC2 are pending in various other countries around the world through the Patent Cooperation Treaty. The patents cover the key aspects of FC2, including its overall design and manufacturing process. There can be no assurance that pending patents provide the Company with protection against copycat products entering markets during the pendency of the patents.

The Company has the registered trademark "FC2 Female Condom" in the United States. The Company has also secured, or applied for, 12 trademarks in 22 countries to protect the various names and symbols used in marketing the product around the world. These include "femidom" and "femy," "Reality" and others. In addition, the experience that has been gained through years of manufacturing the FC female condoms (FC1 and FC2) has allowed the Company to develop trade secrets and know-how, including certain proprietary production technologies that further protects its competitive position.

Financial instruments: The Company follows ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment.

The Company currently does not have any assets or liabilities measured at fair value on a recurring or non-recurring basis. Substantially all of the Company's cash and cash equivalents, as well as restricted cash, are held in demand deposits with three financial institutions. The Company has no financial instruments for which the carrying value is materially different than fair value.

Research and development costs: Research and development costs are expensed as incurred. The amount of costs expensed for the years ended September 30, 2012, 2011 and 2010 of \$5,277, \$10,929, and \$381, respectively, are included in selling, general and administrative expenses on the consolidated statements of income.

Restricted cash: Restricted cash relates to security provided to one of the Company's U.K. banks for performance bonds issued in favor of customers. Such security has been extended infrequently and only on occasions where it has been a contract term expressly stipulated as an absolute requirement by the funds' provider. The expiration of the bond is defined by the completion of the event such as, but not limited to, delivery of goods or at a period of time after product has been distributed.

Revenue recognition: The Company recognizes revenue from product sales when each of the following conditions has been met: an arrangement exists, delivery has occurred, there is a fixed price, and collectability is reasonably assured. The Company also derives revenue from licensing its intellectual property under an agreement with its exclusive distributor in India, HLL. Such revenue appears as royalty income on the Consolidated Statements of Income for the years ended September 30, 2012, 2011 and 2010, and is recognized in the period in which the sale is made by HLL.

Note 1. Nature of Business and Significant Accounting Policies – continued

Deferred grant income: The Company received grant monies from the British Linkage Challenge Fund to help the Company defray certain expenses and the cost of capital expenditures related to a project. The underlying project related to the development of a linkage between the U.K. subsidiary and HLL, in India, to do end-stage manufacturing of the female condom and develop the market for the product in that country. The grant received was split between the Company and HLL pro-rata to their respective expenditure on the project. The Company utilized the general precepts of U.S. GAAP and the principles of matching and conservatism to determine how to account for the grant monies received. The Company also utilized the guidance of International Accounting Standard No. 20 – Accounting for Government Grants and Disclosure of Government Assistance to further support the Company's accounting treatment of the grant received. The Company allocated its share of the grant monies to capital and expense pro-rata to the respective cost allocated to the project. Grant proceeds for expenses were credited to income in the quarter incurred. Grant proceeds for capital expenditure were deferred and released to income in line with the depreciation of the relevant assets.

Share-based compensation: The Company accounts for stock-based compensation expense for equity awards exchanged for employee services over the vesting period based on the grant-date fair value.

Advertising: The Company's policy is to expense advertising costs as incurred. Advertising costs were \$52,949, \$32,858, and \$76,707 for the years ended September 30, 2012, 2011 and 2010, respectively.

Income taxes: The Company files separate income tax returns for its foreign subsidiaries. ASC Topic 740 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are also provided for carryforwards for income tax purposes. In addition, the amount of any future tax benefits is reduced by a valuation allowance to the extent such benefits are not expected to be realized.

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

Other comprehensive income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as foreign currency translation adjustments, are reported as a separate component of the equity section of the accompanying consolidated balance sheets, these items, along with net income, are components of comprehensive income.

The U.S. parent company and its U.K. subsidiary routinely purchase inventory produced by its Malaysia subsidiary for sale to their respective customers. These intercompany trade accounts are eliminated in consolidation. The Company's policy and intent is to settle the intercompany trade account on a current basis. Since the U.K. and Malaysia subsidiaries adopted the U.S. dollar as their functional currencies effective October 1, 2009, no foreign currency gains or losses from intercompany trade are recognized. In fiscal 2012, 2011 and 2010, comprehensive income is equivalent to the reported net income.

Reclassifications: Certain items in the 2011 and 2010 consolidated financial statements have been reclassified to conform to the 2012 presentation.

Notes to Consolidated Financial Statements

Note 2. Earnings per Share

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

Denominator	Year Ended September 30,		
	2012	2011	2010
Weighted average common shares outstanding - basic	27,693,721	27,287,342	26,981,275
Net effect of dilutive securities:			
Options	913,600	1,243,222	1,292,919
Warrants	39,823	59,197	60,947
Unvested restricted shares	286,000	381,250	210,250
Total net effect of dilutive securities	1,239,423	1,683,669	1,564,116
Weighted average common shares outstanding - diluted	28,933,144	28,971,011	28,545,391
Income per common share – basic	\$ 0.55	\$ 0.20	\$ 0.25
Income per common share – diluted	\$ 0.53	\$ 0.19	\$ 0.24

All the outstanding warrants and stock options were included in the computation of diluted net income per share for the years ended September 30, 2012, 2011 and 2010.

Note 3. Inventories

The components of inventory consist of the following at September 30, 2012 and 2011:

	2012	2011
Raw material	\$ 523,201	\$ 435,947
Work in process	57,102	64,149
Finished goods	927,706	1,602,384
Inventory, gross	1,508,009	2,102,480
Less: inventory reserves	(49,810)	(75,952)
Inventory, net	\$ 1,458,199	\$ 2,026,528

The change in the inventory reserve for the years ended September 30 is as follows:

Year	Balance at October 1	Charged to Costs and Expenses	Write-offs	Balance at September 30
2010	\$ 95,574	\$ (2,066)	\$ (78,044)	\$ 15,464
2011	\$ 15,464	\$ 177,726	\$ (117,237)	\$ 75,952
2012	\$ 75,952	\$ 128,360	\$ (154,502)	\$49,810

Note 4. Revolving Line of Credit

On August 1, 2012, the Company entered into an amendment to the Second Amended and Restated Loan Agreement (as amended, the "Loan Agreement") with Heartland Bank (the "Bank") to extend the term of the Company's revolving line of credit to August 1, 2013. The credit facility consists of a single revolving note for up to \$2,000,000 with the Bank, with borrowings limited to a borrowing base determined based on 70% to 80% of eligible accounts receivable plus 50% of eligible inventory. Significant restrictive covenants in the Loan Agreement include prohibitions on any merger, consolidation or sale of all or a substantial portion of the Company's assets and limits on the payment of dividends or the repurchase of shares. The Loan Agreement does not contain any financial covenants that require compliance with ratios or amounts. Dividends and share repurchases are permitted as long as after giving effect to the dividend or share repurchase the Company has a ratio of total liabilities to total stockholders' equity of no more than 1:1. Borrowings on the revolving note bear interest at a rate of the base rate (4.5% at September 30, 2012) plus 0.5%. The note is collateralized by substantially all of the assets of the Company. No amounts were outstanding under the revolving note at either September 30, 2012 or 2011.

Note 5. Operating Leases and Rental Expense

The Company's corporate headquarters is located in approximately 5,100 square feet of office space located in Chicago, Illinois. On March 10, 2011, the Company signed a lease amendment, effective November 1, 2010, which extended the lease term for this office space for a five year period commencing on November 1, 2011 and ending on October 31, 2016. The lease amendment grants the Company a five month lease abatement beginning November 1, 2010, reduces base rent and provides a tenant improvement allowance. The lease requires escalating monthly payments ranging from \$6,797 to \$7,859, plus real estate taxes, utilities and maintenance expenses from April 1, 2011 to October 31, 2016. The lease stipulates that after five years, the Company shall have a one-time right to extend the term of the lease for an additional three years by giving the landlord no less than twelve months prior notice in writing.

The Company leases 6,400 square feet of office space located in London, England. The lease, which expires in June 2020, includes an option by the Company to terminate the lease in 2015 by giving the landlord no less than six months prior notice in writing. The lease requires quarterly payments of approximately \$13,500 through December 2011 and quarterly payments of approximately \$27,000 from January 2012 through June 2015. The lease stipulates that after 5 years (June 2015) the principal rent will be reviewed and adjusted to the higher of the principal rent immediately prior to the review date or the market rate. Per the terms of the lease agreement, the Company was also required to make a security deposit equivalent to six months' rent (approximately \$71,000).

The Company leases 16,000 square feet of manufacturing space in Selangor D.E., Malaysia under a lease that requires monthly payments of approximately \$13,000 through August 2013 and may be renewed at the option of the Company for an additional three year term. The Company also leases 11,000 square feet of warehouse space in Selangor D.E., Malaysia under a lease that requires monthly payments of approximately \$4,000 through February 2014 and may be renewed at the option of the Company for an additional one year term.

The Company also leases equipment under a number of lease agreements which expire at various dates through June 2015. The aggregate monthly rental was \$402 at September 30, 2012. Details of operating lease expense, including real estate taxes and insurance, for the years ended September 30, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Factory and office leases	\$ 397,073	\$ 414,380	\$ 403,955
Other	4,824	5,887	1,414
Total	\$ 401,897	\$ 420,267	\$ 405,369

Notes to Consolidated Financial Statements

Note 5. Operating Leases and Rental Expense – continued

Future minimum payments under leases consisted of the following as of September 30, 2012:

	Operating leases
2013	\$ 356,865
2014	311,246
2015	216,802
2016	218,349
2017	129,101
Thereafter	223,645
Total minimum lease payments	<u>\$ 1,456,008</u>

Note 6. Income Taxes

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

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

Although management uses the best information available, it is reasonably possible that the estimates used by the Company will be materially different from the actual results. These differences could have a material effect on the Company's future results of operations and financial condition.

Income before income taxes for the years ended September 30, 2012, 2011 and 2010, was taxed by the following jurisdictions.

	2012	2011	2010
Domestic	\$ 6,290,684	\$ 1,638,572	\$ 2,676,258
Foreign	4,501,339	1,593,403	1,547,874
Total	<u>\$ 10,792,023</u>	<u>\$ 3,231,975</u>	<u>\$ 4,224,132</u>

A reconciliation of income tax benefit and the amount computed by applying the statutory Federal income tax rate to income before income taxes for the years ended September 30, 2012, 2011 and 2010 is as follows:

Note 6. Income Taxes – continued

	2012	2011	2010
Income tax expense at statutory rates	\$ 3,669,000	\$ 1,099,000	\$ 1,436,000
State income tax, net of federal benefits	677,000	192,000	223,000
Non-deductible expenses	5,000	(12,000)	305,000
Effect of AMT expense	41,000	28,178	6,000
Effect of foreign income tax	(688,093)	(221,501)	(206,773)
Effect of pioneer tax status - Malaysia	(233,000)	(134,000)	-
Effect of change in UK tax rate	(72,000)	-	-
Effect of stock option exercises	(2,263,000)	-	(704,000)
Utilization of NOL carryforwards	(1,637,205)	(973,753)	(1,087,173)
Decrease in valuation allowance	(4,006,000)	(2,145,000)	(2,485,000)
Income tax benefit	<u>\$ (4,507,298)</u>	<u>\$ (2,167,076)</u>	<u>\$ (2,512,946)</u>

As of September 30, 2012, the Company had federal and state net operating loss carryforwards of approximately \$24,641,000 and \$12,363,000, respectively, for income tax purposes expiring in years 2018 to 2027. The Company's U.K. subsidiary, The Female Health Company - UK, plc has U.K. net operating loss carryforwards of approximately \$64,260,000 as of September 30, 2012, which can be carried forward indefinitely to be used to offset future U.K. taxable income.

The Female Health Company (M) SDN BHD, has been granted Pioneer Status in Malaysia. The Pioneer Status is a tax incentive program that permanently exempts a portion of the entity's income from tax. In fiscal years 2012 and 2011, the Pioneer Status exempted approximately \$932,000 and \$536,000, respectively, of the entity's income from tax, resulting in a tax savings of nearly \$233,000 and \$134,000 in fiscal years 2012 and 2011, respectively. The impact on net income per basic and fully diluted common share outstanding resulting from the tax savings is an increase of \$.01 and \$.00 in fiscal years 2012 and 2011, respectively. The Pioneer Status, which the Company elected in fiscal year 2011, is valid through fiscal year 2012.

The federal and state income tax provision (benefit) for the years ended September 30, 2012, 2011 and 2010 is summarized below:

	2012	2011	2010
Deferred – U.S.	\$ (1,399,000)	\$ (3,442,000)	\$ (1,210,000)
Deferred – U.K.	(3,501,000)	942,000	(1,480,851)
Deferred – Malaysia	6,067	35,950	152,227
Current – U.S.	293,123	226,178	25,678
Current – Malaysia	93,512	70,796	-
Income tax benefit	<u>\$ (4,507,298)</u>	<u>\$ (2,167,076)</u>	<u>\$ (2,512,946)</u>

Significant components of the Company's deferred tax assets and liabilities are as follows at September 30, 2012 and 2011:

	2012	2011
Deferred Tax Assets		
Federal net operating loss carryforwards	\$ 8,378,000	\$ 10,112,000
State net operating loss carryforwards	1,175,000	1,426,000
AMT credit carryforward	152,000	111,000
Foreign net operating loss carryforwards – U.K.	14,780,000	18,489,000
Foreign capital allowance – U.K.	177,000	247,000
Accrued expenses	748,000	-
Other, net	29,000	60,000
Gross deferred tax assets	25,439,000	30,445,000
Valuation allowance for deferred tax asset	(12,139,000)	(22,045,000)
Net deferred tax assets	13,300,000	8,400,000
Deferred Tax Liabilities:		
Foreign capital allowance – Malaysia	(194,244)	(188,177)
Net deferred tax asset	<u>\$ 13,105,756</u>	<u>\$ 8,211,823</u>

Notes to Consolidated Financial Statements

Note 6. Income Taxes – continued

The deferred tax amounts have been classified in the accompanying consolidated balance sheets as follows:

	2012	2011
Current assets – U.S.	\$ 1,802,000	\$ 662,000
Current assets – U.K.	350,000	138,000
Long-term assets – U.S.	6,197,000	5,938,000
Long-term assets – U.K.	4,951,000	1,662,000
Long-term liability – Malaysia	(194,244)	(188,177)
	<u>\$ 13,105,756</u>	<u>\$ 8,211,823</u>

The change in the valuation allowance for deferred tax assets for the years ended September 30 is as follows:

Year	Balance at October 1	Charged to Costs and Expenses	Deductions/Other	Balance at September 30
2010	\$ 32,340,000	\$ (2,800,000)	\$ (2,799,000)	\$ 26,741,000
2011	\$ 26,741,000	\$ (2,500,000)	\$ (2,196,000)	\$22,045,000
2012	\$ 22,045,000	\$ (4,900,000)	\$ (5,006,000)	\$12,139,000

The valuation allowance decreased by \$9,906,000, \$4,696,000 and \$5,599,000 for the years ended September 30, 2012, 2011 and 2010, respectively. Under the Internal Revenue Code, certain ownership changes, including the prior issuance of preferred stock, the public offering of common stock and the exercise of common stock warrants and options may subject the Company to annual limitations on the utilization of its net operating loss carryforward. Under the Inland Revenue statutes, certain triggering events may subject the Company to limitations on the utilization of its net operating loss carryforward in the U.K. As of September 30, 2012, management does not believe any limitations have occurred.

ASC Topic 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740 developed a two-step process to evaluate a tax position and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company has not recorded a reserve for any tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company files tax returns in all appropriate jurisdictions, including foreign, U.S. Federal and Illinois and Virginia State tax returns:

- For the U.S., a tax return may be audited any time within 3 years from filing date. The U.S. open tax years are for fiscal years 2009 through 2011, which expire in years 2013 through 2015, respectively.
- For Malaysia, a tax return may be audited any time within 6 years from filing date. The Malaysia open tax years are for 2007 through 2011, which expire in years 2015 through 2018.
- For the U.K., a tax return may be audited within 1 year from the later of: the filing date or the filing deadline (1 year after the end of the accounting period). The U.K. open tax year is for 2011, which expires in 2013.

Notes to Consolidated Financial Statements

The fiscal year 2012 tax returns for each jurisdiction has not been filed as of the date of this filing. As of September 30, 2012 and 2011, the Company has no recorded liability for unrecognized tax benefits.

The Company recognizes interest and penalties related to uncertain tax positions as income tax expense as incurred. No expense for interest and penalties was recognized for the years ended September 30, 2012, 2011 and 2010.

Note 7. Share-based Payments

In March 2008, the Company's shareholders approved the 2008 Stock Incentive Plan which will be utilized to provide equity opportunities and performance-based incentives to attract, retain and motivate those persons who make (or are expected to make) important contributions to the Company. A total of 2,000,000 shares are available for issuance under the plan. As of September 30, 2012, a total of 766,932 shares have been granted under the plan, of which 150,000 shares were in the form of stock options and the remainder were in the form of restricted stock or other share grants.

Stock Option Plans

Under the Company's previous share-based long-term incentive compensation plan, the 1997 Stock Option Plan, the Company granted non-qualified stock options to employees. There are no shares available for grant under this plan which expired on December 31, 2006. Options issued under this plan expire 10 years after the date of grant and generally vested 1/36 per month, with full vesting after three years. Under the Company's 2008 Stock Incentive Plan, options issued expire 10 years after the date of grant and vest 1/36 per month, with full vesting after three years. The Company did not grant any options during the years ended September 30, 2012, 2011 and 2010.

Compensation expense is recognized only for share-based payments expected to vest. The Company estimates forfeitures at the date of grant based on historical experience and future expectations. Stock compensation expense related to options for the years ended September 30, 2012, 2011 and 2010 was approximately \$60,000, \$90,000 and \$92,000, respectively.

Option Activity

The following table summarizes the stock options outstanding and exercisable at September 30, 2012:

	Shares	Weighted Average		Aggregate Intrinsic Value
		Exercise Price Per Share	Remaining Contractual Term (years)	
Outstanding at September 30, 2009	2,269,000	\$ 1.58		
Granted	-	-		
Exercised	(435,000)	1.43		
Forfeited	-	-		
Outstanding at September 30, 2010	1,834,000	\$ 1.61		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Outstanding at September 30, 2011	1,834,000	\$ 1.61		
Granted	-	-		
Exercised	(1,557,750)	1.44		
Forfeited	-	-		
Outstanding at September 30, 2012	276,250	\$ 2.57	4.78	\$ 1,266,000
Exercisable on September 30, 2012	276,250	\$ 2.57	4.78	\$ 1,266,000

Note 7. Share-based Payments - continued

During the year ended September 30, 2012, a number of stock option holders exercised 1,557,750 stock options, using the cashless exercise option available under the plan which entitled them to 1,166,017 shares of common stock. Some option holders surrendered 363,035 of the shares due them in payment of taxes, bringing the net number of shares issued to 802,982. No stock options were exercised during fiscal year 2011. During the year ended September 30, 2010, a number of stock option holders exercised 325,000 stock options, using the cashless exercise option available under the plan which entitled them to 186,220 shares of common stock. Proceeds of \$157,900 were received during the year ended September 30, 2010 for the exercise of an additional 110,000 stock options.

The aggregate intrinsic value in the table above is before income taxes, based on the Company's closing stock price of \$7.15 on the last day of business for the period ended September 30, 2012. The total intrinsic value of options exercised during the years ended September 30, 2012 and 2010 was approximately \$6,888,000 and \$1,792,000, respectively.

There was no unrecognized compensation cost for stock options as of September 30, 2012. The deferred tax asset and realized tax benefit from stock options exercised and other share-based payments for the years ended September 30, 2012, 2011 and 2010 was not recognized, based on the Company's election of the "with and without" approach.

Restricted Stock

The Company issues restricted stock to employees, directors and consultants. Such issuances may have vesting periods that range from one to three years. In addition, the Company has issued stock awards to certain employees that provide for future issuance contingent on continued employment for periods that range from one to three years.

A summary of the non-vested stock activity for fiscal years 2012, 2011 and 2010 is summarized in the table below:

	Shares	Weighted Average Grant -Date Fair Value
Total Outstanding September 30, 2009	119,589	\$ 3.16
Stock Granted	35,250	4.71
Vested	(105,250)	3.61
Forfeited	(5,000)	4.71
Total Outstanding September 30, 2010	44,589	\$ 3.16
Stock Granted	293,750	5.71
Vested	(142,335)	4.97
Forfeited	(2,500)	5.07
Total Outstanding September 30, 2011	193,504	\$ 5.68
Stock Granted	52,500	4.16
Vested	(149,686)	5.23
Forfeited	(2,500)	3.94
Total Outstanding September 30, 2012	93,818	\$ 5.59

Note 7. Share-based Payments - continued

The Company granted a total of 52,500 shares of restricted stock or shares issuable pursuant to promises to issue shares of common stock during the year ended September 30, 2012. The fair value of the awards granted was approximately \$218,000. All such shares of restricted stock vest and all such shares must be issued pursuant to promises to issue common stock in September 2012 through September 2014, provided the grantee has not voluntarily terminated service or been terminated for cause prior to the vesting or issuance date. There were 2,500 shares of restricted stock forfeited during the year ended September 30, 2012. The Company granted a total of 293,750 shares of restricted stock or shares issuable pursuant to promises to issue shares of common stock during the year ended September 30, 2011. The fair value of the awards granted was approximately \$1,677,000. All such shares of restricted stock vest and all such shares must be issued pursuant to promises to issue common stock between September 2011 and December 2013, provided the grantee has not voluntarily terminated service or been terminated for cause prior to the vesting or issuance date. The Company granted 35,250 shares of restricted stock during the year ended September 30, 2010. The fair value of the awards granted was approximately \$166,000. All such shares of restricted stock vested in September 2010.

The Company recognized share-based compensation expense for restricted stock or promises to issue shares of common stock of approximately \$782,000, \$706,000 and \$379,000 for the years ended September 30, 2012, 2011 and 2010, respectively, \$199,000, \$212,000 and \$206,000 of which was included in accrued expenses at year end since the related shares have not yet been issued at September 30, 2012, 2011 and 2010, respectively. This expense was included in selling, general and administrative expenses for the respective periods. As of September 30, 2012, there was approximately \$525,000, representing approximately 94,000 unvested shares, of total unrecognized compensation cost related to non-vested restricted stock compensation arrangements granted under the incentive plans. This unrecognized cost will be recognized over the weighted average period of the next 1.13 years.

Common Stock Purchase Warrants

The Company did not issue any common stock purchase warrants in fiscal year 2012, 2011 or 2010. In fiscal year 2012, a warrant holder exercised 10,000 warrants which provided proceeds of \$13,000. The warrant holder also exercised 18,000 warrants using the cashless exercise option available within the warrant agreements which entitled the warrant holder to 14,795 shares of common stock. There were no warrant exercises during fiscal year 2011. In fiscal year 2010, a warrant holder exercised 30,000 warrants using the cashless exercise option available within the warrant agreements which entitled the warrant holder to 23,085 shares of common stock. In fiscal 2010, warrant holders exercised 626,500 warrants which provided proceeds of \$725,600. There is no unrecognized compensation cost related to warrants as of September 30, 2012.

At September 30, 2012, 52,000 warrants issued in connection with investor relations were outstanding and exercisable. These warrants have an exercise price of \$1.30, remaining life of 3.79 years and aggregate intrinsic value of \$304,200. The aggregate intrinsic value is before taxes, based on the Company's closing price of \$7.15 on the last day of business for the year ended September 30, 2012.

Note 8. Stock Repurchase Program

The Company's Stock Repurchase Program was announced on January 17, 2007. At initiation, the plan's terms specified that up to 1,000,000 shares of its common stock could be purchased during the subsequent twelve months. Subsequently, the Board has amended the plan a number of times to both extend its term and increase the maximum number of shares which could be repurchased. Currently, the plan allows for a maximum repurchase of up to 3,000,000 shares through the period ending December 31, 2012. From the program's onset through September 30, 2012, the total number of shares repurchased by the Company is 1,958,829. The Stock Repurchase Program authorizes purchases in privately negotiated transactions as well as in the open market. In October 2008, the Company's Board of Directors authorized repurchases in private transactions under the Stock Repurchase Program of shares issued under the Company's equity compensation plans to directors, employees and other service providers at the market price on the effective date of the repurchase request. Thereafter, total repurchases under this amendment are limited to an aggregate of 250,000 shares per calendar year and to a maximum of 25,000 shares annually per individual. Purchases under this amendment for fiscal year 2012, 2011 and 2010 were 34,000, 5,750 and 65,274 shares, respectively.

Issuer Purchases of Equity Securities:	Details of Treasury Stock Purchases to Date through September 30, 2012:			
	Total Number of Shares Purchased	Average Price Paid Per Share	Aggregate Number of Shares Purchased As Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program
Period				
January 1, 2007 – September 30, 2009	1,843,805	\$ 3.24	1,843,805	1,156,195
October 1, 2009 – September 30, 2010	65,274	5.35	1,909,079	1,090,921
October 1, 2010 – September 30, 2011	5,750	5.75	1,914,829	1,085,171
October 1, 2011 – September 30, 2012	44,000	6.58	1,958,829	1,041,171
Total	1,958,829	\$ 3.41	1,958,829	1,041,171

Note 9. Employee Benefit Plan

The Company has a Simple Individual Retirement Account (IRA) plan for its employees. Employees are eligible to participate in the plan if their compensation reaches certain minimum levels and are allowed to contribute up to a maximum of \$14,000 annual compensation to the plan. The Company has elected to match 100 percent of employee contributions to the plan up to a maximum of 3 percent of employee compensation for the years ended September 30, 2012, 2011 and 2010. Annual Company contributions were approximately \$42,000, \$21,000 and \$30,000 for the years ended September 30, 2012, 2011 and 2010, respectively.

Note 10. Industry Segments and Financial Information about Foreign and Domestic Operations

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

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

Notes to Consolidated Financial Statements

Note 10. Industry Segments and Financial Information about Foreign and Domestic Operations - continued

	Product Sales to External Customers for the Year Ended			Long-Lived Asset As Of	
	September 30,			September 30,	
	2012	2011	2010	2012	2011
South Africa	\$ 6,834(1)	\$ 1,378	\$ 2,549(1)	\$ -	\$ -
Brazil	6,720	955	*	-	-
United States	2,423(1)	2,112(1)	1,594	175	132
Uganda	*	1,305	*	-	-
Zimbabwe	*	966	1,667	-	-
Malawi	*	*	2,543(1)	-	-
DR of Congo	*	*	1,519	-	-
India	*	*	*	67	88
United Kingdom	*	*	*	220	193
Malaysia	*	*	*	2,010	1,683
Other	19,035	11,800	12,316	-	-
Total	\$ 35,012	\$ 18,516	\$ 22,188	\$ 2,472	\$ 2,096

* Less than 5% percent of total net sales.

(1) Comprised of a single customer considered to be a major customer (exceeds 10 percent of net sales).

Note 11. Contingent Liabilities

The testing, manufacturing and marketing of consumer products by the Company entail an inherent risk that product liability claims will be asserted against the Company. The Company maintains product liability insurance coverage for claims arising from the use of its products. The coverage amount is currently \$5,000,000 for FHC's consumer health care product.

Note 12. FC1 – FC2 Transition – Restructuring Costs

On August 5, 2009, the Company announced to its U.K. employees that the Company would evaluate the future of its U.K. facility following the decision of two of its largest customers to switch their purchases from the first generation product, FC1, manufactured in the U.K. facility, to the second generation product, FC2, which is manufactured in Malaysia. As is required by British labor law, the Company went through an evaluation process, working in tandem with employee representatives, in which various manufacturing alternatives were considered.

In September 2009, the process concluded when management and the labor representatives were unable to identify a viable alternative. In late September, production employees were notified of the redundancy (plan to terminate their employment) and of the one-time termination payments due them. Manufacturing ceased in mid-October 2009.

In November 2009, following the cessation of FC1 manufacturing in the U.K. facility, the Company entered into an agreement with a new owner of the London manufacturing facility to surrender its existing property lease, which would have expired in December 2016, in exchange for a lease surrender fee of \$1,490,716 and a new short-term lease. Per the terms of the agreement, the Company was responsible for removing certain leasehold improvements from the property (dilapidations) prior to termination of the lease. Upon execution of the new agreements, the Company deposited the new annual rent of approximately \$484,000, as required by the lease terms.

From a cash flow perspective, replacing the previous lease at that time eliminated future payments of approximately \$4.3 million (for rent and related expenses) over the remaining term of the previous lease, producing a positive net impact of \$2.8 million (after deducting the lease surrender payments).

On April 27, 2010, the Company signed two related agreements, with the former and new landlords of the U.K. facility, which terminated the November 2009 U.K. lease and granted the Company rent-free occupation of the premises from April 28, 2010 through June 30, 2010. Per the terms of these agreements, the Company agreed to a lease exit fee of \$216,000 and a \$248,000 payment in lieu of dilapidations. Those obligations were fulfilled by a cash payment of \$234,000 and surrender of remaining rent prepayment of \$230,000, which had been held in trust since November 2009.

Notes to Consolidated Financial Statements

Note 12. FC1 – FC2 Transition – Restructuring Costs – continued

The Company evaluated, measured and recognized the restructuring costs under the guidance of ASC Topic 420, Exit or Disposal Cost Obligations, and recognized such costs in the period incurred. The costs associated with this restructuring fall under the scope of associated costs of an exit activity, as suggested by the Interpretive Response in Staff Accounting Bulletin Topic 5(P)(4), including footnote 17. The components of the restructuring expenses recognized for the year ended September 30, 2010 are as follows:

	2010
Lease surrender payments and related costs	\$ 1,734,496
Excess capacity costs	302,683
Proportionate recognition of deferred gain on original sale/leaseback of plant	(657,605)
Dilapidations and related costs	550,348
Total	\$ 1,929,922
Restructuring accrual balance at September 30, 2009	\$ 1,116,911
Restructuring costs incurred during the year ended September 30, 2010	1,929,922
Less:	
Termination payments	\$ 1,325,309
Lease surrender payments	1,734,496
Lease exit payments	644,633
Reversal of deferred gain	(657,605)
	<u>(3,046,833)</u>
Restructuring accrual balance at September 30, 2010	<u>\$ -</u>

While FC1 production has ceased, the Company continues to conduct significant operating activities in the U.K. Such activities include global sales and marketing of the FC2 female condom, management and direction of Global Manufacturing Operations (including production planning, inventory management, quality assurance and quality control, finished goods release, compliance with good manufacturing practices), relationships with regulatory agencies world-wide, oversight of the Global Technical Support Team and new product development.

Note 13. Dividends

Beginning February 16, 2010 through September 30, 2012, the Company has paid eleven quarterly cash dividends. The first nine were paid at a quarterly rate per share of \$0.05. In May 2012, the quarterly dividend per share increased to a rate of \$0.06. Cumulative dividends paid totaled \$15.9 million through September 30, 2012. On October 5, 2012, the Company's Board of Directors declared a quarterly cash dividend of \$0.06 per share. The Company paid, from its cash on hand, approximately \$1.7 million pursuant to the dividend on November 7, 2012 to stockholders of record as of October 31, 2012. Total dividends paid were approximately \$6.2 million, \$5.5 million and \$4.1 million in 2012, 2011 and 2010, respectively.

Any future quarterly dividends and the record date for such dividends will be approved each quarter by the Company's Board of Directors and announced by the Company. Payment of any future dividends is at the discretion of the Board of Directors and the Company may not have sufficient cash flows to pay dividends.

Notes to Consolidated Financial Statements

Note 14. Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year Ended
2012					
Net revenues	\$ 8,634,442	\$ 7,831,364	\$ 8,656,390	\$ 9,911,701	\$ 35,033,897
Gross profit	5,016,144	4,560,969	5,293,736	5,750,164	20,621,013
Operating expenses	2,232,864	2,397,738	2,485,690	2,564,791	9,681,083
Income tax expense (benefit)	71,385	226,836	273,839	(5,079,358)	(4,507,298)
Net income	2,659,944	1,904,429	2,549,743	8,185,205	15,299,321
Net income per common share – basic	0.10	0.07	0.09	0.29	0.55
Net income per common share – diluted	0.09	0.07	0.09	0.29	0.53
2011					
Net revenues	\$ 3,651,368	\$ 4,287,245	\$ 3,517,439	\$ 7,109,050	\$ 18,565,102
Gross profit	2,016,918	1,807,234	1,813,685	4,227,353	9,865,190
Operating expenses	1,582,931	1,705,949	1,363,184	1,917,784	6,569,848
Income tax expense (benefit)	17,130	(8,130)	15,266	(2,191,342)	(2,167,076)
Net income	386,668	80,998	416,667	4,514,718	5,399,051
Net income per common share – basic	0.01	0.00	0.02	0.17	0.20
Net income per common share – diluted	0.01	0.00	0.01	0.16	0.19

AMENDED AND RESTATED
BY-LAWS
OF
THE FEMALE HEALTH COMPANY
(As amended as of November 7, 2012)

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 THE FEMALE HEALTH COMPANY

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AMENDED AND RESTATED
BY-LAWS
OF
THE FEMALE HEALTH COMPANY

ARTICLE I. OFFICES

SECTION 1.01. Principal and Business Offices. The Corporation may have such principal and other business offices, either within or without the State of Wisconsin, as the Board of Directors may designate or as the business of the Corporation may require from time to time.

SECTION 1.02. Registered Office. The registered office of the Corporation required by the Wisconsin Business Corporation Law to be maintained in the State of Wisconsin may be, but need not be, identical with the principal office in the State of Wisconsin, and the address of the registered office may be changed from time to time by the Board of Directors. The business office of the registered agent of the Corporation shall be identical to such registered office.

ARTICLE II. SHAREHOLDERS

SECTION 2.01. Annual Meeting. The annual meeting of the shareholders shall be held on the second Wednesday in the month of March of each year beginning with the year 1996 at the hour of 2:00 p.m., or at such other time and date within 60 days thereof as may be authorized by the Board of Directors and set forth in the notice of meeting, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the day fixed for the annual meeting shall be a legal holiday in the State of Wisconsin, such meeting shall be held on the next succeeding business day. If the election of directors shall not be held on the day designated herein for any annual meeting of the shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as conveniently may be.

SECTION 2.02. Special Meeting. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the President or the Board of Directors, and shall be called by the President at the written request (a) of the holders of not less than one tenth of all shares of the Corporation entitled to vote at the meeting, or (b) of one third, but in no event less than two, of the directors then in office.

SECTION 2.03. Place of Meeting. The Board of Directors may designate any place, either within or without the State of Wisconsin, as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors. A waiver of notice signed by all shareholders entitled to vote at a meeting may designate any place, either within or without the State of Wisconsin, as the place for the holding of such meeting. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal business office of the Corporation in the State of Wisconsin or such other suitable place in the county of such principal office as may be designated by the person calling such meeting, but any meeting may be adjourned to reconvene at any place designated by vote of a majority of the shares represented thereat.

SECTION 2.04. Notice of Meeting. Written notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than 45 days before the date of the meeting, either personally or by mail, by or at the direction of the President, or the Secretary, or other officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at his address as it appears on the stock record books of the Corporation, with postage thereon prepaid.

SECTION 2.05. Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, the shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than 70 days and, in case of a meeting of shareholders, not less than 10 days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the close of business on the date on which notice of the meeting is mailed or on the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall be applied to any adjournment thereof.

SECTION 2.06. Voting Lists. The officer or agent having charge of the stock transfer books for shares of the Corporation shall, before each meeting of shareholders, make a complete list of the shareholders entitled to vote at such meeting, or any adjournment thereof, with the address of and the number of shares held by each which list shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purposes of the meeting. The original stock transfer books shall be prima facie evidence as to who are the shareholders entitled to examine such list or transfer books or to vote at any meeting of shareholders. Failure to comply with the requirements of this section shall not affect the validity of any action taken at such meeting.

SECTION 2.07. Quorum. Except as otherwise provided in the Articles of Incorporation, a majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on the subject matter shall be the act of the shareholders unless the vote of a greater number or voting by classes is required by law or the Articles of Incorporation. Though less than a quorum of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

SECTION 2.08. Conduct of Meetings. The President, and in his absence, a Vice President in the order provided under SECTIONS 4.07 and 4.08 and in their absence, any person chosen by the shareholders present shall call the meeting of the shareholders to order and shall act as chairman of the meeting, and the Secretary of the Corporation shall act as secretary of all meetings of the shareholders, but, in the absence of the Secretary, the presiding officer may appoint any other person to act as secretary of the meeting.

SECTION 2.09. Proxies. At all meetings of shareholders, a shareholder entitled to vote may vote in person or by proxy appointed in writing by the shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the Secretary of the Corporation before or at the time of the meeting. Unless otherwise provided in the proxy, a proxy may be revoked at any time before it is voted, either by written notice filed with the Secretary or the acting secretary of the meeting or by oral notice given by the shareholder to the presiding officer during the meeting. The presence of a shareholder who has filed his proxy shall not of itself constitute a revocation. No proxy shall be valid after 11 months from the date of its execution, unless otherwise provided in the proxy. The Board of Directors shall have the power and authority to make rules establishing presumptions as to the validity and sufficiency of proxies.

SECTION 2.10. Voting of Shares. Each outstanding share shall be entitled to one vote upon each matter submitted to a vote at a meeting of shareholders, except to the extent that the voting rights of the shares of any class or classes are enlarged, limited or denied by the Articles of Incorporation.

SECTION 2.11. Voting of Shares by Certain Holders

(a) Other Corporations. Shares standing in the name of another corporation may be voted either in person or by proxy, by the president of such corporation or any other officer appointed by such president. A proxy executed by any principal officer of such other corporation or assistant thereto shall be conclusive evidence of the signer's authority to act, in the absence of express notice to this Corporation, given in writing to the Secretary, of the designation of some other person by the Board of Directors or the By-Laws of such other corporation.

(b) Legal Representatives and Fiduciaries. Shares held by an administrator, executor, guardian, conservator, trustee in bankruptcy, receiver or assignee for creditors may be voted by him either in person or by proxy, without a transfer of such shares into his name, provided that there is filed with the Secretary before or at the time of meeting proper evidence of his incumbency and the number of shares held. Shares standing in the name of a fiduciary may be voted by him, either in person or by proxy. A proxy executed by a fiduciary shall be conclusive evidence of the signer's authority to act, in the absence of express notice to this Corporation, given in writing to the Secretary of this Corporation, that such manner of voting is expressly prohibited or otherwise directed by the document creating the fiduciary relationship.

(c) Pledges. A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

(d) Treasury Stock and Subsidiaries. Neither treasury shares, nor shares held by another corporation if a majority of the shares entitled to vote for the election of directors of such other corporation is held by this Corporation, shall be voted at any meeting or counted in determining the total number of outstanding shares entitled to vote, but shares of its own issue held by this Corporation in a fiduciary capacity, or held by such other corporation in a fiduciary capacity, may be voted and shall be counted in determining the total number of outstanding shares entitled to vote.

(e) Minors. Shares held by a minor may be voted by such minor in person or by proxy and no such vote shall be subject to disaffirmance or avoidance, unless prior to such vote the Secretary of the Corporation has received written notice or has actual knowledge that such shareholder is a minor.

(f) Incompetents and Spendthrifts. Shares held by an incompetent or spendthrift may be voted by such incompetent or spendthrift in person or by proxy and no such vote shall be subject to disaffirmance or avoidance, unless prior to such vote the Secretary of the Corporation has actual knowledge that such shareholder has been adjudicated an incompetent or spendthrift or actual knowledge of filing of judicial proceedings for appointment of a guardian.

(g) Joint Tenants. Shares registered in the names of two or more individuals who are named in the registration as joint tenants may be voted in person or by proxy signed by any one or more of such individuals if either (a) no other such individual or his legal representative is present and claims the right to participate in the voting of such shares or prior to the vote files with the Secretary of the Corporation a contrary written voting authorization or direction or written denial of authority of the individual present or signing the proxy proposed to be voted or (b) all such other individuals are deceased and the Secretary of the Corporation has no actual knowledge that the survivor has been adjudicated not to be the successor to the interests of those deceased.

SECTION 2.12. Waiver of Notice by Shareholders. Whenever any notice whatever is required to be given to any shareholder of the Corporation under the Articles of Incorporation or By-Laws or any provision of law, a waiver thereof in writing, signed at any time, whether before or after the time of meeting, by the shareholder entitled to such notice, shall be deemed equivalent to the giving of such notice; provided that such waiver in respect to any matter of which notice is required under any provision of the Wisconsin Business Corporation Law, shall contain the same information as would have been required to be included in such notice, except the time and place of meeting.

SECTION 2.13. Unanimous Consent Without Meeting. Any action required to be taken at a meeting of the shareholders, or any other action which may be taken at a meeting of the shareholders, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof.

ARTICLE III. BOARD OF DIRECTORS

SECTION 3.01. General Powers and Number. The business and affairs of the Corporation shall be managed by its Board of Directors. The number of directors which shall constitute the whole Board shall be not less than five nor more than nine, as may be designated from time to time by resolution of the Board of Directors.

SECTION 3.02. Tenure and Qualifications. Each director shall hold office until the next annual meeting of shareholders and until his successor shall have been elected, or until his prior death, resignation or removal. A director may be removed from office by affirmative vote of a majority of the outstanding shares entitled to vote for the election of such director, taken at a meeting of shareholders called for that purpose. A director may resign at any time by filing his written resignation with the Secretary of the Corporation. Directors need not be residents of the State of Wisconsin or shareholders of the Corporation.

SECTION 3.03. Regular Meetings. A regular meeting of the Board of Directors shall be held without other notice than this By-Law immediately after the annual meeting of shareholders, and each adjourned session thereof. The place of such regular meeting shall be the same as the place of the meeting of shareholders which precedes it, or such other suitable place as may be announced at such meeting of shareholders. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Wisconsin, for the holding of additional regular meetings without other notice than such resolution.

SECTION 3.04. Special Meetings. Special meetings of the Board of Directors may be called by or at the request of the President, Secretary or any two directors. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the State of Wisconsin, as the place for holding any special meeting of the Board of Directors called by them, and if no other place is fixed, the place of meeting shall be the principal business office of the Corporation in the State of Wisconsin.

SECTION 3.05. Notice; Waiver. Notice of each meeting of the Board of Directors (unless otherwise provided in or pursuant to SECTION 3.03) shall be given by written notice, delivered personally or mailed or given by telegram to each director at his business address or at such other address as such director shall have designated in writing filed with the Secretary, in each case not less than 48 hours prior thereto. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Whenever any notice whatever is required to be given to any director of the Corporation under the Articles of Incorporation or By-Laws or any provision of law, a waiver thereof in writing, signed at any time, whether before or after the time of meeting, by the director entitled to such notice, shall be deemed equivalent to the giving of such notice. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting and objects thereat to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

SECTION 3.06. Quorum. Except as otherwise provided by law or by the Articles of Incorporation or these By-Laws, a majority of the number of directors set forth in SECTION 3.01 shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but a majority of the directors present (though less than such quorum) may adjourn the meeting from time to time without further notice.

SECTION 3.07. Manner of Acting. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by law or by the Articles of Incorporation or these By-Laws.

SECTION 3.08. Conduct of Meetings. The President, and in his absence, a Vice President who is a director, in the order provided under SECTIONS 4.07 and 4.08 and in their absence, any director chosen by the directors present, shall call meetings of the Board of Directors to order and shall act as chairman of the meeting. The Secretary of the Corporation shall act as secretary of all meetings of the Board of Directors, but in the absence of the Secretary, the presiding officer may appoint any Assistant Secretary or any director or other person present to act as secretary of the meeting.

SECTION 3.09. Vacancies. Any vacancy occurring in the Board of Directors, including a vacancy created by an increase in the number of directors, may be filled until the next succeeding annual election by the affirmative vote of a majority of the directors then in office, though less than a quorum of the Board of Directors; provided that in case of a vacancy created by the removal of a director by vote of the shareholders, the shareholders shall have the right to fill such vacancy at the same meeting or any adjournment thereof.

SECTION 3.10. Compensation. The Board of Directors, by affirmative vote of a majority of the directors then in office, and irrespective of any personal interest of any of its members, may establish reasonable compensation of all directors for services to the Corporation as directors, officers or otherwise, or may delegate such authority to an appropriate committee. Members of the Board shall be paid their expenses, if any, of attendance at each meeting of the Board at any place other than the county in which the principal business office of the Corporation in the State of Wisconsin is located. The Board of Directors also shall have authority to provide for or to delegate authority to an appropriate committee to provide for reasonable pensions, disability or death benefits and other benefits or payments, to directors, officers and employees and to their estates, families, dependents or beneficiaries on account of prior services rendered by such directors, officers and employees to the Corporation.

SECTION 3.11. Presumption of Assent. A director of the Corporation who is present at a meeting of the Board of Directors or a committee thereof of which he is a member at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 3.12. Committees. The Board of Directors by resolution adopted by the affirmative vote of a majority of the number of directors set forth in SECTION 3.01 may designate one or more committees, each committee to consist of three or more directors elected by the Board of Directors, which to the extent provided in said resolution as initially adopted, and as thereafter supplemented or amended by further resolution adopted by a like vote, shall have and may exercise, when the Board of Directors is not in session, the powers of the Board of Directors in the management of the business and affairs of the Corporation, except action in respect to dividends to shareholders, election of the principal officers or the filling of vacancies in the Board of Directors or committees created pursuant to this section. The Board of Directors may elect one or more of its members as alternate members of any such committee who may take the place of any absent member or members at any meeting of such committee, upon request by the President or upon request by the chairman of such meeting. Each such committee shall fix its own rules governing the conduct of its activities and shall make such reports to the Board of Directors of its activities as the Board of Directors may request.

SECTION 3.13. Unanimous Consent Without Meeting. Any action required or permitted by the Articles of Incorporation or By-Laws or any provision of law to be taken by the Board of Directors at a meeting or by resolution may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all the directors then in office.

ARTICLE IV. OFFICERS

SECTION 4.01. Number. The principal officers of the Corporation shall be a President, one or more Vice Presidents (the number, precedence and duties thereof to be determined by the Board of Directors), a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. The Board of Directors may also designate and elect a Chairman and may designate one of the Vice Presidents as Executive Vice President. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the Board of Directors. Any two or more offices may be held by the same person, except the offices of President and Secretary and the offices of President and Vice President.

SECTION 4.02. Election and Term of Office. The officers of the Corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until his successor shall have been duly elected or until his or her prior death, resignation or removal.

SECTION 4.03. Removal. Any officer or agent may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment shall not of itself create contract rights.

SECTION 4.04. Vacancies. A vacancy in any principal office because of death, resignation, removal, disqualification or otherwise, shall be filled by the Board of Directors for the unexpired portion of the term.

SECTION 4.05. Chairman. Anything in these By-Laws to the contrary notwithstanding, the Chairman, if one be designated and elected (a) shall, when present, preside at all meetings of the shareholders and of the Board of Directors, (b) may call a meeting of the Board of Directors, and (c) may sign, execute and acknowledge, on behalf of the Corporation, all deeds, mortgages, bonds, stock certificates, contracts, leases, reports and all other documents or instruments necessary or proper to be executed in the course of the Corporation's regular business, or which shall be authorized by resolution of the Board of Directors and except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these By-Laws to some other agent of the Corporation or shall be required by law to be otherwise signed and executed. The Chairman shall have such other powers and duties as he may be called upon to perform by the Board of Directors or the President.

SECTION 4.06. Chief Executive Officer. The Chief Executive Officer shall be the principal executive officer of the Corporation and, subject to the control of the Board of Directors, shall in general supervise and control all of the business and affairs of the Corporation. He shall, in the absence of a Chairman if one be designated, when present, preside at all meetings of the shareholders and of the Board of Directors. He shall have authority, subject to such rules as may be prescribed by the Board of Directors, to appoint such agents and employees of the Corporation as he shall deem necessary, to prescribe their powers, duties and compensation, and to delegate authority to them. Such agents and employees shall hold office at the discretion of the Chief Executive Officer. He shall have authority to sign, execute and acknowledge, on behalf of the Corporation, all deeds, mortgages, bonds, stock certificates, contracts, leases, reports and all other documents or instruments necessary or proper to be executed in the course of the Corporation's regular business, or which shall be authorized by resolution of the Board of Directors; and, except as otherwise provided by law or the Board of Directors, he may authorize any President, Vice President or other officer or agent of the Corporation to sign, execute and acknowledge such documents or instruments in his place and stead. In general he shall perform all duties incident to the office of Chief Executive Officer and such other duties as may be prescribed by the Board of Directors from time to time.

SECTION 4.07. President. The President shall assist the Chairman and the Chief Executive Officer in the discharge of supervisory, managerial and executive duties and functions. In the absence of the Chairman and the Chief Executive Officer or in the events of their death, disability or refusal to act, the President shall perform the duties of the Chairman and the Chief Executive Officer and when so acting shall have all the powers and duties of the Chairman and the Chief Executive Officer. In general, he shall perform all duties incident to the office of President and such other duties as may be assigned to him from time to time by the Board of Directors or the Chairman or the Chief Executive Officer.

SECTION 4.08. Chief Operating Officer. The Chief Operating Officer shall be the principal operating officer of the corporation and shall be subject to the control of the President. In the absence of the President or in the events of his death, disability or refusal to act, the Chief Operating Officer shall perform the duties of the President and when so acting shall have all the powers and duties of the President. In general, he shall perform all duties incident to the office of Chief Operating Officer and such other duties as may be assigned from time to time by the Board of Directors or the President.

SECTION 4.09. The Executive Vice President. The Executive Vice President, if one be designated, shall assist the President in the discharge of supervisory, managerial and executive duties and functions. In the absence of the President and the Chief Operating Officer or in the event of their deaths, inability or refusal to act, the Executive Vice President shall perform the duties of the President and when so acting shall have all the powers and duties of the President. He shall perform such other duties as from time to time may be assigned to him by the Board of Directors or the President.

SECTION 4.10. The Vice Presidents. In the absence of the President, the Chief Operating Officer or Executive Vice President if one be designated or in the event of their deaths, inability or refusal to act, or in the event for any reason it shall be impracticable for the President, the Chief Operating Officer or the Executive Vice President to act personally, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Any Vice President may sign, with the Secretary or Assistant Secretary certificates for shares of the Corporation; and shall perform such other duties and have such authority as from time to time may be delegated or assigned to him by the President or by the Board of Directors. The execution of any instrument of the Corporation by any Vice President shall be conclusive evidence, as to third parties, of his authority to act in the stead of the President.

SECTION 4.11. The Secretary. The Secretary shall: (a) keep the minutes of the meetings of the shareholders and of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these By-Laws or as required by law; (c) be custodian of the corporate records and of the seal of the Corporation and see that the seal of the Corporation is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized; (d) keep or arrange for the keeping of a register of the post office address of each shareholder which shall be furnished to the Secretary by such shareholder; (e) sign with the President, or a Vice President, certificates for shares of the Corporation, the issuance of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of the stock transfer books of the Corporation; and (g) in general perform all duties and exercise such authority as from time to time may be delegated or assigned to him by the President or by the Board of Directors.

SECTION 4.12. The Treasurer. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine. He shall: (a) have charge and custody of and be responsible for all funds and securities of the Corporation; (b) receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of SECTION 6.04; and (c) in general perform all of the duties incident to the office of Treasurer and have such other duties and exercise such other authority as from time to time may be delegated or assigned to him by the President or by the Board of Directors.

SECTION 4.13. Assistant Secretaries and Assistant Treasurers. There shall be such number of Assistant Secretaries and Assistant Treasurers as the Board of Directors may from time to time authorize. The Assistant Secretaries may sign with the President or a Vice President certificates for shares of the Corporation the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant Treasurers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties and have such authority as shall from time to time be delegated or assigned to them by the Secretary or the Treasurer, respectively, or by the President or the Board of Directors.

SECTION 4.14. Other Assistants and Acting Officers. The Board of Directors shall have the power to appoint any person to act as assistant to any officer, or as agent for the Corporation in his stead, or to perform the duties of such officer whenever for any reason it is impracticable for such officer to act personally, and such assistant or acting officer or other agent so appointed by the Board of Directors shall have the power to perform all the duties of the office to which he is so appointed to be assistant, or as to which he is so appointed to act, except as such power may be otherwise defined or restricted by the Board of Directors.

SECTION 4.15. Salaries. The salaries of the principal officers shall be fixed from time to time by the Board of Directors or by a duly authorized committee thereof, and no officer shall be prevented from receiving such salary by reason of the fact that he is also a director of the Corporation.

ARTICLE V. CONTRACTS BETWEEN
CORPORATION AND RELATED PERSONS

Any contract or other transaction between the Corporation and one or more of its directors, or between the Corporation and any firm of which one or more of its directors are members or employees, or in which he or they are interested, or between the Corporation and any corporation or association of which one or more of its directors are shareholders, members, directors, officers or employees, or in which he or they are interested, shall be valid for all purposes, notwithstanding the presence of such director or directors at the meeting of the Board of Directors of the Corporation which acts upon, or in reference to, such contract or transaction, and notwithstanding his or their participation in such action, if the fact of such interest shall be disclosed or known to the Board of Directors and the Board of Directors shall, nevertheless, authorize, approve and ratify such contract or transaction by a vote of a majority of the directors present, such interested director or directors to be counted in determining whether a quorum is present, but not to be counted as voting upon the matter or in calculating the majority of such quorum necessary to carry such vote. This ARTICLE V shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common and statutory law applicable thereto.

ARTICLE VI. CONTRACTS, LOANS, CHECKS
AND DEPOSITS: SPECIAL CORPORATE ACTS

SECTION 6.01. Contracts. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute or deliver any instrument in the name of and on behalf of the Corporation, and such authorization may be general or confined to specific instances. In the absence of other designation, all deeds, mortgages and instruments of assignment or pledge made by the Corporation shall be executed in the name of the Corporation by the President or one of the Vice Presidents and by the Secretary, an Assistant Secretary, the Treasurer or an Assistant Treasurer; the Secretary or an Assistant Secretary, when necessary or required, shall affix the corporate seal thereto; and when so executed no other party to such instrument or any third party shall be required to make any inquiry into the authority of the signing officer or officers.

SECTION 6.02. Loans. No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by or under the authority of a resolution of the Board of Directors. Such authorization may be general or confined to specific instances.

SECTION 6.03. Checks, Drafts, Etc. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by or under the authority of a resolution of the Board of Directors.

SECTION 6.04. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as may be selected by or under the authority of a resolution of the Board of Directors.

SECTION 6.05. Voting of Securities Owned by This Corporation. Subject always to the specific directions of the Board of Directors, (a) any shares or other securities issued by any other corporation owned or controlled by this Corporation may be voted at any meeting of security holders of such other corporation by the President of this Corporation if he be present, or in his absence by any Vice President of this Corporation who may be present, and (b) whenever, in the judgment of the President, or in his absence, of any Vice President, it is desirable for this Corporation to execute a proxy or written consent in respect to any shares or other securities issued by any other corporation and owned by this Corporation, such proxy or consent shall be executed in the name of this Corporation by the President or one of the Vice Presidents of this Corporation, without necessity of any authorization by the Board of Directors, affixation of corporate seal or countersignature or attestation by another officer. Any person or persons designated in the manner above stated as the proxy or proxies of this Corporation shall have full right, power and authority to vote the shares or other securities issued by such other corporation and owned by this Corporation the same as such shares or other securities might be voted by this Corporation.

ARTICLE VII. CERTIFICATES FOR SHARES
AND THEIR TRANSFER

SECTION 7.01. Certificates for Shares. Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. Such certificates shall be signed by the President and by the Secretary or an Assistant Secretary. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except as provided in SECTION 7.05.

SECTION 7.02. Facsimile Signatures and Seal. The seal of the Corporation on any certificates for shares may be a facsimile. The signatures of the President or Vice President and the Secretary or Assistant Secretary upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent, or registered by a registrar, other than the Corporation itself or an employee of the Corporation.

SECTION 7.03. Signature by Former Officers. In case any officer, who has signed or whose facsimile signature has been placed upon any certificate for shares, shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer at the date of its issue.

SECTION 7.04. Transfer of Shares. Prior to due presentment of a certificate for shares for registration of transfer, the Corporation may treat the registered owner of such shares as the person exclusively entitled to vote, to receive notifications and otherwise to exercise all the rights and powers of an owner. Where a certificate for shares is presented to the Corporation with a request to register for transfer, the Corporation shall not be liable to the owner or any other person suffering loss as a result of such registration of transfer if (a) there were on or with the certificate the necessary endorsements, and (b) the Corporation had no duty to inquire into adverse claims or had discharged any such duty. The Corporation may require reasonable assurance that said endorsements are genuine and effective and comply with such other regulations as may be prescribed by or under the authority of the Board of Directors.

SECTION 7.05. Lost, Destroyed or Stolen Certificates. Where the owner claims that his certificate for shares has been lost, destroyed or wrongfully taken, then a new certificate shall be issued in place thereof if the owner (a) so requests before the Corporation has notice that such shares have been acquired by a bona fide purchaser, and (b) files with the Corporation a sufficient indemnity bond, and (c) satisfies such other reasonable requirements as the Board of Directors may prescribe.

SECTION 7.06. Consideration for Shares. The shares of the Corporation may be issued for such consideration, not less than the par value thereof (if any), as shall be fixed from time to time by the Board of Directors. The consideration to be paid for shares may be paid in whole or in part, in money, in other property, tangible or intangible, or in labor or services actually performed for the Corporation. When payment of the consideration for which shares are to be issued shall have been received by the Corporation, such shares shall be deemed to be fully paid and nonassessable by the Corporation. No certificate shall be issued for any share until such share is fully paid.

SECTION 7.07. Restrictions on Transfer. The face or reverse side of each certificate representing shares shall bear a conspicuous notation of any restriction imposed by the Corporation upon the transfer of such shares.

SECTION 7.08. Stock Regulations. The Board of Directors shall have the power and authority to make all such further rules and regulations not inconsistent with the statutes of the State of Wisconsin as it may deem expedient concerning the issue, transfer and registration of certificates representing shares of the Corporation.

ARTICLE VIII. INDEMNIFICATION, LIMITED LIABILITY
AND INSURANCE

SECTION 8.01. General Scope and Definitions.

(a) The rights of directors and officers of the Corporation provided in this ARTICLE VIII shall extend to the fullest extent permitted by the Wisconsin Business Corporation Law and other applicable laws as in effect from time to time.

(b) For purposes of this ARTICLE VIII, "director or officer" means a natural person who is or was a director or officer of the Corporation or who, while a director or officer of the Corporation, is or was serving at the Corporation's request as a director, officer, partner, trustee, member of any governing or decision-making committee, employee or agent of another corporation or foreign corporation, partnership, joint venture, trust or other enterprise or who, while a director or officer of the Corporation, is or was serving an employee benefit plan because his or her duties to the Corporation also imposed duties on, or otherwise involved services by, the person to the plan or to participants in or beneficiaries of the plan, and, unless the context requires otherwise, the estate or personal representative of a director or officer.

(c) For purposes of this ARTICLE VIII, "proceeding" means any threatened, pending or completed civil, criminal, administrative or investigative action, suit, arbitration or other proceeding, whether formal or informal, which involves foreign, federal, state or local law (including federal or state securities laws) and which is brought by or in the right of the Corporation or by any other person.

(d) For purposes of this ARTICLE VIII, "expenses" means fees, costs, charges, disbursements, attorneys' fees and any other expenses incurred in connection with a proceeding, including a proceeding in which a director or officer asserts his or her rights under this ARTICLE VIII, and, if the context requires, liabilities, including the obligation to pay a judgment, settlement, penalty, assessment, forfeiture or fine, including any excise tax assessed with respect to an employee benefit plan.

SECTION 8.02. Mandatory Indemnification.

(a) To the extent that a director or officer has been successful on the merits or otherwise in the defense of any proceeding (including, without limitation, the settlement, dismissal, abandonment or withdrawal of any action where he or she does not pay or assume any material liability), or in connection with any claim, issue or matter therein, the Corporation shall indemnify the director or officer against expenses actually and reasonably incurred by him or her in connection with such proceeding to the extent that he or she was a party to the proceeding because he or she is or was a director or officer.

(b) In cases not included under subsection (a), the Corporation shall indemnify any director or officer against expenses actually and reasonably incurred by the director or officer in a proceeding to which the director or officer was a party because he or she is or was a director or officer, unless liability was incurred because the director or officer breached or failed to perform a duty he or she owes to the Corporation and the breach or failure to perform constitutes any of the following: (i) a willful failure to deal fairly with the Corporation or its shareholders in connection with a matter in which the director or officer has a material conflict of interest; (ii) a violation of criminal law, unless the director or officer had reasonable cause to believe his or her conduct was lawful or no reasonable cause to believe his or her conduct, was unlawful; (iii) a transaction from which the director or officer derived an improper personal profit; or (iv) willful misconduct. The termination of a proceeding by judgment, order, settlement or conviction, or upon a plea of no contest or an equivalent plea, does not, by itself, create a presumption that indemnification of the director or officer is not required under this subsection.

(c) Indemnification under this section is not required to the extent that the director or officer has previously received indemnification or allowance of expenses from any person, including the Corporation, in connection with the same proceeding.

SECTION 8.03. Determination of Right to Indemnification. Unless otherwise provided by written agreement between the director or officer and the Corporation, the director or officer seeking indemnification under SECTION 8.02 shall make a written request for indemnification which shall designate one of the following means for determining his or her right to indemnification: (a) by a majority vote of a quorum of the Board of Directors or a committee of directors consisting of directors not at the time parties to the same or related proceedings; (b) by independent legal counsel selected by a quorum of the Board of Directors or its committee in the manner prescribed in subsection (a) or, if unable to obtain such a quorum or committee, by a majority vote of the full Board of Directors, including directors who are parties to the same or related proceedings; (c) by arbitration; or (d) by an affirmative vote of a majority of the Corporation's shares; provided, however, that shares owned by, or voted under the control of, persons who are at the time parties to the same or related proceedings, whether as plaintiffs or defendants or in any other capacity, may not be voted in making the determination. The director or officer may apply to a court of competent jurisdiction for review of an adverse determination under this section.

Any determination hereunder shall be made pursuant to procedures consistent with the Wisconsin Business Corporation Law unless otherwise agreed by the Corporation and the person seeking indemnification. Such determination shall be completed and eligible expenses, if any, shall be paid to the person requesting indemnification hereunder within 60 days of the Corporation's receipt of the written request required hereunder.

SECTION 8.04. Allowance of Expenses as Incurred. If the director or officer is a party to a proceeding because he or she is or was a director or officer, within 30 days of a written request by a director or officer, the Corporation shall pay or reimburse his or her reasonable expenses as incurred if the director or officer provides the Corporation with all of the following: (a) a written affirmation of his or her good faith belief that he or she has not breached or failed to perform his or her duties to the Corporation; and (b) a written undertaking, executed personally or on his or her behalf, to repay the allowance and, if required by the Corporation, to pay reasonable interest on the allowance to the extent that it is ultimately determined under SECTION 8.03 that indemnification under SECTION 8.02 is not required and indemnification is not otherwise ordered by a court. The undertaking under this subsection shall be an unlimited general obligation of the director or officer and may be accepted without reference to his or her ability to repay the allowance. The undertaking may be secured or unsecured.

SECTION 8.05. Partial Indemnification.

(a) If it is determined pursuant to SECTION 8.03 of this ARTICLE VIII that a director or officer is entitled to indemnification as to some claims, issues or matters in connection with any proceeding, but not as to other claims, issues or matters, the person or persons making such determination shall reasonably determine and indemnify the director or officer for those expenses which are the result of claims, issues or matters that are a proper subject for indemnification hereunder in light of all of the circumstances.

(b) If it is determined pursuant to SECTION 8.03 of this ARTICLE VIII that certain expenses (other than liabilities) incurred by a director or officer are for any reason unreasonable in amount in light of all the circumstances, the person or persons making such determination shall authorize the indemnification of the director or officer for only such amounts as he or they shall deem reasonable.

SECTION 8.06. Indemnification of Employees and Agents. The Board of Directors, may, in its sole discretion, provide indemnification and/or allowance of expenses in advance of a final determination of any proceeding to an employee or agent of the Corporation who is not a director or officer in connection with any proceeding in which the employee or agent was a defendant because of his or her actions as an employee or agent of the Corporation; provided, however, that prior to such indemnification or allowance of expenses, the Board of Directors shall first determine that the employee or agent acted in good faith and in a manner he or she reasonably believed to be in and not opposed to the best interests of the Corporation.

SECTION 8.07. Limited Liability of Directors.

(a) Except as provided in subsection (b), a director shall not be liable to the Corporation, its shareholders, or any person asserting rights on behalf of the Corporation or its shareholders, for damages, settlements, fees, fines, penalties or other monetary liabilities arising from a breach of, or failure to perform, any duty resulting solely from his or her status as a director, unless the person asserting liability proves that the breach or failure to perform constitutes any of the acts of misconduct listed in SECTION 8.02(b) of this ARTICLE VIII.

(b) Subsection (a) does not apply to the liability of a director under Wisconsin Statutes section 180.40(1).

SECTION 8.08. Severability of Provisions. The provisions of this ARTICLE VIII and the several rights to indemnification, advancement of expenses and limitation of liability created hereby are independent and severable and, if any such provision and/or right shall be held by a court of competent jurisdiction in which a proceeding relating to such provisions and/or rights is brought to be against public policy or otherwise to be unenforceable, the other provisions of this ARTICLE VIII shall remain enforceable and in full effect.

SECTION 8.09. Nonexclusivity of Rights. The rights to indemnification and advancement of expenses provided for in this ARTICLE VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any agreement authorized by the Board of Directors, any By-Law of the Corporation, any vote of shareholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity. Notwithstanding the foregoing, the Corporation shall not indemnify a director or officer, or permit a director or officer to retain any allowance of expenses pursuant to any such additional rights unless it is determined by or on behalf of the Corporation that the director or officer did not breach or fail to perform a duty he or she owes to the Corporation which constitutes conduct under SECTION 8.02(b). A director or officer who is a party to the same or related proceeding for which indemnification or an allowance of expenses is sought may not participate in a determination under this subsection.

SECTION 8.10. Purchase of Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the Corporation, to the extent that such director or officer is insurable and such insurance coverage can be secured by the Corporation at rates, and in amounts and subject to such terms and conditions as shall be determined in good faith to be reasonable and appropriate by the Board of Directors of the Corporation, and whose determination shall be conclusive, against liability asserted against or incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify him or her against such liability under the provisions of this ARTICLE VIII.

SECTION 8.11. Benefit. The rights to indemnification and advancement of expenses provided by, or granted pursuant to, this ARTICLE VIII shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 8.12. Amendment. No amendment or repeal of this ARTICLE VIII shall be effective to reduce the obligations of the Corporation under this ARTICLE VIII with respect to any proceeding based upon occurrences which take place prior to such amendment or repeal.

ARTICLE IX. FISCAL YEAR

SECTION 9.01. The fiscal year of the corporation shall begin on October 1, of each year.

ARTICLE X. SEAL

The Board of Directors may provide a corporate seal which shall be circular in form and shall have inscribed thereon the name of the Corporation and the state of incorporation and the words "Corporate Seal."

ARTICLE XI. AMENDMENTS

SECTION 11.01. By Shareholders. These By-Laws may be altered, amended or repealed and new By-Laws may be adopted by the shareholders by affirmative vote of not less than a majority of the shares present or represented at any annual or special meeting of the shareholders at which a quorum is in attendance.

SECTION 11.02. By Directors. These By-Laws may also be altered, amended or repealed and new By-Laws may be adopted by the Board of Directors by affirmative vote of a majority of the number of directors present at any meeting at which a quorum is in attendance; but no By-Law adopted by the shareholders shall be amended or repealed by the Board of Directors if the By-Law so adopted so provides.

SECTION 11.03. Implied Amendments. Any action taken or authorized by the shareholders or by the Board of Directors, which would be inconsistent with the By-Laws then in effect but is taken or authorized by affirmative vote of not less than the number of shares or the number of directors required to amend the By-Laws so that the By-Laws would be consistent with such action, shall be given the same effect as though the By-Laws had been temporarily amended or suspended so far; but only so far, as is necessary to permit the specific action so taken or authorized.

FIRST AMENDMENT TO SECOND AMENDED AND RESTATED LOAN AGREEMENT

This **FIRST AMENDMENT TO SECOND AMENDED AND RESTATED LOAN AGREEMENT** (this "Amendment") is entered into as of the 1st day of August, 2012, by and between THE FEMALE HEALTH COMPANY, a Wisconsin corporation ("Borrower") and HEARTLAND BANK, a federal savings bank ("Lender").

WITNESSETH:

WHEREAS, the Borrower has an existing revolving credit facility with Lender (the "Existing Loan"), pursuant to that certain Second Amended and Restated Loan Agreement entered into by and between Lender and Borrower, dated as of August 1, 2011 (the "Loan Agreement");

WHEREAS, Borrower and Lender have agreed to amend the Loan Agreement to change the terms and conditions of the revolving credit facility, including extending the maturity date thereof;

NOW, THEREFORE, in consideration of the promises and the mutual agreements herein set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions; References. Unless otherwise specifically defined herein, each term used herein which is defined in the Loan Agreement shall have the meaning assigned to such term in the Loan Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Loan Agreement shall from the date hereof refer to the Loan Agreement as amended hereby.

SECTION 2. Amendments to Loan Agreement. Subject to the satisfaction and occurrence of each of the conditions set forth in **Section 3** hereof, the Loan Agreement is hereby amended as follows, effective as of the date hereof:

2.1. At **Section 1.1** of the Loan Agreement, replace the definition of Maturity Date in its entirety as follows:

"Maturity Date" means August 1, 2013.

2.2. At **Section 1.1** of the Loan Agreement, replace the definition of Note in its entirety as follows:

"Note" means the Promissory Note dated as of August 1, 2012 executed by Borrower and payable to the order of Lender, the form of which is attached hereto and incorporated herein as **Exhibit A**, and any amendments, modifications, restatements, replacements, renewals or refinancing thereof.

2.3 Exhibit A to the Loan Agreement is hereby deleted in its entirety, and is replaced with the Exhibit A attached to this Amendment.

SECTION 3. Effectiveness. The effectiveness of this Amendment is subject to the satisfaction and occurrence of each of the following conditions precedent:

3.1. Lender shall have received executed counterparts of the following documents, each containing terms satisfactory to Lender:

- (a) this Amendment;
- (b) replacement Promissory Note in the form and containing the terms as attached hereto as Exhibit A (the "Replacement Note"); and
- (c) such other documents and certificates as Lender may reasonably require.

3.2 Lender shall have received from Borrower a fee in an amount equal to Two Thousand Five Hundred and NO/100 Dollars (\$2,500.00) in connection with the renewal of the Existing Loan and in order to compensate Lender for the costs associated with structuring, processing, approving and closing the Existing Loan renewal, but excluding expenses for which Borrower has agreed elsewhere to reimburse Lender. The fee shall be fully earned by Lender when received and, except as otherwise set forth herein, shall not be subject to refund or rebate. All fees are for compensation for services and are not, and shall not be deemed to be, interest or a charge for the use of money.

SECTION 4. Representations and Warranties. Borrower represents and warrants to Lender that:

4.1. The representations and warranties of Borrower contained in the Loan Agreement are true and correct in all material respects on and as of the date hereof as if such representations and warranties had been made on and as of the date hereof (except to the extent that any such representations and warranties specifically relate to an earlier date);

4.2. Borrower is in compliance with all the terms and provisions set forth in the Loan Agreement and no Default or Event of Default has occurred and is continuing or would result from the execution, delivery and performance of this Amendment; and

4.3 This Amendment and any and all agreements, notes, or other documents executed in connection herewith have been duly and validly executed by an authorized officer of the Borrower and constitute the legal, valid, and binding obligation of the Borrower enforceable against the Borrower in accordance with their respective terms. The Loan Agreement, as amended by this Amendment, remains in full force and effect and remains the valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms. The Borrower hereby ratifies and confirms the Loan Agreement, as amended by this Amendment.

SECTION 5. Voluntary Agreement. Each party represents and warrants to the other that it has consulted or has had the opportunity to consult with counsel regarding this Amendment, that it is fully aware of the terms contained herein and that it has voluntarily and without coercion or duress of any kind entered into this Amendment.

SECTION 6. Release. In consideration of the agreement of Lender to modify the terms of the Loan Agreement as set forth in this Amendment, Borrower hereby releases, discharges, and acquits forever Lender and any of its officers, directors, servants, agents, employees, and attorneys, past and present, from any and all claims, demands, and causes of action, of whatever nature, whether in contract or tort, accrued or to accrue, contingent or vested, known to Borrower, arising out of or relating to the loans evidenced by the Loan Agreement, as hereby amended, or Lender's administration of same or any other actions taken pursuant to the Loan Agreement or under any other documents or instruments evidencing loans made by Lender to Borrower or the administration of same; provided, however, that the foregoing release and the following indemnity relate only to actions or inactions of Lender through the date hereof. Borrower hereby further indemnifies and holds Lender, and all officers, directors, servants, agents, employees, and attorneys of Lender, past or present, harmless from any and all such claims, demands, and causes of action by Borrower, or anyone claiming by, through, or under Borrower, said indemnity to cover all losses and expenses incurred by the Lender, its officers, directors, servants, agents, employees, or attorneys, past or present, in connection with any such claims, demands, or cause of action, including all attorneys' fees and costs.

SECTION 7. Payment of Costs/Expenses. Without limiting the generality of provisions in the Loan Agreement relating to payment of Lender's costs and expenses, the Borrower will pay all out-of-pocket expenses, costs, and reasonable charges of attorneys incurred by Lender in connection with the preparation and implementation of this Amendment, the Replacement Note and related documents.

SECTION 8. Authority. By execution hereof, each of the persons signing on behalf of the parties hereto hereby represents and warrants that each is fully authorized to act and execute this Agreement on behalf of their respective party.

SECTION 9. Other Documents/Provisions to Remain in Force Except as expressly amended hereby, the Loan Agreement and all documents and instruments executed in connection therewith or contemplated thereby and all indebtedness incurred pursuant thereto, shall remain in full force and effect and are in all respects hereby ratified and affirmed. No reference to this Amendment need be made in any instrument or document at any time referring to the Loan Agreement, a reference to the Loan Agreement in any of such to be deemed to be reference to the Loan Agreement, as amended hereby.

SECTION 10. Successors and Assigns. Subject to any restriction on assignment set forth in the Loan Agreement, this Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

SECTION 11. Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed to be an original, and all of which shall constitute together but one and the same agreement.

SECTION 12. Headings; Recitals. The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this Amendment or any provisions hereof. The recitals set forth herein are hereby incorporated into this Amendment and form a part hereof, the truth and accuracy of which is evidenced by each party's execution hereof.

SECTION 13. Incorporation by Reference. The Loan Agreement and all exhibits thereto, and the exhibits to this Amendment (if any), are incorporated herein by this reference.

SECTION 14. Governing Law. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and shall be governed by and construed in accordance with the laws of the State of Missouri.

SECTION 15. Missouri Revised Statute - §432.047. ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT ARE NOT ENFORCEABLE REGARDLESS OF THE LEGAL THEORY UPON WHICH IT IS BASED THAT IS IN ANY WAY RELATED TO THE CREDIT AGREEMENT. TO PROTECT YOU (BORROWER) AND US (LENDER) FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS WE REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH, TOGETHER WITH THE LOAN DOCUMENTS, IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN US, EXCEPT AS WE MAY LATER AGREE IN WRITING TO MODIFY IT.

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**COUNTERPART SIGNATURE PAGE TO
FIRST AMENDMENT TO SECOND AMENDED AND RESTATED LOAN AGREEMENT**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective authorized officers as of the day and year first above written.

BORROWER

THE FEMALE HEALTH COMPANY

By: /s/ O. B. Parrish
Name: O.B. Parrish
Title: Chairman and CEO

STATE OF ILLINOIS)
) SS
COUNTY OF COOK)

On this 27 day of July, 2012, before me appeared O.B. Parrish, in his capacity as Chairman and CEO of **The Female Health Company**, a Wisconsin corporation, to me personally known, who, being by me duly sworn, did say that he is the Chairman and CEO of **The Female Health Company**, a Wisconsin corporation, and that said instrument was signed in behalf of said corporation by authority of its Board of Directors, and said O.B. Parrish, as Chairman and CEO, acknowledged said instrument to be the free act and deed of said corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the County and State aforesaid, the day and year first above written.

 /s/ Denise A. Boyd
Notary Public

My Commission Expires: 12/16/2015

**COUNTERPART SIGNATURE PAGE TO
FIRST AMENDMENT TO SECOND AMENDED AND RESTATED LOAN AGREEMENT**

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective authorized officers as of the day and year first above written.

LENDER

HEARTLAND BANK

By: /s/ Paul A. Goeke
Name: Paul A. Goeke
Title: Vice President

STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

On this 30 day of July, 2012, before me appeared Paul Goeke, to me personally known, who being by me duly sworn did say that he/she is a Vice President of **Heartland Bank**, a federal savings bank, and that said instrument was signed on behalf of said bank and said lender, as Vice President, acknowledged said instrument to be the free act and deed of said bank.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal on the day and year last above written.

/s/ Tonya Zaiger
Notary Public

My Commission Expires: 03/10/2013

EXHIBIT A

Promissory Note

(see attached)

PROMISSORY NOTE

US \$2,000,000.00

St. Louis, Missouri
Dated as of August 1, 2012

FOR VALUE RECEIVED, the undersigned, THE FEMALE HEALTH COMPANY, a Wisconsin corporation (the "Borrower"), hereby promises to pay to the order of HEARTLAND BANK, a federal savings bank (the "Lender"), at its office at 212 S. Central Avenue, Clayton, Missouri 63105 (the "Lender's Address"), or at such other office as the Lender may subsequently designate in writing, (i) on August 1, 2013 (the "Maturity Date"), the principal amount of Two Million Dollars (US \$2,000,000.00), or, if less, the aggregate unpaid principal amount of all advances made hereunder by the Lender to the Borrower prior to said date, (ii) interest on such principal amount at the interest rate per annum for each advance, as determined in accordance with the terms specified below (but in no event in excess of the maximum rate permitted by applicable law), and (iii) any and all other sums which may be owing to the Lender by the Borrower pursuant to this Note. All advances made hereunder by the Lender to the Borrower and all payments made on account of principal hereof and interest hereunder shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto; provided, however, that the Lender's failure to record any such advance or payment shall not limit or otherwise affect the obligations of the Borrower under this Note.

1. Definitions. Each initially capitalized term used herein shall have the meaning set forth in Schedule A. Any capitalized terms used herein, but not otherwise defined herein or on Schedule A attached hereto, shall have the meaning ascribed to such term(s) as set forth in the Loan Agreement.

2. Advances. Subject to the terms and conditions hereof and the Loan Agreement, and in reliance upon the representations and warranties of the Borrower contained in the Loan Agreement, the Lender agrees to make advances to the Borrower from time to time during the period commencing on the date of this Note and ending on the Maturity Date in an aggregate principal amount at any time outstanding not to exceed the Commitment. The Borrower agrees that it will use the proceeds of any such advance for the purposes set forth in the Loan Agreement. Borrower further agrees that it will not use the proceeds of any such advance for any illegal or unlawful purpose. Each request for an advance hereunder shall be made by a Borrowing Officer on written notice received by the Lender in the form set forth on Exhibit A attached hereto not later than 12:00 noon (St. Louis time) of the Business Day of such advance, shall specify the amount thereof, and shall be irrevocable and binding upon the Borrower. Except as the Borrower and the Lender may otherwise mutually agree, the proceeds of each advance hereunder shall be wired to an account specified by the Borrower.

3. **Interest Rate.** For the period from the date hereof until maturity (whether by acceleration or otherwise) the Borrower promises to pay interest, in arrears, on the from time to time unpaid principal amount of each advance hereunder on the first Business Day of each month beginning the second calendar month following the Effective Date, at the Stated Rate; provided, however, that with respect to any advance or other obligation of the Borrower hereunder which is not paid at maturity, or which remains unpaid following the commencement, by or against the Borrower, of a case under Title 11 of the United States Code, the Borrower promises to pay interest on such advance or other obligation from the date of maturity or the date such case is commenced, until such advance or other obligation is paid in full, payable upon demand, at a rate per annum (in lieu of the Stated Rate in effect at such time) equal at all times to the Overdue Rate, but in no event in excess of the maximum rate permitted by law. All computations of interest with respect to each advance hereunder shall be made by the Lender on the basis of a year of 360 days for the actual number of days (including the first day, but excluding the last day) in the period for which such interest is payable. *This calculation method results in a higher effective interest rate than the numeric interest rate provided for under this Note.* After maturity, by acceleration or otherwise, and/or upon an Event of Default, this Note shall bear interest at the Default Rate. A late charge equal to five percent (5%) of the payment amount shall be assessed for each payment not received by Lender by the date ten (10) days after the due date therefor.

4. **Payments.**

(a) **Time of Payments.** All payments of principal, interest, fees, and other amounts due under this Note shall be made to the Lender at the Lender's Address in lawful money of the United States not later than 2:00 p.m. (St. Louis time) on the day when due, without defense, claim, counterclaim, setoff or right of recoupment.

(b) **Final Payment.** On the Maturity Date of this Note as provided in the Loan Agreement, Borrower shall pay to the Lender, in same day funds, an amount equal to the aggregate principal amount outstanding under this Note and due on such date, together with accrued interest thereon, all fees payable to the Lender pursuant to the provisions of this Note and the Loan Agreement and any and all other Obligations then outstanding and due and payable.

(c) **Interest Calculation.** For purposes of interest calculation only, (i) a payment by check, draft, or other instrument received on a Business Day shall be deemed to have been applied to the relevant Obligation on the second following Business Day, (ii) a payment in cash or by wire transfer received at or before 2:00 p.m., St. Louis, Missouri time, on a Business Day shall be deemed to have been applied to the relevant Obligation on the Business Day when it is received, and (iii) a payment in cash or by wire transfer received on a day that is not a Business Day or after 2:00 p.m., St. Louis, Missouri time, on a Business Day shall be deemed to have been applied to the relevant Obligation on the next Business Day.

(d) **Due Dates Not on Business Days.** If any payment required hereunder becomes due on a date that is not a Business Day, then such payment shall be due on the next Business Day, the amount of such payment, in such case, to include all interest accrued to the date of actual payment.

(e) **Prepayments Generally.** The Borrower shall have the right to prepay the unpaid principal balance of the indebtedness evidenced by this Note in whole or in part, without penalty. All prepayments, whether voluntary or mandatory pursuant to acceleration, shall be applied first to any expenses due Lender under this Note or under any other documents securing or evidencing obligations of Borrower to Lender with respect to the Loan, then to accrued interest on the unpaid principal balance of this Note, and the balance, if any, shall be applied to the principal sum hereof in inverse order of maturity and shall not relieve Borrower of making installment payments hereon when due. Amounts prepaid may be re-advanced to Borrower in accordance with the terms and conditions of the Loan Agreement.

5. **Oral Agreements.** ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT ARE NOT ENFORCEABLE, REGARDLESS OF THE LEGAL THEORY UPON WHICH IT IS BASED THAT IS IN ANY WAY RELATED TO THE CREDIT AGREEMENT. TO PROTECT YOU (BORROWER(S)) AND US (CREDITOR) FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS WE REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN US, EXCEPT AS WE MAY LATER AGREE IN WRITING TO MODIFY IT.

6. **Default; Remedies after a Default.** Any one or more of the following constitutes an Event of Default hereunder: (a) the occurrence of any Event of Default under (or as defined in) the Loan Agreement; or (b) the occurrence of an Event of Default under (or as defined in) any of the other Loan Documents. Upon the occurrence of an Event of Default, the remedies available to Lender shall include, but will not necessarily be limited to, the right to declare the entire principal balance hereof and accrued and unpaid interest thereon immediately due and payable and those other remedies specified in the Loan Agreement and in the other Loan Documents.

7. **Expenses; Indemnification.** The Borrower agrees to pay on demand all reasonable costs and expenses incurred by the Lender in connection with the preparation, execution, delivery, administration, modification, amendment, and enforcement (whether through legal proceedings, negotiations or otherwise) of this Note or any of the other Loan Documents (such costs and expenses to include, without limitation, the reasonable fees and disbursements of legal counsel). The Borrower agrees to indemnify and hold harmless the Lender and each of its directors, officers, employees, agents, affiliates, and advisors from and against any and all claims, damages, losses, liabilities, and expenses (including, without limitation, the reasonable fees and disbursements of legal counsel) which may be incurred by or asserted against the Lender or any such director, officer, employee, agent, affiliate, or advisor in connection with or arising out of any investigation, subpoena, litigation, or proceeding related to or arising out of this Note or any of the other Loan Documents or any transaction contemplated hereby or thereby (but in any case excluding any such claims, damages, losses, liabilities, costs, or expenses incurred by reason of the gross negligence, willful misconduct, or bad faith of the indemnitee). The obligations of the Borrower under this paragraph shall survive the payment in full of the indebtedness evidenced by this Note or by any Other Note.

8. **Assignment.** The Lender may assign to one or more banks or other entities all or a portion of its rights under this Note. In the event of an assignment of all of its rights, the Lender may transfer this Note to the assignee. The Lender may, in connection with any assignment or proposed assignment, disclose to the assignee or proposed assignee any information relating to the Borrower furnished to the Lender by or on behalf of the Borrower.

9. **Amendments, etc.** No amendment or waiver of any provision of this Note, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and separately acknowledged in writing by the Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

10. **Governing Law.** This Note shall be governed by, and construed and enforced in all respects in accordance with, the laws of the State of Missouri applicable to contracts made and to be performed entirely within such State, without giving effect to its conflicts of laws, principles or rules.

11. **Right of Set-off.** At any time that an Event of Default exists, the Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to place an administrative hold upon or to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Lender to or for the credit or the account of the Borrower against any and all of the Obligations, irrespective of whether or not the Lender shall have made any demand under this Note or any Other Note and although the Obligations may be unmatured. The Lender agrees promptly to notify the Borrower after any such administrative hold, set-off and/or application made by the Lender; provided, however, that the failure to give such notice shall not affect the validity of such administrative hold, set-off and/or application. The rights of the Lender under this paragraph shall be in addition to all other rights and remedies (including, without limitation, other rights of set-off) which the Lender may have under applicable law.

12. **Notices.** All notices hereunder and under the Loan Documents shall be in writing and sent by certified or registered mail, return receipt requested, or by overnight delivery service, with all charges prepaid. Notices to the Lender shall be sent to the Lender's Address. Notices to the Borrower shall be sent to the Borrower's Address until the Borrower specifies another address in a notice delivered to the Lender in accordance with this paragraph. Notice will be deemed received upon actual receipt at the Lender's Address or the Borrower's Address, as the case may be.

13. **Consent to Jurisdiction; Waiver of Venue Objection; Service of Process.** WITHOUT LIMITING THE RIGHT OF THE LENDER TO BRING ANY ACTION OR PROCEEDING AGAINST THE BORROWER OR AGAINST PROPERTY OF THE BORROWER ARISING OUT OF OR RELATING TO THIS NOTE (AN "ACTION") IN THE COURTS OF OTHER JURISDICTIONS, THE BORROWER HEREBY IRREVOCABLY SUBMITS TO AND ACCEPTS THE NON-EXCLUSIVE JURISDICTION OF ANY MISSOURI STATE COURT OR ANY FEDERAL COURT SITTING IN ST. LOUIS CITY OR COUNTY, AND THE BORROWER HEREBY IRREVOCABLY AGREES THAT ANY ACTION MAY BE HEARD AND DETERMINED IN SUCH MISSOURI STATE COURT OR IN SUCH FEDERAL COURT. THE BORROWER HEREBY IRREVOCABLY WAIVES AND DISCLAIMS, TO THE FULLEST EXTENT THAT THE BORROWER MAY EFFECTIVELY DO SO, ANY DEFENSE OR OBJECTION (INCLUDING, WITHOUT LIMITATION, ANY DEFENSE OR OBJECTION TO VENUE BASED ON THE GROUNDS OF FORUM NON CONVENIENS) WHICH THE BORROWER MAY NOW OR HEREAFTER HAVE TO THE MAINTENANCE OF ANY ACTION IN ANY JURISDICTION. THE BORROWER HEREBY IRREVOCABLY AGREES THAT THE SUMMONS AND COMPLAINT OR ANY OTHER PROCESS IN ANY ACTION IN ANY JURISDICTION MAY BE SERVED BY MAILING (USING CERTIFIED OR REGISTERED MAIL, POSTAGE PREPAID) TO THE BORROWER'S ADDRESS. SUCH SERVICE WILL BE COMPLETE ON THE DATE SUCH PROCESS IS SO DELIVERED, AND THE BORROWER WILL HAVE THIRTY DAYS FROM SUCH COMPLETION OF SERVICE IN WHICH TO RESPOND IN THE MANNER PROVIDED BY LAW. THE BORROWER MAY ALSO BE SERVED IN ANY OTHER MANNER PERMITTED BY LAW, IN WHICH EVENT THE BORROWER'S TIME TO RESPOND SHALL BE THE TIME PROVIDED BY LAW.

14. **Waiver of Jury Trial.** TO THE FULLEST EXTENT PERMITTED BY LAW, THE BORROWER HEREBY WAIVES AND DISCLAIMS ANY RIGHT TO TRIAL BY JURY (WHICH THE LENDER ALSO WAIVES AND DISCLAIMS) IN ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM OF ANY KIND ARISING OUT OF OR RELATING TO THIS NOTE.

15. **Collateral.** This Note is secured as provided in the Loan Agreement.

16. **Miscellaneous.** No failure on the part of the Lender to exercise, and no delay in exercising, any right under this Note shall operate as a waiver thereof, nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

17. **Superseding Note.** This Note supersedes and replaces all other promissory notes labeled "Loan Number Two" executed between the parties hereto in connection with the Loan Agreement, including the Promissory Note dated July 20, 2004, in the principal face amount of \$500,000 executed by Borrower to the order of Lender, the Promissory Note dated July, 2005, in the principal face amount of \$500,000 executed by Borrower to the order of Lender, the Promissory Note dated July 1, 2006, in the principal face amount of \$500,000 executed by Borrower to the order of Lender, the Promissory Note dated July 1, 2007 in the principal face amount of \$500,000 executed by Borrower to the order of Lender, the Promissory Note dated July 1, 2008 in the principal face amount of \$500,000 executed by Borrower to the order of Lender, the Promissory Note dated July 1, 2009, in the principal face amount of \$500,000 executed by Borrower to the order of Lender, the Promissory Note dated July 1, 2010, in the principal face amount of \$1,000,000 executed by Borrower to the order of Lender, and the Promissory Note dated August 1, 2011 in the principal face amount of \$2,000,000 executed by Borrower to the order of Lender (collectively, the "Prior Notes"). Upon the Lender's acceptance of this Note and the satisfaction and occurrence of each of the conditions precedent to the effectiveness of this Note, the Prior Notes shall be deemed canceled and of no further force or effect; provided, however, that (i) nothing in the foregoing shall be deemed to waive any outstanding principal, accrued interest, fees, or late charges under the Prior Notes, and (ii) the execution, delivery, and/or acceptance of this Note shall not be deemed to have terminated, extinguished, released, constituted a novation of, or discharged the indebtedness evidenced under the Prior Notes, which indebtedness shall continue under and be governed by this Note. No reference to this Note need be made in any instrument or document at any time referring to the Prior Notes, a reference to the Prior Notes in any such instrument or document to be deemed to be reference to this Note as the same may be amended, restated, modified, extended, and/or supplemented from time to time. Nothing herein is intended to extinguish, cancel or impair the lien priority or effect of any security agreement, pledge agreement or mortgage with respect to the Borrower's obligations hereunder and under any other document relating hereto.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Borrower has executed this Note as of the date first above written.

THIS AGREEMENT CONTAINS A BINDING JURY WAIVER PROVISION.

THE FEMALE HEALTH COMPANY

By: _____
Name: O.B. Parrish
Title: Chairman and CEO

STATE OF ILLINOIS)
) SS
COUNTY OF COOK)

On this __ day of _____, 2012, before me appeared O. B. Parrish, in his capacity as Chairman and CEO of **The Female Health Company**, a Wisconsin corporation, to me personally known, who, being by me duly sworn, did say that he is the Chairman and CEO of **The Female Health Company**, a Wisconsin corporation, and that said instrument was signed in behalf of said corporation by authority of its Board of Directors, and said O.B. Parrish, as Chairman and CEO, acknowledged said instrument to be the free act and deed of said corporation.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal in the County and State aforesaid, the day and year first above written.

Notary Public

My Commission Expires: _____

Borrower's Address:
515 N. State Street
Suite 2225
Chicago, Illinois 60654

SCHEDULE A

Definitions

“Affiliate” means, with respect to a Person, (a) any officer, director, employee, member or managing agent of such Person, (b) any spouse, parents, brothers, sisters, children and grandchildren of such Person, (c) any association, partnership, trust, entity or enterprise in which such Person is a director, officer or general partner, (d) any other Person that, (i) directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, such given Person, (ii) directly or indirectly beneficially owns or holds 5% or more of any class of voting stock or partnership, membership or other interest of such Person or any Subsidiary of such Person, or (iii) 5% or more of the voting stock or partnership, membership or other interest of which is directly or indirectly beneficially owned or held by such Person or a Subsidiary of such Person. The term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities or partnership or other interests, by contract or otherwise.

“Base Rate” means, for any day, the prime rate established and announced by Lender from time to time in the ordinary course of its business (which rate may not be the best or lowest rate offered to Lender’s corporate customers), provided, that if such Base Rate is discontinued or replaced by a comparable rate, then it shall mean the comparable rate.

“Borrower” means THE FEMALE HEALTH COMPANY, a Wisconsin corporation.

“Borrower’s Address” means 515 N. State Street, Suite 2225, Chicago, Illinois 60654.

“Borrowing Officer” means each individual of Borrower who is duly authorized by Borrower to submit a request for a Loan Advance.

“Business Day” means any day other than a Saturday, Sunday, or other day on which banks in St. Louis, Missouri are authorized to close.

“Commitment” means the agreement of the Lender to fund advances to the Borrower in an aggregate principal amount not to exceed, at any time outstanding, US \$2,000,000.00.

“Default Rate” means a rate of interest equal to four percent per annum (4%) in excess of the Stated Rate.

“Dollar” and “\$” means freely transferable United States dollars.

“Effective Date” means the later of (a) the Agreement Date, as defined in the Loan Agreement, and (b) the first date on which all of the conditions set forth in **Section 4.1** of the Loan Agreement shall have been fulfilled or waived by the Lender.

“Events of Default” has the meaning specified in paragraph 6 of this Note, or any Event of Default as defined in the Loan Agreement.

“Lender” means Heartland Bank, a federal savings bank, and its successors and assigns.

“Lender’s Address” means 212 S. Central Avenue, Clayton, Missouri 63105.

“Loans” means any loan made to Borrower pursuant to **Section 2.1** of the Loan Agreement and all extensions, renewals and modifications thereto, as well as all such Loans collectively.

“Loan Agreement” means that certain Second Amended and Restated Loan Agreement entered into by and between Lender and Borrower, dated as of August 1, 2011, as amended by a First Amendment to Second Amended and Restated Loan Agreement dated as of the date herewith, as the same may be amended, modified, or restated.

“Loan Documents” means, collectively, this Note, the Loan Agreement, the Security Agreement, and each other instrument, agreement and document executed and delivered by Borrower in connection with this Note and each other instrument, agreement, or document referred to herein or contemplated hereby.

“Material Adverse Effect” means any act, omission, event or undertaking which would, singly or in the aggregate, have a material adverse effect upon (a) the business, assets, properties, liabilities, condition (financial or otherwise), results of operations or business prospects of Borrower, (b) upon the ability of Borrower to perform any obligations under this Note or any other Loan Document to which it is a party, or (c) the legality, validity, binding effect, enforceability or admissibility into evidence of any Loan Document or the ability of Lender to enforce any rights or remedies under or in connection with any Loan Document; in any case, whether resulting from any single act, omission, situation, status, event, or undertaking, together with other such acts, omissions, situations, statuses, events, or undertakings.

“Maturity Date” means August 1, 2013.

“Note” means this Promissory Note and any and all amendments, modifications, restatements, renewals or refinancings thereof.

“Obligations” means, in each case whether now in existence or hereafter arising, (a) the principal of and interest and premium, if any, on, and expenses related to, the Loans and (b) all indebtedness, liabilities, obligations, overdrafts, covenants and duties of Borrower to the Lender of every kind, nature and description, direct or indirect, absolute or contingent, due or not due, contractual or tortious, liquidated or unliquidated, and whether or not evidenced by any note and whether or not for the payment of money under or in respect of the Loans, this Note, any Note or any of the other Loan Documents.

“Obligors” means Borrower, and each other party at any time primarily or secondarily, directly or indirectly, liable on any of the Obligations.

“Other Note” means any promissory note which may be given in renewal or extension of all or any part of the indebtedness evidenced by this Note or which may amend or restate the terms pursuant to which such indebtedness is to remain outstanding.

“Overdue Rate” means, in respect of any amount not paid when due under this Note or any Other Note, a rate per annum during the period commencing on the due date of such amount until such amount is paid in full equal to 4% per annum in excess of the Stated Rate.

“Person” means an individual, corporation, partnership, association, trust or unincorporated organization or a government or any agency or political subdivision thereof.

“Stated Rate” means a rate of interest of Base Rate plus .50% per annum (each change in the Base Rate will result in a simultaneous change in the Stated Rate).

EXHIBIT A

FORM OF REQUEST FOR AN ADVANCE

Heartland Bank
212 South Central Avenue
St. Louis, Missouri 63105
Attn.: _____

Re: Promissory Note, dated as of August 1, 2012 between THE FEMALE HEALTH COMPANY ("Borrower") and HEARTLAND BANK ("Lender"), as it may be amended, modified, restated, or replaced from time to time (the "Note")

Ladies and Gentlemen:

The undersigned is a Borrowing Officer and, as such is authorized to make and deliver this request for an advance pursuant to the Note. All capitalized words used herein that are defined in the Note have the meanings defined in the Note.

Borrower hereby requests that Lender make a Loan of \$ _____ to Borrower under the terms of the Note dated August 1, 2012. The proceeds of the advance should be deposited in account number _____ with [Lender].

The undersigned hereby certifies on behalf of Borrower that:

- (i) There is no Event of Default.
- (ii) The representations and warranties of Borrower in the Loan Agreement are true as if made on the date hereof.
- (iii) The amount of the requested advance will not, when added to the current amount of the aggregate Loans exceed the Commitment.
- (iv) All conditions precedent to an advance as set forth in the Loan Agreement have been satisfied.
- (v) The proceeds of this advance will be used for the following purpose: _____.

Executed this ____ day of _____, 20__.

THE FEMALE HEALTH COMPANY

By: _____
Name: _____
Title: _____

Subsidiaries of The Female Health Company (1)

The subsidiaries of The Female Health Company are as follows:

Name	Jurisdiction of Organization
The Female Health Company Limited	United Kingdom
The Female Health Company (UK) Plc.	United Kingdom
The Female Health Company (M) SDN.BHD	Malaysia

(1) All subsidiaries are wholly owned, directly or indirectly, by The Female Health Company.

McGladrey LLP



Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement (No. 333-23517, No. 333-154252, and No. 333-165729) on Form S-8 of The Female Health Company of our report dated December 4, 2012, relating to our audits of the consolidated financial statements and internal control over financial reporting, which appear in this Annual Report on Form 10-K of The Female Health Company for the year ended September 30, 2012.

/s/ McGladrey LLP

Chicago, Illinois
December 4, 2012

Member of the RSM International network of Independent accounting, tax and consulting firms.

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

I, O. B. Parrish, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 4, 2012

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

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

I, Donna Felch, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 4, 2012

/s/ Donna Felch
Donna Felch
Chief Financial Officer

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of The Female Health Company (the "Company") certifies that the Annual Report on Form 10-K of the Company for the year ended September 30, 2012 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and information contained in that Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: December 4, 2012

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

Dated: December 4, 2012

/s/ Donna Felch
Donna Felch
Chief Financial Officer

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