FEMALE HEALTH CO
Form 10KSB
December 27, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal year ended September 30, 2002
OR

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

For the transition period from _____ to _____

Commission file number 1-13602

THE FEMALE HEALTH COMPANY
(Name of Small Business Issuer in Its Charter)

Wisconsin	39-1144397
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

515 N. State Street, Suite 2225, Chicago, Illinois	60610
(Address of Principal Executive Offices)	(Zip Code)

(312) 595-9123
(Issuer's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Exchange Act:
None

Securities registered pursuant to Section 12(g) of the Exchange Act:
Common Stock, $.01 par value
(Title of class)

Check whether the Issuer (1) 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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB. [ ]

Issuer's revenues for its most recent fiscal year: $8,416,512

As of December 20, 2002, 18,377,798 shares of the Company's common stock were outstanding. As of December 20, 2002, the aggregate market value of shares of the Company's common stock held by non-affiliates was approximately $21.6 million (based upon the last reported sale price of $1.65 on that date on the

Over the Counter Bulletin Board).

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CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

Certain statements included in this Annual Report on Form 10-KSB 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.

PART I

Item 1. Description of Business

GENERAL

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

The female condom has undergone extensive testing for efficacy, safety and acceptability, not only in the United States but also in many countries around the world. Certain of these studies show that having the female condom available allows women to have more options, resulting in an increase in protected sex acts and a decrease in STDs, including HIV/AIDS.

The product is currently sold or available in various venues including commercial (private sector) and public sector clinics in over 100 countries. It is commercially marketed in 17 countries by various FHC country specific partners, including the United States, United Kingdom, Japan, Canada, Holland, France, Venezuela, and Brazil. On November 29, 2001, the Company signed a non-binding memorandum of understanding with Hindustan Latex Limited for distribution in India.

As noted above, the female condom is sold to the global public sector. In the U.S., the product is marketed to city and state public health clinics as well as not-for-profit organizations such as Planned Parenthood. The product is available to developing countries under the umbrella of an agreement with the Joint United Nations Programme on HIV/AIDs ("UNAIDS"). This agreement facilitates the availability and distribution of the female condom at a reduced price based on the Company's cost of production. The current price per unit is approximately 0.38 (Pounds), or approximately $0.60. Currently 87 developing countries purchase the female condom under the terms of this agreement.

Product

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

Raw Materials

Polyurethane is the principal raw material the Company uses to produce the female condom. The Company has a supply agreement with Deerfield Urethane, Inc. for the purchase of the Company's requirements of polyurethane. Under this agreement, the parties negotiate pricing on an annual basis. The original term of the agreement extended to December 31, 1995 and thereafter automatically

renews for additional one year periods unless either party gives at least 12 months prior written notice of termination. 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 Potential

It is more than twenty years since the first clinical evidence of AIDS was noted. HIV/AIDS is the most devastating pandemic that humankind has faced in recorded history. UNAIDS and the World Health Organization ("WHO") estimate that more than 60 million people have been infected with the virus and that, at the end of 2002, 44 million people globally were living with HIV. Women now comprise the majority of the new cases. AIDS is not the only sexually transmitted disease that the global public health community is battling. In the United States, the Center for Disease Control and Protection noted that one in five Americans over the age of 12 has Herpes and 1 in every 3 sexually active people will get an STD by age 24.

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

Male Condom Market: It is estimated the global annual market for male condoms is close to 5 billion units. However, the majority of all acts of sexual intercourse, excluding those intended to result in pregnancy, are completed without protection. As a result, it is estimated the potential market for barrier contraceptives is much larger than the identified male condom market.

Advantages Versus 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 using the female condom, a woman has a prevention method she controls as many men do not like to wear male condoms and may refuse to do so.

The polyurethane material that is used for the female condom offers a number of benefits over latex, the material that is most commonly used in male condoms. Polyurethane is much stronger than latex, reducing the probability that the female condom sheath will tear during use. 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

A study entitled "Cost-effectiveness of the female condom in preventing HIV and STDs in commercial sex workers in South Africa" was reported in the Journal of Social Science and Medicine in 2001. This study shows that making the female condom available is highly cost effective in reducing public health costs in developing countries as well as in the U.S.

Worldwide Regulatory Approvals

The female condom received Pre-Market Approval ("PMA") as a Class III Medical Device from the U.S. Food and Drug Administration ("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 Canada, Russia, Australia, Japan, South Korea and Taiwan.

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

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

Strategy

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

Commercial Markets

The Company markets the product directly in the United Kingdom. The Company has distribution agreements with commercial partners in 17 countries including the United States, Japan, Canada, Brazil, Venezuela, Denmark, Holland, and France, and on November 29, 2001, the Company signed a non-binding memorandum of understanding with Hindustan Latex Limited in India. The agreements are generally exclusive for a single country. Under these agreements, each partner markets and distributes the female condom in a single country and the Company manufacturers the female condom and sells the product to the partner for distribution in that country.

Relationships and Agreements with Public Sector Organizations

Currently, it is estimated more than 1.5 billion male condoms are distributed worldwide by the public sector each year. The female condom is seen as an important addition to prevention strategies by the public sector because studies show that the availability of the female condom decreases the amount of unprotected sex by as much as 25% over male condoms alone.

The Company has an 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 approximately $0.60. Under the agreement, UNAIDS and the Company cooperate in education efforts and marketing the female condom in developing countries. Sales of the female condom are made directly to public health authorities in each country at the price established by the agreement with UNAIDS. The term of the agreement currently expires on December 31, 2002, but automatically renews for additional one-year periods unless either party gives at least 90 days prior written notice of termination. The female condom is available in 87 countries through public sector distribution. Twenty seven countries have significant programs and are using The Female Condom - the Guide

To Programming and Planning, published by UNAIDS and WHO with the Company's input. This is up from eight countries the previous year.

In the United States, the product is marketed to city and state public health clinics, as well as not-for-profit organizations such as Planned Parenthood.

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 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 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 directly competing with male condoms. Rather, the Company believes that providing the female condom is additive in terms of prevention and choice. 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.

Employees

As of December 20, 2002, the Company had 117 full-time employees, all located within the U.S. or the U.K., and no part-time employees. No Company employees are represented by a labor union. The Company believes that its employee relations are good.

Backlog

At December 20, 2002, the Company had unfilled orders of $2,002,000. The comparable amount as of the same date of the prior year was $1,236,000. Unfilled orders materially fluctuate from quarter to quarter. The Company expects current unfilled orders to be filled during fiscal 2003.

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, Brazil, South Korea and

Australia. These patents expire between 2005 and 2013. Additional technology patents are pending in Japan. The patents cover the key aspects of the female condom, including its overall design and manufacturing process. The Company terminated its license of the trademark "Reality" in the United States and now has the registered trademark FC Female Condom in the United States. The Company has trademarks on the names "femidom" and "femy" in certain foreign countries. 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. In addition, the experience that has been gained through years of manufacturing the female condom has allowed the Company to develop trade secrets and know-how, including certain proprietary production technologies, that further secure its competitive position.

Research and Development

The Company did not incur research and development costs from continuing operations in fiscal 2001 or 2002. Historically the Company has incurred expenditures primarily related to conducting acceptability studies and analyzing second generation products.

Industry Segments and Financial Information About Foreign And Domestic Operations

See Note 12 to Notes to Consolidated Financial Statements, included herein.

History

The female condom was invented by a Danish physician who obtained a U.S. patent for the 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 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 Company, known as Wisconsin Pharmacal Company, Inc. (the Company's predecessor), owned certain rights to the female condom in the U.S., Canada, and Mexico, pursued the pre-clinical and clinical studies and overall development of the product for worldwide use and U.S. FDA approval of the product.

The Female Health Company is the successor to Wisconsin Pharmacal Company, Inc., a company which previously manufactured and marketed a wide variety of disparate specialty chemical and branded consumer products in addition to owning certain rights to the female condom described above. The Company was originally incorporated in Wisconsin 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 all of the assets and liabilities of the Company other than those related primarily 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 (renamed The Female Health Company - UK in 1997), the manufacturer and owner of certain worldwide rights to, and the Company's sole supplier of, the female condom. 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 condom.

The FDA approved the female condom for distribution in 1993 and the Company's manufacturing facility in 1994. Since that time, the Company has sold over 58 million female condoms around the world.

Item 2. Description of Property

The Company leases approximately 3,100 square feet of office space at 515 North State Street, Suite 2225, Chicago, IL 60610. The lease expires September 30, 2006. The Company utilizes warehouse space and sales fulfillment services of an independent public warehouse located near Minneapolis, Minnesota for storage and distribution of the female condom. The Company manufactures the female condom in a 40,000 square foot leased facility located in London, England under a lease which expires in 2016, with the right to renew through 2027. The FDA-approved manufacturing process is subject to periodic inspections by the FDA as well as the EU quality group. Current capacity at the manufacturing facility is approximately 60 million female condoms per year. Management believes the properties are adequately insured.

Item 3. Legal Proceedings.

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

Item 4. Submission of Matters To A Vote Of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 2002.

PART II

Item 5. Market For Common Equity and Related Stockholder Matters.

Shares of the Company's common stock are traded on the OTC Bulletin Board under the symbol "FHCO." The approximate number of record holders of the Company's common stock at December 20, 2002 was 470. The Company has paid no cash dividends on its common stock and does not expect to pay cash dividends in the foreseeable future. The Company anticipates that for the foreseeable future it will retain any earnings for use in the operation of its business. The Company's credit facility contains a provision restricting the Company's ability to pay dividends and distributions. Information regarding the Company's high and low reported quarterly closing prices for its common stock is set forth in the table below. These sales prices reflect inter-dealer prices, without retail mark-ups, mark downs, or commissions.

	Quarters			
2002 Fiscal Year	FIRST	SECOND	THIRD	FOURTH
Price per common share - High	$ 0.79	$ 1.50	$ 2.09	$ 2.16
Price per common share - Low	$ 0.38	$ 0.70	$ 1.24	$ 1.30
2001 Fiscal Year				
Price per common share - High	$ 0.84	$ 0.65	$ 0.59	$ 0.80
Price per common share - Low	$ 0.38	$ 0.40	$ 0.34	$ 0.41

Recent Sales of Unregistered Securities

Effective September 26, 2002, the holders of outstanding options to purchase a total of 2,365,980 shares of the Company's common stock agreed to exchange their options for (i) a total of 469,000 shares of restricted common stock in the case of U.S. option holders or the right to receive a total of 122,495 shares of deferred common stock on September 26, 2003 in the case of U.K. option holders; and (ii) the right to receive a grant of new options to purchase a total of 2,365,980 shares of common stock on the first business day that is at least six months and one day after the effective date of the exchange. The Company believes that it satisfied the exemption from the securities registration requirement provided by Section 3(a)(9) of the Securities Act of 1933, as amended (the "Securities Act") in connection with this option exchange.

Effective September 20, 2002, a total of 594,000 shares of the Company's Series 1 Preferred Stock were converted into a total of 824,911 shares of the Company's common stock. The Company believes that it satisfied the exemption from the securities registration requirement provided by Section 3(a)(9) of the Securities Act in connection with these conversions.

The Company issued 183,150 shares of common stock to a single investor on September 19, 2002 upon exercise of warrants at an exercise price of $0.546 per share. The Company believes that it has satisfied the exemption from the securities registration requirement provided by Section 4(2) of the Securities Act in connection with this issuance.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Over the past few years, the Company completed significant aspects of the development and commercialization of the female condom. These initiatives have resulted in the attainment of proprietary manufacturing technology and product design patents, necessary regulatory approvals, and the development of significant manufacturing capacity. These steps, taken as part of the Company's plan to develop and sell a product with global commercial and humanitarian value, have required the expenditure of significant amounts of capital and resulted in significant operating losses including the period 1996 through the present.

The Company has begun the process of developing the commercial market for the female condom around the world. As part of this plan, the Company has completed a number of distribution agreements and is pursuing other arrangements for the marketing and sale of the female condom. Management believes that as the number of markets in which the female condom is sold increases, sales will grow and at certain levels the Company will become profitable. However, there can be no assurance that such level of sales will be achieved in the near term or at all.

Effective September 26, 2002, the holders of outstanding options to purchase a total of 2,365,980 shares of common stock agreed to exchange all of their outstanding stock options for (i) a total of 469,000 shares of restricted common stock in the case of U.S. option holders or the right to receive a total of 122,495 shares of deferred common stock on September 26, 2003 in the case of U.K. option holders and (ii) the right to receive new options to purchase a total of 2,365,980 shares of common stock on the first business day that is at least six months and one day after the effective date of the exchange. The Company expects to have approximately $641,000 of amortized compensation expense in fiscal 2003 relating to issuance of the restricted common stock and the deferred common stock. See "Options" in Note 8 in the financial statements for additional information regarding the option exchange.

Results Of Operations

Fiscal Year Ended September 30, 2002 ("2002") Compared to Fiscal Year Ended September 30, 2001 ("2001")

The Company had net revenues of $8.4 million and a net loss attributable to common stockholders of $(3.6) million or $(0.22) per share in 2002 compared to net revenues of $6.7 million and a net loss attributable to common stockholders of $(1.3) million or $(0.09) per share in 2001. During 2002, the Company recorded non cash charges of $3.1 million consisting of an out of court of settlement of a dispute ($1,258,210) and stock compensation ($1,863,956) primarily related to accounting for stock options under variable plan accounting guidance. During 2001, the Company recorded non cash charges of $123,758 consisting of stock compensation primarily for consulting services. Excluding these non-cash charges in both fiscal years, the net loss attributable to common stockholders in 2002 would be $(491,001) or $(0.03) per share compared to a net loss attributable to common stockholders in 2001 which would be $(1,180,498) or $(0.08) per share.

Gross profit increased $1,251,127, or 54%, to $3,561,191 for 2002 from $2,310,064 for 2001. The increase was a result of improved net revenues combined with a less than proportionate increase in cost of products sold.

Net revenues increased $1.7 million, or 25%, in 2002 over the prior year. The higher net revenues resulted from increased unit sales shipped to global public sector customers.

Cost of products sold increased $449,211, or 10%, to $4,855,321 for 2002 from $4,406,110 for 2001. The increase was not in proportion with the sales increase due to a reduction of fixed costs per unit which resulted from the increased unit sales. Costs of products sold as a percentage of sales decreased from 66% in 2001 to 58% in 2002.

Advertising and promotional expenditures decreased $85,323 to $43,832 from $129,155 for the same period in the prior year. The decline resulted from a reduction in advertising costs between these periods and reflects the Company's strategy as a manufacturer.

Selling, general and administrative expenses increased $525,646, or 21%, from $2.5 million in 2001 to $3.0 million in 2002. The increase was not in proportion with the sales increase due to the primarily fixed nature of the selling, general and administrative costs. As a percentage of net revenues, selling, general and administrative expenses decreased from 37% in 2001 to 36% in 2002.

The Company's operating loss increased $(2,187,604) from $(481,886) in 2001 to $(2,669,490) in 2002 as a result of the increase in operating expenses. Operating expenses increased $3,438,731 from $2,791,950 in 2001 to $6,230,681 in 2002. $2,998,408, or 87%, of this increase represents the change in non-cash costs pertaining to out of court settlement costs and stock compensation expenses incurred during 2002 compared to 2001. Excluding the non-cash charges for the out of court settlement and stock compensation, the Company would have recorded operating income of $452,676 in 2002 compared to an operating loss of $(358,128) in 2001.

Net interest and non-operating expenses increased $122,302, or 18%, to $811,672 for 2002 compared to $689,370 for 2001. The increase exists because the Company had a higher level of debt outstanding during 2002 than 2001 due to the issuance of convertible debentures during May 2001. The result is a higher amount of

non-cash expenses incurred from the amortization of discounts on convertible debentures in 2002 than in the prior year.

The Company was able to cover fixed manufacturing overhead costs and exceeded the break-even at the gross profit level. However, the Company must achieve cumulative annual unit sales of approximately 14 million female condoms based upon the current average selling price per unit in order to cover operating and non-operating expenses or approximately 23% of manufacturing capacity.

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 consumer demand and to cost-effectively manufacture sufficient quantities of the female condom. Inherent in this process are a number of factors that the Company must successfully manage in order to achieve favorable future results and improve its financial condition.

Reliance on a Single Product

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

As part of this strategy the Company entered into two agreements in the year ended September 30, 2002.

On November 29, 2001, the Company signed a non-binding memorandum of understanding with Hindustan Latex Limited ("HLL"), an Indian government organization and India's largest male condom manufacturer. HLL distributes to public sector customers including government and non-government organizations and to the public sector through 160,000 retail outlets. Jointly with HLL a marketing strategy will be developed for the country of India. Over time, the Company anticipates that HLL and the Company will explore manufacturing options

within India.

On December 18, 2001, the Company announced the appointment of Total Access Group ("TAG") as the exclusive distributor for public sector sales within a 15 state region in the western United States. TAG is a privately held national distributor to the United States public sector and serves over 2,500 customers, which include state and local health departments, community based organizations, HIV/STD prevention organizations, Planned Parenthood clinics and family planning organizations. TAG is a full service distributor and will provide marketing, education and customer service support. TAG is required to purchase 2,190,000 units within a three year period to retain exclusivity distribution rights.

Inventory and Supply

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

Global Market and Foreign Currency Risks

The Company manufactures the female condom in a leased facility located in London, England. Further, a material portion of the Company's future sales are likely to be in foreign markets. Manufacturing costs and sales to foreign markets are subject to normal currency risks associated with changes in the exchange rate of foreign currencies relative to the United States dollar. To date, the Company's management has not deemed it necessary to utilize currency hedging strategies to manage its currency risks. On an ongoing basis, management continues to evaluate its commercial transactions and is prepared to employ currency hedging strategies when it believes such strategies are appropriate. In addition, some of the Company's future international sales may be in developing nations where dramatic political or economic changes are possible. Such factors may adversely affect the Company's results of operations and financial condition.

Government Regulation

The female condom is subject to regulation by the FDA pursuant to the federal Food, Drug and Cosmetic Act (the "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 to develop, manufacture, and promote the female condom. Cash used in continuing operations was $0.4 million for 2002 and $0.6 million in 2001. Historically, the Company has funded operating losses and capital requirements, in large part, through the sale of common stock or debt securities convertible into common stock.

During 2002, the Company received $60,000 from the issuance of common stock and

$500,000 of additional borrowings under its credit facility. FHC used these amounts to fund current operations of the Company, repay existing liabilities and pay down $100,000 of borrowings under the credit facility.

In the near term, FHC management expects operating losses and capital requirements 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.

The Company has a $1 million note due March 25, 2003 to Mr. Stephen Dearholt, a Director of the Company.

On May 18, 2001, the Company entered into an agreement with Heartland Bank providing for a $2,000,000 credit facility. The unpaid balances on the credit facility are due May 18, 2004 and bear interest payable at a rate of 10% per year. The agreement contains certain covenants which include restrictions on the payment of dividends and distributions and on the issuance of warrants, which the Company was in violation of at September 30, 2002. Under the terms of the agreement, Heartland Bank would have had the right to demand payment of the entire balance of the credit facility as a result of this violation. On December 13, 2002, the Company obtained a waiver from Heartland Bank through the entire fiscal year ending September 30, 2003. The Company may borrow under the credit facility from time to time subject to a number of conditions, including obtaining personal guarantees of 125% of the amount outstanding under the credit facility. In connection with the credit facility, the Company issued warrants to Heartland Bank to purchase the number of shares of the Company's common stock equal to $500,000 divided by the warrant purchase price as of the date of exercise. The warrant purchase price is equal to 70% of the market price of the Company's common stock as of the day immediately prior to the date the exercise notice is given to the Company, but in no event shall the per share price be less than $0.50 or more than $1.00. The warrants are valued at $270,800 and are recorded as additional paid in capital and a discount on the credit facility.

During 2002, the Company borrowed the remaining $500,000 under the credit facility. Eight persons provided guarantees equal in total to the $2.0 million outstanding under the loan. The guarantors included James R. Kerber, a Director of the Company, Stephen M. Dearholt, a Director of the Company, Richard E. Wenninger, a Director of the Company, and a trust for the benefit of O.B. Parrish, the Chairman of the Board and Chief Executive Officer of the Company. Each guarantor may be liable to Heartland Bank for up to 125% of the guarantor's guarantee amount if the Company defaults under the loan. The Company issued warrants to the guarantors to purchase the number of shares of the Company's common stock equal to the guarantee amount of such guarantor divided by the warrant purchase price as of the date of exercise. The warrant purchase price is the price per share equal to 70% of the market price of the Company's common stock at the time of exercise, but in no event will the warrant purchase price be less than $0.50 or more than $1.00. In September 2002, one of the guarantors exercised stock warrants to purchase 183,150 shares of the Company's common stock and the proceeds were utilized to pay down $100,000 on the credit facility. The Company also issued additional warrants to purchase a total of 300,000 shares of the Company's common stock at an exercise price of $0.50 per share to three of the guarantors including both Stephen M. Dearholt and Richard E. Wenninger because each of them guaranteed $500,000 under the credit facility. The guarantors' warrants are valued at $667,578 and are recorded by the Company as additional paid in capital and a discount on the credit facility.

In accounting for the guarantors' warrants related to the $500,000 borrowed in 2002, the Company designated 900,000 warrants valued at $415,427 and these are recorded by the Company as additional paid-in capital and a discount on the credit facility. The credit facility is recorded at September 30, 2002, net of unamortized discount of $927,546.

On June 1, 2001 the Company issued an aggregate of $200,000 of convertible debentures to two accredited investors. The debentures were due May 30, 2004, bear interest payable at a rate of 10% per annum, and were convertible into the Company's common stock based on a price per share equal of $0.50. The Company did not issue warrants in connection with the issuance of the convertible debentures. On December 5, 2002, each investor converted his debenture into 100,000 shares of the Company's common stock.

On March 30, 2001 the Company issued a $250,000 convertible debenture to one accredited investor. The debenture is due March 30, 2004, bears interest payable at a rate of 12% per annum, and is convertible into the Company's common stock based on a price of $0.50 per share. The Company did not issue warrants in connection with the issuance of the convertible debenture.

While the Company 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, the Company can make no assurance that it will achieve such level of operations in the near term or at all. Likewise, the Company can make 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 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 its shareholders. If the Company is unable to raise adequate financing when needed, the Company may be required to sharply curtail the Company's efforts to promote the female condom, to attempt to sell certain of its assets and rights or to curtail certain of its operations and may ultimately be forced to cease operations. Currently, the Company is focused on growing its business and, therefore, the Company has made no plans to sell any assets nor has it identified any assets to be sold or potential buyers.

As of December 20, 2002, the Company had approximately $0.9 million in cash, net trade accounts receivable of $2.6 million and current trade accounts payable of $1.1 million. It is estimated that the Company's cash burn rate, with revenues, is less than $0.1 million per quarter. The Company's anticipated debt service obligations for scheduled interest and principal payments are approximately $1.3 million in fiscal 2003, $190,000 in fiscal 2004 and $2.0 million in fiscal 2005. As of December 20, 2002, the Company was in compliance with all of the covenants relating to its outstanding debt.

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. Historically, the Company has absorbed increased costs and expenses without increasing selling prices.

New Accounting Pronouncements

Please see "New Accounting Pronouncements" in Note 1 in financial statements.

ITEM 7. Financial Statements

The consolidated financial statements of the Company and notes thereto are filed under this item beginning on page F-1 of this report.

Item 8. Changes in and Disagreements with Accountants on Accounting and

Financial Disclosure.

Not Applicable.

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PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of The Exchange Act.

Certain information about the Company's executive officers and directors as of September 30, 2002, is as follows:

NAME	POSITION	AGE
O.B. Parrish	Chairman of the Board, Chief Executive Officer, and Director	69
Mary Ann Leeper, Ph.D.	President, Chief Operating Officer and Director	62
William R. Garguilo, Jr.	Secretary and Director	74
Jack Weissman	Vice President - Sales	55
Michael Pope	Vice President and General Manager of The Female Health Company (UK)Plc	46
Mitchell Warren	Vice President - International Affairs	36
Robert R. Zic	Principal Accounting Officer	39
David R. Bethune	Director	62
Stephen M. Dearholt	Director	56
Michael R. Walton	Director	64
James R. Kerber	Director	70
Richard E. Wenninger	Director	55

O. B. PARRISH
Age: 69; Elected Director: 1987; Present Term Ends: 2003 Annual Meeting

O.B. Parrish has served as Chief Executive Officer of the Company since 1994, 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 295,000 shares of the Company's common stock. Mr. Parrish also is Chairman and a Director of ViatiCare, L.L.C., a

financial services company, Chairman and a Director of MIICRO, Inc., a neuroimaging company, and Chairman and a Director of Amerimmune Pharmaceuticals, Inc. 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.

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MARY ANN LEEPER, Ph.D.
Age: 62; Elected Director: 1987; Present Term Ends: 2003 Annual Meeting

Dr. Leeper has served as the President and Chief Operating Officer of the Company since 1996, 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 1989 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 currently serves on the Board of Advisors of the Temple University School of Pharmacy, the University of Virginia School of Nursing and the Northwestern University School of Music. Dr. Leeper is also on the Board of CEDPA, an international not-for-profit organization working on women's issues in the developing world and is a Director of Influx, Inc., a pharmaceutical research company. She is also an adjunct professor at the University of Virginia Darden School of Business.

WILLIAM R. GARGIULO, JR.
Age: 74; Elected Director: 1987; Present Terms Ends: 2003 Annual Meeting

William R. Gargiulo, Jr. has served as Secretary of the Company from 1996 to present, as Vice President 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.

JACK WEISSMAN
Age: 55; Vice President - Sales

Mr. Weissman has served as Vice President - Sales since June 1995. From 1992 to 1994, Mr. Weissman was Vice President-Sales for Capitol Spouts, Inc., a manufacturer of pouring spouts for gable paper cartons. From 1989 to 1992, he acted as General Manager-HTV Group, an investment group involved in the development of retail stores. Mr. Weissman joined Searle's Consumer Products Group in 1979 and held positions of increasing responsibility, including National Account and Military Sales Manager. From 1985 to 1989, he was Director - Retail Business Development for The NutraSweet Company, a Searle subsidiary. Prior to Searle, Mr. Weissman worked in the consumer products field as account manager and territory manager for Norcliff Thayer and Whitehall Laboratories.

MICHAEL POPE
Age: 46; Vice President, General Manager - 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. 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.

MITCHELL WARREN
Age: 36; Vice President - International Affairs

Mr. Warren has served as Vice President - International Affairs of the Company since February 2000 and as Director of International Affairs of the Company from January 1999 to February 2000. From 1993 to 1998, Mr. Warren was employed by Population Services International (PSI), an international social marketing and communications organization, first as Executive Director of PSI/South Africa and then of PSI/Europe. From 1989 to 1993, Mr. Warren was Program Director of Medical Education for South Africa Blacks.

ROBERT R. ZIC
Age: 39; Principal Accounting Officer

Mr. Zic has served as Principal Accounting Officer since March 1999. From 1998 to 1999, Mr. Zic held the dual positions of Acting Controller and Acting Chief Financial Officer at Ladbroke's Pacific Racing Association division. From 1995 to 1998 Mr. Zic served as the Chief Accounting Manager and Assistant Controller at Argonaut Insurance Company. In this capacity, he was responsible for the financial and accounting operations of Argonaut and its four subsidiaries. From 1990 to 1994, he was the Assistant Controller of CalFarm Insurance Company, where he was responsible for external reporting duties. From 1988 to 1990, Mr. Zic was a Senior Accountant responsible for the statutory-based financials of Allstate Insurance Company. Mr. Zic began his career in 1986 as an auditor with Arthur Andersen & Co.

DAVID R. BETHUNE
Age: 62; Elected Director: 1996; Present Term Ends: 2003 Annual Meeting

Mr. Bethune has served as a Director since January 1996. Mr. Bethune has been Chairman and Chief Executive Officer of Atrix Laboratories, Inc. since 1999. 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 opthalmics, as well as medical research. Mr. Bethune is on the Board of Directors of the Southern Research Institute, Atrix Laboratories, Inc. and the American Foundation for Pharmaceutical Education, Partnership for Prevention. He is a founding trustee of the American Cancer Society Foundation and an associate member of the National Wholesale Druggists' Association and the National Association of Chain Drug Stores. 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.

STEPHEN M. DEARHOLT
Age: 56; Elected Director: 1996; Present Term Ends: 2003 Annual Meeting

Mr. Dearholt has served as a director since April 1996. Mr. Dearholt is a co-founder 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 23 years of experience in direct response advertising and data based marketing of niche products. Since 1985, he has been a 50% owner of R.T. of Milwaukee, a private investment holding company which operates a stock brokerage business in Milwaukee, Wisconsin. In late 1995, Mr. Dearholt arranged, on very short notice, a $1 million bridge loan which assisted the Company in its purchase of Chartex. Mr. Dearholt is also very active in the non-profit sector. He is currently on the Board of Directors of Children's Hospital Foundation of Wisconsin, an honorary board member of the Zoological Society of Milwaukee, and the national Advisory Council of the Hazelden Foundation. He is a past board member of Planned Parenthood Association of Wisconsin, and past Chairman of the Board of the New Day Club, Inc.

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MICHAEL R. WALTON
Age: 64; Elected Director: 1999; Present Term Ends 2003 Annual Meeting

Mr. Walton has served as a director since April 1999. Mr. Walton is President and owner of Sheboygan County Broadcasting Co., Inc., a company he founded in 1972. In addition to its financial assets, Sheboygan County Broadcasting Co. currently owns four radio stations. The company has focused on start-up situations, and growing value in under-performing, and undervalued business situations. It has purchased and sold properties in Wisconsin, Illinois, and Michigan, and has grown to a multi-million dollar asset base from a start-up capital contribution of less than $100,000. 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., a trade magazine publisher specializing in new magazines which was subsequently sold to a large international publishing concern. Mr. Walton has served on the Boards of the American Red Cross, the Salvation Army and the Chamber of Commerce.

JAMES R. KERBER
Age: 70; Director: 1999; Present Term Ends 2003 Annual Meeting

Mr. Kerber has served as a director since April 1999. Mr. Kerber has been a business consultant to the insurance industry since January 1996. He has over 40 years of experience in operating insurance companies, predominately those associated with life and health. From 1994 to 1996, he was Chairman, President, Chief Executive Officer and director of the 22 life and health insurance companies which comprise the ICH Group. In 1990, Mr. Kerber was a founding partner in the Life Partners Group where he was Senior Executive Vice President and a director. Prior to that, he was involved with operating and consolidating over 200 life and health insurance companies for ICH Corporation, HCA Corporation and US Life Corporation.

RICHARD E. WENNINGER
Age: 55; Director: 2001: Present Term Ends 2003 Annual Meeting

Mr. Wenninger has served as a Director since July 2001. Mr. Wenninger currently serves as 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 current 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 current 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.

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 Securities and Exchange Commission ("SEC") on Form 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 fiscal 2002 all section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with, except that: Mr. Wenninger filed a Form 4 on January 2, 2002 to report a transaction occurring on November 29, 2001 and filed a Form 4 on December 27, 2002 to report the conversion of preferred stock into common stock on September 20, 2002; Dr. Leeper filed a Form 4 on December 27, 2002 to report the exchange of stock options for restricted common stock on September 26, 2002; Mr. Parrish filed a Form 4 on December 27, 2002 to report the exchange of stock options for restricted common stock on September 26, 2002; Mr. Gargiulo filed a Form 4 on December 27, 2002 to report the exchange of stock options for restricted common stock on September 26, 2002; Mr. Bethune filed a Form 4 on December 27, 2002 to report the exchange of stock options for restricted common stock on September 26, 2002; Mr. Walton filed a Form 4 on December 26, 2002 to report

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the extension of the term of a warrant to purchase shares of common stock on September 19, 2002, the conversion of preferred stock into common stock on September 20, 2002 and the exchange of stock options for restricted common stock on September 26, 2002; Mr. Weissman filed a Form 4 on December 27, 2002 to report the exchange of stock options for restricted common stock on September 26, 2002; Mr. Pope filed a Form 4 on December 27, 2002 to report the exchange of stock options for restricted common stock on September 26, 2002; Mr. Kerber filed a Form 4 on December 27, 2002 to report the exchange of stock options for restricted common stock on September 26, 2002; and Mr. Dearholt filed a Form 4 on December 17, 2002 to report the conversion of preferred stock into common stock on September 20, 2002, the exchange of stock options for restricted stock on September 26, 2002 and one transaction occurring on November 22, 2002.

Item 10. Executive Compensation

The table below gives information for each of the Company's last three fiscal

years regarding all annual, long-term and other compensation paid by the Company to its chief executive officer and the only executive officer whose total annual salary and bonus exceeded $100,000 for services rendered during the fiscal year ended September 30, 2002. The individuals listed in this table are referred to elsewhere in this report as the "named executive officers."

SUMMARY COMPENSATION TABLE

	Annual Compensation		Long-Term Compensation Awards	
Name and Principal Position	Fiscal Year	Salary ($)	Restricted Stock Awards ($)	Securities Underlying Options/SARs (#)
O.B. Parrish	2002	90,000	237,800(1)	--
Chairman and	2001	90,000	--	--
Chief Executive	2000	90,000	--	--
Officer				
Mary Ann Leeper, Ph.D.	2002	225,000	404,875(1)	--
President and	2001	225,000	--	--
Chief Operating	2000	225,000	--	--
Officer				