

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

FORM 10-QSB

(MARK ONE)

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

For the quarterly period ended December 31, 2000

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

For the transition period from _____ to _____

Commission File Number 0-18849

THE FEMALE HEALTH COMPANY

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

Wisconsin

39-1144397

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

875 N. Michigan Avenue, Suite 3660, Chicago, IL 60611

(Address of Principal Executive Offices) (Zip Code)

(312) 280-1119

(Issuer's Telephone Number, Including Area Code)

Not applicable

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

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

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

Common Stock, \$.01 Par Value - 14,445,672 shares outstanding as of February 12, 2001

Transitional Small Business Disclosure Format (check one):

Yes No X

FORM 10-QSB

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES

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CAUTIONARY STATEMENT REGARDING
FORWARD LOOKING STATEMENTS

Certain statements included in this Quarterly Report on Form 10-QSB which are not statements of historical fact are intended to be, and are hereby identified as, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company cautions readers that forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. Such factors include, among others, the following: the Company's inability to secure adequate capital to fund operating losses, working capital requirements, advertising and promotional expenditures and principal and interest payments on debt obligations; factors related to increased competition from existing and new competitors including new product introduction, price reduction and increased spending on marketing; limitations on the Company's opportunities to enter into and/or renew agreements with international partners, the failure of the Company or its partners to successfully market, sell, and deliver its product in international markets, and risks inherent in doing business on an international level, such as laws governing medical devices that differ from those in the U.S., unexpected changes in the regulatory requirements, political risks, export restrictions, tariffs, and other trade barriers, and fluctuations in currency exchange rates; the disruption of production at the Company's manufacturing facility due to raw material shortages, labor shortages, and/or physical damage to the Company's facilities; the Company's inability to manage its growth and to adapt its administrative, operational and financial control systems to the needs of the expanded entity and the failure of management to anticipate, respond to and manage changing business conditions; the loss of the services of executive officers and other key employees and the Company's continued ability to attract and retain highly-skilled and qualified personnel; the costs and other effects of litigation, governmental investigations, legal and administrative cases and proceedings, settlements and investigations; and developments or assertions by or against the Company relating to intellectual property rights.

THE FEMALE HEALTH COMPANY AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

<TABLE>
<CAPTION>

	DECEMBER 31, 2000

<S>	<C>
ASSETS	
Current Assets:	
Cash	\$ 485,616
Accounts receivable, net	955,319
Inventories	492,255
Prepaid expenses and other current assets	177,538

TOTAL CURRENT ASSETS	2,110,728
Intellectual property rights, net	555,768
Other assets	141,573
PROPERTY, PLANT AND EQUIPMENT	3,604,714
Less accumulated depreciation and amortization	(2,343,965)
Net Property, plant, and equipment	1,260,749

TOTAL ASSETS	\$ 4,068,818
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current Liabilities:

Notes payable, related party, net of unamortized discount.	\$ 1,260,167
Convertible debenture, net of unamortized discount	1,437,761
Accounts payable	729,802
Accrued expenses and other current liabilities	349,470
Preferred dividends payable.	45,285

TOTAL CURRENT LIABILITIES 3,822,485

Deferred gain on lease of facility. 1,323,305
Other long-term liabilities 13,088

TOTAL LIABILITIES 5,158,878

STOCKHOLDERS' EQUITY (DEFICIT):

Convertible preferred stock	6,600
Common stock.	143,481
Additional paid-in-capital.	48,502,559
Unearned consulting compensation.	(70,895)
Accumulated deficit	(49,655,080)
Accumulated other comprehensive income.	15,351
Treasury Stock, at cost	(32,076)

Total stockholders' equity (deficit). (1,090,060)

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT). \$ 4,068,818

</TABLE>

See notes to unaudited condensed consolidated financial statements.

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

<TABLE>
<CAPTION>

	Three Months Ended December 31,	
	2000	1999
	-----	-----
<S>	<C>	<C>
Net revenues.	\$ 1,213,625	\$ 847,295
Cost of products sold	1,129,874	916,893
	-----	-----
Gross profit (loss)	83,751	(69,598)
	-----	-----
Advertising and promotion	86,081	38,810
Selling, general and administrative	500,250	747,707
	-----	-----
Total operating expenses.	586,331	786,517
	-----	-----
Operating (loss).	(502,580)	(856,115)
	-----	-----
Amortization of debt issuance costs	-	95,574
Interest, net and other expense	116,769	355,138
	-----	-----
Net (loss) before income taxes.	(619,349)	(1,306,827)
	-----	-----
Provision for income taxes.	----	----
	-----	-----
Net (loss).	(619,349)	(1,306,827)
	-----	-----
Preferred dividends, Series 1	33,271	33,441
	-----	-----
Net (loss) attributable to common stockholders.	(652,620)	(1,340,268)
	=====	=====
Net (loss) per common share outstanding	\$ (0.05)	\$ (0.11)
Weighted average of common shares outstanding	14,075,236	12,292,449

</TABLE>

See notes to unaudited condensed consolidated financial statements.

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

<TABLE>
<CAPTION>

	Three Months ended December 31,	
	2000	1999
<S>	<C>	<C>
OPERATIONS:		
Net (loss)	\$(619,349)	\$(1,306,827)
Adjusted for noncash items:		
Depreciation and amortization	116,932	271,566
Amortization of discounts on notes payable and convertible debentures	87,747	326,129
Changes in operating assets and liabilities . .	291,210	444,273
Net cash (used in) operating activities	(123,460)	(264,859)
INVESTING ACTIVITIES:		
Capital expenditures, Net cash (used in) provided by investing activities	-	(11,307)
FINANCING ACTIVITIES:		
Dividend paid on preferred stock	(95,986)	(39,000)
Proceeds from issuance of common stock	250,000	315,863
Net cash provided by financing activities	154,014	276,863
Effect of exchange rate changes on cash	(2,060)	(23,030)
INCREASE (DECREASE) IN CASH	28,494	(22,333)
Cash at beginning of period	457,122	570,709
CASH AT END OF PERIOD	\$ 485,616	\$ 548,376

Schedule of noncash financing and investing activities:		
Common stock issued for payment of preferred stock dividends and convertible debenture interest	\$ 26,016	39,363
Preferred dividends declared, Series 1	33,271	33,441

See notes to unaudited condensed consolidated financial statements.

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

NOTE 1 - Basis of Presentation

The accompanying financial statements are unaudited but in the opinion of management contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position and the results of operations and cash flow for the periods presented in conformity with generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

Operating results for the three months ended December 31, 2000 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the fiscal year ended September 30, 2000.

Principles of consolidation and nature of operations:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, The Female Health Company - UK and The Female Health Company - UK, plc. All significant intercompany transactions and accounts have been eliminated in consolidation. The Female Health Company ("FHC" or the "Company") is currently engaged in the marketing, manufacture and distribution

of a consumer health care product known as the Reality female condom, "Reality," in the U.S. and "femidom" or "femy" outside the U.S. The Female Health Company - UK, is the holding company of The Female Health Company - UK, plc, which operates a 40,000sq. ft. leased manufacturing facility located in London, England.

Reclassification:
- -----

Certain items on the statements of income and cash flows for the quarter ended December 31, 1999 have been reclassified to be consistent with the presentation shown for the quarter ended December 31, 2000.

NOTE 2 - Earnings Per Share

Earnings per share (EPS): Basic EPS is computed by dividing income available to
- -----
common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential common shares consist of the incremental common shares issuable upon conversion of convertible preferred or convertible debt and the exercise of stock options and warrants for all periods. Fully diluted (loss) per share is not presented since the effect would be anti-dilutive.

NOTE 3 - Comprehensive Income (Loss)
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Total Comprehensive Loss was \$(659,659) for the three months ended December 31, 2000 and \$(1,345,515) for the three months ended December 31, 1999.

NOTE 4 - Inventories

The components of inventory consist of the following:

<TABLE>
<CAPTION>

	DECEMBER 31, 2000

<S>	<C>
Raw material and work in process	\$ 415,650
Finished goods	147,601

Inventory, gross	563,251
Less: Inventory reserves	(70,996)

Inventory, net	\$ 492,255
	=====

</TABLE>

NOTE 5 - Financial Condition

The Company's consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company incurred a net loss of \$0.7 million for the three months ended December 31, 2000 and as of December 31, 2000 had an accumulated deficit of \$49.7 million. At December 31, 2000, the Company had working capital of \$(1.7) million and stockholders' equity of \$(1.1) million. In the near term, the Company expects operating and capital costs to continue to exceed funds generated from operations due principally to the Company's manufacturing costs relative to current production volumes and the ongoing need to commercialize the Female Condom around the world. As a result, operations in the near future are expected to continue to use working capital. Management recognizes that the Company's continued operations depend on its ability to raise additional capital through a combination of equity or debt financing, strategic alliances and increased sales volumes.

At various points during the developmental stage of the product, the Company was able to secure resources, in large part through the sale of equity and debt securities, to satisfy its funding requirements. As a result, the Company was able to obtain FDA approval, worldwide rights, manufacturing facilities and equipment and to commercially launch the Female Condom.

Management believes that recent developments, including the Company's agreement with the UNAIDS, a joint United Nations program on HIV/AIDS, provide an indication of the Company's early success in broadening awareness and distribution of the Female Condom and may benefit future efforts to raise additional capital and to secure additional agreements to promote and distribute the Female Condom throughout other parts of the world.

On September 29, 1997, the Company entered into an agreement with Vector Securities International, Inc. (Vector), an investment banking firm specializing in providing financial advisory services to healthcare and life-science companies. Pursuant to this agreement, as extended, Vector has acted as the Company's exclusive financial advisor through December 31, 2000 for the purposes of identifying and evaluating opportunities available to the Company for increasing shareholder value. These opportunities may include selling all or a portion of the business, assets or stock of the Company or entering into one or more distribution arrangements relating to the Company's product. There can be no assurance that any such opportunities will be available to the Company or, if so available, that the Company will ultimately elect or be able to consummate any such transaction. Management is currently determining whether the Company should seek to extend this arrangement.

On May 19, 1999 and June 3, 1999 the Company issued an aggregate \$1.5 million of convertible debentures and warrants to purchase 1,875,000 shares of the Company's common stock to five accredited investors.

Between September and November 1999 the Company completed a private placement of 983,333 shares of the Company's common stock for \$737,500, of which \$500,000 was received through September 30, 1999. The stock sales were directly with accredited investors and included one current director of the Company. The Company sold the shares to these investors at a price of \$.75 per share.

During the year ended September 30, 2000, the Company completed private placements of 1,305,000 shares of the Company's common stock for \$697,500, of which \$597,500 was received through September 30, 2000. The stock sales were directly with accredited investors and included two current directors of the Company. The Company sold the shares to these investors at prices which ranged from \$.50 and \$.75 per share.

During the quarter ended December 31, 2000, the Company completed private placements of 600,000 shares of the Company's common stock for \$300,000, of which \$250,000 was received through December 31, 2000. The stock sales were directly with accredited investors and included one director of the Company. The Company sold the shares to these investors at a price of \$.50 per share.

On November 19, 1998, the Company executed an agreement with a private investor (the "Equity Line Agreement"). This agreement provides for the Company, at its sole discretion, subject to certain restrictions, to sell ("put") to the investor up to \$6.0 million of the Company's Common Stock, subject to a minimum put of \$1.0 million over the duration of the agreement. The Equity Line Agreement expires on February 12, 2001 and, among other things, provides for minimum and maximum puts ranging from \$100,000 to \$1,000,000 depending on the Company's stock price and trading volume. Puts cannot occur more frequently than every 20 trading days. Upon a proper put under this agreement, the investor purchases Common Stock at a discount of (a) 12% from the then current average market price of the Company's Common Stock, as determined under the Equity Line Agreement, if such average market price is at least \$2 or (b) 18% from the then current average market price if such average market price is less than \$2. In addition, the Company is required to pay its placement agent sales commissions in Common Stock or cash, at the placement agent's discretion, equal to 7% of the funds raised under the Equity Line Agreement and issue warrants to the placement agent to purchase shares of Common Stock, at an exercise price of \$2.17 per share, equal to 10% of the Shares sold by the Company under the Equity Line

Agreement. Pursuant to the Equity Line Agreement, the Company issued the investor a Warrant to purchase 200,000 shares of Common Stock at \$2.17 per share.

The Company is required to draw down a minimum of \$1 million during the term of the Equity Line Agreement. If the Company does not draw down the minimum, the Company is required to pay the investor a 12% fee on that portion of the \$1 million minimum not drawn down at the end of the two-year period. As of December 31, 2000, the Company has placed four puts for the combined cash proceeds of \$582,000 providing the investor with a total of 680,057 shares of the Company's Common Stock.

As of February 12, 2001, the Equity Line Agreement expired. As of December 31, 2000, the Company accrued in its financial statements for the 12% fee on the portion of the minimum equity line not utilized.

Until internally generated funds are sufficient to meet cash requirements, FHC will remain dependent upon its ability to generate sufficient capital from outside sources. While management believes that revenue from sales of the

Female Condom will eventually exceed operating costs and that ultimately operations will generate sufficient funds to meet capital requirements, there can be no assurance that such level of operations will ultimately be achieved, or be achieved in the near term. Likewise, there can be no assurance that the Company will be able to source all or any portion of its required capital through the sale of debt or equity or, if raised, the amount will be sufficient to operate the Company until sales of the Female Condom generate sufficient revenues to fund operations. In addition, any funds raised may be costly to the Company and/or dilutive to stockholders. If the Company is not able to source the required funds or any future capital which becomes required, the Company may be forced to sell certain of its assets or rights or cease operations.

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NOTE 6 - Industry Segments And Financial Information About Foreign and Domestic

Operations

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

The Company operates in foreign and domestic regions. Information about the Company's operations in different geographic areas (determined by the location of the operating unit) is as follows:

<TABLE>

<CAPTION>

(Amounts in Thousands)	Three Months Ended December 31,	
	2000	1999
<S>	<C>	<C>
Net revenues:		
United States	\$ 3	\$ 647
International	1,211	200
Operating profit (loss):		
United States	(319)	(330)
International	(184)	(526)
Identifiable assets		
United States	555	1,687
International	3,514	3,954

</TABLE>

On occasion, the Company's U.S. unit sells product directly to customers located outside the U.S. Were such transactions reported by geographic destination of the sale rather than the geographic location of the unit, U.S. revenues would be decreased and international revenues increased by \$0 and \$11,000 as of December 31, 2000 and 1999, respectively. Beginning October 1, 2000 revenues derived from sales to the U.S. public and trade sectors are accounted for as international revenues. In the first quarter of fiscal 2001 U.S. sales comprised \$815,000 of the international total.

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THE FEMALE HEALTH COMPANY AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

The Female Health Company ("FHC" or the "Company") manufactures, markets and sells the Female Condom, the only FDA-approved product under a woman's control which can prevent unintended pregnancy and sexually transmitted diseases ("STDs"), including HIV/AIDS. It is the only HIV/AIDS product specifically developed and approved by regulatory agencies in the U.S., the European Union, Japan and The People's Republic of China, among others, since the epidemic began about 20 years ago for the prevention of the transmission of HIV/AIDS through sexual contact.

The Female Condom has undergone extensive testing for efficacy, safety and acceptability, not only in the United States but also in over 50 additional countries. Certain of these studies show that having the Female Condom available increases protected sex acts and decreases the incidence of STDs.

The product is currently sold or available in various venues including commercial (private sector) outlets, public sector clinics and research programs in over 75 countries. It is commercially marketed in 14 countries including the U.S., the U.K., Canada, France and Japan.

As noted above, the Female Condom is sold to the global public sector. In the U.S., the product is marketed to city and state public health clinics as well as not-for-profit organizations. Following several years of testing the efficacy

and acceptability of the Female Condom, in 1996, the Company entered into a three-year agreement with the Joint United Nations Programme on Aids ("UNAIDS") which has subsequently been extended. In the agreement, UNAIDS facilitates the availability and distribution of the Female Condom in the developing world and the Company will sell the product to developing countries at a reduced price based on the total number of units purchased. The current price per unit is approximately 0.38 (Pounds), or \$0.55. Pursuant to this agreement, the product is currently available in over 70 countries with major programs in about 10 countries including Zimbabwe, Tanzania, Brazil, Uganda, South Africa, Namibia, Ghana, and Haiti.

Product

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

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Global Market Potential

Male condom market: It is estimated the global annual market for male condoms is 5.4 billion units. The major segments are in the Global Public sector, the U.S., Japan, India and The People's Republic of China. However, the majority of all acts of sexual intercourse, excluding those intended to result in pregnancy, are completed without protection. As a result, it is estimated the potential market for barrier contraceptives is much larger than the identified male condom market.

HIV/AIDS is an epidemic far more extensive than what was predicted. UNAIDS and the World Health Organization ("WHO") now estimate that the number of people living with HIV/AIDS stands at about 36 million, more than 50% higher than WHO's original projection in 1991 for year end 2000. Further, African countries with over 80% of the reported cases are experiencing devastating effects to their economic growth. Gross domestic product in hard-hit countries such as South Africa is projected to decrease 13% - 22% by 2010. Based on these recently released figures, UNAIDS has initiated a new strong campaign to persuade African leaders to immediately initiate broad education out-reach prevention programs with support from the international community.

The focus is extending to Eastern Europe and Asia as the estimated number of cases of HIV/AIDS has, according to UNAIDS, exponentially jumped in the last year. Major prevention and education out-reach programs are being planned and implemented in these countries.

In the United States, the Center for Disease Control and Prevention reports that one in four Americans has an STD, one in five adults over the age of 12 has Herpes and 1 in every 3 sexually active people will get an STD by age 24. Women are currently the fastest growing group infected with HIV and are expected to comprise the majority of the new cases by the coming year.

Currently there are only two products that prevent the sexual transmission of HIV/AIDS and other STDs -- the latex male condom and the Female Condom.

The Company is currently in discussion with WHO and UNAIDS regarding the role the Female Condom will play as part of the International Partnership Against Aids in Africa. The partnership is a coalition of African governments, the United Nations, donors and the private and community sectors. Its mission is over the next decade to help reduce the number of new HIV infections in Africa, promote care of HIV positive persons and mobilize society to halt the advance of AIDS.

Advantages vs. the Male Condom

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

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The polyurethane material that is used for the Female Condom offers a number of benefits over latex, the material that is most commonly used in male condoms. Polyurethane is 40% stronger than latex, reducing the probability that the Female Condom sheath will tear during use. Clinical studies and everyday use have shown that latex male condoms can tear as much as 4% to 8% of the times they are used. Unlike latex, polyurethane quickly transfers heat, so the Female Condom immediately warms to body temperature when it is inserted, which may result in increased pleasure and sensation during use. The product offers an additional benefit to the 7% to 20% of the population that is allergic to latex

and who, as a result, may be irritated by latex male condoms. To the Company's knowledge, there is no reported allergy to date to polyurethane. The Female Condom is also more convenient, providing the option of insertion hours before sexual arousal and as a result is less disruptive during sexual intimacy than the male condom which requires sexual arousal for application.

Cost Effectiveness

Over the past two years several studies have been completed which show that providing the Female Condom in public clinics in both the United States and countries in the developing world is, at a minimum, cost effective and usually cost saving. This is important information for governments to have in determining where their public health dollars are allocated. These studies have been or are about to be published and also have been presented at various scientific meetings around the world.

Worldwide Regulatory Approvals

The Female Condom received PMA approval as a Class III Medical Device from the FDA in 1993. The extensive clinical testing and scientific data required for FDA approval laid the foundation for approvals throughout the rest of the world, including receipt of a CE Mark in 1997 which allows the Company to market the Female Condom throughout the European Union ("EU"). In addition to the United States and the EU, several other countries have approved the Female Condom for sale, including Brazil, Mexico, Canada, The People's Republic of China, Japan, Russia, and Australia.

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

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

Strategy

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

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Commercial Markets

The Company has commercial partners which have launched the product in countries including the U.S., the U.K., Canada, Japan and France.

Relationships and Agreements with Public Sector Organizations

Currently, it is estimated more than 1.7 billion male condoms are distributed worldwide by the public sector each year. The Female Condom is seen as an important addition to prevention strategies by the public sector because studies show that the availability of the Female Condom decreases the amount of unprotected sex by as much as one-third over offering only a male condom.

The Company has a multi-year agreement with UNAIDS to supply the Female Condom to developing countries at a reduced price which is negotiated each year based on the Company's cost of production. The current price per unit is approximately 0.38 (pounds), or \$.55.

In the United States, the product is marketed to city and state public health clinics, as well as not-for-profit organizations. The Female Condom is available in all 50 states with major programs in the states of New York, Florida, California, Louisiana, Maryland, New Jersey, South Carolina and Illinois and the cities of Chicago, Philadelphia, New York and Houston. All major cities and states have reordered product after their initial shipments.

State-of-the-Art Manufacturing Facility

The Company manufactures the Female Condom in a 40,000 square-foot leased facility in London, England. The facility is currently capable of producing 60 million units per year. With additional equipment, this capacity can be significantly increased.

Government Regulation

In the U.S., the Female Condom is regulated by the U.S. Food and Drug Administration ("FDA"). Pursuant to section 515(a)(3) of the Safe Medical Amendments Act of 1990 (the "SMA Act"), the FDA may temporarily suspend approval and initiate withdrawal of the Pre-Market Approval ("PMA") if the FDA finds that

the Female Condom is unsafe or ineffective, or on the basis of new information with respect to the device, which, when evaluated together with information available at the time of approval, indicates a lack of reasonable assurance that the device is safe or effective under the conditions of use prescribed, recommended, or suggested in the labeling. Failure to comply with the conditions of FDA approval invalidates the approval order. Commercial distribution of a device that is not in compliance with these conditions is a violation of the SMA Act.

Competition

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

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Patents and Trademarks

The Company currently holds product and technology patents in the United States, Japan, the United Kingdom, France, Italy, Germany, Spain, the European Patent Convention, Canada, The People's Republic of China, New Zealand, Singapore, Hong Kong and Australia. These patents expire between 2005 and 2013. Due to a change in patent regulations, The U.S. product patent, which formerly expired on April 14, 2005, has had its expiration extended until April 14, 2007 providing the Company with two additional years of protection. Additional product and technology patents are pending in Brazil, South Korea, Germany, Japan and several other countries. The patents cover the key aspects of the Female Condom, including its overall design and manufacturing process. The Company licenses the trademark "Reality" in the United States and has trademarks on the names "femidom" and "femy" in certain foreign countries. The Company has also secured, or applied for, 27 trademarks in 14 countries to protect the various names and symbols used in marketing the product around the world. In addition, the experience that has been gained through years of manufacturing the Female Condom has allowed the Company to develop trade secrets and know-how, including certain proprietary production technologies, which further secure its competitive position.

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RESULTS OF OPERATIONS

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THREE MONTHS ENDED DECEMBER 31, 2000 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 1999

The Company had revenues of \$1,213,625 and a net loss of \$652,620 for the three months ended December 31, 2000 compared to revenues of \$847,295 and a net loss of \$1,340,268 for the three months ended December 31, 1999.

The Company's operating loss for the three months ended December 31, 2000 was \$502,580 compared to \$865,115 for the same period last year for a decrease of 42%. As discussed more fully below, the decrease in the Company's net operating loss was result of an increase in gross profit coupled with a decrease in selling, general and administrative expenses. The decrease in the net loss resulted from the reduction in the net operating loss and a decrease in amortization of debt issuance costs and non-operating interest expenses.

Sales increased \$366,330 in the current quarter, or 43%, compared with the same period last year. The higher sales occurred because of higher unit sales shipped to domestic customers.

The Company expects significant quarter to quarter variation due to the timing of receipt of large orders, subsequent production scheduling, and shipping of products as various countries launch the product. The Company believes this variation between quarters will continue for several quarters to come until reorders form an increasing portion of total sales.

Cost of goods sold increased \$212,981 to \$1,129,874 in the current quarter from \$916,893 for the same period last year. The increase of 23% in cost of goods sold on a 43% sales increase resulted in an improvement in cost of goods sold as a percentage of sales of 93% in the current quarter compared to 108% during the same period in the prior year. The decline in cost of goods sold as a percentage of sales is primarily a result of a change resulting from the Company's U.S. sales being almost exclusively comprised of a new sized product (1000 pack) compared to offering only a small sized product (60 pack) during the same period in the prior year. The costs of goods sold per unit for the new "1000 pack" is less expensive because of the efficiencies related to the production of the bulk sized product sold.

Advertising and promotional expenditures increased \$47,271 to \$86,081 in the current quarter from \$38,810 for the same period in the prior year. The increase primarily resulted from prior year in-store promotion expenses not accounted for until the first quarter of fiscal 2001.

Selling, general and administrative expenses decreased \$247,457, or 33%, to \$500,250 in the current quarter from \$747,707 for the same period last year. The change reflects the impact of a reduction of finance, sales and administrative staff and thereby related labor costs, and reduced costs in the areas of investor relations, computer and legal fees in the current quarter compared to that incurred in the prior fiscal year's first quarter.

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The Company did not incur non-cash amortization of debt issuance costs during the first quarter compared to \$95,574 for the first quarter of the prior year. The elimination of the aforementioned costs is due to the completion of the amortization period in the third quarter of the 2000 fiscal year. The amortization of debt issuance costs related to the issuance of convertible debentures which began in May and June 1999. The Company has not issued new convertible debentures subsequent to that time.

Net interest and non-operating expenses decreased \$238,369 to \$116,769 for the current period from \$355,138 for the same period last year. The decrease exists because the Company had a smaller amount of non-cash expenses incurred from the amortization of discounts on notes payable and convertible debentures than the first quarter of the prior year.

Factors That May Affect Operating Results and Financial Condition

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

Reliance on a Single Product

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

Distribution Network

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

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Inventory and Supply

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

Global Market and Foreign Currency Risks

The Company manufactures the Female Condom in a leased facility located in London, England. Further, a material portion of the Company's sales are in foreign markets. Manufacturing costs and sales to foreign markets are subject to normal currency risks associated with changes in the exchange rate of foreign currencies relative to the United States dollar. To date, the Company's management has not deemed it necessary to utilize currency hedging strategies to

manage its currency risks. On an ongoing basis, management continues to evaluate its commercial transactions and is prepared to employ currency hedging strategies when it believes such strategies are appropriate. In addition, some of the Company's future international sales may be in developing nations where dramatic political or economic changes are possible. Such factors may adversely affect the Company's results of operations and financial condition.

Government Regulation

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

Liquidity and Sources of Capital

Historically, the Company has incurred cash operating losses relating to expenses incurred to develop and promote the Female Condom. During the first three months of fiscal 2001, cash used in operations totaled \$0.1 million. The Company used net proceeds from the issuance of the Company's common stock in order to fund cash used in operations; thereby avoiding a reduction of its cash position.

The Company's currently anticipated needs include financing an aggregate payment on convertible debentures in the principal amount of \$1,500,000 due to five accredited investors between May and June 2001. Presently, the Company has established a special project designed to raise sufficient capital to cover this payment. However, there is no guarantee the Company will be successful and the Company will remain dependent upon its ability to generate sufficient capital from outside sources to cover all of its operating needs.

At December 31, 2000, the Company had current liabilities of \$3.8 million including a \$1.0 million note payable due March 25, 2001 and a \$250,000 note payable due February 12, 2001 both to Mr. Dearholt, a Director of the Company. As of December 31, 2000, Mr. Dearholt beneficially owns 2,705,583 shares of the Company's Common Stock.

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The Company also secured a \$50,000 note payable due February 18, 2001 from Mr. Parrish, the Chairman of the Board and Chief Executive Officer of the Company. As of December 31, 2000, Mr. Parrish beneficially owns 506,501 shares of the Company's Common Stock.

The Company, Mr. Dearholt and Mr. Parrish plan to extend the aforementioned notes in the current fiscal year as each notes' terms expire. The \$250,000 note payable due February 12, 2001 was extended with similar terms to those set in the prior year's note.

The Company's current liabilities at December 31, 2000 also include \$1,500,000 of convertible debentures originally issued on May 19 and June 3, 1999, to five accredited investors. The convertible debentures originally had a one-year term. However, the Company elected under the terms of the convertible debentures to extend the repayment term for an additional year. \$1 million of the convertible debentures is due on May 19, 2001, with the remaining \$500,000 due on June 3, 2001. Repayment of the convertible debentures is secured by a first security interest in all of the Company's assets. The holder of \$1 million of the convertible debentures has alleged that the Company is in default with respect to perfection of the investors' security interest in the Company's assets, and has made a demand pursuant to the default provisions of the convertible debentures for immediate repayment of all amounts outstanding under the convertible debentures and for the issuance of 1,500,000 shares of common stock to the investors. The Company disputes this claim and intends to vigorously defend its position, although no assurance can be given as to the outcome of this matter.

In the near term, the Company's management expects operating and capital costs to continue to exceed funds generated from operations, due principally to the Company's fixed manufacturing costs relative to current production volumes and the ongoing need to commercialize the Female Condom around the world. It is estimated that the Company's cash burn rate, with revenues, is less than \$0.1 million per month.

While management believes that revenue from sales of the Female Condom will eventually exceed operating costs, and that, ultimately, operations will generate sufficient funds to meet capital requirements, there can be no

assurance that such level of operations ultimately will be achieved, or be achieved in the near term. Until internally generated funds are sufficient to meet capital requirements, the Company will remain dependent on its ability to generate sufficient capital from outside sources. The Company will also need to raise additional capital to repay the \$1,500,000 of convertible debentures before they come due. There can be no assurance that the Company will be able to source all or any portion of its required capital through the sale of debt or equity or, if raised, the amount will be sufficient to operate the Company until sales of the Female Condom generate sufficient revenues to fund operations. In addition, any funds raised may be costly to the Company and/or dilutive to stockholders.

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

IMPACT OF INFLATION AND CHANGING PRICES

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

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PART II - OTHER INFORMATION

ITEMS 1-5. NOT APPLICABLE

ITEM 2 (C)

The Company sold 600,000 shares of common stock to four investors between November 2000 and February 2001. The Company received cash proceeds of \$300,000 from these sales. The Company believes it has satisfied the exemption from the securities registration requirement provided by section 4(2) of the Securities Act and Regulation D promulgated thereunder in this offering since the securities were sold in a private placement to sophisticated, accredited investors, who provided representations which the Company deemed necessary to satisfy itself that were accredited investors and were purchasing for investment and not with a view to resale in connection with a public offering.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

<TABLE>
<CAPTION>

Exhibit Number	Description

<C>	<S>
3.1	Amended and Restated Articles of Incorporation. (1)
3.2	Articles of Amendment to Amended and Restated Articles of Incorporation. (2)
3.3	Amended and Restated By-Laws. (3)
4.1	Amended and Restated Articles of Incorporation. (1)
4.2	Articles of Amendment to Amended and Restated Articles of Incorporation. (2)
4.3	Articles II, VII, and XI of the Amended and Restated By-Laws (included in Exhibit 3.2). (3)

</TABLE>

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

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

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

(b) Report on Form 8-K - No reports on Form 8-K were filed during the quarter ended December 31, 2000.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE FEMALE HEALTH COMPANY

DATE: February 14, 2001

/s/O.B. Parrish

O.B. Parrish, Chairman and Chief Executive Officer

/s/o/Robert R. Zic

Robert R. Zic, Director of Finance (Principal Accounting Officer)

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