

FEMALE HEALTH CO  
Form 10QSB  
August 16, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 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 June 30, 2004

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-13602

THE FEMALE HEALTH COMPANY

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

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

515 North State Street, Suite 2225, Chicago, IL              60610  
(Address of Principal Executive Offices)              (Zip Code)

312-595-9123  
(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  NO

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

Common Stock, \$.01 Par Value - 20,080,169 shares outstanding  
as of August 16, 2004

Transitional Small Business Disclosure Format (check one):  
YES  NO



## 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**

	June 30, 2004
<b>ASSETS</b>	
Current Assets:	
Cash	\$ 690,770
Accounts receivable, net	2,509,566
Inventories, net	912,937
Prepaid expenses and other current assets	453,144
<b>TOTAL CURRENT ASSETS</b>	<b>4,566,417</b>
Certificate of deposit	71,337
Intellectual property rights, net	212,902
Other assets	179,783
	464,022
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>4,663,464</b>
Less accumulated depreciation and amortization	(4,448,434)
<b>Net property, plant and equipment</b>	<b>215,030</b>
<b>TOTAL ASSETS</b>	<b>\$ 5,245,469</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
Current Liabilities:	
Accounts payable	\$ 590,538
Accrued expenses and other current liabilities	645,139
Current maturities of obligations under capital leases	24,161
Preferred dividends payable	8,650
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,268,488</b>
Note payable, bank, net of unamortized discount	928,454
Obligations under capital leases	4,362
Deferred gain on sale of facility	1,290,598
<b>TOTAL LONG TERM LIABILITIES</b>	<b>2,223,414</b>
<b>STOCKHOLDERS' EQUITY:</b>	
Convertible preferred stock	5,293
Common stock	201,006
Additional paid-in-capital	58,796,340
Unearned consulting compensation	(38,350)
Deferred compensation	(52,341)

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Accumulated deficit	(57,749,608)
Accumulated other comprehensive income	623,303
Treasury stock, at cost	(32,076)
	<hr/>
TOTAL STOCKHOLDERS' EQUITY	1,753,567
	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 5,245,469
	<hr/>

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,	
	2004	2003
Net revenues	\$ 2,760,235	\$ 3,010,911
Cost of products sold	1,428,028	1,928,846
Gross profit	1,332,207	1,082,065
Advertising & promotion	7,176	9,698
Selling, general and administrative	1,016,727	839,270
Research & development	72,818	24,963
Stock compensation	59,561	206,625
Total operating expenses	1,156,282	1,080,556
Operating income	175,925	1,509
Interest, net and other expense	194,701	250,045
Net loss	(18,776)	(248,536)
Preferred dividends	40,201	2,902
Net loss attributable to common stockholders	\$ (58,977)	\$ (251,438)
Net loss per common share outstanding	\$ (0.00)	\$ (0.01)
Weighted average common shares outstanding	20,086,890	19,228,896

See notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended June 30,	
	2004	2003
Net revenues	\$ 7,294,548	\$ 6,939,144
Cost of products sold	4,291,319	4,185,694
Gross profit	3,003,229	2,753,450
Advertising & promotion	33,426	32,671
Selling, general and administrative	3,183,392	2,813,288
Research & development	151,008	49,040
Stock compensation	155,358	722,739
Total operating expenses	3,523,184	3,617,738
Operating loss	(519,955)	(864,288)
Interest, net and other expense	861,822	763,843
Net loss	(1,381,777)	(1,628,131)
Preferred dividends	66,357	8,711
Net loss attributable to common stockholders	\$ (1,448,134)	\$ (1,636,842)
Net loss per common share outstanding	\$ (0.07)	\$ (0.09)
Weighted average common shares outstanding	19,797,472	18,910,689

See notes to unaudited condensed consolidated financial statements.



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

	Nine Months Ended June 30,	
	2004	2003
<b>OPERATIONS:</b>		
Net loss	\$ (1,381,777)	\$ (1,628,131)
Adjustment for noncash items:		
Depreciation and amortization	197,692	391,323
Interest added to certificate of deposit	(2,716)	(3,443)
Amortization of discounts on notes payable	677,149	521,886
Amortization of unearned consulting fees	143,695	255,838
Common stock issued for bonuses	138,939	128,700
Stock compensation	-	466,901
Changes in operating assets and liabilities	(39,361)	379,070
<b>Net cash provided by (used in) operating activities</b>	<b>(266,379)</b>	<b>512,144</b>
<b>INVESTING ACTIVITIES:</b>		
Proceeds from maturity of certificate of deposit	27,600	29,105
Decrease in restricted cash	130,507	71,901
Capital expenditures	(6,272)	(44,907)
<b>Net cash provided by investing activities</b>	<b>151,835</b>	<b>56,099</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of preferred stock	1,500,500	-
Proceeds from note payable, bank	1,000,000	-
Proceeds from exercise of stock options	74,550	-
Proceeds from exercise of stock warrants	492,600	-
Dividends paid on preferred stock	(11,200)	(104,396)
Payments from note payable, bank	(1,900,000)	-
Payments on related party notes	(1,000,000)	-
Payments on capital lease obligations	(28,186)	(19,379)
<b>Net cash provided by (used in) financing activities</b>	<b>128,264</b>	<b>(123,775)</b>
Effect of exchange rate changes on cash	44,755	(37,377)
<b>INCREASE IN CASH</b>	<b>58,475</b>	<b>407,091</b>
Cash at beginning of period	632,295	377,308
<b>CASH AT END OF PERIOD</b>	<b>\$ 690,770</b>	<b>\$ 784,399</b>

Schedule of noncash financing and investing activities:

Common stock issued for payment of preferred stock dividends

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and convertible debenture interest	\$57,725	\$40,777
Common stock issued for conversion of convertible debentures	-	450,000
Common stock issued as part of retention program	183,203	-
Issuance of warrants on notes payable and credit facility	76,822	278,400
Preferred dividends declared	8,650	8,711

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 and nine months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2004. 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, 2003.

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

Stock-Based compensation:

The Company accounts for its stock-based compensation plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three Months Ended June 30		Nine Months Ended June 30	
	2004	2003	2004	2003
Net loss, as reported	\$ (58,977)	\$ (251,438)	\$ (1,448,134)	\$ (1,636,842)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(191,319)	(157,843)	(576,059)	(157,839)
Pro forma net loss	\$ (250,296)	\$ (409,281)	\$ (2,024,193)	\$ (1,794,681)
Loss per share:				

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As reported	\$ (0.00)	\$ (0.01)	\$ (0.07)	\$ (0.09)
Pro forma	\$ (0.01)	\$ (0.02)	\$ (0.10)	\$ (0.09)

NOTE 1 - Basis of Presentation - (Continued)Reclassification:

Certain items in the financial statements for the nine months ended June 30, 2003 have been reclassified to be consistent with the presentation shown for the nine months ended June 30, 2004.

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 stock or convertible debt and the exercise of stock options and warrants for all periods. Fully diluted (loss) per share is not presented since the effect would be anti-dilutive.

NOTE 3 - Comprehensive Income (Loss)

Total Comprehensive Loss was \$(38,370) and \$(1,149,840) for the three and nine months ended June 30, 2004 and \$(136,021) and \$(1,485,783) for the three and nine months ended June 30, 2003.

NOTE 4 - Inventories

The components of inventory consist of the following:

	June 30, 2004
Raw material and work in process	\$ 649,042
Finished goods	291,187
Inventory, gross	940,229
Less: inventory reserves	(27,292)
Inventory, net	\$ 912,937

NOTE 5 - Stock Compensation

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 recorded \$728,430 of amortized compensation expense in fiscal 2003 relating to issuance of the restricted and deferred common stock. The new options which were granted on April 22, 2003, at an exercise price of \$1.40 are being accounted for in accordance with fixed plan accounting guidance provided in APB No. 25. As of June 30, 2004, 2,323,980 of the new options were still outstanding. Options to purchase a total of 320,000 shares of common stock did not participate in the September 26, 2002 exchange. None of these latter options were still outstanding as of June 30, 2004.

NOTE 6 - Preferred Stock

The Company has 56,000 outstanding shares of Series 1 Preferred Stock. Each share of Series 1 Preferred Stock is convertible into one share of the Company's common stock. Annual preferred stock dividends will be paid if and as declared by the Company's Board of Directors. No dividends or other distributions will be payable on the Company's common stock unless dividends are paid in full on the Series 1 Preferred Stock. The Series 1 Preferred Stock may be redeemed at the option of FHC, in whole or in part, subject to certain conditions, at \$2.50 per share plus accrued and unpaid dividends. In the event of a liquidation or dissolution of the Company, the Series 1 Preferred Stock would have priority over the Company's common stock.

The Company issued 473,377 shares of Series 3 Preferred Stock to eleven investors during February 2004 and received \$1,500,500 in proceeds. Each share of Series 3 Preferred Stock is convertible at any time into one share of the Company's common stock. Holders of shares of the Series 3 Preferred Stock are entitled to cumulative dividends in preference to any dividend on the Company's common stock at the rate of 10% of the original issuance price (\$3.17 per share) per annum, payable at the Company's option in cash or shares of the Company's common stock. If dividends are paid in shares of common stock, the dividend rate will be equal to 95% of the average of the closing sales prices of the common stock on the five trading days preceding the dividend reference date. The dividend reference date means January 1, April 1, July 1, October 1 of each year. In the event of a liquidation or dissolution of the Company, the Series 3 Preferred Stock would have priority over the Company's common stock and holders of any other series of preferred stock of the Company. The Company may redeem any share of Series 3 Preferred Stock at any time that is after the second anniversary of the date of issuance of the share, provided that the redemption may not occur until the first day on or after the second anniversary of the date of issuance of such share in which the market value of the Company's common stock is at least 150% of the original issuance price of \$3.17 per share.

NOTE 7 Note Payable & Long-Term Debt

Effective May 19, 2004, the Company amended its previous credit facility and two line of credit agreements with Heartland Bank and established three promissory notes totaling \$2,500,000. The first promissory note replaces the previous credit facility, has an outstanding balance of \$1,000,000 as of August 15, 2004, bears interest payable at a rate of 10% per year and effectively extended the due date of the credit facility from May 18, 2004 to July 1, 2006. As part of the amended agreement, Heartland Bank was issued warrants to purchase 50,000 shares of the Company's common stock at an exercise price of \$2.70 per share and an expiration date of June 1, 2009. In accounting for Heartland Bank's warrants, the Company has designated value at \$76,822 and these are recorded by the Company as additional paid-in capital and a discount on the promissory note. The two additional promissory notes which replaced the Company's previous lines of credit are for \$500,000 and \$1,000,000, respectively. Interest is due monthly at the prime rate plus 2 percent (prime was 4.00 percent on June 30, 2004) and the due date of any borrowings under the notes is July 1, 2005. As of August 15, 2004, the Company had not borrowed under either of these notes.

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

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

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

(Amounts in Thousands)

	Net Sales to External Customers For the Nine Months Ended June 30,		Long-Term Assets As of June 30,	
	2004	2003	2004	2003
United States	\$ 1,854	\$ 1,721	\$ 102	\$ 130
Brazil	-	1,107 (1)	-	-
Congo	508	*	-	-
France	813 (1)	381	-	-
Kenya	697	*	-	-
South Africa	431	1,108	-	-
United Kingdom	*	*	577	916
Zimbabwe	986	671	-	-
Other	2,006	1,951	-	-
	<u>\$ 7,295</u>	<u>\$ 6,939</u>	<u>\$ 679</u>	<u>\$ 1,046</u>

\* Less than 5 percent of total net sales

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

**NOTE 9 - Contingent Liabilities**

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



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.

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. It is commercially marketed in 21 countries by various FHC country specific partners, including the United States, United Kingdom, Japan, Canada, Holland, France, and Brazil. Currently there are programs and /or pilot studies ongoing in 87 developing countries.

Product

The female condom is made of polyurethane, a thin but strong material which is resistant to rips and tears during use. The female condom consists of a soft, loose fitting sheath and two flexible O rings. One of the rings is used to insert the device and helps to hold it in place. The other ring remains outside the vagina after insertion. The female condom lines the vagina, preventing skin from touching skin during intercourse. The female condom is 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 entered into a supply agreement with Deerfield Urethane, Inc. for the purchase of all of the Company's requirements of polyurethane. Under this agreement, the parties negotiate pricing on an annual basis. The term of the agreement expires December 31, 2004, and automatically renews for additional one year periods unless either party gives at least 12 months prior written notice of termination.

## 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 at the end of 2003, 40 million people globally were living with HIV. Women now comprise the majority of the new cases. UNAIDS estimates that if further action isn't taken up to 100 million people could die of AIDS by 2020.

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

## The Condom Market

Estimates for the global annual market for male condoms are between 6-9 billion units. In addition, given the rapid spread of HIV/AIDS in India and China, UNAIDS estimates that the need for condoms, both male and female, may be as high as 29 billion units in the next 6 years.

## The Female Condom and 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.

Numerous clinical and behavioral studies have been conducted regarding use of the female condom. Studies show that the female condom is found acceptable by women and their partners in many cultures. Importantly studies also show that when the female condom is made available with male condoms there is a significant increase in protected sex acts. The increase in protected sex acts varies by country and averages between 25% and 35%.

#### 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.

#### Female Condom Reuse

A new website funded by the UK's Department for Institutional Development (DFID) has been established "to enhance the capacity of female condom programmers to make appropriate decisions about reuse of FC female condoms." The site is managed jointly by JSI (UK) in partnership with the Female Health Foundation. Limited availability of FC female condom has led women to reuse the product. Given this, the World Health Organization (WHO) and United States Agency for International Development (USAID) funded research on the safety of reuse.

The website presents the WHO protocol and guidelines as well as offering the opportunity for discussion. The website is located at [www.reusefemalecondom.org](http://www.reusefemalecondom.org).

#### 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, Australia, Japan, and India.

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.

The Company filed a patent on a second generation product (FC2) in 2003 and initiated a development program. If safety and acceptability studies are successful and FDA approval is received, the Company anticipates a meaningful reduction in cost to manufacture FC2.

## Commercial Markets

The Company markets the product directly in the United Kingdom. The Company has distribution agreements with commercial partners in 16 countries with major programs in 12 countries, including the United States, Canada, Brazil, Mexico, Spain, France, and India. Under these agreements, each partner markets and distributes the female condom in a single country and the Company manufactures the female condom and sells the product to the partner for distribution in that country.

After terminating its relationship with its first partner, the Company entered into a non-binding Memorandum of Understanding with a large Japanese pharmaceutical company to distribute the female condom to public and private markets in Japan. In addition, the Company has signed an agreement with a second partner in Japan, Fuji Latex Inc. to manage the importation and quality control of the female condom under Japanese regulatory requirements.

## Relationships and Agreements with Public Sector Organizations

The Company has an agreement with UNAIDS to supply the female condom to developing countries at a reduced price. The current price per unit is approximately 0.38 (pounds), or approximately \$0.68. 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/agencies in each country at the price established by the agreement with UNAIDS. The term of the agreement currently expires on December 31, 2004, 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.

### 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.

### 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.

### 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, South Korea and Australia. These patents expire between 2005 and 2013. Additional patent applications are pending in the U.S. and in other countries around the world through the Patent Cooperation Treaty. The applications cover the key aspects of the second generation female condom, FC2, including its overall design and manufacturing process. The Company has the registered trademark FC Female Condom in the United States.

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

## RESULTS OF OPERATIONS

### THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO THREE MONTHS ENDED JUNE 30, 2003

The Company had net revenues of \$2,760,235 and a net loss attributable to common stockholders of \$(58,977) or \$(0.00) per share for the three months ended June 30, 2004 compared to net revenues of \$3,010,911 and a net loss attributable to common stockholders of \$(251,438) or \$(0.01) per share for the three months ended June 30, 2003.

Gross profit increased \$250,142, or 23%, to \$1,332,207 for the three months ended June 30, 2004 from \$1,082,065 for the three months ended June 30, 2003. The increase was a result of declining net revenues offset by a more than proportionate decrease in cost of products sold.

Net revenues decreased \$250,676 in the current quarter, or 8%, compared with the same period last year. The lower net revenues occurred because of lower unit sales shipped to global public customers offset slightly by an increase in domestic public sector customers.

On May 20, 2004, the Brazilian Ministry of Health publicly reported a fraud in the purchasing of certain products by the Ministry and several individuals involved were arrested. Purchases of products have been suspended while the investigation is ongoing. The fraud does not involve The Female Health Company or the Female Condom. However, the Company's anticipated 4 million unit order has been delayed due to the suspension and investigation. The Company has been advised by Brazilian authorities that the very successful HIV/AIDS prevention program is expected to continue and the Company will be contacted regarding female condom purchasing when the investigation is completed. In the third quarter of fiscal 2003, the Company shipped 2,000,000 units to Brazil, compared to no units in the third quarter of fiscal 2004.

Significant quarter to quarter variations result from time to time due to the timing and shipment of large orders and not any fundamental change in the business. The Company routinely notes the potential for such variations in its press releases and SEC filings.

Cost of products sold decreased \$500,818, or 26%, to \$1,428,028 in the current quarter from \$1,928,846 for the same period last year. The decrease in the cost of products sold is a result of lower direct material and labor costs for the current quarter compared to the same period last year. Material reductions resulted in part from favorable price movement in the current quarter in polyurethane film, inner ring material and packaging material purchases as compared to the third quarter of the prior year. Additionally, during the third quarter of the prior year, the Company ramped-up its weekly unit production to fill orders in-house, resulting in new hire inefficiencies resulted in expanding labor variances. The current year production ramp-up and related labor inefficiencies occurred primarily in the second quarter.

Advertising and promotional expenditures decreased \$2,522 to \$7,176 in the current quarter from \$9,698 for the same period in the prior year.

Selling, general and administrative expenses increased \$177,457, or 21%, to \$1,016,727 in the current quarter from \$839,270 for the same period last year. The higher costs between quarters is a result of a increase in the current quarter U.K. operating expenses offset in part by an overall decrease in U.S. operating costs. The higher UK operating costs were due to higher global selling, insurance & rents and property tax costs as well as an adverse exchange rate fluctuation experienced during the current quarter.

Research and development cost increased \$47,855 to \$72,818 in the current quarter from \$24,963 for the same period in the prior year. The increase is a result of investment in the second generation product (FC2).

Non-cash stock compensation costs decreased \$147,064 to \$59,561 for the current quarter compared to \$206,625 for the same period last year. During the third quarter of the prior year the Company recorded charges related to accounting for changes in stock option plans and compensation for investor relation services. During the third quarter of the current fiscal year the Company did not incur any charges related to accounting for stock option plan changes and was able to reduce the compensation paid for investor relation services.

Operating income increased \$174,416 to \$175,925 for the three months ended June 30, 2004 from \$1,509 for the three months ended June 30, 2003. The increase was a result of a 23% increase in gross margin partially offset by a 7% increase in operating expenses.

Net interest and other expenses decreased \$55,344 to \$194,701 for the current period from \$250,045 for the same period last year. The current quarter decrease resulted from the Company incurring a smaller amount of non-cash expenses relating to the amortization of discounts on notes payable and credit facility than in the third quarter of the prior year. This change is due to the Company paying down debt and reducing the amount of non-cash expenses attached to existing debt during the current quarter as compared to same period in the prior year.

Preferred dividends increased \$37,299 to \$40,201 for the current period from \$2,902 for the same period last year. The increase occurred as a result of the Company's issuance of 473,377 shares of Series 3 Preferred Stock to eleven investors during February 2004. The Company received \$1,500,500 in proceeds from the issuance of the Series 3 Preferred Stock. Holders of shares of the Series 3 Preferred Stock are entitled to a dividend at the rate of 10% of the original issuance price (\$3.17 per share) per annum, payable at the Company's option in cash or shares of the Company's common stock.

#### NINE MONTHS ENDED JUNE 30, 2004 COMPARED TO NINE MONTHS ENDED JUNE 30, 2003

The Company had net revenues of \$7,294,548 and a net loss attributable to common stockholders of \$(1,448,134) or \$(0.07) per share for the nine months ended June 30, 2004 compared to net revenues of \$6,939,144 and a net loss attributable to common stockholders of \$(1,636,842) or \$(0.09) per share for the nine months ended June 30, 2003.

Gross profit increased \$249,779 to \$3,003,229 for the nine months ended June 30, 2004 from \$2,753,450 for the nine months ended June 30, 2003. The increase was a result of a 5% increase in net revenues partially offset by a 3% increase in cost of products sold.

Net revenues increased \$355,404 during for the nine months ended June 30, 2004, or 5%, compared with the same period last year. The higher net revenues occurred because of an increase in the average selling price per unit as a result of favorable exchange rate fluctuations experienced during the first nine months ended June 30, 2004 compared to the same period in the prior year.

On May 20, 2004, the Brazilian Ministry of Health publicly reported a fraud in the purchasing of certain products by the Ministry and several individuals involved were arrested. Purchases of products have been suspended while the investigation is ongoing. The fraud does not involve The Female Health Company or the Female Condom. However, the Company's anticipated 4 million unit order has been delayed due to the suspension and investigation. The Company has been advised by Brazilian authorities that the very successful HIV/AIDS prevention program is expected to continue and the Company will be contacted regarding female condom purchasing when the investigation is completed. In the first nine months of fiscal 2003, the Company shipped 2,000,000 units to Brazil, compared to no units in the first nine months of fiscal 2004.

Significant quarter to quarter variations result from time to time due to the timing and shipment of large orders and not any fundamental change in the business. The Company routinely notes the potential for such variations in its press releases and SEC filings.



Cost of products sold increased \$105,625, or 3%, to \$4,291,319 for the nine months ended June 30, 2004 from \$4,185,694 for the same period last year. The rise in cost of products sold is a result of higher direct labor costs for the nine months ended June 30, 2004 compared to the same period last year. The higher costs were partly as a result of adverse exchange rate fluctuations experienced during the nine months ended June 30, 2004 compared to the same period during the prior year. Additionally, the Company experienced higher costs during the current fiscal year to ramp-up its weekly unit production to fill orders in-house, as new hire inefficiencies resulted in expanding labor variances and was a contributing factor to the rise in unit production costs.

Advertising and promotional expenditures increased \$755 to \$33,426 in the current quarter from \$32,671 for the same period in the prior year.

Selling, general and administrative expenses increased \$370,104, or 13%, to \$3,183,392 for the nine months ended June 30, 2004 from \$2,813,288 for the same period last year. The increase in the nine months ended June 30, 2004 was a result of non-cash expenses associated with the implementation of the Company's Executive Compensation program during fiscal 2004 as well as a rise in outside consulting fees and an overall increase in UK operating expenses. The higher UK operating costs were partly as a result of adverse exchange rate fluctuations experienced during the nine months ended June 30, 2004 compared to the same period in the prior year.

Research and development cost increased \$101,968 to \$151,008 for the nine months ended June 30, 2004 from \$49,040 for the same period in the prior year. The Company filed a patent on a second generation product (FC2) in the latter part of 2003 fiscal year. The Company has initiated a development program in the current fiscal year. The increase in costs is due to costs related to the safety and acceptability studies for the FC2 program.

Non-cash stock compensation costs decreased \$567,381 to \$155,358 for the nine months ended June 30, 2004 compared to \$722,739 for the nine months ended June 30, 2003. During the prior year the Company recorded charges related to accounting for changes in stock option plans and compensation for investor relation services. During the first nine months of the current fiscal year the Company did not incur any charges related to accounting for stock option plan changes and was able to reduce the compensation paid for investor relation services.

Operating loss decreased \$344,333 to \$519,955 for the nine months ended June 30, 2004 from \$864,288 for the nine months ended June 30, 2003. The decrease was a result of a 9% increase in gross margin coupled with a 3% decrease in operating expenses.

Net interest and other expenses increased \$97,979 to \$861,822 for the nine months ended June 30, 2004 from \$763,843 for the same period last year. The increase resulted from the Company incurring a larger amount of non-cash expenses relating to the amortization of discounts on notes payable and credit facility during the nine months ended June 30, 2004 than for the same period of the prior year. This change is due to the consistent utilization of the Effective Interest method of accounting which requires expensing a larger portion of the discount during the final portion of a note/credit facility's life.

Preferred dividends increased \$57,646 to \$66,357 for the nine months ended June 30, 2004 from \$8,711 for the same period last year. The increase occurred as a result of the Company's issuance of 473,377 shares of Series 3 Preferred Stock to eleven investors during February 2004. The Company received \$1,500,500 in proceeds from the issuance of the Series 3 Preferred Stock. Holders of shares of the Series 3 Preferred Stock are entitled to a dividend at the rate of 10% of the original issuance price (\$3.17 per share) per annum, payable at the Company's option in cash or shares of the Company's common stock.

#### 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 annual 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, Latin America and recently in India. 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.

On September 30, 2003, the Company entered into an agreement with the U.S. Agency for International Development (USAID). Under this agreement, the Company may supply up to 25 million units of FC Female Condoms to USAID through December 31, 2006 principally for use in family planning programs supported by USAID in developing countries. USAID has ordered 3 million units of FC Female Condoms for delivery between September 30, 2003 and December 31, 2004 and has the option to order up to an additional 6 million units during that period. USAID also has the option to order up to 8 million units of FC Female Condoms for the 2005 and 2006 calendar years. USAID has the right to terminate the agreement at any time for its sole convenience, and no assurance can be given as to the amount of FC Female Condoms that USAID will purchase during the term of the agreement. As of August 15, 2004, USAID has purchased 2.3 million units and ordered an additional 0.4 million units.

#### 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, operating expenses and a portion of the company's 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. For the nine months ended June 30, 2004, 55% of the Company's net revenues, 87% of the Company's cost of products sold and 57% of the Company's operating expenses were affected by changes in the exchange rate of foreign currencies relative to the United States dollar. 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. For the nine months ended June 30, 2004, the Company estimates that the net adverse impact of the unfavorable exchange rate fluctuations was approximately \$259,000.

#### 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. In fiscal 2003 this trend of negative cash flow from operations ended with the Company experiencing a positive cash flow from operations of \$0.3 million. The Company used \$0.3 million of cash to fund its operating activities for the nine months ended June 30, 2004.

While the Company believes that revenue from sales of the female condom will exceed operating costs, and operations will generate sufficient funds to meet capital requirements, the Company can make no assurance that it will maintain this level of operations in the near term or at all. If the Company does need to raise additional capital, the Company can make no assurance that the Company will be able to source required capital through the sale of debt or equity as it has in prior years or, if raised, the amount will be sufficient to operate. In addition, any funds raised may be costly to the Company and/or dilutive to its shareholders. In the 2003 fiscal year, the Company did not require such funding and no new debt or equity transactions were consummated.

At June 30, 2004, the Company had working capital of \$3.3 million and stockholder's equity of \$1.8 million compared to working capital of \$2.3 million and stockholder's equity of \$0.8 million as of June 30, 2003.

Below are some recent financing transactions the Company has entered into and their present status:

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 were due May 18, 2004 and extended to July 1, 2006 under an amended agreement described below. The credit facility bore interest payable at a rate of 10% per year. The agreement contained certain covenants which included restrictions on the payment of dividends and distributions and on the issuance of warrants, which the Company was in violation of at September 30, 2003. 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 16, 2003, the Company obtained a waiver from Heartland Bank to be utilized through the end of the term of the credit facility on May 18, 2004. The Company also received a letter from Heartland Bank which indicated its intent to extend the term of the facility for an additional year. On April 19, 2004, the Company repaid \$900,000 of the unpaid balance of the credit facility.

In order to provide working capital when it may become necessary, the Company entered into a line of credit agreement with Heartland Bank on December 17, 2002. The line of credit facility allowed the Company to borrow up to \$1,000,000 in \$100,000 increments and matured on December 1, 2004. The term of this facility was extended to July 1, 2005 under an amended agreement described below. Interest was due monthly at the prime rate plus 1 percent (prime was 4.00 percent on March 31, 2004) and it was collateralized by the Company's inventory and accounts receivable backed by letter of credit issued by The World Bank. The Company has not borrowed any portion of this line of credit facility.

The Company also entered into an additional line of credit agreement with Heartland Bank on April 2, 2003. The line of credit facility allowed the Company to borrow up to \$500,000 and matured April 1, 2004. The line of credit agreement was extended to June 1, 2005 and then extended to July 1, 2005 under an amended agreement described below. Interest was due monthly at the prime rate plus 2 percent (prime was 4.00 percent on March 31, 2004) and was collateralized by accounts receivable not associated with a letter of credit issued by the World Bank. On December 8, 2003, the Company borrowed \$250,000 from this line of credit facility. On January 17, 2004 the Company paid back the entire \$250,000 borrowed from the line of credit facility.

Effective May 19, 2004, the Company amended its previous credit facility and two line of credit agreements with Heartland Bank and established three promissory notes totaling \$2,500,000. The first promissory note replaces the previous credit facility, has an outstanding balance of \$1,000,000 as of August 15, 2004, bears interest payable at a rate of 10% per year and effectively extended the due date of the credit facility from May 18, 2004 to July 1, 2006. The two additional promissory notes which replaced the Company's previous lines of credit are for \$500,000 and \$1,000,000, respectively. Interest is due monthly at the prime rate plus 2 percent (prime was 4.00 percent on June 30, 2004) and the due date of any borrowings under the notes is July 1, 2005. As of August 15, 2004, the Company had not borrowed under either of these notes.

On March 30, 2001 the Company issued a \$250,000 convertible debenture to one accredited investor. The debenture was due March 30, 2004, bore interest payable at a rate of 12% per annum and was 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. On January 8, 2003, the investor converted his debenture into 500,000 shares of the Company's common stock.

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, bore 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 200,000 shares of the Company's common stock.

On March 25, 2003 the Company re-issued a \$1,000,000 note payable due March 25, 2004, to Mr. Dearholt, a director of the Company. The Company paid off the entire balance on February 29, 2004.

The Company issued 473,377 shares of Series 3 Preferred Stock to eleven investors during February 2004 and received \$1,500,500 in proceeds. Each share of Series 3 Preferred Stock is convertible at any time into one share of the Company's common stock. Holders of shares of the Series 3 Preferred Stock are entitled to cumulative dividends in preference to any dividend on the Company's common stock at the rate of 10% of the original issuance price (\$3.17 per share) per annum, payable at the Company's option in cash or shares of the Company's common stock. If dividends are paid

in shares of common stock, the dividend rate will be equal to 95% of the average of the closing sales prices of the common stock on the five trading days preceding the dividend reference date. The dividend reference date means January 1, April 1, July 1, October 1 of each year. The Company may redeem any share of Series 3 Preferred Stock at any time that is after the second anniversary of the date of issuance of the share, provided that the redemption may not occur until the first day on or after the second anniversary of the date of issuance of such share in which the market value of the Company's common stock is at least 150% of the original issuance price of \$3.17 per share. The Company utilized the proceeds from the February issuance to pay off a like amount of unpaid balances due on the Company's notes payable and credit facility.

During the past two fiscal years the Company entered into four formal agreements which it expects to contribute to continued improved sales volumes and operations.

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. The Company entered into a definitive agreement with HLL during the 2003 fiscal year regarding the marketing and distribution of the product. The Company anticipates that HLL and the Company will ultimately 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 required to purchase 2.2 million units within a three year period to retain exclusivity distribution rights. As of August 15, 2004, TAG has purchased 1.9 million units.

On September 30, 2003, the Company entered into an agreement with the U.S. Agency for International Development (USAID). Under this agreement, the Company may supply up to 25 million units of FC Female Condoms to USAID through December 31, 2006 principally for use in family planning programs supported by USAID in developing countries. USAID has ordered 3 million units of FC Female Condoms for delivery between September 30, 2003 and December 31, 2004 and has the option to order up to an additional 6 million units during that period. As of August 15, 2004, USAID has purchased 2.3 million units and ordered an additional 0.4 million units.

On March 25, 2004, the Company announced the appointment of Global Protection Corporation ( Global ) as the exclusive distributor for public sector sales within a 9 state region in the eastern United States. Global is required to purchase 2.6 million units within a three year period to retain exclusivity distribution rights. As of August 15, 2004, Global has purchased 125,000 units.

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.

## 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.

## CONTROLS AND PROCEDURES

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

For the year ended September 30, 2003, the Company identified one material weakness within its internal control framework. The weakness related to the timeliness of accounting for certain transactions. There had been non-cash transactions approved by senior management and not communicated timely to the Company's accounting/finance department for proper recording into the Company's accounts.

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

PART II - OTHER INFORMATIONITEMS 1-5

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

## (a) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Articles of Incorporation. (1)
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company increasing the number of authorized shares of common stock to 27,000,000 shares. (2)
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company increasing the number of authorized shares of common stock to 35,500,000 shares. (3)
3.4	Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company increasing the number of authorized shares of common stock to 38,500,000 shares. (4)
3.5	Amended and Restated By-Laws. (5)
4.1	Amended and Restated Articles of Incorporation (same as Exhibit 3.1).
4.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company (same as Exhibit 3.2).
4.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company increasing the number of authorized shares of common stock to 35,500,000 shares (same as Exhibit 3.3).
4.4	Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company increasing the number of authorized shares of common stock to 38,500,000 shares (same as Exhibit 3.4).
4.5	Articles II, VII and XI of the Amended and Restated By-Laws (included in Exhibit 3.5).
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.



32.1

Certification of Chief Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002) (6)

- 
- (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 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 by reference to the Company's Registration Statement on Form SB-2, filed with the Securities and Exchange Commission on September 6, 2002.
  - (4) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2003.
  - (5) Incorporated herein by reference to the Company's Registration Statement on Form S-18, as filed with the securities and Exchange Commission on May 25, 1990.
  - (6) This certification is not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

(b) Reports on Form 8-K None in the quarter ended June 30, 2004.

SIGNATURES

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

THE FEMALE HEALTH COMPANY

DATE: August 16, 2004      /s/ O.B. Parrish  
O.B. Parrish, Chairman and  
Chief Executive Officer

DATE: August 16, 2004      /s/ Robert R. Zic  
Robert R. Zic, Principal  
Accounting Officer (Principal  
Financial Officer)