UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016

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 001-37873

e.l.f. Beauty, Inc.
(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**46-4464131** *(I.R.S. Employer Identification No.)*

570 10 th Street
Oakland, CA 94607
(510) 778-7787
(Address of registrant's principal executive offices, including zip code, and telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒ (Do not check if a small reporting company)	Small reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter, there was no public market for the registrant's common equity.

The number of shares of registrant's Common Stock outstanding as of March 1, 2017 was 45,655,937.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement relating to the Registrant's 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

e.l.f. Beauty, Inc.
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PART I

Item 1. Business.

e.l.f. Beauty, Inc. and subsidiaries (the "Company," "e.l.f.," "we," "us," "its" and "our") was formed as a Delaware corporation on December 20, 2013 under the name J.A. Cosmetics Holdings, Inc. In April 2016, we changed our name to e.l.f. Beauty, Inc. We conduct business under the name e.l.f. Cosmetics, and offer high-quality, prestige-inspired products to consumers through our retail customers, e.l.f. stores and e-commerce channels.

e.l.f.: Changing the face of beauty

We are one of the fastest growing, most innovative cosmetics companies in the United States. Driven by our mission to make luxurious beauty accessible for all women to *play beautifully®* , we have challenged the traditional belief that quality cosmetics are only available at high prices in select channels. e.l.f. offers high-quality, prestige-inspired beauty products at extraordinary value, with the majority of our items retailing for $6 or less. Our price points encourage trial and experimentation, while our commitment to quality and a differentiated consumer engagement model engender loyalty among a passionate and vocal group of consumers.

We believe our success is rooted in our innovation process and ability to build direct consumer relationships. Born as an e-commerce company over a decade ago, we have created a modern consumer engagement and responsive innovation model that keeps our products on-trend and our consumers engaged as brand ambassadors. Our consumers provide us with real-time feedback through reviews and social media, which enables us to refine and augment our product portfolio in response to their needs. We are able to launch high-quality products quickly by leveraging our fast-cycle product development and asset-light supply chain. Our products are first launched on elfcosmetics.com, and distribution is generally only broadened to our retail customers after we receive strong consumer validation online.

Our brand appeals to some of the most sought after consumers in the category. We believe the combination of our affordable price points and on-trend, innovative product assortment encourages trial, offers a strong value proposition and appeals to a broad base of consumers. Relative to the overall cosmetics category, our brand over-indexes with Millennials, multi-cultural consumers and some of the heaviest users in the category. This attractive and loyal consumer base supports high sales per linear foot and higher category sales for our retail customers. By combining our strong relationships with leading retailers with integrated consumer engagement across our e.l.f. stores, e-commerce and social media, we are a true multi-channel brand.

Our history

We were founded in 2004 and have sought to disrupt the traditional beauty model of high prices, long product cycles and traditional advertising. Utilizing sourcing relationships in China, we rapidly created prestige-inspired products at an affordable price. Bypassing traditional channels, we connected directly with consumers and launched elfcosmetics.com, where the first products sold for $1 each. Our affordable, on-trend offering coupled with our direct approach resonated with young, diverse makeup enthusiasts, who became loyal e.l.f. consumers and helped build the brand through digital engagement and strong word of mouth.

Consumers told us what they did and did not like, as well as what other products they wanted to see from the brand. And we listened. We established deep, genuine connections with our consumers as they informed, inspired and motivated us. We broadened our assortment and expanded our price range up to $6 while staying true to our mission to delight our consumers with luxurious beauty at an extraordinary value.

In 2008, Target, a key beauty destination for many consumers, decided to test e.l.f. in its stores. Once at Target, we brought incremental sales to Target's cosmetic category and the highest sales per linear foot across the entire cosmetics department. We believe the Target guest appreciated not having to choose between quality and affordable prices, and the e.l.f. cosmetics brand has exhibited strong sales growth in this account ever since. Over the next several years, we nurtured our vibrant community and expanded our distribution to other leading retailers such as Walmart. We gained chain-wide distribution in Target stores in 2013 and in that same year, we opened our first e.l.f. store to add another dimension to the brand experience and further bring our mission of accessible beauty to life.

In January 2014, TPG Growth II Management LLC ("TPG Growth" or our "Sponsor"), a leading global private equity firm, acquired a controlling interest in e.l.f. to further scale and transform the company. Concurrent with the acquisition, Tarang Amin was appointed as CEO. The objective was to grow the business by enhancing the management team, building the e.l.f. brand, driving industry-leading innovation, expanding distribution and improving operational efficiency.

Over the past three years, we have made significant investments in our business by adding top talent and building our f unctional capabilities. We have developed strong consumer relationships and a new brand strategy behind *play beautifully* ; accelerated our first-to-mass innovation capability, including our first category adjacency in skin care; expanded our distribution; a nd significantly strengthened our operations, including transforming our China team and supplier base to deliver even higher quality. Our efforts have made e.l.f. one of the fastest-growing cosmetics companies in the United States.

Our strategic differentiation

We are driven by what today's cosmetics consumer wants—an assortment of high-quality, prestige-inspired cosmetics at extraordinary value. We do not define ourselves as strictly mass or prestige, or limit our product availability to select channels. Through our modern consumer engagement and responsive innovation model, we interact with our consumers instead of broadcasting at them. This allows us to stay in tune with their needs and build trust and loyalty. Our business model has multiple areas of competitive advantage:

Authentic brand that attracts some of the best consumers in the category

e.l.f. was founded to fill the gap between high-priced prestige beauty products and less innovative mass products. For over a decade, we have prioritized getting to know our consumers, and they in turn have provided us with valuable feedback, enabling us to address this gap and build e.l.f. into an authentic and trusted brand. By providing a comprehensive experience—from integrated engagement online, through social media and in our stores to our differentiated product offerings—we have drawn a strong following among the most sought after and heaviest users of cosmetic products.

One of our greatest strengths is the consumer that we attract. We appeal to a broad base of beauty consumers from experts to novices who enjoy experimenting with makeup. Many traditional brands have rapidly aging user bases. In contrast, we have strong appeal with Millennials and Hispanics, two of the fastest growing demographic groups in the United States.

Consumer-centric and efficient marketing model

We believe that modern cosmetics consumers are fundamentally different than generations of women before them and are not as engaged by the broad-scale marketing and advertising tactics used by many traditional beauty companies. e.l.f. has deployed a low-cost, consumer-centric marketing model. Total expenses for advertising and promotions in 2016 were $5.6 million, less than 3% of our net sales.

Our consumers have been our best advocates, growing the e.l.f. brand virally through strong word of mouth. Many are very active in social media, write reviews of our products online and generate content on YouTube and other social media outlets. Our e-commerce site has over 25 million visitors a year and we possess a social media following on Instagram, Facebook and YouTube that rivals the larger cosmetics brands. elfcosmetics.com reflects our passionate consumer base with over 100,000 ratings. Our digital content—including images, text, and video—inspires our fans with looks and products they love and avoids common industry messaging that beauty is about perfection. We feature e.l.f. consumers as our stars, and reinforce our promise to make luxurious beauty accessible.

High-quality cosmetics at an extraordinary value enabled by flexible, asset-light operations

e.l.f. consumers recognize our ability to provide a broad assortment of high-quality products at an extraordinary value. The majority of our items retail for $6 or less, providing a low-risk way for consumers to try new products. From formulation to package design, our products deliver quality and innovation at a fraction of prestige prices, facilitating frequent consumer purchasing and experimentation without the guilt of overspending.

All e.l.f. products are hypoallergenic and non-comedogenic. We do not test on animals or endorse such practices, nor do we use ingredients that are tested on animals. We have been designated as being a "cruelty-free" company by People for the Ethical Treatment of Animals.

Our portfolio spans the eyes, lips, face, kits, tools and skin care categories.

Fast-cycle innovation and validation model

We believe innovation is key to our success and that we are a leader in the industry in speed and new product introductions. We leverage multiple sources of inspiration to develop our new product ideas, including global trend assessments, supplier and industry research, strategic customer input and consumer feedback and insig hts. Our innovation strategy is underpinned by three key pillars to delight consumers:

- *First-to-mass* . "First-to-mass" products are inspired by trends in prestige beauty that we bring to the mass market. As consumers are increasingly savvy and knowledgeable about trends in the prestige market, they look for how they can achieve on-trend looks, but at an accessible price. Examples include the e.l.f. Mineral Infused Face Primer at $6 versus a prestige primer at $36, e.l.f. Mad for Matte Eyeshadow Palette Trio at $10 versus a prestige eyeshadow trio at $36, the e.l.f. Contouring Brush at $6 versus a similar type of brush at $35 and the e.l.f. Lip Exfoliator at $3 versus a similar type of lip treatment at $24.
- *Core expansion* . Core expansion items are those trend-inspired products across eyes, lips, face and tools that augment our assortment and deliver extraordinary value across price points. We consistently evaluate our core eyes, lips, face and tools offerings and develop new items based on category trends, consumer feedback and other market intelligence.
- *Adjacencies* . We believe that we can reapply our model to launch products into adjacent categories. We recently entered the skin care category with a high-quality skin care product assortment.

When we launch a new e.l.f. beauty product online, we leverage our unique community of digitally engaged consumers. elfcosmetics.com is a vehicle for refining products and determining best sellers. We are able to analyze sales results, reviews and feedback through social media to provide a quick indication of a product's performance. We use this valuable data to introduce validated, best-selling products to retail, which drives leading performance relative to others in the category.

Unlike many cosmetics companies that launch products in concert with the timing of when retailers rearrange or restock products, we leverage our multi-channel model to launch products throughout the year and test them online and in e.l.f. stores.

True multi-channel brand blurs the lines between mass and prestige

We are a true multi-channel brand with strength across e-commerce, national retailers and our e.l.f. stores. Our ability to engage our consumers across multiple touch points differentiates e.l.f. from traditional mass brands, which typically focus on one channel. We also leverage insights gained from each channel to drive performance across the business.

- *e-commerce* . Our e-commerce business serves as a strong source of sales and an important component of our engagement and innovation model. We have nurtured a loyal, highly active online community for over a decade. Our foundation as an e-commerce company and our digital engagement model drive high conversion on elfcosmetics.com, where we sell our full product offering.
- *National retailers* . We currently sell our products in the United States in the mass, drug store, food, and specialty retail channels. We are one of the fastest growing cosmetics brands at Target and Walmart.
- *e.l.f. stores* . We were the first mass cosmetics brand with our own stores, a format historically limited to prestige brands. We believe our stores serve as one of our most effective and efficient vehicles for marketing and consumer engagement.
- *International* . e.l.f. products are sold in a number of international markets. We are focused on growing sales in three priority international markets: Canada, the United Kingdom and Mexico.

High-performance team and culture

We have assembled a world-class management team that possesses an excellent track record of results and has successfully worked together for many years. During the team's prior tenure at Schiff Nutrition (NYSE: SHF), the company grew in enterprise value from $190 million to $1.5 billion in less than two years and was acquired by Reckitt Benckiser (London Stock Exchange: RB). With strong backgrounds from The Clorox Company, The Procter & Gamble Company, L'Oreal S.A., Mary Kay Inc., TPG and other leading companies, our team has demonstrated skills in building brands, leading innovation, expanding distribution, making acquisitions and driving world-class operations. We operate with a high-performance team culture.

Markets and competition

The cosmetics category primarily consists of face makeup, eye makeup, lip products, nail products and cosmetics sets/kits and excludes beauty tools and accessories such as brushes and applicators. Cosmetics are broadly sold through food, drug and mass channels, as well as through department stores and direct and specialty channels. The cosmetics industry is relatively concentrated.

A significant portion of cosmetics retail sales in the United States are generated by brands owned by L'Oreal S.A., The Estee L auder Companies Inc., Revlon Inc., Coty Inc., and Shiseido Company, Limited. These large multinational companies own many brands across mass and prestige cosmetics and e.l.f. is one of a small number of brands that is independent. In addition to the tradit ional brands against which we compete, small independent companies continue to enter the market with new brands and customized product offerings.

Operations

We have developed a scalable, asset-light supply chain centered on speed to market and high-quality at low costs. Our China-based sourcing, quality and innovation teams work with their U.S.-based counterparts to deliver ongoing product quality, innovation and cost savings.

Manufacturing process

Our manufacturing process centers on close collaboration with a network of third-party manufacturers in China. We believe what differentiates us is our ability to drive speed, quality and efficient production. We leverage high annual unit volumes with our suppliers to have them quickly produce small quantities of a new product so that we can launch online in as few as 20 weeks from concept and 27 weeks on average. These early sales provide us with validation data to determine which products to introduce at our national retail customers. Based on what we decide to scale up, we can provide higher, more reliable, longer-term volumes to our manufacturers.

Over the past three years, we have transformed our China team and supply network to drive even higher quality, while keeping our flexible and low cost structure. We have ample manufacturing capacity as well as back-up capability in the event that one or more suppliers cannot meet our needs. Our broad supply base gives us the ability to fulfill our product requirements and remain cost competitive.

Ingredients and packaging

We work closely with our suppliers on new product innovation and quality. Our innovation team creates our formulas and our suppliers produce to our specifications. We are not overly dependent on any single formula raw material. These raw materials are broadly available and have regular quality testing for ingredient integrity.

e.l.f. team members create our component and secondary packaging specifications and source their production. We have multiple component and packaging suppliers in place with ample back-up capacity. Our co-packers purchase from our packaging suppliers at our pre-negotiated specifications and rates. This allows us to efficiently manage our packaging quality, capacity and cost.

Quality control

We have a comprehensive quality assurance program that gives us visibility into the quality of our products during the sourcing and production cycle. Our innovation team approves product samples and is on-site for initial production runs of new products. Our China-based quality team provides oversight through on-site inspections and audits of our third-party manufacturers as well as component and packaging suppliers. We periodically conduct comprehensive audits of all our suppliers and have an on-site scheduled presence at our primary suppliers, where we inspect and monitor finished and semi-finished product, raw materials, batch records and testing records. We also validate our manufacturers' finished product testing results with third-party laboratory testing. In the spirit of continual improvement, we have frequent dialogue with our suppliers on quality assurance enhancements.

Warehousing, distribution and logistics

In early 2016, we opened a new distribution center in Ontario, California, to replace our previous distribution center in New Jersey. This facility supports multi-channel shipping, with the ability to pick and ship directly to e-commerce consumers, e.l.f. stores, national retail customers and international customers. We have also invested capital in scanning and conveying technology. Our facility is operated by a leading third-party logistics provider.

Seasonality

Our results of operations are subject to seasonal fluctuations, with net sales in the third and fourth fiscal quarters typically being higher than in the first and second fiscal quarters. The higher net sales in our third and fourth fiscal quarters are largely attributable to the increased levels of purchasing by retailers for the holiday season, and adverse events that occur during the third or fourth quarter could have a disproportionate effect on our results of operations for the entire fiscal year. As a result of higher sales during the third and fourth quarters, our working capital needs are greater during the second and third quarters of the fiscal year. For more informati on regarding our working capital requirements see Item 7 “Management’s discussion and analysis of financial condition and results of operations” under the heading “Financial condition, liquidity and capital resources.” Fluctuations throughout the year are also driven by the timing of product restocking or rearrangement by our major customers as well as our expansion into new customers. Because a limited number of our retail customers account for a large percentage of our net sales, a change in the order pat tern of one or more of our large retail customers could cause a significant fluctuation of our quarterly results or reduce our liquidity. For more information regarding customer concentration see Item 7 “Management’s discussion and analysis of financial co ndition and results of operations” under the heading “Overview.”

Management information systems

We use our information systems to manage our national retailers, e.l.f. stores, e-commerce and corporate operations. These management information systems provide business process support and intelligence across our multi-channel operations.

Our information system infrastructure employs a comprehensive enterprise resource planning (“ERP”) platform provided and supported by a leading global software partner. This system covers order entry, customer service, accounts payable, accounts receivable, purchasing, asset management and manufacturing.

Our order management process is automated via electronic data interchange with the vast majority of our retail customers feeding orders directly to our ERP platform. From time to time, we enhance and complement the system with additional software. We have an integrated warehouse management system managed by our third-party logistics provider, which allows us to improve real-time tracking and management of inventory. We are also implementing computerized point-of-sale systems in our e.l.f. stores to enable real-time reporting and analytics.

Trademarks and other intellectual property

We believe that our intellectual property has substantial value and has contributed significantly to the success of our business. Our primary trademarks include “e.l.f.,” “eyes lips face” and “play beautifully,” all of which are registered with the U.S. Patent and Trademark Office for our goods and services of primary interest. These trademarks are also registered or have a registration pending in Australia, Brazil, Canada, China, the European Union, India, Mexico, Russia and approximately 20 other countries or registries. We also have numerous other trademark registrations and pending applications for product names and tag lines. Our trademarks are valuable assets that reinforce the distinctiveness of our brand and our consumers’ favorable perception of our products. The current registrations of these trademarks in the United States and foreign countries are effective for consecutive terms of 10 to 15 years and due for periodic renewals, presently scheduled between 2017 and 2028, provided that we comply with all applicable renewal requirements including, where necessary, the continued use of trademarks in connection with the listed goods. In addition to trademark protection, we own numerous URL designations, including elfcosmetics.com. We also rely on and use reasonable business activities to protect unpatented proprietary expertise and product formulations, continuing innovation and other know-how to develop and maintain our competitive position.

Employees

As of December 31, 2016, we had approximately 249 full-time employees and an additional 102 part-time employees. As of December 31, 2016, we had 193 and 56 full-time employees in the United States and China, respectively. The majority of our part-time employees worked in our e.l.f. stores. None of our employees are currently covered by a collective bargaining agreement, and we have experienced no work stoppages. We consider our relationship with our employees to be good.

Government regulation

We and our products are subject to regulation by the Food and Drug Administration (the “FDA”), the Consumer Product Safety Commission (the “CPSC”) and the Federal Trade Commission (the “FTC”) as well as various other federal, state, local and foreign regulatory authorities. These laws and regulations principally relate to the ingredients, proper labeling, advertising, packaging, marketing, manufacture, safety, shipment and disposal of our products.

Under the Federal Food, Drug and Cosmetic Act (the “FDCA”), cosmetics are defined as articles or components of articles that are applied to the human body and intended to cleanse, beautify or alter its appearance, with the exception of soap. The labeling of cosmetic products is also subject to the requirements of the FDCA, the Fair Packaging and Labeling Act, the Poison Prevention Packaging Act and other FDA regulations. Cosmetics are not subject to pre-market approval by the FDA, however certain ingredients, such as color additives, must be pre-authorized. If safety of the products or ingredients has not been adequately substantiated, a specific warning label is required. Othe r warnings may also be mandated pursuant to FDA regulations. The FDA monitors compliance of cosmetic products through market surveillance and inspection of cosmetic manufacturers and distributors to ensure that the products neither contain false nor mislea ding labeling and that they are not manufactured under unsanitary conditions. Inspections also may arise from consumer or competitor complaints filed with the FDA. In the event the FDA identifies false or misleading labeling or unsanitary conditions or oth erwise a failure to comply with FDA requirements, we may be required by a regulatory authority or we may independently decide to conduct a recall or market withdrawal of our product or to make changes to our manufacturing processes or product formulations or labels, which could result in an insufficient amount of our products in the market and harm our reputation.

The FDA evaluates the "intended use" of a product to determine whether it is a drug, cosmetic product, or both. If a product is intended for use in the diagnosis, cure, mitigation, treatment or prevention of a disease condition or to affect the structure or function of the human body, the FDA will regulate the product as a drug. Drug products will then be subject to applicable requirements under the FDCA. The FDA may also consider labeling claims in determining the intended use of a product. If the FDA considers label claims for our cosmetic products to be claims affecting the structure or function of the human body, or intended for a disease condition, those products may be regulated as "new" drugs. If such products were regulated as "new" drugs by the FDA, it would be necessary to obtain pre-market approval, which includes, among other things, conducting clinical trials to demonstrate safety and efficacy of our products in order to continue marketing those products. However, we may not have sufficient resources to conduct any required clinical studies and because clinical trial outcomes are uncertain we may not be able to demonstrate sufficient efficacy or safety data to resume future marketing of those products.

Our current products that are intended to treat acne and used as sunscreen, including skin care products with SPF, are considered over-the-counter ("OTC") drug products by the FDA. Our OTC products are subject to regulation through the FDA's "monograph" system which specifies, among other things, permitted active drug ingredients and their concentrations. The FDA's monograph system also provides the permissible product claims and certain product labeling requirements, based on the intended use of the product. Our OTC drug products must be manufactured consistent with the FDA's current drug good manufacturing practices ("GMP") requirements, and the failure to maintain compliance with these requirements could require us to conduct recalls, market withdrawal, or make changes to our manufacturing practices. Any of these actions could result in harm to our reputation or affect our ability to provide sufficient product to the market.

The FDA may change the regulations as to any product category, requiring a change in labeling, product formulation or analytical testing. However, we may not have sufficient resources to conduct any required analytical testing, reformulate the product or make required label changes, possibly resulting in an inability to continue or resume marketing these products. Any inquiries or investigations from the FDA, FTC or other foreign regulatory authorities into the regulatory status of our cosmetic products and any subsequent interruption in the marketing and sale of those products could severely damage our brand and company reputation in the marketplace.

We are subject to regulation by the CPSC under the Consumer Product Safety Act, as amended by the Consumer Product Safety Improvement Act of 2008. These statutes and the related regulations ban from the market consumer products that fail to comply with applicable product safety laws, regulations and standards. The CPSC has the authority to require the recall, repair, replacement or refund of any such banned products or products that otherwise create a substantial risk of injury and may seek penalties for regulatory noncompliance under certain circumstances. CPSC regulations also require manufacturers of consumer products to report to the CPSC certain types of information regarding products that fail to comply with applicable regulations. Certain state laws also address the safety of consumer products and mandate reporting requirements, and noncompliance may result in penalties or other regulatory action.

The FTC, FDA and other government authorities also regulate advertising and product claims regarding the safety, performance and benefits of our products. These regulatory authorities typically require a safety assessment of the product and reasonable basis to support any marketing claims. What constitutes a reasonable basis for substantiation can vary widely from market to market, and there is no assurance that our efforts to support our claims will be considered sufficient. The most significant area of risk for such activities relates to improper or unsubstantiated claims about the use and safety of our products. If we cannot adequately support safety or substantiate our product claims, or if our promotional materials make claims that exceed the scope of allowed claims for the classification of the specific product, the FDA, FTC or other regulatory authority could take enforcement action or impose penalties, such as monetary consumer redress, requiring us to revise our marketing materials, amend our claims or stop selling certain products, all of which could harm our business, financial condition and results of operations.

We are also subject to a number of U.S. federal and state and foreign laws and regulations that affect comp anies conducting business on the Internet, including consumer protection regulations that regulate retailers and govern the promotion and sale of merchandise. Many of these laws and regulations are still evolving and being tested in courts, and could be in terpreted in ways that could harm our business. These may involve user privacy, data protection, content, intellectual property, distribution, electronic contracts and other communications, competition, protection of minors, consumer protection, telecommun ications, product liability, taxation, economic or other trade prohibitions or sanctions and online payment services. In particular, we are subject to federal, state and foreign laws regarding privacy and protection of people's data. Foreign data protectio n, privacy and other laws and regulations can be more restrictive than those in the United States. U.S. federal and state and foreign laws and regulations are constantly evolving and can be subject to significant change. In addition, the application, inter pretation and enforcement of these laws and regulations are often uncertain, and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. There are also a number of legislative propos als pending before the U.S. Congress, various state legislative bodies and foreign governments concerning privacy and data protection which could affect us. For example, in the European Union, the current data protection laws will be replaced by the new Ge neral Data Protection Regulation ("GDPR"), which was adopted May 2016 and will become effective in May 2018. The GDPR will implement more stringent operational requirements for controllers of personal data such as us, including, for example, expanded discl osures about how personal information is to be used, limitations on retention of information, increased requirements to erase an individual's information upon request, mandatory data breach notification requirements and higher standards for data controller s to demonstrate that they have obtained valid consent for certain data processing activities. The GDPR also significantly increases penalties for non-compliance. If our privacy or data security measures fail to comply with applicable current or future law s and regulations, we may be subject to litigation, regulatory investigations, enforcement notices requiring us to change the way we use personal data or our marketing practices, fines of up to 20,000,000 Euros or up to 4% of the total worldwide annual tur nover of the preceding financial year (whichever is higher) or other liabilities, as well as negative publicity and a potential loss of business. Furthermore, a draft of the new ePrivacy Regulation was announced in January 2017, which is scheduled to becom e effective in May 2018 (alongside the GDPR) and will replace the current European electronic e-privacy and marketing rules. When implemented, the ePrivacy Regulation is expected to alter rules on direct marketing, and technology for online behavioral adve rtising and to impose stricter requirements on companies using these tools. The interpretation and application of both the GDPR and the ePrivacy Regulation will remain uncertain until both have become effective and regulators begin issuing guidance and enf orcing the new rules.

Environmental, health and safety

We are subject to numerous foreign, federal, provincial, state, municipal and local environmental, health and safety laws and regulations relating to, among other matters, safe working conditions, product stewardship and environmental protection, including those relating to emissions to the air, discharges to land and surface waters, generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste materials, and the registration and evaluation of chemicals. We maintain policies and procedures to monitor and control environmental, health and safety risks, and to monitor compliance with applicable environmental, health and safety requirements. Compliance with such laws and regulations pertaining to the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect upon our capital expenditures, earnings or competitive position. However, environmental laws and regulations have tended to become increasingly stringent and, to the extent regulatory changes occur in the future, they could result in, among other things, increased costs to our company. For example, certain states such as California and the U.S. Congress have proposed legislation relating to chemical disclosure and other requirements related to the content of our products.

Segments

We operate our business as a single operating and reportable segment. For more information regarding segment reporting, see Note 2 to our consolidated financial statements in Item 15 of this Annual Report on Form 10-K ("Annual Report") under the caption "Segment reporting."

Geographic information

For information regarding the geographic source of our net sales and the location of our long-lived assets, see Note 2 to our consolidated financial statements in Item 15 of this Annual Report under the heading "Segment reporting." For information regarding the risks related to our non-U.S. operations, see Item 1A "Risk factors" of this Annual Report under the captions, "We are subject to international business uncertainties" and "We have significant operations in China, which exposes us to risks inherent in doing business there."

Corporate information

We completed the initial public offering of our common stock in September 2016. Our common stock is currently listed on the New York Stock Exchange ("NYSE") under the symbol "ELF." We are an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), and therefore we are subject to reduced public company reporting requirements. Our principal executive offices are located at 570 10th Street, Oakland, California 94607. Our telephone number is (510) 778-7787. Our website address is www.elfcosmetics.com. The information on, or that can be accessed through, our website is not incorporated by reference into this Annual Report or any other filings we make with the U.S. Securities and Exchange Commission (the "SEC").

Available information

We make available on or through our website certain reports and amendments to those reports that we file with, or furnish to, the SEC in accordance with the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These include our Annual Reports, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. We make this information available on or through our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC. Copies of this information may be obtained at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding our filings, at www.sec.gov. The information on, or that can be accessed through, our website is not incorporated by reference into this Annual Report or any other filings we make with the SEC.

Item 1A. Risk factors.

Certain risks may have a material adverse effect on our business, financial condition and results of operations. These risks include those described below and may include additional risks and uncertainties not presently known to us or that we currently deem immaterial. These risks should be read in conjunction with the other information in this Annual Report, including our consolidated financial statements and related notes thereto and "Management's discussion and analysis of financial condition and results of operations" in Part II, Item 7 of this Annual Report.

The cosmetics industry is highly competitive, and if we are unable to compete effectively our results will suffer.

We face vigorous competition from companies throughout the world, including large multinational consumer products companies that have many cosmetics brands under ownership and standalone cosmetics brands, including those that may target the latest trends or specific distribution channels. Competition in the cosmetics industry is based on the introduction of new products, pricing of products, quality of products and packaging, brand awareness, perceived value and quality, innovation, in-store presence and visibility, promotional activities, advertising, editorials, e-commerce and mobile-commerce initiatives and other activities. We must compete with a high volume of new product introductions and existing products by diverse companies across several different distribution channels.

Many multinational consumer companies have greater financial, technical or marketing resources, longer operating histories, greater brand recognition or larger customer bases than we do and may be able to respond more effectively to changing business and economic conditions than we can. Many of these competitors' products are sold in a wider selection or greater number of retail stores and possess a larger presence in these stores, typically having significantly more inline shelf space than we do. Given the finite space allocated to cosmetic products by retail stores, our ability to grow the number of retail stores in which our products are sold, and expand our space allocation once in these retail stores, may require the removal or reduction of the shelf space of these competitors. We may be unsuccessful in our growth strategy in the event retailers do not reallocate shelf space from our competitors to us. Our competitors may attempt to gain market share by offering products at prices at or below the prices at which our products are typically offered, including through the use of large percentage discounts and "buy one and get one free" offers. Competitive pricing may require us to reduce our prices, which would decrease our profitability or result in lost sales. Our competitors, many of whom have greater resources than we do, may be better able to withstand these price reductions and lost sales.

It is difficult for us to predict the timing and scale of our competitors' activities in these areas or whether new competitors will emerge in the cosmetics business. In addition, further technological breakthroughs, including new and enhanced technologies which increase competition in the online retail market, new product offerings by competitors and the strength and success of our competitors' marketing programs may impede our growth and the implementation of our business strategy.

Our ability to compete also depends on the continued strength of our brand and products, the success of our marketing, innovation and execution strategies, the continued diversity of our product offerings, the successful management of new product introductions and innovations, strong operationa l execution, including in order fulfillment, and our success in entering new markets and expanding our business in existing geographies. If we are unable to continue to compete effectively, it could have a material adverse effect on our business, results o f operations and financial condition.

Our new product introductions may not be as successful as we anticipate.

The cosmetics industry is driven in part by fashion and beauty trends, which may shift quickly. Our continued success depends on our ability to anticipate, gauge and react in a timely and cost-effective manner to changes in consumer preferences for cosmetic products, consumer attitudes toward our industry and brand and where and how consumers shop for those products. We must continually work to develop, produce and market new products, maintain and enhance the recognition of our brand, maintain a favorable mix of products and develop our approach as to how and where we market and sell our products.

We have an established process for the development, evaluation and validation of our new product concepts. Nonetheless, each new product launch online, through our e.l.f. stores and through our retail customers involves risks, as well as the possibility of unexpected consequences. For example, the acceptance of new product launches and sales to our retail customers may not be as high as we anticipate, due to lack of acceptance of the products themselves or their price, or limited effectiveness of our marketing strategies. In addition, our ability to launch new products may be limited by delays or difficulties affecting the ability of our suppliers or manufacturers to timely manufacture, distribute and ship new products or displays for new products. Sales of new products may be affected by inventory management by our retail customers, and we may experience product shortages or limitations in retail display space by our retail customers. We may also experience a decrease in sales of certain existing products as a result of newly-launched products, the impact of which could be exacerbated by shelf space limitations or any shelf space loss. Any of these occurrences could delay or impede our ability to achieve our sales objectives, which could have a material adverse effect on our business, financial condition and results of operations.

As part of our ongoing business strategy we expect we will need to continue to introduce new products in our traditional product categories of eyes, lips, face and tools, while also expanding our product launches into adjacent categories in which we may have little to no operating experience. For example, we recently introduced a high-quality skin care assortment. The success of product launches in adjacent product categories could be hampered by our relative inexperience operating in such categories, the strength of our competitors or any of the other risks referred to above. Furthermore, any expansion into new product categories may prove to be an operational and financial constraint which inhibits our ability to successfully accomplish such expansion. Our inability to introduce successful products in our traditional categories or in adjacent categories could limit our future growth and have a material adverse effect on our business, financial condition and results of operations.

We depend on a limited number of retailers for a large portion of our net sales, and the loss of one or more of these retailers, or business challenges at one or more of these retailers, could adversely affect our results of operations.

A limited number of our retail customers account for a large percentage of our net sales. Walmart and Target accounted for 30% and 28%, respectively, of our net sales in 2016. We expect a small number of retailers will, in the aggregate, continue to account for the majority of our net sales for foreseeable future periods. Any changes in the policies or our ability to meet the demands of our retail customers relating to service levels, inventory de-stocking, pricing and promotional strategies or limitations on access to display space could have a material adverse effect on our business, financial condition and results of operations.

As is typical in our industry, our business with retailers is based primarily upon discrete sales orders, and we do not have contracts requiring retailers to make firm purchases from us. Accordingly, retailers could reduce their purchasing levels or cease buying products from us at any time and for any reason. If we lose a significant retail customer or if sales of our products to a significant retailer materially decrease, it could have a material adverse effect on our business, financial condition and results of operations.

Because a high percentage of our sales are made through our retail customers, our results are subject to risks relating to the general business performance of our key retail customers. Factors that adversely affect our retail customers' businesses may also have a material adverse effect on our business, financial condition and results of operations. These factors may include:

- any reduction in consumer traffic and demand at our retail customers as a result of economic downturns, changes in consumer preferences or reputational damage as a result of, among other developments, data privacy breaches, regulatory investigations or employee misconduct;

- any credit risks associated with the financial condition of our retail customers;
- the effect of consolidation or weakness in the retail industry or at certain retail customers, including store closures and the resulting uncertainty; and
- inventory reduction initiatives and other factors affecting retail customer buying patterns, including any reduction in retail space committed to cosmetics and retailer practices used to control inventory shrinkage.

Our success depends, in part, on the quality, performance and safety of our products.

Any loss of confidence on the part of consumers in the ingredients used in our products, whether related to product contamination or product safety or quality failures, actual or perceived, or inclusion of prohibited ingredients, could tarnish the image of our brand and could cause consumers to choose other products. Allegations of contamination or other adverse effects on product safety or suitability for use by a particular consumer, even if untrue, may require us to expend significant time and resources responding to such allegations and could, from time to time, result in a recall of a product from any or all of the markets in which the affected product was distributed. Any such issues or recalls could negatively affect our profitability and brand image.

If our products are found to be, or perceived to be, defective or unsafe, or if they otherwise fail to meet our consumers' expectations, our relationships with consumers could suffer, the appeal of our brand could be diminished, we may need to recall some of our products and/or become subject to regulatory action, and we could lose sales or market share or become subject to boycotts or liability claims. In addition, safety or other defects in our competitors' products could reduce consumer demand for our own products if consumers view them to be similar. Any of these outcomes could result in a material adverse effect on our business, financial condition and results of operations.

We may not be able to successfully implement our growth strategy.

Our future growth, profitability and cash flows depend upon our ability to successfully implement our business strategy, which, in turn, is dependent upon a number of factors, including our ability to:

- build a great brand by attracting new consumers and encouraging our current consumers to use more e.l.f. products;
- continue to use innovation to drive sales and margin and expand into relevant adjacencies;
- expand brand penetration by growing our space allocations with our existing national retail customers, increasing the number of our retail customers, growing our direct-to-consumer business and expanding internationally; and
- leverage our high-performance team culture and executional capability to drive operating margins and efficiencies.

There can be no assurance that we can successfully achieve any or all of the above initiatives in the manner or time period that we expect. Further, achieving these objectives will require investments which may result in short-term costs without generating any current net sales and therefore may be dilutive to our earnings. We cannot provide any assurance that we will realize, in full or in part, the anticipated benefits we expect our strategy will achieve. The failure to realize those benefits could have a material adverse effect on our business, financial condition and results of operations.

Our growth and profitability are dependent on a number of factors, and our historical growth may not be indicative of our future growth.

Although our net sales and profitability have grown rapidly from 2014 through 2016, this should not be considered as indicative of our future performance. We may not be successful in executing our growth strategy, and even if we achieve our strategic plan, we may not be able to sustain profitability. In future periods, our revenue could decline or grow more slowly than we expect. We also may incur significant losses in the future for a number of reasons, including the following risks and the other risks described in this Annual Report, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors:

- we may lose one or more significant retail customers, or sales of our products through these retail customers may decrease;
- the ability of our third-party suppliers and manufacturers to produce our products and of our distributors to distribute our products could be disrupted;
- because all of our products are sourced and manufactured in China, our operations are susceptible to risks inherent in doing business there;

- our products may be the subject of regulatory actions, including but not limited to actions by the FDA, the FTC and the CPSC in the United States;
- we may be unable to introduce new products that appeal to consumers or otherwise successfully compete with our competitors in the cosmetics industry;
- we may be unsuccessful in enhancing the recognition and reputation of our brand, and our brand may be damaged as a result of, among other reasons, our failure, or alleged failure, to comply with applicable ethical, social, product, labor or environmental standards;
- we may experience service interruptions, data corruption, cyber-based attacks or network security breaches which result in the disruption of our operating systems or the loss of confidential information of our consumers;
- we may be unable to retain key members of our senior management team or attract and retain other qualified personnel; and
- we may be affected by any adverse economic conditions in the United States or internationally.

We may be unable to manage our growth effectively, which would harm our business, financial condition and results of operations.

We have grown rapidly, with our net sales increasing from $144.9 million in the Unaudited Pro Forma Combined 2014 Period (as defined in “Selected financial data” in Part II, Item 6 of this Annual Report) to $229.6 million in the year ended December 31, 2016. Our growth has placed, and will continue to place, a strain on our management team, financial and information systems, supply chain and distribution capacity and other resources. To manage growth effectively, we must continue to enhance our operational, financial and management systems, including our warehouse management, inventory control and in-store point-of-sale systems; maintain and improve our internal controls and disclosure controls and procedures; maintain and improve our information technology systems and procedures; and expand, train and manage our employee base.

We may not be able to effectively manage this expansion in any one or more of these areas, and any failure to do so could significantly harm our business, financial condition and results of operations. Our rapid growth also makes it difficult for us to adequately predict the expenditures we will need to make in the future. If we do not make the necessary overhead expenditures to accommodate our future growth, we may not be successful in executing our growth strategy, and our results of operations would suffer.

Any damage to our reputation or brand may materially and adversely affect our business, financial condition and results of operations.

We believe that developing and maintaining our brand is critical and that our financial success is directly dependent on consumer perception of our brand. Furthermore, the importance of our brand recognition may become even greater as competitors offer more products similar to ours.

We have relatively low brand awareness among consumers when compared to other cosmetic brands, and maintaining and enhancing the recognition and reputation of our brand is critical to our business and future growth. Many factors, some of which are beyond our control, are important to maintaining our reputation and brand. These factors include our ability to comply with ethical, social, product, labor and environmental standards. Any actual or perceived failure in compliance with such standards could damage our reputation and brand.

The growth of our brand depends largely on our ability to provide a high-quality consumer experience, which in turn depends on our ability to bring innovative products to the market at competitive prices that respond to consumer demands and preferences. Additional factors affecting our consumer experience include our ability to provide appealing store sets in retail stores, the maintenance and stocking of those sets by our retail customers, the overall shopping experience provided by our retail customers, a reliable and user-friendly website interface and mobile applications for our consumers to browse and purchase products on elfcosmetics.com and an engaging environment in our e.l.f. stores. If we are unable to preserve our reputation, enhance our brand recognition or increase positive awareness of our products and in-store and Internet platforms, it may be difficult for us to maintain and grow our consumer base, and our business, financial condition and results of operations may be materially and adversely affected.

The success of our brand may also suffer if our marketing plans or product init iatives do not have the desired impact on our brand's image or its ability to attract consumers. Further, our brand value could diminish significantly due to a number of factors, including consumer perception that we have acted in an irresponsible manner, adverse publicity about our products, our failure to maintain the quality of our products, product contamination, the failure of our products to deliver consistently positive consumer experiences, or the products becoming unavailable to consumers.

A disruption in our operations could materially and adversely affect our business.

As a company engaged in distribution on a global scale, our operations, including those of our third-party manufacturers, suppliers and delivery service providers, are subject to the risks inherent in such activities, including industrial accidents, environmental events, strikes and other labor disputes, disruptions in information systems, product quality control, safety, licensing requirements and other regulatory issues, as well as natural disasters, pandemics, border disputes, acts of terrorism and other external factors over which we and our third-party manufacturers, suppliers and delivery service providers have no control. The loss of, or damage to, the manufacturing facilities or distribution centers of our third-party manufacturers, suppliers and delivery service providers could have a material adverse effect on our business, financial condition and results of operations.

We depend heavily on ocean container delivery to receive shipments of our products from our third-party manufacturers located in China and contracted third-party delivery service providers to deliver our products to a single distribution facility located in Ontario, California, and from there to our retail customers. Further, we rely on postal and parcel carriers for the delivery of products sold directly to consumers through elfcosmetics.com. Interruptions to or failures in these delivery services could prevent the timely or successful delivery of our products. These interruptions or failures may be due to unforeseen events that are beyond our control or the control of our third-party delivery service providers, such as inclement weather, natural disasters or labor unrest. For example, in the fall of 2014, longshoreman work stoppages created a significant backlog of cargo containers at ports. We experienced delays in the shipment of our products as a result of this backlog and were unable to meet our planned inventory allocations for a limited period of time. As another example, in December 2015, a parcel carrier returned five pallets of holiday shipments to us based on their service backlog, causing significant delays in our holiday shipments. If our products are not delivered on time or are delivered in a damaged state, retail customers and consumers may refuse to accept our products and have less confidence in our services. Furthermore, the delivery personnel of contracted third-party delivery service providers act on our behalf and interact with our consumers personally. Any failure to provide high-quality delivery services to our consumers may negatively affect the shopping experience of our consumers, damage our reputation and cause us to lose consumers.

Our ability to meet the needs of our consumers, retail customers and our e.l.f. stores depends on the proper operation of our Ontario, California distribution facility, where most of our inventory that is not in transit is housed. Although we currently insure our inventory, our insurance coverage may not be sufficient to cover the full extent of any loss or damage to our inventory or distribution facility, and any loss, damage or disruption of this facility, or loss or damage of the inventory stored there, could materially and adversely affect our business, financial condition and results of operations.

We rely on third-party suppliers, manufacturers, distributors and other vendors, and they may not continue to produce products or provide services that are consistent with our standards or applicable regulatory requirements, which could harm our brand, cause consumer dissatisfaction, and require us to find alternative suppliers of our products or services.

We do not own or operate any manufacturing facilities. We use multiple third-party suppliers and manufacturers based in China to source and manufacture all of our products. We engage our third-party suppliers and manufacturers on a purchase order basis and are not party to long-term contracts with any of them. The ability of these third parties to supply and manufacture our products may be affected by competing orders placed by other customers and the demands of those customers. If we experience significant increases in demand, or need to replace a significant number of existing suppliers or manufacturers, there can be no assurance that additional supply and manufacturing capacity will be available when required on terms that are acceptable to us, or at all, or that any supplier or manufacturer will allocate sufficient capacity to us in order to meet our requirements.

In addition, quality control problems, such as the use of ingredients and delivery of products that do not meet our quality control standards and specifications or comply with applicable laws or regulations, could harm our business. These quality control problems could result in regulatory action, such as restrictions on importation, products of inferior quality or product stock outages or shortages, harming our sales and creating inventory write-downs for unusable products.

We have also outsourced significant portions of our distribution process, as well as certain technology-related functions, to third-party service providers. Specifically, we rely on third-party distributors to sell our products in a number of foreign countries, our sole warehouse and distribution center in California is managed and staffed by a third-party service provider, we are dependent on a single third-party vendor for credit card processing and we utilize a third-party hosting and networking provider to host our web services, in cluding elfcosmetics.com. The failure of one or more of these entities to provide the expected services on a timely basis, or at all, or at the prices we expect, or the costs and disruption incurred in changing these outsourced functions to being performed under our management and direct control or that of a third-party, may have a material adverse effect on our business, financial condition and results of operations. We are not party to long-term contracts with some of our distributors, and upon expiration of these existing agreements, we may not be able to renegotiate the terms on a commercially reasonable basis, or at all.

Further, our third-party manufacturers, suppliers and distributors may:

- have economic or business interests or goals that are inconsistent with ours;
- take actions contrary to our instructions, requests, policies or objectives;
- be unable or unwilling to fulfill their obligations under relevant purchase orders, including obligations to meet our production deadlines, quality standards, pricing guidelines and product specifications, and to comply with applicable regulations, including those regarding the safety and quality of products and ingredients;
- have financial difficulties;
- encounter raw material or labor shortages;
- encounter increases in raw material or labor costs which may affect our procurement costs;
- disclose our confidential information or intellectual property to competitors or third parties;
- engage in activities or employ practices that may harm our reputation; and
- work with, be acquired by, or come under control of, our competitors.

The occurrence of any of these events, alone or together, could have a material adverse effect on our business, financial condition and results of operations. In addition, such problems may require us to find new third-party suppliers, manufacturers or distributors, and there can be no assurance that we would be successful in finding third-party suppliers, manufacturers or distributors meeting our standards of innovation and quality.

The management and oversight of the engagement and activities of our third-party suppliers, manufacturers and distributors requires substantial time, effort and expense of our employees, and we may be unable to successfully manage and oversee the activities of our third-party manufacturers, suppliers and distributors. If we experience any supply chain disruptions caused by our manufacturing process or by our inability to locate suitable third-party manufacturers or suppliers, or if our manufacturers or raw material suppliers experience problems with product quality or disruptions or delays in the manufacturing process or delivery of the finished products or the raw materials or components used to make such products, our business, financial condition and results of operations could be materially and adversely affected.

If we fail to manage our inventory effectively, our results of operations, financial condition and liquidity may be materially and adversely affected.

Our business requires us to manage a large volume of inventory effectively. We depend on our forecasts of demand for, and popularity of, various products to make purchase decisions and to manage our inventory of stock-keeping units (“SKUs”). Demand for products, however, can change significantly between the time inventory or components are ordered and the date of sale. Demand may be affected by seasonality, new product launches, rapid changes in product cycles and pricing, product defects, promotions, changes in consumer spending patterns, changes in consumer tastes with respect to our products and other factors, and our consumers may not purchase products in the quantities that we expect. It may be difficult to accurately forecast demand and determine appropriate levels of product or componentry. We generally do not have the right to return unsold products to our suppliers. If we fail to manage our inventory effectively or negotiate favorable credit terms with third-party suppliers, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs. In addition, if we are required to lower sale prices in order to reduce inventory level or to pay higher prices to our suppliers, our profit margins might be negatively affected. Any of the above may materially and adversely affect our business, financial condition and results of operations. See also “—Our quarterly results of operations fluctuate due to seasonality, order patterns from key retail customers and other factors, and we may not have sufficient liquidity to meet our seasonal working capital requirements.”

Our substantial indebtedness may have a material adverse effect on our business, financial condition and results of operations.

As of December 31, 2016, we had a total of $165.4 million of indebtedness, consisting of amounts outstanding under our credit facilities and capital lease obligations, and a total availability of $34.5 million under our Revolving Credit Facility (as defined in "Management's discussion and analysis of financial condition and results of operations" in Part II, Item 7 of this Annual Report under the heading "Description of indebtedness"). Our indebtedness could have significant consequences, including:

- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of funding growth, working capital, capital expenditures, investments or other cash requirements;
- reducing our flexibility to adjust to changing business conditions or obtain additional financing;
- exposing us to the risk of increased interest rates as our borrowings are at variable rates;
- making it more difficult for us to make payments on our indebtedness;
- subjecting us to restrictive covenants that may limit our flexibility in operating our business, including our ability to take certain actions with respect to indebtedness, liens, sales of assets, consolidations and mergers, affiliate transactions, dividends and other distributions and changes of control;
- subjecting us to maintenance covenants which require us to maintain specific financial ratios; and
- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements and general corporate or other purposes.

Our quarterly results of operations fluctuate due to seasonality, order patterns from key retail customers and other factors, and we may not have sufficient liquidity to meet our seasonal working capital requirements.

We generate a significant portion of our net sales in the third and fourth quarters of our fiscal year as a result of higher sales during the holiday season, and adverse events that occur during the third or fourth quarter could have a disproportionate effect on our results of operations for the entire fiscal year. As a result of higher sales during the third and fourth quarters, our working capital needs are greater during the second and third quarters of the fiscal year. In addition to holiday seasonality, we may experience variability in net sales and net income throughout the year as a result of the size and timing of orders from our retail customers. Because a limited number of our retail customers account for a large percentage of our net sales, a change in the order pattern of one or more of our large retail customers could cause a significant fluctuation of our quarterly results or reduce our liquidity. Furthermore, product orders from our large retail customers may vary over time due to changes in their inventory or out-of-stock policies. If we were to experience a significant shortfall in sales or profitability or internally generated funds, we may not have sufficient liquidity to fund our business. As a result of quarterly fluctuations caused by these and other factors, comparisons of our operating results across different fiscal quarters may not be accurate indicators of our future performance. Any quarterly fluctuations that we report in the future may differ from the expectations of market analysts and investors, which could cause the price of our common stock to fluctuate significantly.

We are increasingly dependent on information technology, and if we are unable to protect against service interruptions, data corruption, cyber-based attacks or network security breaches, our operations could be disrupted.

We rely on information technology networks and systems to market and sell our products, to process, transmit and store electronic and financial information, to manage a variety of business processes and activities and to comply with regulatory, legal and tax requirements. We are increasingly dependent on a variety of information systems to effectively process retail customer orders, manage the operations of our e.l.f. store base and fulfill consumer orders from our e-commerce business. We depend on our information technology infrastructure for digital marketing activities and for electronic communications among our e.l.f. stores, personnel, retail customers, consumers, manufacturers and suppliers around the world. These information technology systems, some of which are managed by third parties, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components, power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors or catastrophic events. Any material disruption of our systems, or the systems of our third-party service providers, could disrupt our ability to track, record and analyze the products that we sell and could negatively impact our operations, shipment of goods, ability to process financial information and transactions, and our ability to receive and process retail customers and e-commerce orders or engage in normal business activities. If our information technology systems suffer damage, disruption or shutdown and we do not effectively resolve the issues in a timely manner, our business, financial condition and results of operations may be materially and adversely affected, and we could experience delays in reporting our financial results.

Our e-commerce operations are important to our business. Our website serves as an effective extension of our marketing strategies by exposing potential new consumers to our brand, product offerings and enhanced con tent. Due to the importance of our website and e-commerce operations, we are vulnerable to website downtime and other technical failures. Our failure to successfully respond to these risks could reduce e-commerce sales and damage our brand's reputation.

We must successfully maintain and upgrade our information technology systems, and our failure to do so could have a material adverse effect on our business, financial condition and results of operations.

We have identified the need to significantly expand and improve our information technology systems and personnel to support recent and expected future growth. As such, we are in process of implementing, and will continue to invest in and implement, significant modifications and upgrades to our information technology systems and procedures, including replacing legacy systems with successor systems, making changes to legacy systems or acquiring new systems with new functionality, hiring employees with information technology expertise and building new policies, procedures, training programs and monitoring tools. These types of activities subject us to inherent costs and risks associated with replacing and changing these systems, including impairment of our ability to leverage our e-commerce channels, fulfill customer orders, potential disruption of our internal control structure, substantial capital expenditures, additional administration and operating expenses, acquisition and retention of sufficiently skilled personnel to implement and operate the new systems, demands on management time and other risks and costs of delays or difficulties in transitioning to or integrating new systems into our current systems. These implementations, modifications and upgrades may not result in productivity improvements at a level that outweighs the costs of implementation, or at all. In addition, difficulties with implementing new technology systems, delays in our timeline for planned improvements, significant system failures, or our inability to successfully modify our information systems to respond to changes in our business needs may cause disruptions in our business operations and have a material adverse effect on our business, financial condition and results of operations.

If we fail to adopt new technologies or adapt our website and systems to changing consumer requirements or emerging industry standards, our business may be materially and adversely affected.

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our Internet platform, including our e-commerce website and mobile applications. Our competitors are continually developing innovations and introducing new products to increase their consumer base and enhance user experience. As a result, in order to attract and retain consumers and compete against our competitors, we must continue to invest resources to enhance our information technology and improve our existing products and services for our consumers. The Internet and the online retail industry are characterized by rapid technological evolution, changes in consumer requirements and preferences, frequent introductions of new products and services embodying new technologies and the emergence of new industry standards and practices, any of which could render our existing technologies and systems obsolete. Our success will depend, in part, on our ability to identify, develop, acquire or license leading technologies useful in our business, and respond to technological advances and emerging industry standards and practices in a cost-effective and timely way. The development of our website and other proprietary technology entails significant technical and business risks. There can be no assurance that we will be able to properly implement or use new technologies effectively or adapt our website and systems to meet consumer requirements or emerging industry standards. If we are unable to adapt in a cost-effective and timely manner in response to changing market conditions or consumer requirements, whether for technical, legal, financial or other reasons, our business, financial condition and results of operations may be materially and adversely affected.

Failure to protect sensitive information of our consumers and information technology systems against security breaches could damage our reputation and brand and substantially harm our business, financial condition and results of operations.

We collect, maintain, transmit and store data about our consumers, suppliers and others, including personally identifiable information and financial information, as well as other confidential and proprietary information. We also employ third-party service providers that collect, store, process and transmit proprietary, personal and confidential information, including credit card information, on our behalf.

Advances in technology, the expertise of criminals, new discoveries in the field of cryptography, acts or omissions by our employees, contractors or service providers or other events or developments could result in a compromise or breach in the security of confidential or sensitive information. We and our service providers may not be able to prevent third parties, including criminals, competitors or others, from breaking into or altering our systems, conducting denial-of-service attacks, attempting to gain access to our systems, information or monetary funds through phishing or social engineering campaigns, installing viruses or malicious software on our website or devices used by our employees or contractors, or carrying out other activity intended to disrupt our systems or gain access to confidential or sensitive information in our or our service providers' systems. Furthermore, such third parties may further engage in various other illegal activities using such information, including credit card fraud, which may cause additional harm to us, our consumers and our brand. We also may be vulnerable to error or malfeasance by our own employees or other insiders. Third parties may attempt to fraudulently induce our or our service providers' employ ees to misdirect funds or to disclose information in order to gain access to personal data we maintain about our consumers or website users. In addition, we have limited control or influence over the security policies or measures adopted by third-party pro viders of online payment services through which some of our consumers may elect to make payment for purchases at our website. Contracted third-party delivery service providers may also violate their confidentiality obligations and disclose or use informati on about our consumers inadvertently or illegally.

If any breach of information security were to occur, our reputation and brand could be damaged, our business may suffer, we could be required to expend significant capital and other resources to alleviate problems caused by such breaches, and we could be exposed to a risk of loss, litigation or regulatory action and possible liability. Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants. In addition, any party who is able to illicitly obtain a subscriber's password could access the subscriber's financial, transaction or personal information. Any compromise or breach of our security measures, or those of our third-party service providers, may violate applicable privacy, data security and other laws, and cause significant legal and financial exposure, adverse publicity and a loss of confidence in our security measures, which could have a material adverse effect on our business, financial condition and results of operations. Although we maintain privacy, data breach and network security liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. We may need to devote significant resources to protect against security breaches or to address problems caused by breaches, diverting resources from the growth and expansion of our business.

Payment methods used on our Internet platform subject us to third-party payment processing-related risks.

We accept payments from our consumers using a variety of methods, including online payments with credit cards and debit cards issued by major banks in the United States, payments made with gift cards processed by third-party providers and payment through third-party online payment platforms such as PayPal. We also rely on third parties to provide payment processing services. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower our profit margins. We may also be subject to fraud and other illegal activities in connection with the various payment methods we offer, including online payment options and gift cards. For online consumers, these are card-not-present transactions, so they present a greater risk of fraud. Criminals are using increasingly sophisticated methods to engage in illegal activities such as unauthorized use of credit or debit cards and bank account information. To the extent we are an online seller, requirements relating to consumer authentication and fraud detection are more complex. We may ultimately be held liable for the unauthorized use of a cardholder's card number in an illegal activity and be required by card issuers to pay charge-back fees. Charge-backs result not only in our loss of fees earned with respect to the payment, but also leave us liable for the underlying money transfer amount. If our charge-back rate becomes excessive, card associations also may require us to pay fines or refuse to process our transactions. In addition, we may be subject to additional fraud risk if third-party service providers or our employees fraudulently use consumer information for their own gain or facilitate the fraudulent use of such information. Overall, we may have little recourse if we process a criminally fraudulent transaction.

We are subject to payment card association operating rules, certification requirements and various rules, regulations and requirements governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. As our business changes we may also be subject to different rules under existing standards, which may require new assessments that involve costs above what we currently pay for compliance. If we fail to comply with the rules or requirements of any provider of a payment method we accept, or if the volume of fraud in our transactions limits or terminates our rights to use payment methods we currently accept, or if a data breach occurs relating to our payment systems, among other things, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our consumers, process electronic funds transfers or facilitate other types of online payments, and our reputation and our business, financial condition and results of operations could be materially and adversely affected.

We have significant operations in China, which exposes us to risks inherent in doing business there.

We currently source and manufacture all of our products from third-party suppliers and manufacturers in China. As of December 31, 2016, we had a team of 56 employees in China to manage our supply chain. With the rapid development of the Chinese economy, the cost of labor has increased and may continue to increase in the future. Our results of operations will be materially and adversely affected if our labor costs, or the labor costs of our suppliers and manufacturers, increase significantly. In addition, we and our manufacturers and suppliers may not be able to find a sufficient number of qualified workers due to the intensely competitive and fluid market for skilled labor in China. Furthermore, pursuant to Chinese labor laws, employers in China are subject to various requirements when signing labor contracts, paying r emuneration, determining the term of employees' probation and unilaterally terminating labor contracts. These labor laws and related regulations impose liabilities on employers and may significantly increase the costs of workforce reductions. If we decide to change or reduce our workforce, these labor laws could limit or restrict our ability to make such changes in a timely, favorable and effective manner. Any of these events may materially and adversely affect our business, financial condition and results of operations. See also "—Changes in tax law and other developments resulting from the new presidential administration in the United States may have a material adverse effect on our business, financial condition and results of operations."

Operating in China exposes us to political, legal and economic risks. In particular, the political, legal and economic climate in China, both nationally and regionally, is fluid and unpredictable. Our ability to operate in China may be adversely affected by changes in U.S. and Chinese laws and regulations such as those related to, among other things, taxation, import and export tariffs, environmental regulations, land use rights, intellectual property, currency controls, network security, employee benefits and other matters. In addition, we may not obtain or retain the requisite legal permits to continue to operate in China, and costs or operational limitations may be imposed in connection with obtaining and complying with such permits. In addition, Chinese trade regulations are in a state of flux, and we may become subject to other forms of taxation, tariffs and duties in China. Furthermore, the third parties we rely on in China may disclose our confidential information or intellectual property to competitors or third parties, which could result in the illegal distribution and sale of counterfeit versions of our products. If any of these events occur, our business, financial condition and results of operations could be materially and adversely affected.

Changes in tax law and other developments resulting from the new presidential administration in the United States may have a material adverse effect on our business, financial condition and results of operations.

Changes in laws and policy relating to taxes or trade resulting from the 2016 U.S. presidential and congressional elections may have an adverse effect on our business, financial condition and results of operations. Potential tax reforms in the United States may result in significant changes to current U.S. tax rules and regulations. These changes could have a material adverse effect on our business, results of operations and liquidity as a result of the fact, among others, that we currently source and manufacture all of our products from third-party suppliers and manufacturers in China.

Although we are unable to predict what, if any, changes will occur, the 2016 U.S. presidential election introduced a great deal of uncertainty regarding current tax and trade law, regulation and government policy, and, if implemented, some proposals discussed before and after the election have the potential to adversely affect trade between the United States and China. Changes in U.S.-China trade relations and changes to U.S. tax or other laws (including new or changes in regulations promulgated by the U.S. Internal Revenue Service and the U.S. Department of the Treasury) as well as changes in Chinese laws and regulations, such as the imposition of or increase in tariffs or other trade barriers, could materially and adversely impact our effective tax rate, increase our costs and reduce the competitiveness of our products in the U.S. market.

If our cash from operations is not sufficient to meet our current or future operating needs, expenditures and debt service obligations, our business, financial condition and results of operations may be materially and adversely affected.

We may require additional cash resources due to changed business conditions or other future developments, including any marketing initiatives, investments or acquisitions we may decide to pursue. To the extent we are unable to generate sufficient cash flow, we may be forced to cancel, reduce or delay these activities. Alternatively, if our sources of funding are insufficient to satisfy our cash requirements, we may seek to obtain an additional credit facility or sell equity or debt securities. The sale of equity securities would result in dilution of our existing stockholders. The incurrence of additional indebtedness would result in increased debt service obligations and operating and financing covenants that could restrict our operations.

Our ability to generate cash to meet our operating needs, expenditures and debt service obligations will depend on our future performance and financial condition, which will be affected by financial, business, economic, legislative, regulatory and other factors, including potential changes in costs, pricing, the success of product innovation and marketing, competitive pressure and consumer preferences. If our cash flows and capital resources are insufficient to fund our debt service obligations and other cash needs, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. Our credit facilities may restrict our ability to take these actions, and we may not be able to affect any such alternative measures on commercially reasonable terms, or at all. If we cannot make scheduled payments on our debt, the lenders under our Senior Secured Credit Facility (as defined in "Management's discussion and analysis of financial condition and results of operations" in Part II, Item 7 of this Annual Report under the heading “Description of indebtedness”) can terminate their commitment s to loan money under our Revolving Credit Facility, and our lenders under our Senior Secured Credit Facility can declare all outstanding principal and interest to be due and payable and foreclose against the assets securing their borrowings, and we could be forced into bankruptcy or liquidation.

Furthermore, it is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all, which could have a material adverse effect on our business, financial condition and results of operations.

Our success depends, in part, on our retention of key members of our senior management team and ability to attract and retain qualified personnel.

Our success depends, in part, on our ability to retain our key employees, including our executive officers, senior management team and development, operations, finance, sales and marketing personnel. We are a small company that relies on a few key employees, any one of whom would be difficult to replace, and because we are a small company, we believe that the loss of key employees may be more disruptive to us than it would be to a large, international company. Our success also depends, in part, on our continuing ability to identify, hire, train and retain other highly qualified personnel. In addition, we may be unable to effectively plan for the succession of senior management, including our chief executive officer. The loss of key personnel or the failure to attract and retain qualified personnel may have a material adverse effect on our business, financial condition and results of operations.

Increasing the number of e.l.f. stores may not be successful and will subject us to risks associated with long-term non-cancelable leases and increased capital requirements that may adversely affect our business, financial condition and results of operations.

Our growth strategy is dependent in part on our ability to open and operate new brick-and-mortar e.l.f. stores in high-traffic areas in the United States. The success of this strategy is dependent upon, among other factors, the identification of suitable markets and sites for store locations, the negotiation of acceptable lease terms, the hiring, training and retention of competent sales personnel, the successful integration of these stores into our existing operations and information technology systems and making capital expenditures for these stores.

As a result of our limited experience in operating direct-to-consumer retail stores, e.l.f. stores may be less successful than we expect. Our current strategy includes pursuing continued expansion of e.l.f. stores in the United States at a steady or increased pace. The effect of these stores, particularly in growing numbers, on our business and results of operations is uncertain and dependent on various factors. Falling short in our pursuit of expansion could potentially lead to a negative impact on our growth plan while incurring significant financial costs, expenses and investments.

All of our e.l.f. stores are located on leased premises, and we expect that any new e.l.f. stores will also be located on leased premises. The leases for our stores generally have initial terms of 10 years and typically provide for a single renewal option in five-year increments as well as for rent escalations. We generally cannot terminate these leases before the end of the initial lease term and our ability to assign or sublease is subject to certain conditions. Additional sites that we lease are likely to be subject to similar long-term, non-terminable leases. If we close a store, we nonetheless may be obligated to perform our monetary obligations under the applicable lease, including, among other things, payment of the base rent for the balance of the lease term. In addition, if we fail to negotiate renewals, either on commercially acceptable terms or at all, as each of our leases expires we could be forced to close stores in desirable locations.

We depend on cash flows from operations to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities, and sufficient funds are not otherwise available to us from borrowings under our Revolving Credit Facility or other sources, we may not be able to service our lease expenses or fund our other liquidity and capital needs, which would materially affect our business.

We plan to make capital expenditures to open additional e.l.f. stores. Furthermore, the commitments associated with any expansion will increase our operating expenses and may be costly to terminate if we decide to close a store or change our strategy. We are likely to incur costs associated with these investments earlier than some of the anticipated financial and other benefits, and the return on these investments may be lower, or may develop more slowly, than we expect. As a result, the carrying value of the related assets may be subject to an impairment charge, which could materially and adversely affect our results of operations.

Adverse U.S. or international economic conditions could negatively affect our business, financial condition and results of operations.

Consumer spending on cosmetic products is influenced by general economic conditions and the availability of discretionary income. Adverse U.S. or international economic conditions or periods of inflation or high energy prices may contribute to higher unemployment levels, decreased consumer spending, reduced credit availability and declining consumer confidence and demand, each of which poses a risk to our business. A decrease in consumer spending or in retailer and consumer confidence and demand for our products could have a significant negative impact on our net sales and profitability, including our operating margins and return on invested capital. These economic conditions could cause some of our retail customers or suppliers to experience cash flow or credit problems and impair their financial condition, which could disrupt our business and adversely affect product orders, payment patterns and default rates and increase our bad debt expense.

The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the United Kingdom formally initiates a withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal. The referendum has also given rise to calls for the governments of other European Union member states to consider withdrawal. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict our access to capital, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to international business uncertainties.

We sell our products to customers located outside the United States. In addition, our third-party suppliers and manufacturers are located in China. We intend to continue to sell to customers outside the United States and maintain our relationships in China. Further, we may establish additional relationships in other countries to grow our operations. The substantial up-front investment required, the lack of consumer awareness of our products in jurisdictions outside of the United States, differences in consumer preferences and trends between the United States and other jurisdictions, the risk of inadequate intellectual property protections and differences in packaging, labeling, cosmetics and related laws, rules and regulations are all substantial matters that need to be evaluated prior to doing business in new territories. We cannot be assured that our international efforts will be successful. International sales and increased international operations may be subject to risks such as:

- difficulties in staffing and managing foreign operations;
- burdens of complying with a wide variety of laws and regulations, including more stringent regulations relating to data privacy and security, particularly in the European Union;
- adverse tax effects and foreign exchange controls making it difficult to repatriate earnings and cash;
- political and economic instability;
- terrorist activities and natural disasters;
- trade restrictions;
- differing employment practices and laws and labor disruptions;
- the imposition of government controls;
- an inability to use or to obtain adequate intellectual property protection for our key brands and products;
- tariffs and customs duties and the classifications of our goods by applicable governmental bodies;
- a legal system subject to undue influence or corruption;
- a business culture in which illegal sales practices may be prevalent;
- logistics and sourcing;

- military conflicts; and
- acts of terrorism.

The occurrence of any of these risks could negatively affect our international business and consequently our overall business, financial condition and results of operations.

New laws, regulations, enforcement trends or changes in existing regulations governing the introduction, marketing and sale of our products to consumers could harm our business.

There has been an increase in regulatory activity and activism in the United States and abroad, and the regulatory landscape is becoming more complex with increasingly strict requirements. If this trend continues, we may find it necessary to alter some of the ways we have traditionally manufactured and marketed our products in order to stay in compliance with a changing regulatory landscape, and this could add to the costs of our operations and have an adverse impact on our business. To the extent federal, state, local or foreign regulatory changes regarding consumer protection, or the ingredients, claims or safety of our products occur in the future, they could require us to reformulate or discontinue certain of our products, revise the product packaging or labeling, or adjust operations and systems, any of which could result in, among other things, increased costs, delays in product launches, product returns or recalls and lower net sales, and therefore could have a material adverse effect on our business, financial condition and results of operations. Noncompliance with applicable regulations could result in enforcement action by the FDA or other regulatory authorities within or outside the United States, including but not limited to product seizures, injunctions, product recalls, and criminal or civil monetary penalties, all of which could have a material adverse effect on our business, financial condition and results of operations.

In the United States, the FDA does not currently require pre-market approval for products intended to be sold as cosmetics. However, the FDA may in the future require pre-market approval, clearance or registration/notification of cosmetic products, establishments or manufacturing facilities. Moreover, such products could also be regulated as both drugs and cosmetics simultaneously, as the categories are not mutually exclusive. The statutory and regulatory requirements applicable to drugs are extensive and require significant resources and time to ensure compliance. For example, if any of our products intended to be sold as cosmetics were to be regulated as drugs, we might be required to conduct, among other things, clinical trials to demonstrate the safety and efficacy of these products. We may not have sufficient resources to conduct any required clinical trials or to ensure compliance with the manufacturing requirements applicable to drugs. If the FDA determines that any of our products intended to be sold as cosmetics should be classified and regulated as drug products and we are unable to comply with applicable drug requirements, we may be unable to continue to market those products. Any inquiry into the regulatory status of our cosmetics and any related interruption in the marketing and sale of these products could damage our reputation and image in the marketplace.

In recent years, the FDA has issued warning letters to several cosmetic companies alleging improper claims regarding their cosmetic products. If the FDA determines that we have disseminated inappropriate drug claims for our products intended to be sold as cosmetics, we could receive a warning or untitled letter, be required to modify our product claims or take other actions to satisfy the FDA. In addition, plaintiffs' lawyers have filed class action lawsuits against cosmetic companies after receipt of these types of FDA warning letters. There can be no assurance that we will not be subject to state and federal government actions or class action lawsuits, which could harm our business, financial condition and results of operations.

Additional state and federal requirements may be imposed on consumer products as well as cosmetics, cosmetic ingredients, or the labeling and packaging of products intended for use as cosmetics. For example, several lawmakers are currently focused on giving the FDA additional authority to regulate cosmetics and their ingredients. This increased authority could require the FDA to impose increased testing and manufacturing requirements on cosmetic manufacturers or cosmetics or their ingredients before they may be marketed. We are unable to ascertain what, if any, impact any increased statutory or regulatory requirements may have on our business.

We sell a number of products as OTC drug products, which are subject to the FDA OTC drug regulatory requirements because they are intended to be used as sunscreen or to treat acne. The FDA regulates the formulation, manufacturing, packaging and labeling of OTC drug products. Our sunscreen and acne drug products are regulated pursuant to FDA OTC drug monographs that specify acceptable active drug ingredients and acceptable product claims that are generally recognized as safe and effective for particular uses. If any of these products that are marketed as OTC drugs are not in compliance with the applicable FDA monograph, we may be required to reformulate the product, stop making claims relating to such product or stop selling the product until we are able to obtain costly and time-consuming FDA approvals. We are also required to submit adverse event reports to the FDA for our OTC drug products, and failure to comply with this requirement may subject us to FDA regulatory action.

We also sell a number of consumer products, which are subject to regulat ion by the CPSC in the United States under the provisions of the Consumer Product Safety Act, as amended by the Consumer Product Safety Improvement Act of 2008. These statutes and the related regulations ban from the market consumer products that fail to c omply with applicable product safety laws, regulations, and standards. The CPSC has the authority to require the recall, repair, replacement or refund of any such banned products or products that otherwise create a substantial risk of injury and may seek p enalties for regulatory noncompliance under certain circumstances. The CPSC also requires manufacturers of consumer products to report certain types of information to the CPSC regarding products that fail to comply with applicable regulations. Certain stat e laws also address the safety of consumer products, and mandate reporting requirements, and noncompliance may result in penalties or other regulatory action.

Our products are also subject to state laws and regulations, such as the California Safe Drinking Water and Toxic Enforcement Act, also known as "Prop 65," and failure to comply with such laws may also result in lawsuits and regulatory enforcement that could have a material adverse effect on our business, financial condition and results of operations.

Our facilities and those of our third-party manufacturers are subject to regulation under the FDCA and FDA implementing regulations.

Our facilities and those of our third-party manufacturers are subject to regulation under the FDCA and FDA implementing regulations. The FDA may inspect all of our facilities and those of our third-party manufacturers periodically to determine if we and our third-party manufacturers are complying with provisions of the FDCA and FDA regulations. In addition, third-party manufacturer's facilities for manufacturing OTC drug products must comply with the FDA's current drug GMP requirements that require us and our manufacturers to maintain, among other things, good manufacturing processes, including stringent vendor qualifications, ingredient identification, manufacturing controls and record keeping.

Our operations could be harmed if regulatory authorities make determinations that we, or our vendors, are not in compliance with these regulations. If the FDA finds a violation of GMPs, it may enjoin our manufacturer's operations, seize product, and impose administrative, civil or criminal penalties. If we or our third-party manufacturers fail to comply with applicable regulatory requirements, we could be required to take costly corrective actions, including suspending manufacturing operations, changing product formulations, suspending sales, or initiating product recalls. In addition, compliance with these regulations has increased and may further increase the cost of manufacturing certain of our products as we work with our vendors to assure they are qualified and in compliance. Any of these outcomes could have a material adverse effect on our business, financial condition and results of operations.

Government regulations and private party actions relating to the marketing and advertising of our products and services may restrict, inhibit or delay our ability to sell our products and harm our business, financial condition and results of operations.

Government authorities regulate advertising and product claims regarding the performance and benefits of our products. These regulatory authorities typically require a reasonable basis to support any marketing claims. What constitutes a reasonable basis for substantiation can vary widely from market to market, and there is no assurance that the efforts that we undertake to support our claims will be deemed adequate for any particular product or claim. The most significant area of risk for such activities relates to improper or unsubstantiated claims about our products and their use or safety. If we are unable to show adequate substantiation for our product claims, or our promotional materials make claims that exceed the scope of allowed claims for the classification of the specific product, whether cosmetics, OTC drug products or other consumer products that we offer, the FDA, the FTC or other regulatory authorities could take enforcement action or impose penalties, such as monetary consumer redress, requiring us to revise our marketing materials, amend our claims or stop selling certain products, all of which could harm our business, financial condition and results of operations. Any regulatory action or penalty could lead to private party actions, which could further harm our business, financial condition and results of operations.

Our business is subject to complex and evolving U.S. and foreign laws and regulations regarding privacy, data protection and other matters. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased costs of operations or otherwise harm our business, financial condition and results of operations.

We are subject to a variety of laws and regulations in the United States and abroad that involve matters central to our business, including privacy and data protection, intellectual property, advertising, marketing, distribution, consumer protection and online payment services. The sale of products outside the United States, the introduction of new products or expansion of our activities in certain jurisdictions may subject us to additional laws and regulations. These U.S. federal and state and foreign laws and regulations, which can be enforced by private parties or government entities, are constantly evolving and can be subject to significant change. For example, in 2015, the European Union Court of Justice invalidated the U.S.-EU Safe Harbor Agreement regarding the transfer of personal information between the U nited States and the European Union. European and U.S. negotiators agreed in February 2016 on a new framework, the Privacy Shield, which replaced the Safe Harbor framework from August 2016 onwards. However, there is currently litigation against this framew ork and it is uncertain whether the Privacy Shield framework will be similarly invalidated by the EU court. It is not known whether the European Commission will accept the new, stricter requirements as adequate. Although we sell our products on a UK websit e, we do not have personnel or operations based in the European Union. We have not historically relied on the former Safe Harbor framework to justify the collection, storage and processing of European consumer data on our servers in the United States. If w e were to in the future it is already clear that under the new framework, companies which rely on the new Privacy Shield framework will face more stringent obligations and the sanctions for non-compliance with the principles of the framework will be more r obust. In addition, the European Union is significantly amending its data protection laws in ways that may limit our ability to collect or use information or increase our potential liability for misuse, loss or a breach of security in data of EU residents. In particular, if our privacy or data security measures fail to comply with applicable future laws and regulations, we may be subject to litigation, regulatory investigations, enforcement notices requiring us to change the way we use personal data or our marketing practices, fines of up to 20,000,000 Euros or up to 4% of the total worldwide annual turnover of the preceding financial year (whichever is higher) or other liabilities, as well as negative publicity and a potential loss of business. The applicat ion, interpretation and enforcement of these laws and regulations may be uncertain, and may be interpreted and applied inconsistently from jurisdiction to jurisdiction and inconsistently with our current policies and practices. Moreover, consumer data priv acy remains a matter of interest to lawmakers and regulators, and a number of other proposals are pending before federal, state and foreign legislative and regulatory bodies that could significantly affect our business. These existing and proposed laws and regulations can be costly to comply with and can delay or impede our ability to market and sell our products, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to inquiries or inv estigations, claims or other remedies, including fines or demands that we modify or cease existing business practices.

Furthermore, foreign data protection, privacy and other laws and regulations are often more restrictive than those in the United States. The European Union, for example, traditionally has imposed stricter obligations under its laws and regulations relating to privacy, data protection and consumer protection than the United States. Under the present regime, individual EU member countries have discretion with respect to their interpretation and implementation of these laws and the penalties for breach and have their own regulators with differing attitudes towards enforcement, which results in varying privacy standards and enforcement risks from jurisdiction to jurisdiction. Legislation and regulation in the European Union and some EU member states require companies to give specific types of notice and in some cases seek consent from consumers before using their data for certain purposes, including some marketing activities. In the majority of EU member countries, consent must be obtained prior to setting cookies or other tracking technologies. In addition, new rules are expected to come into force which alter rules on third-party cookies, web beacons and similar technology for online behavioral advertising and impose stricter requirements on companies using these tools, which may significantly affect the success of our current marketing strategies, and non-compliance may lead to considerable fines. Outside of the European Union, there are many countries with data protections laws, and new countries are adopting data protection legislation with increasing frequency. Many of these laws also require consent from consumers for the collection and use of data for various purposes, including marketing, which may reduce the ability to market our products. In particular, these laws may have an impact on our ability to conduct business through websites we and our partners may operate outside the United States. There is no harmonized approach to these laws and regulations globally although several frameworks exist. Consequently, the potential risk of non-compliance with applicable foreign data protection laws and regulations will increase as we continue our international expansion. We may need to change and limit the way we use consumer information in operating our business and may have difficulty maintaining a single operating model that is compliant. Compliance with such laws and regulations will result in additional costs and may necessitate changes to our business practices and divergent operating models, which may adversely affect our business, financial condition and results of operations.

We are involved, and may become involved in the future, in disputes and other legal or regulatory proceedings that, if adversely decided or settled, could materially and adversely affect our business, financial condition and results of operations.

We are, and may in the future become, party to litigation, regulatory proceedings or other disputes. In general, claims made by or against us in disputes and other legal or regulatory proceedings can be expensive and time consuming to bring or defend against, requiring us to expend significant resources and divert the efforts and attention of our management and other personnel from our business operations. These potential claims include but are not limited to personal injury and class action lawsuits and regulatory investigations relating to the advertising and promotional claims about our products. Any adverse determination against us in these proceedings, or even the allegations contained in the claims, regardless of whether they are ultimately found to be without merit, may also result in settlements, injunctions or dama ges that could have a material adverse effect on our business, financial condition and results of operations.

We may be required to recall products and may face product liability claims, either of which could result in unexpected costs and damage our reputation.

We sell products for human use. Our products intended for use as cosmetics are not generally subject to pre-market approval or registration processes, so we cannot rely upon a government safety panel to qualify or approve our products for use. A product may be safe for the general population when used as directed but could cause an adverse reaction for a person who has a health condition or allergies, or who is taking a prescription medication. While we include what we believe are adequate instructions and warnings and we have historically had low numbers of reported adverse reactions, previously unknown adverse reactions could occur. If we discover that any of our products are causing adverse reactions, we could suffer further adverse publicity or regulatory/government sanctions.

Potential product liability risks may arise from the testing, manufacture and sale of our products, including that the products fail to meet quality or manufacturing specifications, contain contaminants, include inadequate instructions as to their proper use, include inadequate warnings concerning side effects and interactions with other substances or for persons with health conditions or allergies, or cause adverse reactions or side effects. Product liability claims could increase our costs, and adversely affect our business, financial condition and results of operations. As we continue to offer an increasing number of new products, our product liability risk may increase. It may be necessary for us to recall products that do not meet approved specifications or because of the side effects resulting from the use of our products, which would result in adverse publicity, potentially significant costs in connection with the recall and could have a material adverse effect on our business, financial condition and results of operations.

In addition, plaintiffs in the past have received substantial damage awards from other cosmetic and drug companies based upon claims for injuries allegedly caused by the use of their products. Although we currently maintain general liability insurance, any claims brought against us may exceed our existing or future insurance policy coverage or limits. Any judgment against us that is in excess of our policy coverage or limits would have to be paid from our cash reserves, which would reduce our capital resources. In addition, we may be required to pay higher premiums and accept higher deductibles in order to secure adequate insurance coverage in the future. Further, we may not have sufficient capital resources to pay a judgment, in which case our creditors could levy against our assets. Any product liability claim or series of claims brought against us could harm our business significantly, particularly if a claim were to result in adverse publicity or damage awards outside or in excess of our insurance policy limits.

If we are unable to protect our intellectual property the value of our brand and other intangible assets may be diminished, and our business may be adversely affected.

We rely on trademark, copyright, trade secret, patent and other laws protecting proprietary rights, nondisclosure and confidentiality agreements and other practices, to protect our brands and proprietary information, technologies and processes. Our principal intellectual property assets include the registered trademarks "e.l.f.," "eyes lips face" and "play beautifully." Our trademarks are valuable assets that support our brand and consumers' perception of our products. Although we have existing and pending trademark registrations for our brands in the United States and in many of the foreign countries in which we operate, we may not be successful in asserting trademark or trade name protection in all jurisdictions. We also have not applied for trademark protection in all relevant foreign jurisdictions and cannot assure you that our pending trademark applications will be approved. Third parties may also oppose our trademark applications domestically or abroad, or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products in some parts of the world, which could result in the loss of brand recognition and could require us to devote resources to advertising and marketing new brands.

We have limited patent protection, and currently own a United States design patent and have several United States utility and design patent applications pending. We may in the future pursue other patent protection. Limited patent protection for our products limits our ability to protect our products from competition. We primarily rely on know-how to protect our products. It is possible that others will independently develop the same or similar know-how, which may allow them to sell products similar to ours. If others obtain access to our know-how, our confidentiality agreements may not effectively prevent disclosure of our proprietary information, technologies and processes and may not provide an adequate remedy in the event of unauthorized use of such information, which could harm our competitive position.

The efforts we have taken to protect our proprietary rights may not be sufficient or effective. In addition, effective trademark, copyright, patent and trade secret protection may be unavailable or limited for certain of our intellectual property in some foreign countries. Other parties may infringe our intellectual property rights and may dilute our brands in the marketplace. We may need to engage in litigation or other activities to enforce our intellectual property rig hts, to protect our trade secrets or to determine the validity and scope of proprietary rights of others. Any such activities could require us to expend significant resources and divert the efforts and attention of our management and other personnel from o ur business operations. If we fail to protect our intellectual property or other proprietary rights, our business, financial condition and results of operations may be materially and adversely affected.

Our success depends on our ability to operate our business without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights and other proprietary rights of third parties.

Our commercial success depends in part on our ability to operate without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights, trade secrets and other proprietary rights of others. We cannot be certain that the conduct of our business does not and will not infringe, misappropriate or otherwise violate such rights. In addition, third parties may involve us in intellectual property disputes as part of a business model or strategy to gain competitive advantage. While we are not involved in any currently active intellectual property litigation, from time to time we receive allegations of trademark or patent infringement and third parties have filed claims against us with allegations of intellectual property infringement.

To the extent we gain greater visibility and market exposure as a public company or otherwise, we may also face a greater risk of being the subject of such claims and litigation. For these and other reasons, third parties may allege that our products or activities infringe, misappropriate, dilute or otherwise violate their trademark, patent, copyright or other proprietary rights. Defending against allegations and litigation could be expensive, occupy significant amounts of time, divert management's attention from other business concerns and have an adverse impact on our ability to bring products to market. In addition, if we are found to infringe, misappropriate, dilute or otherwise violate third-party trademark, patent, copyright or other proprietary rights, our ability to use brands to the fullest extent we plan may be limited, we may need to obtain a license, which may not be available on commercially reasonable terms, or at all, or we may need to redesign or rebrand our marketing strategies or products, which may not be possible. We may also be required to pay substantial damages or be subject to an order prohibiting us and our retail customers from importing or selling certain products or engaging in certain activities. Our inability to operate our business without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights and proprietary rights of others could have a material adverse effect on our business, financial condition and results of operations.

Use of social media may materially and adversely affect our reputation or subject us to fines or other penalties.

We rely to a large extent on our online presence to reach consumers, and we offer consumers the opportunity to rate and comment on our products on our website. Negative commentary regarding us or our products may be posted on our website or social media platforms and may be adverse to our reputation or business. Our target consumers often value readily available information and often act on such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction. In addition, we may face claims relating to information that is published or made available through the interactive features of our website. For example, we may receive third-party complaints that the comments or other content posted by users on our platforms infringe third-party intellectual property rights or otherwise infringe the legal rights of others. While the Communications Decency Act (CDA) and Digital Millennium Copyright Act (DMCA) generally protect online service providers from claims of copyright infringement or other legal liability for the self-directed activities of its users, if it were determined that we did not meet the relevant safe harbor requirements under either law, we could be exposed to claims related to advertising practices, defamation, intellectual property rights, rights of publicity and privacy, and personal injury torts. We could incur significant costs investigating and defending such claims and, if we are found liable, significant damages. If any of these events occur, our business, financial condition and results of operations could be materially and adversely affected.

We also use third-party social media platforms as marketing tools. For example, we maintain Snapchat, Facebook, Twitter, Pinterest, Instagram, YouTube and Google+ accounts. As e-commerce and social media platforms continue to rapidly evolve, we must continue to maintain a presence on these platforms and establish presences on new or emerging popular social media platforms. If we are unable to cost-effectively use social media platforms as marketing tools, our ability to acquire new consumers and our financial condition may suffer. Furthermore, as laws and regulations rapidly evolve to govern the use of these platforms and devices, the failure by us, our employees or third parties acting at our direction to abide by applicable laws and regulations in the use of these platforms and devices could subject us to regulatory investigations, class action lawsuits, liability, fines or other penalties and have a material adverse effect on our business, financial condition and result of operations.

In addition, an increase in the use of social media for product promotion and marketing may cause an increase in the burden on us to monitor compl iance of such materials, and increase the risk that such materials could contain problematic product or marketing claims in violation of applicable regulations.

Volatility in the financial markets could have a material adverse effect on our business.

While we currently generate significant cash flows from our ongoing operations and have had access to credit markets through our various financing activities, credit markets may experience significant disruptions. Deterioration in global financial markets could make future financing difficult or more expensive. If any financial institution party to our credit facilities or other financing arrangements were to declare bankruptcy or become insolvent, they may be unable to perform under their agreements with us. This could leave us with reduced borrowing capacity, which could have a material adverse effect on our business, financial condition and results of operations.

Fluctuations in currency exchange rates may negatively affect our financial condition and results of operations.

Exchange rate fluctuations may affect the costs that we incur in our operations. The main currencies to which we are exposed are the Chinese renminbi, the British pound and the Canadian dollar. The exchange rates between these currencies and the U.S. dollar in recent years have fluctuated significantly and may continue to do so in the future. A depreciation of these currencies against the U.S. dollar will decrease the U.S. dollar equivalent of the amounts derived from foreign operations reported in our consolidated financial statements, and an appreciation of these currencies will result in a corresponding increase in such amounts. The cost of certain items, such as raw materials, manufacturing, employee salaries and transportation and freight, required by our operations may be affected by changes in the value of the relevant currencies. To the extent that we are required to pay for goods or services in foreign currencies, the appreciation of such currencies against the U.S. dollar will tend to negatively affect our business. There can be no assurance that foreign currency fluctuations will not have a material adverse effect on our business, financial condition and results of operations.

Future acquisitions or investments could disrupt our business and harm our financial condition.

In the future we may pursue acquisitions or investments that we believe will help us achieve our strategic objectives. The process of integrating an acquired business, product or technology can create unforeseen operating difficulties, expenditures and other challenges such as:

- potentially increased regulatory and compliance requirements;
- implementation or remediation of controls, procedures and policies at the acquired company;
- diversion of management time and focus from operation of our then-existing business to acquisition integration challenges;
- coordination of product, sales, marketing and program and systems management functions;
- transition of the acquired company's users and customers onto our systems;
- retention of employees from the acquired company;
- integration of employees from the acquired company into our organization;
- integration of the acquired company's accounting, information management, human resources and other administrative systems and operations into our systems and operations;
- liability for activities of the acquired company prior to the acquisition, including violations of law, commercial disputes and tax and other known and unknown liabilities; and
- litigation or other claims in connection with the acquired company, including claims brought by terminated employees, customers, former stockholders or other third parties.

If we are unable to address these difficulties and challenges or other problems encountered in connection with any future acquisition or investment, we might not realize the anticipated benefits of that acquisition or investment and we might incur unanticipated liabilities or otherwise suffer harm to our business generally.

To the extent that we pay the consideration for any future acquisitions or investments in cash, it would reduce the amount of cash available to us for other purposes. Future acquisitions or investments could also result in dilutive issuances of our equity securities or the incurrence of debt, cont ingent liabilities, amortization expenses, increased interest expenses or impairment charges against goodwill on our consolidated balance sheet, any of which could have a material adverse effect on our business, results of operations and financial conditio n.

If we are unable to maintain effective internal controls, we may not be able to produce timely and accurate financial statements, and we or our independent registered public accounting firm may conclude that our internal control over financial reporting is not effective, which could adversely impact our investors' confidence and our stock price.

Prior to our initial public offering, we were a private company and were not required to test our internal controls on a systematic basis. As an "emerging growth company" under the JOBS Act, our management will be required to report upon the effectiveness of our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") beginning with the annual report for our fiscal year ending December 31, 2017. Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting until the date we are no longer an "emerging growth company" and reach accelerated filer status.

We are in the process of designing and implementing the system of internal control over financial reporting required to comply with our future obligations and to strengthen our overall control environment. This initiative is time consuming, costly, and might place significant demands on our financial and operational resources, as well as our information technology systems.

Our current efforts to design and implement an effective control environment may not be sufficient to remediate or prevent material weaknesses or significant deficiencies from occurring in the future. A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will be met. Moreover, any such changes do not guarantee that we will be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and harm our business. Furthermore, investors' perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements on a timely basis may harm our stock price.

Failure to comply with the U.S. Foreign Corrupt Practices Act, other applicable anti-corruption and anti-bribery laws, and applicable trade control laws could subject us to penalties and other adverse consequences.

We currently manufacture our products in China and sell our products in several countries outside of the United States. Our operations are subject to the U.S. Foreign Corrupt Practices Act (the "FCPA"), as well as the anti-corruption and anti-bribery laws in the countries where we do business. The FCPA prohibits covered parties from offering, promising, authorizing or giving anything of value, directly or indirectly, to a "foreign government official" with the intent of improperly influencing the official's act or decision, inducing the official to act or refrain from acting in violation of lawful duty, or obtaining or retaining an improper business advantage. The FCPA also requires publicly traded companies to maintain records that accurately and fairly represent their transactions, and to have an adequate system of internal accounting controls. In addition, other applicable anti-corruption laws prohibit bribery of domestic government officials, and some laws that may apply to our operations prohibit commercial bribery, including giving or receiving improper payments to or from non-government parties, as well as so-called "facilitation" payments. In addition, we are subject to U.S. and other applicable trade control regulations that restrict with whom we may transact business, including the trade sanctions enforced by the U.S. Treasury, Office of Foreign Assets Control (OFAC).

While we have implemented policies, internal controls and other measures reasonably designed to promote compliance with applicable anti-corruption and anti-bribery laws and regulations, and certain safeguards designed to ensure compliance with U.S. trade control laws, our employees or agents may engage in improper conduct for which we might be held responsible. Any violations of these anti-corruption or trade controls laws, or even allegations of such violations, can lead to an investigation and/or enforcement action, which could disrupt our operations, involve significant management distraction, and lead to significant costs and expenses, including legal fees. If we, or our employees or agents acting on our behalf, are found to have engaged in practices that violate these laws and regulations, we could suffer severe fines and penalties, profit disgorgement, injunctions on future conduct, securities litigation, bans on transacting government business, delisting from securities exchanges and other consequences that may have a material adverse effect on our business, financial condition and results of operations. In addition, our brand and reputation, our sales activities or our stock price could be adversely affected if we become the subject of any negative publicity related to actual or potential violations of anti-corruption, anti-bribery or trade control laws and regulations.

Government regulation of the Internet and e-commerce is evolving, and unfa vorable changes or failure by us to comply with these regulations could substantially harm our business, financial condition and results of operations.

We are subject to general business regulations and laws as well as regulations and laws specifically governing the Internet and e-commerce. Existing and future regulations and laws could impede the growth of the Internet, e-commerce or mobile commerce. These regulations and laws may involve taxes, tariffs, privacy and data security, anti-spam, content protection, electronic contracts and communications, consumer protection, social media marketing, third-party cookies, web beacons and similar technology for online behavioral advertising and gift cards. It is not clear how existing laws governing issues such as property ownership, sales and other taxes and consumer privacy apply to the Internet as the vast majority of these laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues raised by the Internet or e-commerce. It is possible that general business regulations and laws, or those specifically governing the Internet or e-commerce, may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. We cannot be sure that our practices have complied, comply or will comply fully with all such laws and regulations. Any failure, or perceived failure, by us to comply with any of these laws or regulations could result in damage to our reputation, a loss in business and proceedings or actions against us by governmental entities or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts in defense of these proceedings, distract our management, increase our costs of doing business and decrease the use of our sites by consumers and suppliers and may result in the imposition of monetary liability. We may also be contractually liable to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any such laws or regulations. In addition, it is possible that governments of one or more countries may seek to censor content available on our sites or may even attempt to completely block access to our sites. Adverse legal or regulatory developments could substantially harm our business. In particular, in the event that we are restricted, in whole or in part, from operating in one or more countries, our ability to retain or increase our consumer base may be adversely affected, and we may not be able to maintain or grow our net sales and expand our business as anticipated.

Our business relies heavily on email and other messaging services, and any restrictions on the sending of emails or messages or an inability to timely deliver such communications could materially adversely affect our net revenue and business.

Our business is highly dependent upon email and other messaging services for promoting our brand, products and e-commerce platforms. We provide emails and “push” communications to inform consumers of new products, shipping specials and other promotions. We believe these messages are an important part of our consumer experience. If we are unable to successfully deliver emails or other messages to our subscribers, or if subscribers decline to open or read our messages, our net revenue and profitability would be materially adversely affected. Changes in how web and mail services block, organize and prioritize email may reduce the number of subscribers who receive or open our emails. For example, Google’s Gmail service has a feature that organizes incoming emails into categories (for example, primary, social and promotions). Such categorization or similar inbox organizational features may result in our emails being delivered in a less prominent location in a subscriber’s inbox or viewed as “spam” by our subscribers and may reduce the likelihood of that subscriber reading our emails. Actions by third parties to block, impose restrictions on or charge for the delivery of emails or other messages could also adversely impact our business. From time to time, Internet service providers or other third parties may block bulk email transmissions or otherwise experience technical difficulties that result in our inability to successfully deliver emails or other messages to consumers. Changes in the laws or regulations that limit our ability to send such communications or impose additional requirements upon us in connection with sending such communications would also materially adversely impact our business. Our use of email and other messaging services to send communications to consumers may also result in legal claims against us, which may cause us increased expenses, and if successful might result in fines and orders with costly reporting and compliance obligations or might limit or prohibit our ability to send emails or other messages. We also rely on social networking messaging services to send communications and to encourage consumers to send communications. Changes to the terms of these social networking services to limit promotional communications, any restrictions that would limit our ability or our consumers’ ability to send communications through their services, disruptions or downtime experienced by these social networking services or decline in the use of or engagement with social networking services by consumers could materially adversely affect our business, financial condition and operating results.

Our Sponsor and J.A. Cosmetics Corp. have significant influence over our company, including control over decisions that require the approval of stockholders, which could limit the ability of our other stockholders to influence matters requiring stockholder approval and could adversely affect our other stockholders.

Under our second amended and restated stockholders agreement (the “Stockholders Agreement”), our Sponsor has the right to designate up to three members of our board of directors so long as it holds at least 30% of the shares of our outstanding common stock, two members of our board of directors so long as it holds less than 30% but greater than or equal to 20% of our outstanding common stock, and one member of our board of directors so long as it holds less than 20% but greater than or equal to 5% of our outstanding com mon stock. Our Sponsor's designees currently comprise three of the seven members of our board of directors. In addition, as of December 31, 2016, our Sponsor and J.A. Cosmetics Corp. held approximately 57% of our common stock, and our Sponsor may be deemed to beneficially own approximately 74% of our common stock. Accordingly, the Sponsor and J.A. Cosmetics Corp. exert a significant degree of influence or actual control over our management, business policies and affairs and over matters requiring stockholde r approval.

In addition, the Stockholders Agreement provides that for as long as our Sponsor owns or holds, directly or indirectly, at least 30% of our outstanding common stock, we must obtain the consent of our Sponsor before we or our subsidiaries are permitted to take any of the following actions:

- authorize, issue or enter into any agreement providing for the issuance (contingent or otherwise) of (x) any notes or debt securities with options, warrants or other rights to acquire equity securities or otherwise containing profit participation features or (y) any equity securities other than equity securities issued to employees, directors, consultants or advisors pursuant to a plan, agreement or arrangement approved by our board of directors;
- liquidate, dissolve or effect a recapitalization or reorganization in any form of transaction or series of transactions;
- incur any indebtedness in an aggregate amount in excess of $50.0 million (other than indebtedness under the terms and provisions of the Senior Secured Credit Facility); and
- increase or decrease the size of our board of directors.

Until such time as our Sponsor and J.A. Cosmetics Corp. cease collectively to beneficially own more than 50% of the outstanding shares of common stock, our Sponsor has the ability to call a special stockholder meeting, and our Sponsor and J.A. Cosmetics Corp. have the ability to take stockholder action by written consent without calling a stockholder meeting.

Furthermore, for so long as they continue to collectively hold a majority of the outstanding voting power, our Sponsor and J.A. Cosmetics Corp. have the ability to approve amendments to our amended and restated certificate of incorporation and bylaws and to take other actions without the vote of any other stockholder. Other stockholders will not be able to affect the outcome of any stockholder vote during such time. As a result, our Sponsor and J.A. Cosmetics Corp. have the ability to control all such matters affecting us, including:

- the composition of our board of directors and, through our board of directors, any determination with respect to our business plans and policies;
- any determinations with respect to mergers, acquisitions and other business combinations;
- our acquisition or disposition of assets;
- our financing activities, including the issuance of equity securities;
- determinations with respect to the enforcement of rights we may have against third parties;
- the payment of dividends on our common stock; and
- the number of shares available for issuance under our stock plans for our existing and prospective employees.

This concentrated control limits the ability of other stockholders to influence corporate matters and, as a result, we may take actions that our other stockholders do not view as beneficial. Our Sponsor and J.A. Cosmetics Corp.'s combined voting control may also discourage or block transactions involving a change of control of our company, including transactions in which holders of our common stock might otherwise receive a premium for their shares over the then-current market price. For example, this concentration of ownership could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could cause the market price of our common stock to decline or prevent our stockholders from realizing a premium over the market price for their common stock.

In addition, our amended and restated certificate of incorporation provides that, until such time as our Sponsor and J.A. Cosmetics Corp. cease collectively to beneficially own more than 50% of the outstanding shares of common stock, we will not be subject to Section 203 of the Delaware General Corporation Law (the "DGCL"), which prohibits persons deemed to be interested stockholders from engaging in a business combination with a publicly-held Delaware corporation for three years following the date these persons become interested stockholders unless the business combination is, or the transaction in which the person became an interested stockholder was, approved in a prescribed manner or another prescribed exception applies. Generally, an interested stockholder is a person who, together with affiliates and associates, owns, or within three years prior to the determination of interested stockholder status did own, 15% or more of a corporation's voting stock. Because we have elected to opt out of Section 203 of the DGCL until such time as our Sponsor and J.A. Cosmetics Corp. cease collec tively to beneficially own more than 50% of the outstanding shares of common stock, generally any business combination transaction between our company and either our Sponsor or J.A. Cosmetics Corp. is not subject to the statutory protection otherwise affor ded under Section 203 of the DGCL subject to prescribed exceptions.

Moreover, our Sponsor and J.A. Cosmetics Corp. are not prohibited from selling a controlling interest in us to a third party and may do so without stockholder approval and without providing for a purchase of shares of common stock held by other stockholders. Accordingly, shares of our common stock may be worth less than they would be if our Sponsor and J.A. Cosmetics Corp. did not maintain voting control over us.

Our amended and restated certificate of incorporation contains provisions renouncing our interest and expectation to participate in certain corporate opportunities identified by, or presented to, our Sponsor.

Our Sponsor and its affiliates may engage in activities similar to our lines of business or have an interest in the same areas of corporate opportunities as we do. Our amended and restated certificate of incorporation provides that our Sponsor and its affiliates do not have any duty to refrain from (i) engaging, directly or indirectly, in the same or similar business activities or lines of business as us, including those business activities or lines of business deemed to be competing with us or (ii) doing business with any of our clients, customers or vendors. In the event that our Sponsor or any of its affiliates acquires knowledge of a potential business opportunity which may be a corporate opportunity for us, they have no duty to communicate or offer such corporate opportunity to us. Our amended and restated certificate of incorporation also provides that, to the fullest extent permitted by law, neither our Sponsor nor any of its affiliates will be liable to us, for breach of any fiduciary duty or otherwise, by reason of the fact that our Sponsor or any of its affiliates direct such corporate opportunity to another person, or otherwise does not communicate information regarding such corporate opportunity to us, and we have waived and renounced any claim that such business opportunity constituted a corporate opportunity that should have been presented to us. In addition, any member of our board of directors designated by our Sponsor pursuant to the Stockholders Agreement may consider both the interests of our Sponsor and our Sponsor's obligations under the Stockholders Agreement in exercising such board member's powers, rights and duties as a director of our company. The Stockholders Agreement contains similar provisions with respect to corporate opportunities as the provisions in our amended and restated certificate of incorporation described above. These potential conflicts of interest could have a material adverse effect on our business, results of operations, financial condition and prospects if attractive business opportunities are allocated by our Sponsor to itself, its affiliates or third parties instead of to us.

We have incurred and will continue to incur increased costs and are subject to additional regulations and requirements as a result of becoming a newly public company, and our management is required to devote substantial time to new compliance matters.

As a newly public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. We are now subject to the reporting requirements of the Exchange Act, which require, among other things, that we file with the SEC annual, quarterly and current reports with respect to our business and financial condition. In addition, the Sarbanes-Oxley Act, as well as rules subsequently adopted by the SEC and the NYSE to implement provisions of the Sarbanes-Oxley Act, impose significant requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Further, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC has adopted additional rules and regulations in these areas, such as mandatory "say-on-pay" voting requirements that will apply to us when we cease to be an emerging growth company. Stockholder activism, the current political environment and the current high level of government intervention and regulatory reform may lead to substantial new regulations and disclosure obligations, which may lead to additional compliance costs and impact the manner in which we operate our business in ways we cannot currently anticipate.

The rules and regulations applicable to public companies will continue to substantially increase our legal and financial compliance costs and to make some activities more time-consuming and costly. If these requirements divert the attention of our management and personnel from other business concerns, they could have a material adverse effect on our business, financial condition and results of operations. The increased costs will decrease our net income or increase our net loss, and may require us to reduce costs in other areas of our business or increase the prices of our products or services. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these requirements. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

An active trading market for our c ommon stock may not develop or be sustained, and the market price of shares of our common stock may be volatile, which could cause the value of your investment to decline.

Prior to our initial public offering in September 2016, there was no public trading market for shares of our common stock. Although our common stock is now listed on the NYSE, the trading volume of our common stock has been limited, and there can be no assurances that an active trading market for our common stock will develop or be sustained. In addition, we cannot provide any guarantee as to the liquidity of any such market that may develop. In the absence of an active trading market for our common stock, stockholders may not be able to sell their common stock at the time or price they would like to sell.

Even if an active trading market develops and is sustained, the market price of our common stock may be highly volatile and could be subject to wide fluctuations. Securities markets often experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of shares of our common stock in spite of our operating performance. In addition, our results of operations could be below the expectations of public market analysts and investors due to a number of potential factors, including variations in our quarterly results of operations, additions or departures of key management personnel, changes in consumer preferences or cosmetic trends, announcements of new products or significant price reductions by our competitors, failure to meet analysts' earnings estimates, publication of research reports about our industry, litigation and government investigations, changes or proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting our business, adverse market reaction to any indebtedness we may incur or securities we may issue in the future, changes in market valuations of similar companies or speculation in the press or investment community, announcements by our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments, adverse publicity about our industry, the level of success of releases of new products and the number of stores we open, close or convert in any period, and in response the market price of shares of our common stock could decrease significantly.

In the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Because we have no current plans to pay cash dividends on our common stock, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.

We have no current plans to pay cash dividends on our common stock. The declaration, amount and payment of any future dividends will be at the sole discretion of our board of directors. Our board of directors may take into account general and economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our stockholders or by our subsidiaries to us, including restrictions under the Senior Secured Credit Facility and other indebtedness we may incur, and such other factors as our board of directors may deem relevant.

Stockholders may be diluted by the future issuance of additional common stock in connection with our incentive plans, acquisitions or otherwise.

We had approximately 204.3 million shares of common stock authorized but unissued as of March 1, 2017. Our amended and restated certificate of incorporation authorizes us to issue these shares of common stock and stock options exercisable for common stock (and other equity awards) for the consideration and on the terms and conditions established by our board of directors in its sole discretion, whether in connection with acquisitions or otherwise. Any common stock that we issue, including under our existing equity incentive plans or any additional equity incentive plans that we may adopt in the future, would dilute the percentage ownership held by existing investors.

Future sales, or the perception of future sales, by us or our stockholders in the public market could cause the market price for our common stock to decline.

The sale of substantial amounts of shares of our common stock in the public market, or the perception that such sales could occur, including sales by our Sponsor, could harm the prevailing market price of shares of our common stock. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. As of March 1, 2017, we had a total of 45,655,937 shares of common stock outstanding.

Approximately 35,972,604 shares of common stock held by our stockholders as of March 1, 2017 are subject to certain restrictions on resale. In connection with our initial public offering, we, our executive officers, directors and certain of our stockholders signed lock-up agreements with the underwriters of our initial public offering, which agreements, subject to certain customary exceptions, re strict the sale of the shares of our common stock and certain other securities held by them through March 20, 2017. J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC may, in their sole discretion and at any time without notice, release all or any por tion of the shares or securities subject to these lock-up agreements.

Upon the expiration of the lock-up agreements described above, all of such 35,972,604 shares will be eligible for resale in a public market, subject, in the case of shares held by our affiliates, to volume, manner of sale and other limitations under Rule 144 of the Securities Act of 1933, as amended (the "Securities Act").

The holders of 31,177,280 shares of our common stock, or approximately 68% of our outstanding common stock based on shares outstanding as of March 1, 2017, are entitled to rights with respect to registration of such shares under the Securities Act pursuant to a registration rights agreement. In addition, each of our Sponsor, J.A. Cosmetics Corp. and certain family trusts of our Chief Executive Officer, Tarang Amin, have the right, subject to certain conditions, to require us to file registration statements covering its or their shares or to include its or their shares in registration statements that we may file.

In addition, we have filed a registration statement on Form S-8 under the Securities Act covering an aggregate of 10,677,005 shares of our common stock or securities convertible into or exchangeable for shares of our common stock issued pursuant to our equity incentive plans. We intend to file one or more registration statements on Form S-8 to cover additional shares of our common stock or securities convertible into or exchangeable for shares of our common stock pursuant to automatic increases in the number of shares reserved under our 2016 Equity Incentive Award Plan and our 2016 Employee Stock Purchase Plan. Accordingly, shares registered under these registration statements on Form S-8 will be available for sale in the open market.

As restrictions on resale end, the market price of shares of our common stock could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them. These factors could also make it more difficult for us to raise additional funds through future offerings of shares of our common stock or other securities.

Anti-takeover provisions in our organizational documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of our company more difficult without the approval of our board of directors. Among other things:

- although we do not have a stockholder rights plan, these provisions allow us to authorize the issuance of undesignated preferred stock in connection with a stockholder rights plan or otherwise, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend or other rights or preferences superior to the rights of the holders of common stock;
- these provisions provide for a classified board of directors with staggered three-year terms;
- these provisions require advance notice for nominations of directors by stockholders, subject to the Stockholders Agreement, and for stockholders to include matters to be considered at our annual meetings;
- these provisions prohibit stockholder action by written consent after such time as our Sponsor and J.A. Cosmetics Corp. cease collectively to beneficially own (directly or indirectly) more than 50% of the voting power of the outstanding shares of our common stock (the "Trigger Event");
- these provisions provide for the removal of directors only for cause and only upon affirmative vote of holders of at least 75% of the shares of common stock entitled to vote generally in the election of directors from and after the Trigger Event; and
- these provisions require the amendment of certain provisions only by the affirmative vote of at least 75% of the shares of common stock entitled to vote generally in the election of directors from and after the Trigger Event.

Further, as a Delaware corporation, we are also subject to provisions of Delaware law, which may impair a takeover attempt that our stockholders may find beneficial, provided that we will not be subject to Section 203 of the DGCL until after such time as the Trigger Event occurs. These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our company, including actions that our stockholders may deem advantageous, or negatively affect the trading price of our common stock. These provisions could also discourage proxy contests and make it more difficult for other stockholders to elect directors of their choosing and to cause us to take other corporate actions they may desire.

We are an emerging growth company, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We qualify as an emerging growth company as defined in the JOBS Act. As a result, we are permitted to, and do, rely on exemptions from certain disclosure requirements that are applicable to other companies that are not emerging growth companies. Accordingly, for so long as we are an emerging growth company, we will not be required to:

- engage an independent registered public accounting firm to report on our internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;
- comply with any requirement that may be adopted by the PCAOB, regarding mandatory audit firm rotation or a supplement to the independent registered public accounting firm's report providing additional information about the audit and the financial statements (i.e., an auditor discussion and analysis);
- submit certain executive compensation matters to stockholder advisory votes, such as "say-on-pay," "say-on-frequency" and "say-on-golden parachutes;" or
- disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the chief executive officer's compensation to median employee compensation.

We may remain an emerging growth company until the fiscal year-end following the fifth anniversary of the completion of our initial public offering, though we may cease to be an emerging growth company earlier under certain circumstances, including (i) if we become a large accelerated filer, (ii) if our gross revenue exceeds $1.0 billion in any fiscal year or (iii) if we issue more than $1.0 billion in non-convertible notes in any three-year period.

The exact implications of the JOBS Act are still subject to interpretations and guidance by the SEC and other regulatory agencies, and we cannot provide any assurances that we will be able to take advantage of all of the benefits of the JOBS Act. In addition, investors may find our common stock less attractive if we rely on the exemptions and relief granted by the JOBS Act. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may decline and/or become more volatile.

Our board of directors is authorized to issue and designate shares of our preferred stock in additional series without stockholder approval.

Our amended and restated certificate of incorporation authorizes our board of directors, without the approval of our stockholders, to issue 30 million shares of our preferred stock, subject to limitations prescribed by applicable law, rules and regulations and the provisions of our amended and restated certificate of incorporation, as shares of preferred stock in series, to establish from time to time the number of shares to be included in each such series and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof. The powers, preferences and rights of these additional series of preferred stock may be senior to or on parity with our common stock, which may reduce its value.

If securities analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

Our amended and restated certificate of incorporation and amended and restated bylaws provide that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation and amended and restated bylaws provide that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine. This provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find this provision in our amended a nd restated certificate of incorporation and amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business , financial condition and results of operations.

Item 1B. Unresolved staff comments.

None.

Item 2. Properties.

Our principal executive offices are located in Oakland, California. We also have offices located in New York, New York and Shanghai, China, and a distribution center located in Ontario, California. Our California, New York and China offices total an aggregate of approximately 31,550 square feet of commercial space, and approximately 212,668 square feet of commercial space for our distribution center.

In addition, we operated 16 e.l.f. stores in the New York metro area and three e.l.f. stores in Southern California as of December 31, 2016. All of our properties are leased. The leases expire at various times through 2026, subject to renewal options. We consider our properties to be generally in good condition and believe that our existing facilities are adequate to support our existing operations.

Item 3. Legal proceedings.

We are from time to time subject to, and are presently involved in, litigation and other proceedings. We believe that there are no pending lawsuits or claims that, individually or in the aggregate, may have a material adverse effect on our business, financial condition or results of operations.

Item 4. Mine safety disclosures.

None.

PART II

Item 5. Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities.

Market information for common stock

Our common stock began trading on the New York Stock Exchange under the symbol "ELF" on September 22, 2016. Prior to that date, there was no public trading market for our common stock. The following table sets forth the high and low sales price per share of our common stock as reported by the New York Stock Exchange for the period indicated:

Year ended December 31, 2016	Market Price High	Market Price Low
Third quarter (beginning September 22, 2016)	$ 28.92	$ 23.73
Fourth quarter	$ 32.54	$ 25.00

On March 1, 2017, the closing price for our common stock as reported by the New York Stock Exchange was $28.40.

Holders of record

As of March 1, 2017, the approximate number of common stockholders of record was 35. This number does not include beneficial owners whose shares are held by nominees in street name.

Dividends

On June 7, 2016, our board of directors declared a special dividend to our preferred stockholders participating on an as-converted basis and our common stockholders in an amount equal to $1.79 per share of common stock (approximately $72.0 million in the aggregate). Holders of restricted common stock received a dividend of $4.1 million, which offset outstanding employee notes receivable. Prior to this dividend, we had never declared or paid cash dividends on our capital stock.

We intend to retain all available funds and any future earnings, if any, to fund the development and expansion of our business and we do not anticipate paying any additional cash dividends in the foreseeable future. In addition, our Senior Secured Credit Facility limits our ability to pay dividends to our stockholders.

Any future determination related to dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and covenants and other factors that our board of directors may deem relevant.

Stock performance graph

The following performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing, or otherwise subject to the liabilities under the Securities Act or Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

Set forth below is a graph comparing the total cu mulative stockholder return on our common stock with the S&P 500 Stock Index and the S&P Consumer Discretionary Index for the period covering September 22, 2016, the first day of trading on the NYSE for our common stock, through the end of our fiscal year ended December 31, 2016. The graph assumes an investment of $100 made at the closing of trading on September 22, 2016 in (i) e.l.f. Beauty, Inc.'s common stock, (ii) the stocks comprising the S&P 500 Index and (iii) stocks comprising the S&P 500 Consumer D iscretionary Index. All values assume reinvestment of the full amount of all dividends. The performance shown on the graph below is not intended to forecast or be indicative of possible future performance of our common stock.

$100 investment in stock or index	September 22, 2016		December 31, 2016	
e.l.f. Beauty, Inc. (ELF)	$	100.00	$	109.21
S&P 500 Index (GSPC)	$	100.00	$	102.83
S&P 500 Consumer Discretionary Index (S5COND)	$	100.00	$	102.54

Recent sales of unregistered securities

From January 1, 2016 through September 21, 2016, we granted to our directors, officers, and employees options to purchase an aggregate of 2,149,587 shares of common stock at a weighted-average exercise price of $12.69 per share and 596,217 restricted stock units under our equity compensation plans.

From January 1, 2016 through September 21, 2016, we issued and sold to our directors, officers and employees an aggregate of 3,977,489 shares of common stock upon the exercise of options under our equity compensation plans at a weighted average exercise price of $3.22 per share, for aggregate proceeds of $12.8 million.

The sales and issuances of securities in the transactions described above were exempt from the registration requirements of the Securities Act under Rule 701 promulgated thereunder, in that they were offered and sold either pursuant to written compensatory plans or written contracts relating to compensation, as provided by Rule 701. These sales and issuances did not involve underwriters, underwriting discounts or commissions or public offerings of e.l.f. securities.

Use of proceeds from initial public offering of common stock

On September 27, 2016, we completed the initial public offering of our common stock pursuant to a Registration Statement on Form S-1 (File No. 333-213333) and declared effective by the SEC on September 21, 2016.

Under the Registration Statement, we and certain selling stockholders sold an aggregate of 9,583,333 shares of common stock at a price to the public of $17.00 per share. This included 1,250,000 shares issued and sold by the selling stockholders pursuant to the over-allotment option granted to the underwriters, which was exercised prior to the completion of the initial public offering. We raised $54.9 million in net proceeds after deducting underwriting discounts and commissions of $4.8 million and offering expenses of $8.3 million. None of the expenses associated with the offering were paid to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates.

There has been no material change in the planned use of proceeds from our initial public offering as described in the prospectus filed pursuant to Rule 424(b)(4). We used $40.4 million of our net pr oceeds to repay existing indebtedness, including a related pre-payment penalty of $0.4 million, with the remaining proceeds to be used for working capital and general corporate purposes. The managing underwriters of our initial public offering were J.P. Mo rgan Securities LLC and Morgan Stanley & Co. LLC.

Purchases of equity securities by the issuer and affiliated purchasers

None.

Item 6. Selected financial data.

The following table presents our selected consolidated financial data for the periods and as of the dates indicated. The periods prior to and including January 31, 2014 include all of the accounts of e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.) and its subsidiaries and are referred to in the following table as “Predecessor,” and all periods after January 31, 2014 include all of the accounts of e.l.f. Beauty, Inc. and its subsidiaries and are referred to in the following table as “Successor.”

The following financial information should be read in conjunction with “Management’s discussion and analysis of financial condition and results of operations” in Part II, Item 7 and our audited consolidated financial statements and the related notes thereto included elsewhere in this Annual Report.

	Predecessor	Successor	Unaudited pro forma combined (1)	Successor	
(dollars in thousands, except share and per share amounts)	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2016
Statement of operations data:					
Net sales	$ 9,810	$ 135,134	$ 144,944	$ 191,413	$ 229,567
Gross profit	4,772	61,450	67,496	100,329	132,235
Operating income	1,727	5,347	16,119	25,571	23,079
Other income (expense), net	36	(6,633)	(6,597)	(4,172)	3,016
Interest expense, net	(128)	(11,545)	(12,546)	(12,721)	(16,283)
Income (loss) before provision for income taxes	1,635	(12,831)	(3,024)	8,678	9,812
Income tax benefit (provision)	(542)	3,545	143	(4,321)	(4,499)
Net income (loss)	$ 1,093	$ (9,286)	$ (2,881)	$ 4,357	$ 5,313
Net income (loss) per share - basic	$ 1,093.00	$ (709.35)	$ (512.00)	$ (1,559.81)	$ (39.47)
Net income (loss) per share - diluted	$ 1,087.56	$ (709.35)	$ (512.00)	$ (1,559.81)	$ (39.47)
Other data:					
Depreciation and amortization	$ 41	$ 7,944	$ 8,668	$ 10,289	$ 13,152
Capital expenditures	19	1,597	1,616	10,242	9,223

(1) For the purpose of performing a comparison to the Successor’s year ended December 31, 2015, we prepared unaudited pro forma combined supplemental financial information for the year ended December 31, 2014, which gives effect to the acquisition of 100% of the outstanding shares of capital stock of the Predecessor by the Successor, as if it had occurred on January 1, 2014 (the “Unaudited Pro Forma Combined 2014 Period”). The Unaudited Pro Forma Combined 2014 Period is included in the table above being discussed herein for informational purposes only and does not reflect any operating efficiencies or potential cost savings that may result from the consolidation of operations. See “Management’s discussion and analysis of financial conditions and results of operations—Recent transactions and basis of presentation” for a description of the adjustments made in preparing the Unaudited Pro Forma Combined 2014 Period.

(dollars in thousands)	December 31, 2014	December 31, 2015	December 31, 2016
Balance sheet data:			
Cash	$ 4,668	$ 14,004	$ 15,295
Net working capital (2)	23,218	10,860	29,339
Property and equipment, net	2,125	9,854	17,151
Total assets	354,178	361,072	414,729
Capital leases	-	-	2,766
Debt, including current maturities (3)	148,424	144,919	162,061
Total liabilities	222,656	224,175	273,867
Convertible preferred stock	145,328	197,295	-
Total stockholders' deficit	(13,806)	(60,398)	140,862

(2) Net working capital is defined as current assets, excluding cash and cash equivalents, minus current liabilities.

(3) Total bank debt, including current maturities, is net of $4.3 million, $3.2 million and $0.6 million of debt issuance costs as of December 31, 2014, 2015 and 2016, respectively.

Item 7. Management's discussion and analysis of financial condition and results of operations.

You should read the following discussion and analysis of our financial condition and results of operations together with "Selected financial data" and our consolidated financial statements and related notes thereto included elsewhere in this Annual Report.

This discussion and analysis and other parts of this Annual Report contain forward-looking statements within the meaning of the federal securities laws concerning our business, operations and financial performance and condition, as well as our plans, objectives and expectations for our business operations and financial performance and condition. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "aim," "anticipate," "assume," "believe," "contemplate," "continue," "could," "due," "estimate," "expect," "goal," "intend," "may," "objective," "plan," "predict," "potential," "positioned," "seek," "should," "target," "will," "would" and other similar expressions that are predictions of or indicate future events and future trends, or the negative of these terms or other comparable terminology. These forward-looking statements are based on management's current expectations, estimates, forecasts and projections about our business and the industry in which we operate and management's beliefs and assumptions and are not guarantees of future performance or development and involve known and unknown risks, uncertainties, and other factors that are in some cases beyond our control. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, our actual results and the timing of selected events may differ materially. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under "Risk Factors" in Part I, Item 1A. and elsewhere in this Annual Report. Potential investors are urged to consider these factors carefully in evaluating the forward-looking statements. These forward-looking statements speak only as of the date of this Annual Report. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

Overview

We are one of the fastest growing, most innovative cosmetics companies in the United States. Driven by our mission to make luxurious beauty accessible for all women to *play beautifully* , we have challenged the traditional belief that quality cosmetics are only available at high prices in select channels. We are a true multi-channel brand with strength across e-commerce, national retailers and our e.l.f. stores. Our ability to engage our consumers across multiple touch points differentiates e.l.f. from traditional mass brands, which typically focus on one channel. We also leverage insights gained from each channel to drive performance across the business.

We sell our products in national and international retailers (with international primarily serviced by distributors) and direct-to-consumer channels, which include e-commerce and e.l.f. stores. Our largest customers, Walmart and Target, accounted for 30% and 28%, respectively, of our net sales in 2016. National and international retailers comprised 88% of our net sales in 2016. The remaining 12% came from our direct-to-consumer channels, the substantial majority of which was from e-commerce, with the balance from e.l.f. stores. We believe the combination of our affordable price points and on-trend, innovative product assortment encourages trial, offers a strong value proposition and appeals to a broad base of consumers. By combining our strong relationships with leading retailers with integrated consumer engagement across our e.l.f. stores, e-commerce and social media, we are a true multi-channel brand.

The primary market for our products is the United States, which accounted for 92% of our net sales in 2016. The remaining 8% was attributable to international markets, including Canada, the United Kingdom and Mexico.

Components of our results of operations and trends affecting our business

Net sales

We develop, market and sell cosmetic products under the e.l.f. brand through national retailers, e-commerce and our e.l.f. stores. Our net sales are derived from sales of cosmetic products, net of provisions for sales discounts and allowances, product returns, markdowns and price adjustments.

Our growth in net sales is driven by a number of trends, including the broader economic environment, levels of consumer spending, and increasing awareness of and demand for our products. Within our existing national retailers, we are able to drive growth by growing space allocation and increasing sales per linear foot, supported by our continued innovation, including our ability to introduce new first-to-mass products in our existing categories and new products in adjacent categories such as skin care. While we have distribution with a number of key retail accounts, we expect to continue to grow through increased penetr ation into additional stores within existing accounts as well as the addition of new retail customers and retail stores.

These factors have fueled our growth at a faster rate than the overall cosmetics industry. However, our results of operations and business face challenges and uncertainties, including our ability to introduce new products that will appeal to a broad consumer base, our ability to service demand, the ability of our major retail customers to keep products in stock, our ability to continue to grow our customer base and competitive threats from other cosmetics companies.

Gross profit

Gross profit is our net sales less cost of sales. Cost of sales reflects the aggregate costs to procure our products, including the amounts invoiced by our third-party contractors for finished goods as well as costs related to transportation to our distribution center, customs and duties. Cost of sales also includes the effect of changes in the balance of reserves for excess and obsolete inventory and the write-off of inventory not previously reserved. Gross margin measures our gross profit as a percentage of net sales.

We have an extensive network of third-party manufacturers in China where we purchase finished goods. Over the past three years, we have worked to evolve our supply chain to increase capacity and technical capabilities while maintaining or reducing overall costs as a percentage of sales.

Over the past year, we have improved our gross margin largely through changes in pricing, our product mix, purchasing efficiencies and cost reductions in our supply chain, and expect to continue leveraging our innovation and sourcing capabilities to drive increased margin in future periods.

Selling, general and administrative

Our selling, general and administrative ("SG&A") expenses primarily consist of personnel-related expenses, including salaries, bonuses, fringe benefits and stock-based compensation. See "Critical accounting policies and estimates—Stock-based compensation" below for more detail regarding stock-based compensation. Other significant SG&A expenses include warehousing, freight, advertising, professional fees for accounting, auditing, consulting and legal services, travel and overhead expenses, depreciation of property and equipment and amortization of intangible assets.

SG&A expenses have increased over the past year, primarily due to investments in headcount and investment in our corporate infrastructure to support our continued scale and growth, partially offset by leveraging the balance of our general overhead expenses at a slower pace than net sales.

In the near term, we expect SG&A expense to increase as we invest to support our growth initiatives, including investments in the e.l.f. brand and infrastructure as well as the expansion of our e.l.f. store and international footprints. Additionally, there will also be an increase in our SG&A expenses compared to prior periods due to the reporting and compliance costs associated with being a public company. Over time, we expect our SG&A expenses to grow at a slower rate than our net sales growth as we leverage our past investments.

Interest expense, net

Interest expense primarily consists of cash interest and fees on our outstanding indebtedness. See "Financial condition, liquidity and capital resources" below and a description of our indebtedness in Note 9 to the Notes to consolidated financial statements in Item 15 of this Annual Report.

Other income (expense)

Our purchases are largely in Chinese renminbi ("RMB"), and, as such, we are exposed to periodic fluctuations in that currency. While we do not have an active hedging program, we had a number of legacy exchange rate forward contracts that matured during the year ended December 31, 2016. We do not follow hedge accounting, and therefore the periodic impact of these legacy hedging activities is calculated on a mark-to-market basis. Other income (expense) is primarily a result of changes in the notional value of exchange rate forward contracts outstanding, as well as fluctuations in the exchange rate in the RMB to the U.S. dollar.

Provision for income taxes

The provision for income taxes represents federal, foreign, state and local income taxes. The effective rate differs from statutory rates due to the effect of state and local income taxes, tax rates in foreign jurisdictions and certain permanent tax adjustments. Our effective tax rate will change from quarter to quarter based on recurring and nonrecurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local income taxes, the impact of permanent tax adjustments, tax audit settlements and the interaction of various tax strategies.

Net income (loss)

Our net income (loss) for future periods will be affected by the various factors described above.

Recent transactions and basis of presentation

On January 31, 2014, e.l.f. Beauty, Inc. (the “Successor”) acquired 100% of the outstanding shares of capital stock of e.l.f. Cosmetics, Inc. (the “Predecessor,” formerly known as J.A. Cosmetics US, Inc.) (the “Acquisition”). Accordingly, the accompanying consolidated financial statements presented elsewhere in this Annual Report as of and for the years ended December 31, 2014, 2015 and 2016 reflect periods both prior and subsequent to the Acquisition. The consolidated financial statements for December 31, 2014, 2015 and 2016 are presented separately for the Predecessor period from January 1, 2014 through January 31, 2014 (the “Predecessor 2014 Period”), the Successor period from February 1, 2014 through December 31, 2014 (the “Successor 2014 Period”), the year ended December 31, 2015 and the year ended December 31, 2016, with the periods prior to the Acquisition being labeled as Predecessor and the periods subsequent to the Acquisition labeled as Successor. The financial position and results of the Successor reflect the application of purchase accounting in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 805, Business Combinations (“ASC 805”).

For the purpose of performing a comparison to the year ended December 31, 2015, the Unaudited Pro Forma Combined Period, which corresponds to the year ended December 31, 2014, gives effect to the Acquisition as if it had occurred on January 1, 2014 (the “Unaudited Pro Forma Combined 2014 Period”). The Unaudited Pro Forma Combined 2014 Period discussed herein has been prepared in accordance with Article 11 of Regulation S-X, does not purport to represent what our actual consolidated results of operations would have been had the Acquisition actually occurred on January 1, 2014, nor is it necessarily indicative of future consolidated results of operations. The Unaudited Pro Forma Combined 2014 Period is being discussed herein for informational purposes only and does not reflect any operating efficiencies or potential cost savings that may result from the consolidation of operations.

In preparing the Unaudited Pro Forma Combined 2014 Period, we combined the Predecessor 2014 Period and Successor 2014 Period and adjusted the histo rical results within these periods to give effect to pro forma events that are (i) directly attributable to the Acquisition; (ii) factually supportable; and (iii) expected to have a continuing impact on the combined financial results. The pro forma adjustm ents made to give effect to the Acquisition, as if it had occurred on January 1, 2014, are summarized in the table below:

	Predecessor	Successor			Unaudited pro forma combined
	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Pro forma adjustments		Year ended December 31, 2014
Net sales	$ 9,810	$ 135,134	$ -		$ 144,944
Cost of sales	5,038	73,684	(1,274)	(a)	77,448
Gross profit	4,772	61,450	1,274		67,496
Selling, general, and administrative expenses	3,045	56,103	(7,771)	(b)(c)	51,377
Operating income	1,727	5,347	9,045		16,119
Other income (expense), net	36	(6,633)	-		(6,597)
Interest expense, net	(128)	(11,545)	(873)	(d)	(12,546)
Income (loss) before provision for income taxes	1,635	(12,831)	8,172		(3,024)
Income tax benefit (provision)	(542)	3,545	(2,860)	(e)	143
Net income (loss)	$ 1,093	$ (9,286)	$ 5,312		$ (2,881)

(a) Represents the exclusion of $1.3 million in non-recurring charges recorded in cost of sales from the fair value step-up on inventory related to the Acquisition.

(b) Represents $0.7 million in incremental amortization expense within SG&A related to intangible assets recorded at the time of the Acquisition.

(c) Represents the exclusion of non-recurring items that were directly related to the Acquisition and did not have a continuing impact on the combined pro forma results, including $5.4 million in compensation expense recorded within SG&A associated with a change in control payment to a former employee and $3.1 million in transaction costs recorded within SG&A, including professional fees.

(d) Represents $0.9 million in incremental net interest expense related to new financing facilities.

(e) Represents $2.9 million in incremental tax expense based on statutory rates and associated with the pro forma adjustments.

As the Predecessor and Successor have the same accounting policies, no conforming accounting policy adjustments were necessary. Similarly, no reclassifications were necessary to conform the Predecessor's historical financial statements presentation to that of the Successor.

Seasonality

Our results of operations are subject to seasonal fluctuations, with net sales in the third and fourth fiscal quarters typically being higher than in the first and second fiscal quarters. The higher net sales in our third and fourth fiscal quarters are largely attributable to the increased levels of purchasing by retailers for the holiday season, and adverse events that occur during the third or fourth quarter could have a disproportionate effect on our results of operations for the entire fiscal year. As a result of higher sales during the third and fourth quarters, our working capital needs are greater during the second and third quarters of the fiscal year. Fluctuations throughout the year are also driven by the timing of product restocking or rearrangement by our major customers as well as our expansion into new customers. Because a limited number of our retail customers account for a large percentage of our net sales, a change in the order pattern of one or more of our large retail customers could cause a significant fluctuation of our quarterly results or reduce our liquidity.

Results of operations

The following table sets forth our consolidated statements of operations data in dollars and as a percentage of net sales for the periods presented:

(in thousands)	Predecessor Period from January 1, 2014 through January 31, 2014	Successor Period from February 1, 2014 through December 31, 2014	Unaudited pro forma combined Year ended December 31, 2014	Successor Year ended December 31, 2015	Successor Year ended December 31, 2016
Net sales	$ 9,810	$ 135,134	$ 144,944	$ 191,413	$ 229,567
Cost of sales	5,038	73,684	77,448	91,084	97,332
Gross profit	4,772	61,450	67,496	100,329	132,235
Selling, general, and administrative expenses	3,045	56,103	51,377	74,758	109,156
Operating income	1,727	5,347	16,119	25,571	23,079
Other income (expense), net	36	(6,633)	(6,597)	(4,172)	3,016
Interest expense, net	(128)	(11,545)	(12,546)	(12,721)	(16,283)
Income (loss) before provision for income taxes	1,635	(12,831)	(3,024)	8,678	9,812
Income tax benefit (provision)	(542)	3,545	143	(4,321)	(4,499)
Net income (loss)	$ 1,093	$ (9,286)	$ (2,881)	$ 4,357	$ 5,313

(percentage of net sales)	Predecessor Period from January 1, 2014 through January 31, 2014	Successor Period from February 1, 2014 through December 31, 2014	Unaudited pro forma combined Year ended December 31, 2014	Successor Year ended December 31, 2015	Successor Year ended December 31, 2016
Net sales	100%	100%	100%	100%	100%
Cost of sales	51%	55%	53%	48%	42%
Gross profit	49%	45%	47%	52%	58%
Selling, general, and administrative expenses	31%	42%	35%	39%	48%
Operating income	18%	4%	11%	13%	10%
Other income (expense), net	0%	(5%)	(5%)	(2%)	1%
Interest expense, net	(1%)	(9%)	(9%)	(7%)	(7%)
Income (loss) before provision for income taxes	17%	(9%)	(2%)	5%	4%
Income tax benefit (provision)	(6%)	3%	0%	(2%)	(2%)
Net income (loss)	11%	(7%)	(2%)	2%	2%

Comparison of the year ended December 31, 2016 to the year ended December 31, 2015

Net sales

Net sales increased $38.2 million, or 20%, to $229.6 million in the year ended December 31, 2016, from $191.4 million in the year ended December 31, 2015. The increase was primarily driven by growth in leading national retailers due to incremental increases in shelf space and increased productivity. The year ended December 31, 2015 included the initial sales to establish distribution for a new national retail customer that positively impacted revenue in that period.

Gross profit

Gross profit increased $31.9 million, or 32%, to $132.2 million in the year ended December 31, 2016, from $100.3 million in the year ended December 31, 2015. Increased volume accounted for $20.0 million of the increase in gross profit, with the remaining $11.9 million primarily attributable to margin accretive innovation. Gross margin improved from 52% in the year ended December 31, 2015 to 58% in the year ended December 31, 2016, primarily as a result of margin accretive innovation.

Selling, general and administrative expenses

SG&A expenses increased $34.4 million, or 46%, to $109.2 million in the year ended December 31, 2016, from $74.8 million in the year ended December 31, 2015. SG&A expenses as a percentage of net sales increased to 48% for the year ended December 31, 2016 from 39% in the year ended December 31, 2015. The increase was primarily a result of stock-based compensation expense charges triggered by our initial public offering, warehouse and distribution costs due to the relocation of our distribution center from New Jersey to California and related start-up costs, investments in sales and marketing to support growth, and higher information technology costs to support infrastructure improvements.

Other income (expense), net

Other income (expense) increased $7.2 million to income of $3.0 million in the year ended December 31, 2016 from expense of $4.2 million in the year ended December 31, 2015. The increase was primarily due to favorable currency movements and the maturity of all of our remaining legacy exchange rate forward contracts during 2016.

Interest expense, net

Interest expense increased $3.6 million, or 28%, to $16.3 million in the year ended December 31, 2016, compared to $12.7 million in the year ended December 31, 2015. The increase was primarily due to incremental borrowings under our Term Loan Facility (as defined in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this Annual Report under the heading "Description of indebtedness") related to the June 2016 dividend recapitalization transaction, a prepayment penalty and the write-off of unamortized deferred financing fees associated with the paydown of our Second Lien Term Loan (as defined in Note 1 to the Notes to consolidated financial statements in Item 15 of this Annual Report) in conjunction with our initial public offering, and debt extinguishment costs associated with the refinancing of our Senior Secured Credit Facility in December 2016. This was partially offset by a reduction in interest expense driven by the paydown of our Second Lien Term Loan.

Income taxes

The provision for income taxes increased to $4.5 million, or an effective tax rate of 45.9%, for the year ended December 31, 2016 from $4.3 million, or an effective tax rate of 49.8%, for the year ended December 31, 2015. The change was driven primarily by a $1.1 million increase in pre-tax net income from $8.7 million to $9.8 million, as well as certain discrete items including a benefit from income taxes generated by stock option exercises of $1.6 million and additional tax expense related to deferred tax rate changes of $1.8 million.

Comparison of the year ended December 31, 2015 to the Successor 2014 Period, the Predecessor 2014 Period and the Unaudited Pro Forma Combined Period for the year ended December 31, 2014

The results of operations discussion herein focuses on the comparison of the year ended December 31, 2015 to the Successor 2014 Period, the Predecessor 2014 Period and the Unaudited Pro Forma Combined 2014 Period.

We believe that a discussion of results of operations for the Predecessor 2014 Period and the Successor 2014 Period on a standalone basis is not meaningful as the Acquisition was accounted for as a business combination in accordance with ASC 805, and the resulting new basis of accounting is reflected in the Company's consolidated financial statements for all periods beginning on or after January 31, 2014, and therefore, the two periods are not comparable. Except for the specific pro forma adjustments made to arrive at the Unaudited Pro Forma Combined 2014 Period, the underlying drivers for the change in 2015 compared to 2014, both actual 2014 results and the Unaudited Pro Forma Combined 2014 Period results, are the same. We believe that the comparison of the year ended December 31, 2015 to the Unaudited Pro Forma Combined 2014 Period provides for a more meaningful discussion of the 2015 and 2014 results of operations for potential investors and users of the financial statements.

Net sales

Net sales were $191.4 million for the year ended December 31, 2015, compared to $135.1 million for the Successor 2014 Period and $9.8 million for the Predecessor 2014 Period. This represents a 32% increase compared to the Unaudited Pro Forma Combined 2014 Period. This increase was fairly evenly attributable to expanding space allocation within our existing national retailers and the establishment of additional distribution space resulting from new retailer relationships.

Gross profit

Gross profit increased $32.8 million, or 49%, to $100.3 million for the year ended December 31, 2015 compared to $67.5 million for the Unaudited Pro Forma Combined Period. Increased volume accounted for $21.6 million of the increase in gross profit, with the remaining $11.2 million primarily attributable to favorable sales mix changes. Gross margin improved from 47% for the Unaudited Pro Forma Combined 2014 Period to 52% for the year ended December 31, 2015, primarily as a result of favorable sales mix changes in sales to national retailers.

Selling, general and administrative expenses

SG&A expenses were $74.8 million for the year ended December 31, 2015, compared to $56.1 million for the Successor 2014 Period and $3.0 million for the Predecessor 2014 Period. SG&A expenses increased $23.4 million, or 46%, compared to the Unaudited Pro Forma Combined 2014 Period. As a percentage of net sales, SG&A expenses increased from 35% in the Unaudited Pro Forma Combined 2014 Period to 39% in 2015. The increase was primarily driven by additions to our headcount and bonus incentives, increased warehouse and distribution costs to support revenue growth and incremental marketing and e-commerce costs primarily related to expenditures to support incremental traffic to our e-commerce site.

Other income (expense), net

Other income (expense) was $(4.2 million) for the year ended December 31, 2015, compared to $(6.6 million) for the Successor 2014 Period and $36,000 for the Predecessor 2014 Period. The decrease in expense was primarily due to a $2.8 million reduction in unrealized losses on forward currency contracts and a $3.3 million decrease in transaction losses on foreign currency denominated payables, offset by a $3.7 million increase in realized losses related to settlement of forward currency contracts. These fluctuations are the result of the volatility in the currency exchange market for the RMB as the U.S. dollar strengthened versus the RMB in the respective periods, particularly in the third and fourth quarters of 2015.

Interest expense, net

Interest expense was $12.7 million for the year ended December 31, 2015, compared to $11.5 million for the Successor 2014 Period and $0.1 million for the Predecessor 2014 Period. This increase was due to the new credit facilities entered into as of January 31, 2014 as well as additional borrowings under our Revolving Credit Facility during the year ended December 31, 2015 compared to the Successor 2014 Period.

Income taxes

The effective tax rate changed from 33.1% in the Predecessor 2014 Period to 27.6% in the Successor 2014 Period and 49.8% in the year ended December 31, 2015. The Company realized a benefit from income taxes in the Successor 2014 Period, as a result of a loss before income taxes of $12.8 million. The benefit was reduced by approximately $0.8 million as a result of certain nondeductible transaction-related costs. For the year ended December 31, 2015, the Company recorded a provision for income taxes and the effective tax rate was negatively impacted by an increase in uncertain tax positions of $0.5 million.

Financial condition, liquidity and capital resources

Overview

As of December 31, 2016, we held $15.3 million of cash and cash equivalents. In addition, as of December 31, 2016, we had borrowing capacity of $34.5 million under our Revolving Credit Facility.

Our primary cash needs are for capital expenditures and working capital. Capital expenditures typically vary depending on strategic initiatives selected for the fiscal year, including investments in infrastructure, expansion into new national retailer doors and expansion of our e.l.f. store base. We expect to fund ongoing capital expenditures from cash generated from operations and, if necessary, draws on our Revolving Credit Facility.

Our primary working capital requirements are for product and product-related costs, the payment of payroll, rent, distribution costs and advertising and marketing. Fluctuations in working capital are primarily caused by the timing of when a retailer rearranges or restocks its products, expansion of space within our existing retailer base, expansion into new retail stores and the general seasonality of our business. As of December 31, 2016, we had working capital, excluding cash, of $29.3 million, compared to $10.9 million as of December 31, 2015. Working capital, excluding cash and debt, was $38.0 million and $21.2 million as of December 31, 2016 and December 31, 2015, respectively.

We believe that our operating cash flow and cash on hand will be adequate to meet our operating, investing and financing needs for the next 12 mont hs. If necessary, we may borrow funds under our Revolving Credit Facility to finance our liquidity requirements, subject to customary borrowing conditions. To the extent additional funds are necessary to meet our long-term liquidity needs as we continue to execute our business strategy, we anticipate that they will be obtained through the incurrence of additional indebtedness, equity financings or a combination of these potential sources of funds; however, such financing may not be available on favorable te rms, or at all. Our ability to meet our operating, investing and financing needs depends to a significant extent on our future financial performance, which will be subject in part to general economic, competitive, financial, regulatory and other factors th at are beyond our control, including those described elsewhere in "Risk Factors" in Part I, Item 1A of this Annual Report. In addition to these general economic and industry factors, the principal factors in determining whether our cash flows will be suffi cient to meet our liquidity requirements will be our ability to provide innovative products to our customers and consumers and manage production and our supply chain.

Cash flows

	Predecessor	Successor		
(in thousands)	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2016
Net cash provided by (used in):				
Operating activities	$ 908	$ (8,415)	$ 24,519	$ 2,120
Investing activities	(19)	(239,488)	(10,242)	(9,139)
Financing activities	-	252,571	(4,941)	8,310
Net increase in cash:	$ 889	$ 4,668	$ 9,336	$ 1,291

Operating activities

For the year ended December 31, 2016, net cash provided by operating activities was $2.1 million. This included net income, before deducting depreciation, amortization and other non-cash items, of $11.6 million offset by increases in net working capital of $9.5 million during the period. The increases in net working capital were largely driven by a $38.0 million increase in inventory to support growth in the business and a $15.4 million increase in accounts receivable driven by growth in revenue, partially offset by a $43.1 million increase in accounts payable and accrued expenses due to the increase in inventory purchases and the overall growth in the business.

For the year ended December 31, 2015, net cash provided by operating activities was $24.5 million. This included net income, before deducting depreciation, amortization and other non-cash items, of $18.1 million as well as decreases in net working capital of $6.4 million during this period. The favorable reductions in net working capital were largely driven from an increased focus on working capital optimization and were primarily attributable to a decrease of $4.4 million in accounts receivable, a $0.9 million increase in prepaid expenses and a $4.3 million increase in accounts payable and accrued expenses and other liabilities being only partially offset by a $2.1 million increase in inventories and a $1.1 million decrease in due to related parties during the period.

For the Successor 2014 Period, net cash used in operating activities was $8.4 million. Net income before deducting depreciation, amortization and other non-cash items generated cash of $7.4 million. This was offset by a net increase in working capital of $15.8 million. The net increase in working capital was primarily the result of an $11.0 million increase in accounts receivable, a $4.8 million increase in inventory and a $2.1 million increase in prepaid expenses and other assets. These increases were primarily due to net sales and inventory builds to support ongoing operational demands as the business scaled during this period. The net increase in working capital was partially offset by a $2.1 million aggregate increase in accounts payable, accrued expenses and other liabilities during the period.

For the Predecessor 2014 Period, net cash provided by operating activities was $0.9 million. Net income before deducting depreciation, amortization and other non-cash items generated cash of $3.1 million. This was partially offset by a net increase in working capital of $2.2 million. The most significant drivers of the net increase in working capital were a $5.5 million decrease in accounts receivable being offset by a $1.5 million increase in inventory, a $0.2 million increase in prepaid expenses and other assets and a $6.0 million decrease in accounts payable and accrued expenses during the period.

Investing activities

For the year ended December 31, 2016, net cash used in investing activities was $9.1 million, consisting primarily of purchases of property and equipment related to the build-out of new e.l.f. stores that opened in 2016, as well as fixtures to support new distribution at national retailers.

For the year ended December 31, 2015, net cash used in investing activities was $10.2 million, consisting primarily of purchases of property and equipment to support the continued scaling of our business infrastructure during this period.

For the Successor 2014 Period, net cash used in investing activities was $239.5 million, consisting of $237.9 million used for our Acquisition of the Predecessor and $1.6 million used for purchases of property and equipment during this period.

Financing activities

For the year ended December 31, 2016, net cash provided by financing activities was $8.3 million, primarily driven by $64.1 million of proceeds from the issuance of common stock, including from our initial public offering, and proceeds of $21.2 million from the issuance of additional debt, net of repayments on both our 2014 Term Loan Facility (as defined in Note 1 to the Notes to consolidated financial statements in Item 15 of this Annual Report) and Second Lien Credit Facility, which was repaid in full. This was partially offset by a $68.0 million cash dividend paid to stockholders and $7.7 million of net repayments under our 2014 Revolving Credit Facility (as defined in Note 1 to the Notes to consolidated financial statements in Item 15 of this Annual Report).

For the year ended December 31, 2015, net cash used in financing activities was $4.9 million, primarily driven by net repayments under our 2014 Revolving Credit Facility and our 2014 Term Loan Facility.

For the Successor 2014 Period, net cash provided by financing activities was $252.6 million, consisting of $149.4 million in net proceeds, after issuance costs, from borrowings on our 2014 Senior Secured Credit Facility (as defined in Note 1 to the Notes to consolidated financial statements in Item 15 of this Annual Report), $105.1 million in proceeds from the issuance of our common and preferred stock and a $2.0 million repayment on our long-term debt. The proceeds from the 2014 Senior Secured Credit Facility and the issuance of the common and preferred stock were utilized to finance the Acquisition of the Predecessor during this period.

Description of indebtedness

Senior secured credit facility

On December 23, 2016, we entered into a new five-year, $200.0 million senior secured credit facility with a syndicate consisting of several large financial institutions. The facility consists of a $35.0 million revolving line of credit (the “Revolving Credit Facility”) and a $165.0 million term loan (the “Term Loan Facility”).

All amounts under the Revolving Credit Facility are available for draw until the maturity date on December 23, 2021. The Revolving Credit Facility is collateralized by substantially all of our assets and requires payment of an unused fee ranging from 0.35% to 0.25% (based on our consolidated total net leverage ratio) times the average daily amount of unutilized commitments under the Revolving Credit Facility. The Revolving Credit Facility also provides for sub-facilities in the form of a $7.0 million letter of credit and a $5.0 million swing line loan; however, all amounts under the Revolving Credit Facility cannot exceed $35.0 million. The unused balance of the Revolving Credit Facility as of December 31, 2016 was $34.5 million.

The Term Loan Facility maturity date is also December 23, 2021, and is collateralized by substantially all of our assets. Amortization installment payments on the Term Loan Facility are required to be made in quarterly installments of (i) $2,062,500 for fiscal quarters ending March 31, 2017 through December 31, 2018, (ii) $2,475,000 for fiscal quarters ending March 31, 2019 through December 31, 2019, (iii) $3,093,750 for fiscal quarters ending March 31, 2020 through December 31, 2020 and (iv) $4,125,000 for fiscal quarters ending March 31, 2021 through September 30, 2021. The remaining Term Loan Facility balance is due upon the maturity date. The Term Loan Facility can be prepaid at any time without penalty and is subject to mandatory prepayments when there is (i) excess cash flow, which is defined as EBITDA less certain customary deductions, (ii) non-ordinary course asset dispositions that result in net proceeds in excess of $2.5 million during a year, unless reinvested within twelve months, or (iii) issuance of additional debt.

Both the Revolving Credit Facility and the Term Loan Facility bear interest, at the Company’s option, at either a rate per annum equal to (i) the greater of (x) 3.00% and (y) an adjusted LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for the applicable interest period plus an appl icable margin ranging from 2.00% to 3.50% based on our consolidated total net leverage ratio or (ii) the greater of (x) 2.00% and (y) a floating base rate plus an applicable margin ranging from 1.00% to 2.50% based on our consolidated total net leverage ra tio. The interest rate on both the Revolving Credit Facility and the Term Loan was 4.5% per annum as of December 31, 2016.

We incurred costs directly related to the Senior Secured Credit Facility of $2.3 million, consisting primarily of lender fees of $2.1 million and third-party fees of $0.2 million. These fees were allocated between the Revolving Credit Facility and the Term Loan Facility, with the portion attributable to the Term Loan Facility recorded as a reduction of the carrying amount of the debt and the portion attributable to the Revolving Credit Facility recorded as a noncurrent asset.

The Senior Secured Credit Facility contains a number of covenants that, among other things, restrict our ability to (subject to certain exceptions) pay dividends and distributions or repurchase our capital stock, incur additional indebtedness, create liens on assets, engage in mergers or consolidations and sell or otherwise dispose of assets. The Senior Secured Credit Facility also includes reporting, financial and maintenance covenants that require us to, among other things, comply with certain consolidated total net leverage ratios and consolidated fixed charge coverage ratios. As of December 31, 2015 and 2016, we were in compliance with all financial covenants.

Contractual obligations and commitments

The following table summarizes our contractual obligations as of December 31, 2016 (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Bank debt (1)	$ 165,000	$ 8,250	$ 30,525	$ 126,225	$ -
Interest on bank debt (2)	32,489	7,386	19,742	5,361	-
Operating lease obligations	31,736	4,789	13,551	5,659	7,737
Capital lease obligations (3)	3,356	568	1,506	905	377
Total contractual obligations (4)	$ 232,581	$ 20,993	$ 65,324	$ 138,150	$ 8,114

(1) Long-term debt payments include scheduled principal payments only.

(2) Assumes an annual interest rate of 4.50% on the Senior Secured Credit Facility over the term of the loan.

(3) Includes a $0.3 million residual value guarantee.

(4) We have excluded our liability for uncertain tax positions from the table above because we are unable to make a reasonably reliable estimate of the timing of payments.

Off-balance sheet arrangements

We are not party to any off-balance sheet arrangements.

Critical accounting policies and estimates

Our consolidated financial statements included elsewhere in this Annual Report have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. While our significant accounting policies are more fully described in the Notes to consolidated financial statements in Item 15 of this Annual Report, we believe that the following accounting policies and estimates are critical to our business operations and understanding of our financial results.

Revenue recognition

We recognize revenues when persuasive evidence of an arrangement exists, the product has been shipped, when title passes, when all risks and rewards of ownership have transferred, the sales price is fixed or determinable, and collectability is reasonably assured. Delivery is considered to have occurred at the time the title and risk of loss passes to the customer.

In the normal course of business, we offer various incentives to customers. We maintain a provision for sales discounts, mark downs, shortages and price adjustments, which are reflected as reductions to our net sales. The provision for these reductions is established based on our best estimate at the time of sale. We regularly review and revise, when deemed necessary, our estimat es of sales incentives and other required reserves based primarily upon the historical rate of realization. These revenue reductions are reflected on the consolidated balance sheet as a sales allowance against accounts receivable.

Business combinations

We allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The valuation methodologies used are based on the nature of the asset or liability.

For purposes of our acquisition of the Predecessor, the fair value of the trade name is estimated using the relief from royalty method, an income approach to valuation, which includes projecting net sales and other estimates. Customer relationships are valued based on an estimate of future revenues and costs related to the respective contracts over the remaining expected lives. Favorable leases are recorded based on differences between contractual rents under the respective lease agreements and prevailing market rents at the lease acquisition date.

Determining an acquired intangible asset's useful life requires management judgment and is based on an evaluation of a number of factors, including the expected use of the asset, consumer awareness, trade name history and future expansion expectations, as well as any contractual provisions that could limit or extend an asset's useful life. We estimate the useful lives of the intangible assets based on the expected period over which we anticipate generating economic benefit from the asset. We consider the trade name that we acquired to have an indefinite useful life, based upon its history of strong revenue and cash flow performance, and the intent and our ability to support the trade name with marketplace spending for the foreseeable future.

There were no business combinations in 2016 or 2015.

Impairment of long-lived assets, including goodwill and intangible assets

We assess potential impairments to our long-lived assets, which include property and equipment and amortizable intangible assets, whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairment charges recorded on long-lived assets during the Predecessor 2014 Period, the Successor 2014 Period or the years ended December 31, 2015 or 2016.

Goodwill and indefinite-lived intangibles have been assigned to our reporting units for purposes of impairment testing. Historically we had a single reporting unit for the purpose of performing our goodwill impairment test. During the third quarter of 2015, we made structural and reporting changes to our internal organization. This reorganization aligned the internal management and functional support around our primary sales channels, which report into the chief operating decision maker. These changes resulted in the identification of three reporting units that met the definition in ASC 350, Intangibles—Goodwill and Other, of components of the Company's one operating segment: (i) retail customers; (ii) e.l.f. stores; and (iii) e-commerce. In accordance with ASC 350, on October 1, 2015, we reallocated the goodwill to the three reporting units using a relative fair value approach. As a result of the internal reorganization, we performed a quantitative goodwill impairment test immediately before and a quantitative goodwill impairment test immediately after this change in reporting units and noted no indication of impairment.

The goodwill impairment test consists of a comparison of each reporting unit's fair value to its carrying value. The fair value of a reporting unit is an estimate of the amount for which the unit as a whole could be sold in a current transaction between willing parties. If the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its implied fair value. Fair value of a reporting unit is estimated based on a combination of comparative market multiples and discounted cash flow valuation approaches. We are also permitted to make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying value prior to applying the quantitative assessment. If based on our qualitative assessment it is more likely than not that the carrying value of the reporting unit is less than its fair value, then a quantitative assessment may be required.

We evaluate our indefinite-lived intangible asset to determine whether current events and circumstances continue to support an indefinite useful life. In addition, our indefinite-lived intangible asset is tested for impairment annually. The indefinite-lived intangible asset impairment test consists of a comparison of the fair value of each asset with its carrying value, with any excess of carrying value over fair value being recognized as an impairment loss. We are also permitted to make a qualitative assessment of whether it is more likely than not that an indefinite-lived intangible asset's fair value is less than its carrying value prior to applying the quantitative assessment. If based on our qualitative assessment it is more likely than not that the carrying value of the asset is less than its f air value, then a quantitative assessment may be required.

We have selected October 1 as the date on which to perform our annual impairment tests for goodwill. We also test for impairment whenever events or circumstances indicate that the fair value of such indefinite-lived intangible asset has been impaired. No impairment of goodwill or our indefinite-lived intangible asset was recorded during the Predecessor 2014 Period, the Successor 2014 Period or the years ended December 31, 2015 or 2016 and the fair value of each reporting unit is substantially in excess of its carrying value.

Stock-based compensation

Stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized on a straight-line method over the requisite service period for all awards that vest. We estimate the fair value of employee stock-based payment awards subject to only a service condition on the date of grant using the Black-Scholes valuation model. The Black-Scholes model requires the use of highly subjective and complex assumptions, including the option's expected term and the price volatility of the underlying stock. We estimate the fair value of employee stock-based payment awards subject to both a market condition and the occurrence of a performance condition on the date of grant using a Monte Carlo simulation model that assumes the performance criteria will be met and the target payout levels will be achieved.

Forfeitures were previously estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differed from those estimates. We early adopted Accounting Standards Update ("ASU") 2016-09, *Improvements to Employee Share-Based Payment Accounting* and, effective January 1, 2016, we now account for forfeitures as they occur. We recorded a cumulative-effect adjustment to retained earnings, which was not material, upon early adoption.

We recognize compensation expense for awards with only a service condition on a straight-line basis over the requisite service period, which is generally the award's vesting period. Vesting of these awards was accelerated for certain employees upon the closing of our initial public offering. Compensation expense for employee stock-based awards whose vesting is subject to the fulfillment of both a market condition and the occurrence of a performance condition is recognized on a graded-vesting basis at the time the achievement of the performance condition becomes probable.

The expected stock price volatility for the common stock was estimated by taking the average historic price volatility for industry peers based on daily price observations over a period equivalent to the expected term of the stock option grants. Industry peers consist of several public companies in our industry which are of similar size, complexity and stage of development. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury implied yield at the date of grant. The weighted-average expected term is determined with reference to historical exercise and post-vesting cancellation experience and the vesting period and contractual term of the awards.

Prior to our initial public offering, the fair value of shares of common stock underlying the stock options was determined by our board of directors, with input from management. Because there was no public market for our common stock, the board of directors determined the fair value of common stock at the time of grant by considering a number of objective and subjective factors including independent third-party valuations of our common stock, operating and financial performance, the lack of liquidity of our capital stock and general and industry specific economic outlook, among other factors. For awards granted after our initial public offering, the fair value of our common stock is based on the closing price of our common stock as reported on the date of grant.

Certain management-level employees and directors are permitted to exercise unvested options prior to vesting ("early exercise"). In the event of termination of the option holder's employment or directorship, all unvested shares issued upon the early exercise, so long as they remain unvested, are subject to repurchase by the Company at the lower of the original exercise price or the fair market value of a share of common stock on the date of termination. Early exercises are not considered substantive exercises for accounting purposes. Cash received for the exercise of unvested options is recorded as a liability, which is released to additional paid-in capital at each reporting date as the shares vest.

We have no current plans to pay a regular dividend.

New accounting pronouncements

See Note 2 to the Notes to consolidated financial statements in Item 15 of this Annual Report for information regarding new accounting pronouncements.

JOBS Act

We qualify as an emerging growth company pursuant to the provisions of the JOBS Act. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. We have opted out of the extended transition period with respect to new or revised accounting standards and, as a result, we comply with any such new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies.

Item 7A. Quantitative and qualitative disclosures about market risk.

We are exposed to certain market risks arising from transactions in the normal course of our business. Such risk is principally associated with interest rates and foreign exchange.

Interest rate risk

We are exposed to changes in interest rates because the indebtedness incurred under our Senior Secured Credit Facility is variable rate debt. Interest rate changes generally do not affect the market value of our Senior Secured Credit Facility; however, they do affect the amount of our interest payments and, therefore, our future earnings and cash flows. As of December 31, 2016, we had variable rate debt of $162.6 million under our Senior Secured Credit Facility. A hypothetical interest rate increase of 1% would result in an approximately $1.7 million increase in interest expense on an annualized basis.

Foreign exchange risk

We are exposed to foreign exchange risk as we have contracts with suppliers in China for future purchases of inventories denominated in RMB. We do not have an active hedging program, and all of our legacy exchange rate forward contracts matured in 2016. We neither used these foreign currency forward contracts for trading purposes nor did we follow hedge accounting, and therefore the periodic impact of these legacy hedging activities was calculated on a mark-to-market basis. Accordingly, the foreign currency forward contracts were carried at their fair value either as an asset or liability on the consolidated balance sheet with changes in fair value being recorded in other income (expense), net in our consolidated statements of operations.

Foreign currency translation exposure from a 10% movement of currency exchange rates would have a material impact on our reported cost of sales and net income. Based on a hypothetical 10% adverse movement in RMB, our cost of sales and net income would be adversely affected by approximately $10.1 million (excluding any offsetting positive impact from our historical hedging programs), although the actual effects may differ materially from the hypothetical analysis.

Item 8. Financial statements and supplementary data.

Reference is made to the Index to Consolidated Financial Statements on page F-1 hereof, which is filed as part of this Annual Report.

Item 9. Changes in and disagreements with accountants on accounting and financial disclosure.

None.

Item 9A. Controls and procedures.

Evaluation of disclosure controls and procedures

We have established disclosure controls and procedures to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to the officers who certify our financial reports and to the members of the Company’s senior management and board of directors as appropriate to allow timely decisions regarding required disclosure.

Based on management’s evaluation as of December 31, 2016, our Chief Executive Officer and Chief Financial Officer have concluded that our disc losure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective at the reasonable assurance level to ensure that the information required to be disclosed by us in our reports that we file or submit under th e Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Fina ncial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s annual report on internal control over financial reporting

This Annual Report does not include a report of management's assessment regarding internal control over financial reporting due to a transition period established by the SEC for newly public companies.

In addition, because we are an "emerging growth company" under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting for so long as we are an emerging growth company.

Changes in internal control over financial reporting

There were no changes to our internal control over financial reporting that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other information.

None.

PART III

Item 10. Directors, executive officers and corporate governance.

The information required by this Item 10 is incorporated by reference from the information appearing under the headings “Proposal No. 1 – Election of Directors,” “Board of Directors and Corporate Governance,” “Executive Officers” and “Section 16(a) Beneficial Ownership Reporting Compliance” that will be contained in the Definitive Proxy Statement for our 2017 Annual Meeting of Stockholders (the “Proxy Statement”).

Item 11. Executive compensation.

The information required by this Item 11 is incorporated by reference from the information appearing under the headings “Board of Directors and Corporate Governance,” “Executive Compensation” and “Certain Relationships and Related Party Transactions” that will be contained in the Proxy Statement.

Item 12. Security ownership of certain beneficial owners and management and related stockholder matters.

The information required by this Item 12 is incorporated by reference from the information appearing under the heading “Stock Ownership of Certain Beneficial Owners, Directors and Executive Officers” that will be contained in the Proxy Statement.

Item 13. Certain relationships and related transactions, and director independence.

The information required by this Item 13 is incorporated by reference from the information appearing under the heading “Certain Relationships and Related Party Transactions” and information regarding director independence appearing under the heading “Board of Directors and Corporate Governance” that will be contained in the Proxy Statement.

Item 14. Principal accounting fees and services.

The information required by this Item 14 is incorporated by reference from the information appearing under the headings “Proposal No. 2 – Ratification of the Appointment of Independent Registered Public Accounting Firm” that will be contained in the Proxy Statement.

PART IV

Item 15. Exhibits, financial statement schedules.

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

1. Consolidated financial statements:

Reference is made to the Index to Consolidated Financial Statements on page F-1 hereof, which is incorporated by reference herein.

2. Financial statement schedule:

All schedules are omitted because the required information is either not present, not present in material amounts or presented within our consolidated financial statements and notes thereto beginning on page F-1 hereof and are incorporated herein by reference.

3. Exhibits

The Exhibit index of this Annual Report is incorporated by reference herein.

Item 16. Form 10-K summary.

None.

SIGNA TURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

e.l.f. Beauty, Inc.

March 15, 2017	By:	/s/ Tarang P. Amin
Date		Tarang P. Amin Chairman, Chief Executive Officer and Director
March 15, 2017	By:	/s/ John P. Bailey
Date		John P. Bailey President and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Tarang P. Amin, John P. Bailey and Scott K. Milsten, and each of them acting individually, as his or her true and lawful attorneys-in-fact and agents, each with full power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, with full power of each to act alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN W ITNESS WHEREOF, each of the undersigned has executed this Power of Attorney as of the date indicated opposite his or her name.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ Tarang P. Amin **Tarang P. Amin**	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	March 15, 2017
/s/ John P. Bailey **John P. Bailey**	President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2017
/s/ Lauren Cooks Levitan **Lauren Cooks Levitan**	Director	March 15, 2017
/s/ William E. McGlashan, Jr. **William E. McGlashan, Jr.**	Director	March 15, 2017
/s/ Kirk L. Perry **Kirk L. Perry**	Director	March 15, 2017
/s/ Sabrina L. Simmons **Sabrina L. Simmons**	Director	March 15, 2017
/s/ Maureen C. Watson **Maureen C. Watson**	Director	March 15, 2017
/s/ Richard G. Wolford **Richard G. Wolford**	Director	March 15, 2017

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of independent regist ered public accounting firm

To the Board of Directors and Stockholders of e.l.f. Beauty, Inc.
Oakland, California

We have audited the accompanying consolidated balance sheets of e.l.f. Beauty, Inc. and subsidiaries (the “Company”) as of December 31, 2016 and 2015 (Successor), and the related consolidated statements of operations and comprehensive income (loss), preferred stock and stockholders’ equity (deficit), and cash flows for the period from January 1, 2014 through January 31, 2014 (Predecessor), the period from February 1, 2014 through December 31, 2014 (Successor), the year ended December 31, 2015 and the year ended December 31, 2016. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of e.l.f. Beauty, Inc. and subsidiaries as of December 31, 2016 and 2015 (Successor), and the results of their operations and their cash flows for the period from January 1, 2014 through January 31, 2014 (Predecessor), the period from February 1, 2014 through December 31, 2014 (Successor) the year ended December 31, 2015 and the year ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

San Francisco, CA
March 15, 2017

e.l.f. Beauty, Inc. and subsidiaries
Consolidated balance sheets
(in thousands, except share and per share data)

	December 31, 2015	December 31, 2016
Assets		
Current assets:		
Cash	$ 14,004	$ 15,295
Accounts receivable, net	22,475	37,825
Inventories	31,261	69,397
Prepaid expenses and other current assets	2,978	2,387
Total current assets	70,718	124,904
Property and equipment, net	9,854	17,151
Intangible assets, net	121,282	113,003
Goodwill	157,264	157,264
Other assets	1,954	2,407
Total assets	$ 361,072	$ 414,729
Liabilities, convertible preferred stock and stockholders' equity (deficit)		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 10,325	$ 8,650
Accounts payable	11,114	37,944
Accrued expenses and other current liabilities	13,713	33,676
Foreign currency forward contracts	10,702	-
Total current liabilities	45,854	80,270
Long-term debt and capital lease obligations	134,594	156,177
Deferred tax liabilities	42,126	34,212
Other long-term liabilities	1,601	3,208
Total liabilities	224,175	273,867
Commitments and contingencies (Note 10)		
Convertible preferred stock, par value of $0.01 per share; 200,000 shares authorized and 135,041 shares issued and outstanding as of December 31, 2015; liquidation preference of $197,295 as of December 31, 2015; no shares authorized, issued or outstanding as of December 31, 2016	197,295	-
Stockholders' equity (deficit):		
Preferred stock, par value of $0.01 per share; no shares authorized, issued or outstanding as of December 31, 2015; 30,000,000 shares authorized as of December 31, 2016; no shares issued and outstanding as of December 31, 2016	-	-
Common stock, par value of $0.01 per share; 13,800,000 and 250,000,000 shares authorized as of December 31, 2015 and December 31, 2016, respectively; 34,493 and 45,276,137 shares issued and outstanding as of December 31, 2015 and December 31, 2016, respectively	-	438
Additional paid-in capital	6,785	700,871
Accumulated deficit	(67,183)	(560,447)
Total stockholders' equity (deficit)	(60,398)	140,862
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	$ 361,072	$ 414,729

The accompanying notes are an integral part of these consolidated financial statements.

e.l.f. Beauty, Inc. and subsidiaries
Consolidated statements of operations and comprehensive income (loss)
(in thousands, except share and per share data)

	Predecessor	Successor		
	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2016
Net sales	$ 9,810	$ 135,134	$ 191,413	$ 229,567
Cost of sales	5,038	73,684	91,084	97,332
Gross profit	4,772	61,450	100,329	132,235
Selling, general, and administrative expenses	3,045	56,103	74,758	109,156
Operating income	1,727	5,347	25,571	23,079
Other income (expense), net	36	(6,633)	(4,172)	3,016
Interest expense, net	(128)	(11,545)	(12,721)	(16,283)
Income (loss) before provision for income taxes	1,635	(12,831)	8,678	9,812
Income tax benefit (provision)	(542)	3,545	(4,321)	(4,499)
Net income (loss)	$ 1,093	$ (9,286)	$ 4,357	$ 5,313
Comprehensive income (loss)	$ 1,093	$ (9,286)	$ 4,357	$ 5,313
Net income (loss) per share (Note 16):				
Basic	$ 1,093.00	$ (709.35)	$ (1,559.81)	$ (39.47)
Diluted	$ 1,087.56	$ (709.35)	$ (1,559.81)	$ (39.47)
Weighted average shares outstanding (Note 16):				
Basic	1,000	27,593	30,523	12,606,529
Diluted	1,005	27,593	30,523	12,606,529

The accompanying notes are an integral part of these consolidated financial statements.

e.l.f. Beauty, Inc. and subsidiaries
Consolidated statements of con vertible preferred stock and stockholders’ equity (deficit)
(in thousands, except share data)

	Convertible preferred stock		Common stock		Employee note receivable	Additional paid-in capital	Retained earnings	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Predecessor:								
Balance as of January 1, 2014	1,000	$ -	1,000	$ -	$ -	$ (3,928)	$ 15,509	$ 11,581
Net income	-	-	-	-	-	-	1,093	1,093
Balance as of January 31, 2014	1,000	$ -	1,000	$ -	$ -	$ (3,928)	$ 16,602	$ 12,674

	Convertible preferred stock		Common stock		Employee note receivable	Additional paid-in capital	Retained earnings (accumulated deficit)	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount				
Successor:								
Balance as of February 1, 2014	-	$ -	-	$ -	$ -	$ -	$ -	$ -
Net loss	-	-	-	-	-	-	(9,286)	(9,286)
Issuance of common stock for JACUS acquisition	-	-	27,593	-	-	100	-	100
Issuance of preferred stock	135,041	135,041	-	-	-	-	-	-
Convertible preferred stock accretion	-	10,287	-	-	-	-	(10,287)	(10,287)
Compensation expense paid to seller	-	-	-	-	-	5,380	-	5,380
Stock-based compensation	-	-	-	-	-	287	-	287
Balance as of December 31, 2014	135,041	145,328	27,593	-	-	5,767	(19,573)	(13,806)
Net income	-	-	-	-	-	-	4,357	4,357
Convertible preferred stock accretion	-	51,967	-	-	-	-	(51,967)	(51,967)
Compensation expense paid to seller	-	-	-	-	-	489	-	489
Stock-based compensation	-	-	-	-	-	503	-	503
Exercise of stock options	-	-	6,900	-	-	25	-	25
Balance as of December 31, 2015	135,041	197,295	34,493	-	-	6,785	(67,183)	(60,398)
Net income	-	-	-	-	-	-	5,313	5,313
Stock-based compensation	-	-	-	-	-	7,149	-	7,149
Dividend paid	-	-	-	-	-	(9,801)	(62,259)	(72,060)
Issuance of employee note receivable	-	-	-	-	(11,932)	-	-	(11,932)
Accrued interest on employee note receivable	-	-	-	-	(39)	39	-	-
Repayment of employee note receivable	-	-	-	-	11,971	-	-	11,971
Convertible preferred stock accretion	-	436,317	-	-	-	-	(436,317)	(436,317)
Conversion of preferred stock	(135,041)	(633,612)	37,271,375	372	-	633,240	-	633,612
Issuance of common stock upon initial public offering	-	-	4,000,000	40	-	63,200	-	63,240
Vesting of early exercised stock options	-	-	2,169,003	22	-	7,837	-	7,859
Exercise of stock options	-	-	278,440	3	-	828	-	831
Deferred offering costs	-	-	-	-	-	(8,406)	-	(8,406)
Balance as of December 31, 2016	-	$ -	43,753,311	$ 438	$ -	$ 700,871	$ (560,447)	140,862

The accompanying notes are an integral part of these consolidated financial statements.

e.l.f. Beauty, Inc. and subsidiaries
Consolidated statements of cash flows
(in thousands)

	Predecessor	Successor		
	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2016
Cash flows from operating activities:				
Net income (loss)	$ 1,093	$ (9,286)	$ 4,357	$ 5,313
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Amortization of intangible assets	11	7,552	8,246	8,279
Depreciation of property and equipment	30	392	2,043	4,873
Stock-based compensation expense	-	287	503	7,149
Amortization of debt issuance costs and discount on debt	15	994	1,070	1,281
Deferred income taxes	1,967	(4,276)	(3,933)	(7,575)
Loss on extinguishment of debt	-	-	-	2,736
Loss on disposal of fixed assets	-	71	571	260
Compensation expense paid to seller	-	5,380	489	-
Loss/(gain) on foreign currency forward contracts	-	5,961	4,741	(10,702)
Other, net	-	341	23	(13)
Changes in operating assets and liabilities:				
Accounts receivable	5,492	(10,980)	4,448	(15,392)
Inventories	(1,455)	(4,752)	(2,147)	(37,994)
Prepaid expenses and other assets	(237)	(2,146)	943	(635)
Accounts payable and accrued expenses	(6,032)	1,904	3,532	43,144
Other liabilities	2	232	787	1,396
Due to related parties	22	(89)	(1,154)	-
Net cash provided by (used in) operating activities	908	(8,415)	24,519	2,120
Cash flows from investing activities:				
Acquisition, net of cash acquired	-	(237,891)	-	-
Purchase of property and equipment	(19)	(1,597)	(10,142)	(9,223)
Proceeds from sale of property and equipment	-	-	-	84
Acquisition of intangible assets	-	-	(100)	-
Net cash used in investing activities	(19)	(239,488)	(10,242)	(9,139)
Cash flows from financing activities:				
Proceeds from revolving line of credit	-	15,250	27,150	5,500
Repayment of revolving line of credit	-	(5,600)	(29,100)	(13,200)
Proceeds from long term debt	-	145,000	-	172,749
Repayment of long term debt	-	(1,969)	(2,625)	(151,540)
Cash received from issuance of common stock	-	100	25	64,071
Cash received from issuance of preferred stock	-	105,041	-	-
Deferred offering costs paid	-	-	(391)	(7,821)
Proceeds from repayment of employee note receivable	-	-	-	7,912
Dividend paid	-	-	-	(68,000)
Debt issuance costs paid	-	(5,251)	-	(704)
Other, net	-	-	-	(657)
Net cash provided by (used in) financing activities	-	252,571	(4,941)	8,310
Net increase in cash	889	4,668	9,336	1,291
Cash - beginning of period	6,934	-	4,668	14,004
Cash - end of period	$ 7,823	$ 4,668	$ 14,004	$ 15,295

Supplemental disclosure of cash flow information:				
Cash paid for interest	-	10,544	11,617	12,170
Cash paid for income taxes	-	3,948	7,790	8,466
Supplemental disclosure of noncash investing and financing activities:				
Accretion of preferred stock to maximum redemption value	-	10,287	51,967	436,317
Deferred offering costs included in accounts payable and accrued expenses	-	-	829	193
Property and equipment acquired under capital leases	-	-	-	3,000
Property and equipment purchases included in accounts payable and accrued expenses	-	-	200	491
Vesting of shares related to early exercise of common stock options	-	-	-	7,859
Note receivable issued to finance early exercise of common stock	-	-	-	(11,971)
Net repayment of note receivable with dividend proceeds	-	-	-	4,060

The accompanying notes are an integral part of these consolidated financial statements.

Note 1—Natur e of operations

e.l.f. Beauty, Inc. and subsidiaries (the "Company," "Successor," "we," "us," "its" and "our") was formed as a Delaware corporation on December 20, 2013 under the name J.A. Cosmetics Holdings, Inc. In April 2016, the Company changed its name to e.l.f. Beauty, Inc. The Company conducts business under the name e.l.f. Cosmetics, and offers high-quality, prestige-inspired beauty products for eyes, lips and face to consumers through its retail customers, e.l.f. stores and e-commerce channels.

On September 19, 2016, the Company amended and restated its certificate of incorporation to effect a 2.76:1 forward stock split of the Company's common stock, increase the number of shares of common stock authorized for issuance to 250.0 million, provide for conversion of preferred stock into common stock prior to its initial public offering and at a ratio that has been adjusted to reflect the effects of the stock split and to address a variety of other corporate governance matters. There was no change in the par value of the Company's common stock. All common shares, stock options and per share information presented in the financial statements have been adjusted to reflect the stock split on a retroactive basis for all periods presented.

Recapitalization

In conjunction with the Company's acquisition of e.l.f. Cosmetics, Inc. on January 31, 2014, described further in Note 2, the Company entered into a five-year, senior secured credit agreement (as amended, the "2014 Senior Secured Credit Facility") with a syndicate consisting of several large financial institutions. The 2014 Senior Secured Credit Facility originally consisted of a $20.0 million revolving line of credit (the "2014 Revolving Credit Facility") and a $105.0 million term loan facility (the "2014 Term Loan Facility"). Concurrent with the Company's entry into the 2014 Senior Secured Credit Facility, and as amended in conjunction with the special dividend declared on June 7, 2016 as described below, the Company entered into a second lien credit agreement (as amended, the "Second Lien Credit Facility") that provided a $40.0 million second lien term loan (the "Second Lien Term Loan").

On June 7, 2016, the Company incurred an incremental $64.0 million in term loan borrowings under the 2014 Senior Secured Credit Facility to fund, in part, the payment of a $72.0 million special dividend to stockholders, and increased the total availability under the 2014 Revolving Credit Facility to $25.0 million. In connection with the incremental borrowings, certain covenants were amended to reflect the increased leverage. All common stockholders, including individuals that received shares of restricted common stock in connection with the early exercise of certain unvested stock options, received a dividend of $1.79 per share. The $4.1 million dividend paid to restricted common stockholders was immediately used to pay down outstanding notes receivable from such common stockholders pursuant to the underlying recourse note agreements. Accordingly, the net cash outflow related to the dividend was $68.0 million.

Finally, in connection with the special dividend, the Company modified all stock options outstanding and reduced the exercise price by $1.79 per share in order to protect the option holders from dilution that would have otherwise resulted from the dividend recapitalization transaction. This constituted a modification in accordance with Accounting Standards Codification ("ASC") 718, *Compensation-stock compensation* . The incremental compensation expense related to the modification was approximately $2.7 million and is being recognized over the original requisite service period for each modified option.

Initial public offering

On September 27, 2016, the Company completed the initial public offering of 9,583,333 shares of its common stock, including the underwriters' exercise of their overallotment option, at an initial offering price to the public of $17.00 per share, for aggregate gross proceeds of $162.9 million. The Company received net proceeds of $54.9 million, after deducting underwriting discounts and commissions and other offering expenses, including offering expenses paid prior to the initial public offering. The Company did not receive any proceeds from the sale of 5,583,333 shares of its common stock by the existing stockholders in the initial public offering. As part of the initial public offering, the outstanding shares of the Company's convertible preferred stock were converted into an aggregate of 37,271,375 shares of common stock.

The shares offered and sold in the initial public offering were registered under the Securities Act of 1933, as amended, pursuant to the Company's Registration Statement on Form S-1 (Registration No. 333-213333), which was declared effective by the Securities and Exchange Commission on September 21, 2016. The common stock began trading on the New York Stock Exchange on September 22, 2016 under the symbol "ELF."

Note 2—Summary of significant accounting policies

Basis of presentation

On January 31, 2014, the Company acquired 100% of the outstanding shares of capital stock of e.l.f. Cosmetics, Inc. and its subsidiaries (the "Predecessor," formerly known as J.A. Cosmetics, Inc., or "JACUS"), a developer and marketer of branded value-priced cosmetics, from J.A. Cosmetics Corporation, TSG5 L.P., a private equity fund, and its co-investors (together, the "Sellers") (the "Acquisition"). The Acquisition was accounted for as a business combination in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, Business Combinations ("ASC 805"), and the resulting new basis of accounting is reflected in the Company's consolidated financial statements for all periods beginning on or after January 31, 2014. As a result, financial information of the Predecessor and Successor periods have been prepared under two different bases of accounting and therefore are not comparable.

The accompanying consolidated financial statements of the Company include all the accounts of e.l.f. Beauty, Inc. and its subsidiaries for periods designated as "Successor" and relate to periods after the Acquisition. The Company had no operations from December 20, 2013 to the date of the Acquisition. The period from January 1, 2014 through January 31, 2014 relates to the period prior to the Acquisition, includes all the accounts of e.l.f. Cosmetics, Inc. and its subsidiaries, and is referred to herein as the "Predecessor 2014 Period." The period from February 1, 2014 through December 31, 2014 is referred to as the "Successor 2014 Period."

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and all intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid investments purchased with maturities of three months or less.

Accounts receivable

Trade receivables consist of uncollateralized, non-interest bearing customer obligations from transactions with retail customers, reduced by an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make payments. The allowance is based on the evaluation and aging of past due balances, specific exposures, historical trends and economic conditions. The Company writes off accounts receivable against the allowance when a balance is determined to be uncollectible. Recoveries of receivables previously written off are recorded when received. As of December 31, 2015 and 2016, the Company recorded an allowance for doubtful accounts of $40,000 and $0.1 million, respectively. The Company recorded a sales allowance of $3.9 million and $11.9 million as of December 31, 2015 and 2016, respectively, which is also presented as a reduction to accounts receivable. The Company grants credit terms in the normal course of business to its customers. Trade credit is extended based upon an evaluation of each customer's ability to perform its payment obligations.

Concentrations of credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents, foreign currency forward contracts and trade receivables. Although the Company deposits its cash with creditworthy financial institutions, its deposits, at times, may exceed federally insured limits. To date, the Company has not experienced any losses on its cash deposits. Foreign currency forward contracts are transacted with creditworthy financial institutions, and no collateral is required. The Company performs credit evaluations of its customers, and the risk with respect to trade receivables is further mitigated by the short duration of customer payment terms and the pedigree of the customer base.

During the Predecessor 2014 Period, the Successor 2014 Period, and the year ended December 31, 2016, two customers individually accounted for greater than 10% of the Company's revenue. During the year ended December 31, 2015, three customers indivi dually accounted for greater than 10% of the Company's revenue, as disclosed below:

	Predecessor	Successor		
	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2015	2016
Customer A	30%	30%	28%	28%
Customer B	17%	19%	23%	30%
Customer C	*	*	10%	*

* Customer comprised less than 10% of net revenue in the period.

Two customers individually accounted for greater than 10% of the Company's accounts receivable at the end of the periods presented:

	December 31, 2015	December 31, 2016
Customer A	35%	42%
Customer B	21%	23%

Inventory

Inventory, consisting principally of finished goods, is stated at the lower of cost or market. Cost is principally determined by the first-in, first-out method. A provision is recorded to adjust inventory to its estimated realizable value when inventory is determined to be in excess of anticipated demand. In the Predecessor 2014 Period, the Successor 2014 Period, and the years ended December 31, 2015 and 2016, the Company incurred insignificant inventory write-downs.

Property and equipment

Property and equipment is stated at cost and is depreciated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the useful lives of the assets. Repairs and maintenance expenditures are expensed as incurred.

Useful lives by major asset class are as follows:

	Estimated useful lives
Machinery, equipment and software	3-5 years
Leasehold improvements	5 years
Furniture and fixtures	2-5 years
Store fixtures	2-3 years

The Company evaluates events and changes in circumstances that could indicate carrying amounts of long-lived assets, including property and equipment, may not be recoverable. When such events or changes in circumstances occur, the Company assesses the recoverability of long-lived assets by determining whether or not the carrying value of such assets will be recovered through undiscounted future cash flows derived from their use and eventual disposition. If the sum of the undiscounted future cash flows is less than the carrying amount of an asset, the Company records an impairment loss for the amount by which the carrying amount of the assets exceeds its fair value. There were no impairment charges recorded in the Predecessor 2014 Period, the Successor 2014 Period or the years ended December 31, 2015 or 2016.

Goodwill and intangible assets

Goodwill represents the excess purchase price for the Acquisition over the fair value of the net assets acquired. As part of the Acquisition, the Company also acquired finite-lived intangible assets (customer relationships and favorable leases) and an indefinite-lived intangible asset (trademark).

Goodwill is not amortized but rather is reviewed annually for impairment, at the reporting unit level, or when there is evidence that events or changes in circumstances indicate that the Company's carrying amount may not be recovered. When testing goodwill for impairment, the Company first performs an assessment of qualitative factors. If qualitative factors indicate that it is more likely than not that the fair value of the relevant reporting unit is less than its carrying amount, the Company tests goodwill for impairment at the reporting unit level using a two-step approach. In step one, the Company determines if the fair value of the reporting unit exceeds the unit's carrying value. If step one indicates that the fair value of the reporting unit is less than its carrying value, the Company performs step two, determining the fair value of goodwill and, if the carrying value of goodwill exceeds its implied fair value, an impairment charge is recorded.

Historically the Company had a single reporting unit for the purpose of performing its goodwill impairment test. During the third quarter of 2015, the Company made structural and reporting changes to its internal organization. This reorganization aligned the internal management and functional support around the Company's primary sales channels which report into the chief operating decision maker. These changes resulted in the identification of three reporting units that met the definition in ASC 350, Intangibles—Goodwill and Other, of components of the Company's one operating segment: (i) retail customers, (ii) e.l.f. stores, and (iii) e-commerce. In accordance with ASC 350, on October 1, 2015, the Company reallocated the goodwill to the three reporting units using a relative fair value approach. As a result of the internal reorganization, the Company also performed a goodwill impairment test both immediately before and after this change in reporting units and concluded that no impairment existed.

Indefinite-lived intangible assets are not amortized but rather are tested for impairment annually, and impairment is recognized if the carrying amount exceeds the fair value of the intangible asset. The remaining useful life of the indefinite-lived intangible asset is evaluated each reporting period, and when the useful life is no longer considered to be indefinite, the intangible asset is amortized over its remaining useful life on a straight-line basis. Amortization of intangible assets with finite useful lives is computed on a straight-line basis over periods of three to 10 years. The determination of the estimated period of benefit is dependent upon the use and underlying characteristics of the intangible asset. The Company evaluates the recoverability of its intangible assets subject to amortization when facts and circumstances indicate that the carrying value of the asset may not be recoverable. If the carrying value of an intangible asset is not recoverable, impairment loss is measured as the amount by which the carrying value exceeds its estimated fair value.

Deferred initial public offering costs

Deferred offering costs, which primarily consist of direct incremental legal and accounting fees relating to the initial public offering, were capitalized and $8.4 million such costs were offset against proceeds from our initial public offering in September 2016. As of December 31, 2015, $1.2 million of offering costs were deferred in other assets on the consolidated balance sheets. No deferred offering costs were capitalized as of December 31, 2016.

Debt issuance costs

Debt issuance costs and lender fees were incurred for arranging the credit facilities from various financial institutions. For credit facilities consisting of both term and revolving debt, such costs are allocated to each sub-facility based upon the total borrowing capacity. For term debt, issuance costs are presented within the related long-term debt liability on the consolidated balance sheet and lender fees are presented as a direct deduction from the carrying amount. Both debt issuance costs and lender fees are amortized over the term of the related debt using the effective interest rate method. For revolving debt, issuance costs and lender fees are presented as a noncurrent asset and amortized over the term of the related debt on a straight-line basis.

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses approximate their fair values due to the short-term nature of these items. The carrying amounts reported for bank debt approximate their fair values as the stated interest rates approximate market rates currently available to the Company for loans with similar terms. See Note 7—Fair value of financial instruments.

Segment reporting

Operating segments are components of an enterprise for which separate financial information is available that is evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Utilizing these criteria, the Company manages its business on the basis of one operating segment and one reportable segment. It is impracticable for the Company to provide revenue by product line.

During the Predecessor 2014 Period, the Successor 2014 Period and the years ended December 31, 2015 and 2016, net sales in the United States and outside of the United States were as follows (in thousands):

	Predecessor	Successor		
	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2016
U.S.	$ 9,334	$ 122,317	$ 178,817	$ 210,236
International	476	12,817	12,596	19,331
Total net sales	$ 9,810	$ 135,134	$ 191,413	$ 229,567

As of December 31, 2015 and December 31, 2016, the Company had long-lived assets in the United States and outside of the United States as follows (in thousands):

	December 31, 2015	December 31, 2016
U.S.	$ 9,230	$ 16,757
International	624	394
Total long-lived assets	$ 9,854	$ 17,151

Revenue recognition

Revenue consists of sales of cosmetics through retail customers, e.l.f. stores and e-commerce channels. Sales are recognized when persuasive evidence of an arrangement exists, the product has shipped, title has passed, all risks and rewards of ownership have transferred, the sales price is fixed or determinable and collectability is reasonably assured. Delivery is considered to have occurred at the time the title and risk of loss passes to the customer.

For sales to retail customers, delivery is considered to have occurred at the time of shipment or the time of delivery depending upon the specific terms of the customer arrangement. For sales to e-commerce consumers, delivery is considered to have occurred at the time of delivery of merchandise to the customer.

Revenue from sales to consumers through e.l.f. stores is recognized at the time of purchase. Revenue recognized through e.l.f. store and e-commerce sales channels is recognized net of any taxes that are collected from consumers and subsequently remitted to governmental authorities, such as sales, use and value added taxes.

Provision for sales discounts, product returns, markdowns, shortages and price adjustments are recorded as revenue reductions. These revenue reductions are established by the Company based upon management’s best estimates at the time of sale. The Company regularly reviews and revises, when deemed necessary, its estimates of sales returns and other required reserves based primarily upon the historical rate of actual product returns and the duration of time between the original sale and return. These revenue reductions are reflected on the consolidated balance sheet as a sales allowance against accounts receivable.

A reconciliation of the beginning and ending amounts of sales allowances for the Predecessor 2014 Period, the Successor 2014 Period and the years ended December 31, 2015 and 2016 is as follows (in thousands):

Balance as of January 1, 2014 (Predecessor)	$ 2,411
Charges	306
Deductions	(1,092)
Balance as of January 31, 2014 (Predecessor)	1,625
Charges	6,408
Deductions	(6,068)
Balance as of December 31, 2014 (Successor)	1,965
Charges	13,903
Deductions	(12,002)
Balance as of December 31, 2015 (Successor)	3,866
Charges	24,427
Deductions	(16,366)
Balance as of December 31, 2016 (Successor)	$ 11,927

In the Predecessor 2014 Period, the Successor 2014 Period, and the years ended December 31, 2015 and 2016, the Company recorded $0.5 million, $4.0 million, $3.6 million and $1.4 million, respectively, of reimbursed shipping expenses from customers within revenues. The shipping and handling costs associated with product distribution were $0.9 million, $8.3 million, $12.6 million and $20.4 million in the Predecessor 2014 Period, the Successor 2014 Period and the years ended December 31, 2015 and 2016, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Future income tax benefits are recognized to the extent that realization of such benefits is more likely than not. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in its income tax provision.

Leases

The Company leases office space, warehouse and retail store locations, equipment and software. At the inception of each lease, the Company determines its classification as an operating or capital lease. Assets held under capital leases are included in property and equipment. Operating leases are expensed on a straight-line basis over the life of the lease, beginning on the date the Company takes possession of the leased asset.

Certain leases provide for rent abatements or scheduled increases in base rent. Rent expense is recognized on a straight-line basis over the lease term, which results in deferred rent payable being recognized on the consolidated balance sheet. As part of its lease agreements, the Company may receive construction allowances from landlords for tenant improvements. These leasehold improvements made by the Company are capitalized and amortized over the shorter of the lease term or five years. The construction allowances are recorded as deferred rent and amortized on a straight-line basis over the lease term as a reduction of rent expense.

Foreign currency

The functional currency of the Company's foreign subsidiaries is the U.S. dollar. Transactions denominated in currencies other than the functional currency are recorded at exchange rates in effect on the date of the transaction. At the end of each reporting period, monetary assets and liabilities are remeasured to the functional currency using exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical exchange rates. Transaction gains or losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in other income (expense), net in the consolidated statements of operations.

Derivative instruments

The Company is exposed to foreign exchange risk as it has contracts with suppliers in China for future purchases of inventories denominated in the Chinese renminbi ("RMB"). The Company has previously used derivative instruments, specifically forward contracts, to mitigate the impact of foreign currency fluctuations on a portion of its forecasted foreign currency exposures. These contracts are carried at their fair value either as an asset or liability on the consolidated balance sheet. The Company's derivative contracts are not designated as hedge instruments, and changes in fair value of derivatives are recorded in other income (expense), net in the consolidated statements of operations. The Company does not enter into derivative contracts for speculative or trading purposes.

Stock-based compensation

Stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized on a straight-line basis over the requisite service period, which is generally the award's vesting period. The Company estimates the fair value of employee stock-based payment awards subject to only a service condition on the date of grant using the Black-Scholes valuation model. The Black-Scholes model requires the use of highly subjective and complex assumptions, including the option's expected term and the price volatility of the underlying stock.

The Company estimates the fair value of employee stock-based payment awards subject to both a market condition and the occurrence of a performance condition on the date of grant using a Monte Carlo simulation model that assumes the performance criteria will be met and the target payout levels will be achieved. Compensation expense for employee stock-based awards whose vesting is subject to the fulfillment of both a market condition and the occurrence of a performance condition is recognized on a graded-vesting basis at the time the achievement of the performance condition becomes probable.

Forfeitures were previously estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differed from those estimates. The Company early adopted ASU 2016-09 and beginning January 1, 2016, accounts for forfeitures as they occur. The Company recorded a cumulative-effect adjustment to retained earnings, which was not material, upon early adoption.

Advertising costs

Advertising costs, including promotions and print, are expensed as incurred or distributed. Advertising costs are included in selling, general, and administrative expenses in the accompanying consolidated statements of operations and amounted to approximately $0.2 million, $2.5 million, $3.9 million and $5.6 million in the Predecessor 2014 Period, the Successor 2014 Period, and the years ended December 31, 2015 and 2016, respectively.

Net income (loss) per common share

Basic net income (loss) per common share is computed using net income (loss) available to common stockholders divided by the weighted-average number of common shares outstanding during the period.

Diluted net income (loss) per share reflects the dilutive effects of stock options and restricted stock units outstanding during the period, to the extent such securities would not be anti-dilutive. During 2016, the Company issued unvested restricted stock in connection with the early exercise of certain employee stock options, as described in Note 13. Such restricted stock includes the right to receive non-forfeitable dividends or dividend equivalents and are considered participating securities, which require the Company to compute two-class EPS in periods of net income. Calculations of EPS under the two-class method exclude from the numerator any d ividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities. The related participating securities are similarly excluded from the denominator.

Recent accounting pronouncements

The following table provides a brief description of recent accounting pronouncements that could have a material effect on the Company's financial statements:

Standard	**Description**	**Date of expected adoption/adoption**	**Effect on the financial statements or other significant matters**
Standards that are not yet adopted			
ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*	The standard will replace existing revenue recognition standards and significantly expand the disclosure requirements for revenue arrangements. It may be adopted either retrospectively or on a modified retrospective basis to new contracts and existing contracts with remaining performance obligations as of the effective date.	January 1, 2018	The Company expects the standard to impact the methods used to reserve for discounts, refunds and other customer incentives, which may impact the timing of revenue recognition. The Company is currently evaluating the alternative methods of adoption, as well as other possible impacts of the adoption of this standard on its consolidated financial statements.
ASU 2015-14 , *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*	In August 2015, the FASB issued ASU 2015-14, which deferred the effective date from annual periods beginning on or after December 15, 2016 to annual periods beginning on or after December 15, 2017.		
ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedient* ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*	In March, April, May and December 2016, the FASB issued ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, respectively. These standards provide supplemental adoption guidance and clarification to ASU 2014-09, and must be adopted concurrently with the adoption of ASU 2014-09.		

Standard	**Description**	**Date of expected adoption/adoption**	**Effect on the financial statements or other significant matters**
ASU 2016-02, *Leases (Topic 842)*	The standard will require lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease paymen ts. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model (e.g., certain definitions, such as init ial direct costs, have been updated) and the new revenue recognition standard. It requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application.	January 1, 2019	The Company is currently evaluating the effect of the standard on its financial statements and related disclosures.
Standards that were adopted			
ASU 2014-12, *Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*	The standard will require that a performance target in a share-based payment award that affects vesting and that can be achieved after the requisite service period is completed to be accounted for as a performance condition. Compensation cost would be recognized in the period in which it becomes probable that the performance target will be achieved, and the amount of compensation cost recognized should be based on the portion of the service period fulfilled. The standard may be adopted either prospectively or retrospectively as of the effective date.	January 1, 2016	The Company prospectively adopted this standard in the first quarter of 2016. The standard had no effect on the Company's consolidated financial statements, as its historical practice complied with the new requirements.

Standard	Description	Date of expected adoption/adoption	Effect on the financial statements or other significant matters
ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*	The standard simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows.	January 1, 2016	The Company early adopted this standard in the first quarter of 2016. The amendments were applied on a modified retrospective basis, except for amendments requiring recognition of excess tax benefits and deficiencies in the income statement, which was applied prospectively. The standard did not have a material effect on the Company's consolidated financial statements.
ASU 2016-15, *Classification of certain cash receipts and cash payments*	The standard provides specific guidance intended to reduce diversity in practice around eight cash flow statement classification issues.	July 1, 2016	The Company early adopted this standard in the third quarter of 2016. The amendments were applied on a retrospective basis. The standard did not have any effect on the Company's consolidated financial statements.

Note 3—Acquisition of e.l.f. Cosmetics, Inc. and subsidiaries

On January 31, 2014 (the "Acquisition Date"), the Company acquired 100% of the outstanding shares of capital stock of e.l.f. Cosmetics, Inc. from the Sellers. e.l.f. Cosmetics, Inc. serves as the operating entity of the Company and was incorporated in the State of Delaware in November 2010. The total purchase price was $271.0 million consisting of $239.1 million in cash ($237.9 million net of cash acquired), the issuance of 29,978 shares of the Company's convertible preferred stock and 6,126 shares of its common stock with an aggregate fair value of $30.0 million, and contingent consideration of $1.9 million related to certain pre-Acquisition tax benefits payable to the Sellers. As of December 31, 2016, $1.9 million of the tax benefit payable to the Sellers remained unpaid.

To fund the cash portion of the Acquisition, the Company raised, in aggregate, $250.0 million, of which $145.0 million was drawn down from two credit facilities and $105.0 million was contributed by TPG Growth II Management, LLC ("TPG") (through TPG Elf Holdings, LP, a wholly-owned subsidiary of TPG, and co-investors) and various other parties including certain executives of the Company and several of the credit facility lenders, in exchange for 105,063 shares of the Company's convertible preferred stock and 21,467 shares of common stock. In connection with the arrangement of the credit facilities, the Company incurred, in aggregate, $5.3 million in deferred financing costs. Refer to Note 9 for further discussion of credit facilities.

Purchase price allocation

The Company has accounted for the Acquisition as a business combination in accordance with ASC 805, whereby the purchase price paid to effect the Acquisition was allocated to tangible assets acquired, liabilities assumed and identifiable intangible assets acquired based on their estimated fair values with the excess of the purchase consideration over the aggregate fair values recorded as goodwill. The value of goodwill was 58% of the total purchase consideration and is primarily attributable to the assembled workforce and expected future growth. The goodwill is not deductible for tax purposes.

The Acquisition provided the Company with three intangible assets: (i) customer relationships with useful lives ranging from three to 10 years, (ii) favorable leases with useful lives ranging from 27 to 71 months and (iii) an indefinite-lived trademark (See Note 4—Goodwill and other intangibl e assets). The customer relationships asset represents the value resulting from the Company's relationships with its retail customers and e-commerce consumers. The favorable leases asset represents the value associated with the leasehold interests associat ed with the Company's office and warehouse locations in New York and New Jersey. The trademark asset represents the value resulting from the popularity and recognition of the e.l.f. Cosmetics brand. The fair values of the acquired customer relationships we re based on the excess earnings method and are subject to amortization on a straight-line basis over their remaining useful lives. The fair values of the acquired favorable leases were based on the difference between the actual lease rates and the-then cur rent market rent for similar properties in those locations. The fair value of the acquired trademark was based on the relief from royalty method. In addition, the Acquisition resulted in a fair market adjustment to acquired inventory of $1.3 million, the f air value of which was based on the expected selling price less disposal costs and a reasonable profit margin. The Company incurred $2.8 million in Acquisition-related costs, which were expensed and included within selling, general and administrative expen ses in the Successor 2014 Period.

The following table summarizes the consideration paid and the fair values of the assets acquired and liabilities assumed at the Acquisition Date (in thousands):

	Amount
Tangible assets acquired	$ 51,755
Intangible asset—customer relationships, retailers	68,800
Intangible asset—customer relationships, e-commerce	3,800
Intangible asset—trademark	63,800
Intangible asset—favorable leases	580
Goodwill	157,264
Liabilities assumed	(74,990)
Fair value of total purchase consideration	$ 271,009

Unaudited pro forma financial information

In accordance with ASC 805, the following unaudited pro forma financial information presents the combined results of continuing operations for the year ended December 31, 2014, as if the Acquisition had been completed on January 1, 2014 (in thousands). Unaudited pro forma financial information is not required to be presented for the year ended December 31, 2015 as the actual combined results of the Acquisition are already reflected in the consolidated financial statements for this period. The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings that may result from the consolidation of operations.

The unaudited pro forma financial information should not be relied upon as necessarily being indicative of the historical results that would have been obtained if the Acquisition had actually occurred on that date or the results that will be obtained in the future.

	Year ended December 31, 2014
Net sales	$ 144,944
Net loss	(9,778)

Note 4—Goodwill and other intangible assets

Information regarding the Company's goodwill and intangible assets as of December 31, 2015 is as follows (in thousands):

	Estimated useful life	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships – retailers	10 years	$ 68,800	$ (13,187)	$ 55,613
Customer relationships – e-commerce	3 years	3,900	(2,436)	1,464
Favorable leases, net	Varies	580	(175)	405
Total finite-lived intangibles		73,280	(15,798)	57,482
Trademarks	Indefinite	63,800	-	63,800
Goodwill		157,264	-	157,264
Total goodwill and other intangibles		$ 294,344	$ (15,798)	$ 278,546

Information regarding the Company's goodwill and intangible assets as of December 31, 2016 is as follows (in thousands):

	Estimated useful life	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships – retailers	10 years	$ 68,800	$ (20,067)	$ 48,733
Customer relationships – e-commerce	3 years	3,900	(3,736)	164
Favorable leases, net	Varies	580	(274)	306
Total finite-lived intangibles		73,280	(24,077)	49,203
Trademarks	Indefinite	63,800	-	63,800
Goodwill		157,264	-	157,264
Total goodwill and other intangibles		$ 294,344	$ (24,077)	$ 270,267

The Company has not recognized any impairment charges on its goodwill or intangible assets. Amortization expense on the finite-lived intangible assets amounted to $11,000, $7.6 million, $8.2 million and $8.3 million in the Predecessor 2014 Period, the Successor 2014 Period, and the years ended December, 31 2015 and 2016, respectively.

As a result of the Acquisition, the $0.7 million carrying value of the Predecessor's goodwill as of January 31, 2014, was eliminated and new goodwill was recorded by the Successor on February 1, 2014. In addition, the Predecessor's $0.6 million in historical finite-lived intangible assets was stepped-up to fair value at the time of the Acquisition. The Predecessor did not recognize any impairment charges during the Predecessor 2014 Period.

The estimated future amortization expense related to the finite-lived intangible assets, assuming no impairment as of December 31, 2016, is as follows (in thousands):

Year ending December 31,	
2017	$ 7,121
2018	7,007
2019	6,982
2020	6,880
Thereafter	21,213
Total	$ 49,203

Note 5—Property and equipment

Property and equipment as of December 31, 2015 and 2016 consists of the following (in thousands):

	December 31, 2015	December 31, 2016
Machinery, equipment and software	$ 1,322	$ 3,956
Leasehold improvements	1,880	7,620
Furniture and fixtures	625	2,771
Store fixtures	8,147	8,921
Property and equipment, gross	11,974	23,268
Less: Accumulated depreciation and amortization	(2,120)	(6,117)
Property and equipment, net	$ 9,854	$ 17,151

Depreciation and amortization expense on property and equipment were $30,000, $0.4 million, $2.0 million and $4.9 million in the Predecessor 2014 Period, the Successor 2014 Period and the years ended December 31, 2015 and 2016, respectively.

Note 6—Accrued expenses and other current liabilities

Accrued expenses as of December 31, 2015 and 2016 consists of the following (in thousands):

	December 31, 2015	December 31, 2016
Accrued expenses	$ 2,681	$ 9,537
Other current liabilities	4,752	9,249
Accrued compensation	6,280	7,111
Early exercised option deposit liability	-	4,074
Income taxes payable	-	3,705
Accrued expenses and other current liabilities	$ 13,713	$ 33,676

Note 7—Fair value of financial instruments

The fair value of foreign currency forward contracts and bank debt are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is measured using inputs from the three levels of the fair value hierarchy, which are described as follows:

Level 1 —Quoted prices in active markets for identical assets or liabilities

Level 2 —Quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3 —Inputs that are unobservable (for example, cash flow modeling inputs based on management's assumptions)

The assets' or liabilities' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company's Level 2 instruments consist of foreign currency forward contracts for which fair values were based on market prices obtained from independent brokers or determined using quantitative models that use as their basis readily observable market parameters that are actively quoted and can be validated through external sources, including third-party pricing services, brokers and market transactions.

The following table sets forth the fair value of the Company's financial liabilities by level within the fair value hierarchy as of December 31, 2015 (in thousands):

		Fair value measurements using		
	Fair value	Level 1	Level 2	Level 3
Financial liabilities:				
Foreign currency forward contracts	$ 10,702	$ -	$ 10,702	$ -
Long-term debt, including current portion (1)	148,106	-	148,106	-
Total financial liabilities	$ 158,808	$ -	$ 158,808	$ -

(1) Of this amount, $10,325 is classified as current. The gross carrying amounts of the Company's bank debt, before reduction of the debt issuance costs, approximate their fair values as the stated rates approximate market rates for loans with similar terms.

The following table sets forth the fair value of the Company's financial liabilities by level within the fair value hierarchy as of December 31, 2016 (in thousands):

		Fair value measurements using		
	Fair value	Level 1	Level 2	Level 3
Financial liabilities:				
Foreign currency forward contracts	$ -	$ -	$ -	$ -
Long-term debt, including current portion (1)	165,393	-	165,393	-
Total financial liabilities	$ 165,393	$ -	$ 165,393	$ -

(1) Of this amount, $8,650 is classified as current. The gross carrying amounts of the Company's bank debt, before reduction of the debt issuance costs, approximate their fair values as the stated rates approximate market rates for loans with similar terms.

The Company did not transfer any assets measured at fair value on a recurring basis to or from Level 2 for any of the periods presented.

Note 8—Derivatives

The Company has previously used forward contracts to economically hedge the impact of the variability in exchange rates on contracts with its suppliers in China for future purchases of inventories denominated in RMB. The Company does not designate any of the forward contracts as hedges and does not apply hedge accounting. All forward contracts are recorded at fair value on the consolidated balance sheet. In the Predecessor 2014 Period, the Successor 2014 Period, and the years ended December 31, 2015 and 2016, realized and unrealized gains (losses) of ($0.1 million), ($6.9 million), ($7.9 million) and $1.1 million, respectively, from the Company's forward contracts were recognized in other income (expense), net in the consolidated statements of operations and comprehensive income (loss).

The Company generally does not hedge the net assets of its international subsidiaries.

As of December 31, 2015 and December 31, 2016, the aggregate notional amount of the Company's outstanding forward contracts was as follows (in thousands):

Derivatives not designated as hedging instruments	December 31, 2015	December 31, 2016
Foreign currency contracts	$ 148,978	$ -

The Company's derivative transactions are governed by ISDA Master Agreements, which include provisions governing the setoff of assets and liabilities between the parties. When the Company has more than one outstanding derivative transaction with a single counterparty, the setoff provisions contained within these agreements generally allow the non-defaulting party the right to reduce its liability to the defaulting party by amounts eligible for setoff as well as eligible offsetting transactions with that cou nterparty, irrespective of the currency, place of payment or booking office. The Company's policy is to present its derivative assets and derivative liabilities on the consolidated balance sheets on a net basis.

As of December 31, 2015 (in thousands)	Net amount recognized in the consolidated balance sheets	Gross amounts offset in the consolidated balance sheets	Gross amount
Liabilities:			
Foreign currency contracts	$ 10,702	$ -	$ 10,702
Total liabilities	$ 10,702	$ -	$ 10,702

There were no forward contracts outstanding as of December 31, 2016.

Note 9—Debt

The following summarizes the recent significant transactions impacting the Company's indebtedness:

- In connection with the Acquisition on January 31, 2014, as discussed in Note 2, the Company entered into the 2014 Senior Secured Credit Facility, which consisted of a $20.0 million revolving line of credit and a $105.0 million term loan. Also on January 31, 2014, the Company entered into the $40.0 million Second Lien Term Loan. The interest rate on both the revolving credit facility and the term loan under the 2014 Senior Secured Credit Facility was 6.25% per annum as of December 31, 2015. The interest rate on the Second Lien Term Loan was 11% per annum as of December 31, 2015.
- On June 7, 2016, the Company incurred an incremental $64.0 million in term loan borrowings under the 2014 Senior Secured Credit Facility to fund, in part, a $72.0 million special dividend to stockholders, and increased the total availability under the revolving credit facility to $25.0 million.
- On September 27, 2016, the Company used a portion of the proceeds from the initial public offering to repay the entire outstanding balance of $40.0 million from the Second Lien Term Loan.
- On December 23, 2016, the Company refinanced its outstanding obligations under the 2014 Senior Secured Credit Facility, entering into a new 5-year, $200.0 million senior secured credit facility (the "Senior Secured Credit Facility"), as further described below.

The Company's outstanding debt as of December 31, 2015 and 2016 consists of the following (in thousands):

	December 31, 2015	December 31, 2016
Debt:		
Revolving credit facility	$ 7,700	$ -
Term loan	100,406	162,627
Second lien term loan	40,000	-
Capital lease obligations	-	2,766
Total debt	148,106	165,393
Less: debt issuance costs	(3,187)	(566)
Total debt, net of issuance costs	144,919	164,827
Less: current portion	(10,325)	(8,650)
Long-term portion of debt	$ 134,594	$ 156,177

Senior secured credit facility

On December 23, 2016, the Company entered into a new five-year, $200.0 million senior secured credit facility with a syndicate consisting of several large financial institutions. The facility consists of a $35.0 million revolving line of credit (the "Revolving Credit Facility") and a $165.0 million term loan (the "Term Loan Facility").

All amounts under the Revolving Credit Facility are available for draw until the maturity date on December 23, 2021. The Revolving Credit Facility is collateralized by substantially all of the Company's assets and requires payment of an unused fee ranging from 0.35% to 0.25% (depending on the Company's consolidated total net leverage ratio) times the average daily amount of unutilized commitments under the Revolving Credit Facility. The Revolving Credit Facility also provides for sub-facilities in the form of a $7.0 million letter of credit and a $5.0 million swing line loan; however, all amounts under the Revolving Credit Facility cannot exceed $35.0 million. The unused balance of the Revolving Credit Facility as of December 31, 2016 was $34.5 million.

The Term Loan Facility maturity date is also December 23, 2021, and is collateralized by substantially all of the Company's assets. Amortization installment payments on the Term Loan Facility are required to be made in quarterly installments of (i) $2,062,500 for fiscal quarters ending March 31, 2017 through December 31, 2018, (ii) $2,475,000 for fiscal quarters ending March 31, 2019 through December 31, 2019, (iii) $3,093,750 for fiscal quarters ending March 31, 2020 through December 31, 2020 and (iv) $4,125,000 for fiscal quarters ending March 31, 2021 through September 30, 2021. The remaining Term Loan Facility balance is due upon the maturity date. The Term Loan Facility can be prepaid at any time without penalty and is subject to mandatory prepayments when there is (i) excess cash flow, which is defined as EBITDA less certain customary deductions, (ii) non-ordinary course asset dispositions that result in net proceeds in excess of $2.5 million during a year, unless reinvested within twelve months, or (iii) issuance of additional debt.

Both the Revolving Credit Facility and the Term Loan Facility bear interest, at the Company's option, at a rate per annum equal to either (i) the greater of (x) 3.00% and (y) an adjusted LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for the applicable interest period plus an applicable margin ranging from 2.00% to 3.50% based on the Company's consolidated total net leverage ratio or (ii) the greater of (x) 2.00% and (y) a floating base rate plus an applicable margin ranging from 1.00% to 2.50% based on the Company's consolidated total net leverage ratio. The interest rate on both the Revolving Credit Facility and the Term Loan was 4.5% per annum as of December 31, 2016.

The Company incurred costs directly related to the Senior Secured Credit Facility of $2.3 million, consisting primarily of lender fees of $2.1 million and third-party fees of $0.2 million. These fees were allocated between the Revolving Credit Facility and the Term Loan Facility, with the portion attributable to the Term Loan Facility recorded as a reduction of the carrying amount of the debt and the portion attributable to the Revolving Credit Facility recorded as a noncurrent asset.

The Senior Secured Credit Facility contains a number of covenants that, among other things, restrict the Company's ability to (subject to certain exceptions) pay dividends and distributions or repurchase its capital stock, incur additional indebtedness, create liens on assets, engage in mergers or consolidations and sell or otherwise dispose of assets. The Senior Secured Credit Facility also includes reporting, financial and maintenance covenants that require the Company to, among other things, comply with certain consolidated total net leverage ratios and consolidated fixed charge coverage ratios. As of December 31, 2015 and 2016, the Company was in compliance with all financial covenants.

Aggregate future minimum principal payments on the Term Loan are as follows (in thousands):

Year ending December 31,	
2017	$ 8,250
2018	8,250
2019	9,900
2020	12,375
Thereafter	126,225
Total	$ 165,000

Interest expense and extinguishment of debt

In September 2016, the Company used a portion of the proceeds from the initial public offering to repay the entire outstanding balance of the Second Lien Term Loan. In connection with this extinguishment of debt, the Company incurred a $0.4 million prepayment penalty and wrote off $0.5 million in unamortized debt issuance costs attributable to the Second Lien Term Loan.

Additionally, as described above, in December 2016, the Company entered into a new Senior Secured Credit Facility and a portion of the debt outstanding under the 2014 Senior Secured Credit Facility was considered extinguished. In connection with this extinguishment of debt, the Company wrote off $1.7 million in unamortized debt discount and debt issuance costs, as well as approximately $0.1 million in other fees associated with the refinancing transacti on. For the portion of the 2014 Senior Secured Credit Facility that was not considered extinguished, approximately $0.7 million in unamortized debt discount and $0.8 million in unamortized debt issuance costs remain on the balance sheet and are being amort ized over the 5-year term of the new Senior Secured Credit Facility.

The components of interest expense are as follows (in thousands):

	Predecessor	Successor		
	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2016
Interest of term loan debt	$ 126	$ 10,192	$ 10,988	$ 12,076
Amortization of debt issuance costs	-	993	1,101	1,281
Loss on extinguishment of debt	-	-	-	2,736
Interest on revolving line of credit	2	369	700	190
Other	-	(9)	(68)	-
Interest expense, net	$ 128	$ 11,545	$ 12,721	$ 16,283

Note 10—Commitments and contingencies

Operating leases

The Company leases office, retail and warehouse space in New York, New Jersey, California and China from third parties under non-cancelable operating leases that provide for minimum base annual rental payments (excluding taxes and other charges). A number of the Company's store leases provide for contingent rentals based upon sales. Contingent rent amounts have historically not been significant. The leases expire between 2018 and 2026. Total rent expense was $0.1 million, $1.9 million, $3.0 million and $4.1 million for the Predecessor 2014 Period, the Successor 2014 Period, and the years ended December 31, 2015 and 2016, respectively.

Future minimum lease payments under the operating leases are as follows (in thousands):

Year ending December 31,	
2017	$ 4,789
2018	4,726
2019	4,636
2020	4,188
Thereafter	13,397
Total	31,736

In November 2016, the Company vacated a previously leased office facility and has entered into a sublease agreement with a related party for that space. The estimated future sublease income as of December 31, 2016 is $0.9 million and has been recorded as a reduction to the accrual of all remaining lease operating lease payments recognized on the date the previous facility was vacated.

Litigation

From time to time, the Company may become involved in legal proceedings, claims, and litigation arising in the ordinary course of business. Management is not currently aware of any matters that it expects will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Note 1 1—Income taxes

The components of income (loss) before income taxes are as follows (in thousands):

	Predecessor	Successor		
	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2016
Domestic	$ 1,709	$ (13,517)	$ 8,053	$ 9,677
Foreign	(74)	686	625	135
Total	$ 1,635	$ (12,831)	$ 8,678	$ 9,812

The components of the (provision) benefit for income taxes are as follows (in thousands):

	Predecessor	Successor		
	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2016
Current:				
U.S. federal	$ 1,394	$ (363)	$ (6,837)	$ (9,978)
State	(5)	(111)	(1,026)	(2,096)
Foreign	18	(257)	(391)	-
Total current	1,407	(731)	(8,254)	(12,074)
Deferred:				
U.S. federal	(1,881)	3,881	3,710	8,384
State	(68)	324	201	(773)
Foreign	-	71	22	(36)
Total deferred	(1,949)	4,276	3,933	7,575
Total (provision) benefit for income taxes	$ (542)	$ 3,545	$ (4,321)	$ (4,499)

The following table presents a reconciliation of the federal statutory rate to the Company's effective tax rate:

	Predecessor	Successor		
	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2016
Federal statutory rate	34.0%	34.0%	35.0%	35.0%
State tax-net of federal benefit	1.7%	1.7%	2.2%	0.7%
State tax deferred rate change	0.0%	0.0%	0.3%	18.7%
Impact of foreign operations	0.4%	1.0%	(0.2%)	0.1%
U.S. subpart F income	0.0%	(2.2%)	2.5%	0.5%
Nondeductible transaction-related costs	0.0%	(6.5%)	0.0%	2.0%
Uncertain tax positions	0.0%	(0.2%)	5.3%	2.0%
Stock based compensation	0.0%	0.0%	0.6%	(16.8%)
Others	(3.0%)	(0.2%)	4.1%	3.7%
Effective tax rate	33.1%	27.6%	49.8%	45.9%

The components of net deferred taxes arising from temporary differences are as follows (in thousands):

	December 31, 2015	December 31, 2016
Deferred tax assets:		
Compensation	$ 1,969	$ 1,848
Inventories and receivables	1,604	6,905
Accrued expenses	2,120	1,996
Stock compensation	238	1,967
Net operating losses	-	232
Other	446	1,304
Deferred tax assets	6,377	14,252
Deferred tax liabilities:		
Goodwill	1,614	2,562
Fixed assets	1,620	2,699
Intangible assets	44,493	42,587
Other	514	579
Deferred tax liabilities	48,241	48,427
Net deferred tax liabilities	$ 41,864	$ 34,175

The deferred tax assets and liabilities within the same jurisdiction are reported net in the accompanying balance sheets as follows (in thousands):

	December 31, 2015	December 31, 2016
Noncurrent deferred tax assets	$ 262	$ 37
Noncurrent deferred tax liabilities	42,126	34,212
Net deferred tax liabilities	$ 41,864	$ 34,175

At December 31, 2016, the Company had gross foreign net operating loss carryforwards of $0.9 million. The foreign net operating loss carryforwards will begin to expire in 2020 and have a carryforward period of five years.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Predecessor	Successor		
	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2015	2016
Balance at beginning of year	$ 581	$ 581	$ 607	$ 1,256
Increases for prior year tax positions	-	-	1	438
Increases for current year tax positions	-	26	648	103
Decreases for prior year tax positions	-	-	-	(589)
Decreases due to settlements	-	-	-	-
Decreases due to statutes lapsing	-	-	-	-
Balance at end of year	$ 581	$ 607	$ 1,256	$ 1,208

If all of the Company’s unrecognized tax benefits as of December 31, 2015 and December 31, 2016 were recognized, $1.0 million and $0.7 million of unrecognized tax benefits, respectively, would impact the effective tax rate. The Company believes it is reasonably possible that $0.5 million of unrecognized tax benefits may reverse in the next twelve months.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in the provision for income taxes. The Company had $31,000 and $0.2 million of accrued gross interest and penalties as of December 31, 2015 and December 31, 2016, respectively. The Company recognized net interest expense of $20,000 and $0.1 million for the years ended December 31, 2015 and 2016, respectively. The Company did not recognize any net interest expense during the Predecessor 2014 Period and the Successor 2014 Period.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. As of December 31, 2016, with few exceptions, the Company or its subsidiaries are no longer subject to examination prior to tax year 2013. Certain state returns are currently under audit by the state tax authorities. The Company does not expect the results of these audits to have a material impact on the consolidated financial statements.

Note 12—Preferred stock

The Company has authorized 30,000,000 shares of preferred stock for issuance with a par value of $0.01 per share. There were no shares of preferred stock outstanding as of December 31, 2015 or December 31, 2016.

In conjunction with the Acquisition, 135,041 shares of convertible preferred stock were issued for a total consideration of approximately $135.0 million. These shares remained outstanding as of December 31, 2015 and were converted to 37,271,375 shares of common stock immediately prior to the initial public offering.

Prior to conversion, the Company’s convertible preferred stock was classified as temporary equity in the accompanying consolidated balance sheets in accordance with ASC 480, Distinguishing Liabilities from Equity, as the convertible preferred stock was redeemable at the option of the holder and was also redeemable, if not converted to common stock, at the time of an initial public offering. In conjunction with this classification, the Company has accreted the carrying value of the convertible preferred stock to reflect its maximum redemption amount as of December 31, 2015 and through the date of conversion. The maximum redemption amount is the greater of the convertible preferred stock liquidation value (including dividends) or the as-converted value based on the common stock per share price.

For the Successor 2014 Period, the Company accreted $10.3 million, which represents dividends at the rate of 8% per annum. For the years ended December 31, 2015 and 2016, the Company accreted $52.0 million and $436.3 million, respectively, which reflect increases in the as-converted value. The accreted value was reclassified from temporary equity to additional paid-in capital upon conversion and the Company accounted for the accretion of convertible preferred stock as a reduction from amounts available for distribution to common stockholders.

Note 13—Stock-based compensation

Stock plans

The Company grants stock-based awards under its 2016 Equity Incentive Award Plan (the “2016 Plan”), which replaced its 2014 Equity Incentive Plan (the “2014 Plan”) and became effective immediately prior to the effectiveness of the Company’s registration statement on Form S-1. Immediately prior to the initial public offering, the 2014 Plan terminated and no further awards will be granted thereunder. The 2016 Plan permits the grant of incentive stock options, non-statutory stock options, restricted stock and other stock- or cash-based awards to employees, officers, directors, advisors and consultants. The 2016 Plan allows for option grants of the Company’s common stock based on service, performance and market conditions.

A total of 9,460,556 shares were reserved for grant and 607,276 shares remained available for future issuance under the 2014 Plan as of December 31, 2015. There were no shares reserved for grant or available for future issuance under the 2014 Plan as of December 31, 2016.

A total of 5,430,690 shares were initially reserved for grant under the 2016 Plan. Additionally, any awards outstanding under the 2014 Equity Plan that are forfeited or lapse unexercised will be added to the shares reserved and available for grant under the 2016 Plan, up to a maximum of 4,341,200 shares. As of December 31, 2016, a total of 5,510,040 shares were reserved for grant under the 2016 Plan, including 79,350 shares forfeited from the 2014 Plan to date, and 3,683,028 shares remained available for future issuance.

Early exercise of stock options

Stock options granted pursuant to the 2014 Plan permitted certain management-level option holders and directors to elect to exercise unvested options prior to vesting ("early exercise"). In the event of termination of the option holder's employment or directorship, all unvested shares issued upon the early exercise, so long as they remain unvested, are subject to repurchase by the Company at the lower of the original exercise price or the fair market value of a share of common stock on the date of termination.

Consistent with authoritative guidance, early exercises are not considered substantive exercises for accounting purposes. Cash received for the exercise of unvested options is recorded as a liability, which is released to additional paid-in capital at each reporting date as the shares vest. During the year ended December 31, 2016, options to purchase 3,420,243 shares of common stock were early exercised prior to vesting. Subsequent to the date of exercise through December 31, 2016, options to purchase 1,869,817 shares of common stock subject to early exercise vested and options to purchase 27,600 shares of common stock subject to early exercise were forfeited and repurchased by the Company in connection with the resignation of a Board member. As of December 31, 2016, the Company recorded a liability of $4.1 million related to 1,522,826 shares that remained subject to a potential repurchase obligation of the Company. These shares are expected to vest within the next twelve months. Accordingly, the liability is included in accrued expenses and other current liabilities.

In connection with certain of these early exercises, the Company extended loans to certain key management personnel (the "Debtors") totaling $10.4 million (the "2016 Notes"). The 2016 Notes served as financing for the Debtors' exercises of previously issued stock options. The 2016 Notes were secured by the underlying shares and were full recourse to the respective Debtor's personal assets. The 2016 Notes carried interest at between 0.75% and 0.81% per annum, due semi-annually, and matured in January 2018 or earlier upon the occurrence of certain events specified in the 2016 Note agreements. Amounts due from employees in relation to the 2016 Notes were recorded as a reduction in stockholders' equity. Upon early exercise, the option holders received shares of restricted common stock and as such, participated in the June 2016 special dividend. Pursuant to the terms of the 2016 Notes, the proceeds from the dividend of $4.1 million were required to be used to pay down the outstanding principal balance.

In July 2016, the Company provided an additional loan totaling $1.5 million (the "July 2016 Add-On Note") to one of the Debtors to finance the exercise of an additional option to purchase 808,028 shares of common stock at an exercise price of $1.84 per share. The July 2016 Add-On Note carried interest at 0.71% per annum, due semi-annually, and matured in July 2018 or earlier upon the occurrence of certain events specified in the Note agreement. All other terms and conditions of the July 2016 Add-On Note were identical to the 2016 Notes. Amounts due from this employee in relation to the July 2016 Add-On Notes were recorded as a reduction in stockholders' equity. Upon early exercise, the option holder received shares of restricted common stock.

In August 2016, the Debtors repaid the remaining balance on both the 2016 Notes and the July 2016 Add-On Note of $7.9 million, including accrued interest, in full.

Stock option modification

In June 2016, the Company modified all stock options outstanding and reduced the exercise price by $1.79 per share in order to protect the option holders from dilution that would have otherwise resulted from the dividend recapitalization transaction. A total of 43 individuals, including three board members, held options that were modified. As the Company was not obligated to provide anti-dilution protection under the 2014 Plan, this constituted a modification, as defined by ASC 718 Compensation-stock compensation, which requires calculation of the incremental fair value of the new award. The incremental compensation related to the modification was approximately $2.7 million and is being recognized over the original requisite service period for each modified option. During the period in which the modification occurred, the Company recognized incremental compensation cost of $0.7 million related to the portion of the modified awards for which the requisite service had already been rendered.

Initial public offering grants

Effective immediately prior to the effectiveness of the Company's registration statement on Form S-1, the Company granted 596,217 restricted stock units ("RSUs") and, upon pricing of the initial public offering, the Company granted options to purchase 1,250,517 shares of the Company's common stock to certain officers, employees and directors under the 2016 Plan. Each option has an exercise price per share equal to the initial public offering price.

Service-based stock options

A summary of the Company's service-based stock option activity and related information is as follows:

	Options outstanding		Weighted-average exercise price (1)	Weighted-average remaining contractual life (in years)		Aggregate intrinsic values (in thousands)
Balance as of December 31, 2015	3,997,502	$	3.66			
Granted	1,872,897		13.58			
Exercised	(2,447,443)		3.55			
Forfeited	(212,589)		4.40			
Cancelled	(41,400)		3.62			
Balance as of December 31, 2016	3,168,967	$	8.55	8.7	$	64,602
Exercisable, December 31, 2016	1,189,880	$	1.86	7.3	$	32,223

(1) The weighted-average exercise prices reflect the impact of the $1.79 exercise price modification for any activity occurring after the June 7, 2016 modification date.

Additional information relating to service-based options is as follows (in thousands, except per share data):

	Predecessor		Successor					
	Period from January 1, 2014 through January 31, 2014		Period from February 1, 2014 through December 31, 2014		Year ended December 31, 2015		2016	
Stock-based compensation expense	$	-	$	287	$	503	$	4,286
Intrinsic value of options exercised		-		-		12		2,486
Weighted-average grant date fair value of options granted (per share) (1)	$	-	$	0.60	$	0.99	$	5.07

(1) Based on the grant date fair value at the date of grant, excluding the impact of any subsequent modifications. The weighted-average incremental fair value related to 640,600 service-based options modified in June 2016 was $3.63.

As of December 31, 2016, there was $9.4 million of total unrecognized compensation cost related to service-based stock options, which is expected to be recognized over the remaining weighted-average vesting period of 3.8 years.

During the period prior to the initial public offering, the Company estimated the grant date fair value of stock options granted by first computing the fair value using a Black-Scholes option-pricing model under three potential liquidity scenarios and then applying a probability weighting of each scenario. For the Predecessor 2014 Period, the Successor 2014 Period and the years ended December 31, 2015 and 2016, the fair value of service-based stock options granted were calculated using the following weighted-average assumptions:

	Predecessor	Successor		
	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2015	2016
Expected term (in years)	n/a	4.7	4.1	5.9
Expected volatility	n/a	45.00%	40.92%	36.50%
Risk-free interest rate	n/a	1.34%	1.51%	1.34%
Expected dividend yield	n/a	0.00%	0.00%	0.00%

The determination of the fair value of stock options on the date of grant using a Black-Scholes option-pricing model is affected by the estimated fair value of the underlying common stock, as well as assumptions regarding a number of variables that are complex, subjective and generally require significant judgment. The assumptions used in the Black-Scholes option-pricing model to calculate the fair value of stock options were:

Fair value of common stock

The fair value of shares of common stock underlying stock options has historically been the responsibility of, and determined by, the Company's board of directors, with input from management. Prior to the initial public offering, there was no public market for the Company's common stock and the board of directors determined the fair value of common stock at the time of grant of the option by considering a number of objective and subjective factors including independent third-party valuations of the Company's common stock, operating and financial performance, the lack of liquidity of capital stock and general and industry specific economic outlook, among other factors. After the initial public offering, the fair value of shares of common stock underlying stock options is based on the closing stock price on the date of grant.

Expected term

The expected term of the options represents the period of time that the options are expected to be outstanding. Options granted have a maximum contractual life of 10 years. Prior to the initial public offering, the Company estimated the expected term of the option based on the estimated timing of potential liquidity events. For grants upon or after the initial public offering, the Company estimated the expected term based upon the simplified method described in Staff Accounting Bulletin No. 107, as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time its equity shares have been publicly traded.

Expected volatility

As the Company does not have sufficient trading history for its common stock, the expected stock price volatility for the common stock was estimated by taking the average historic price volatility for industry peers based on daily price observations over a period equivalent to the expected term of the stock option grants. Industry peers consist of several public companies within the same industry, which are of similar size, complexity and stage of development. The Company intends to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of its own share price becomes available, or unless circumstances change such that the identified companies are no longer similar to the Company, in which case, more suitable companies whose share prices are publicly available would be used in the calculation.

Risk-free interest rate

The risk-free interest rate was based on the U.S. Treasury rate, with maturities similar to the expected term of the options.

Expected dividend yield

The Company does not anticipate paying any dividends in the foreseeable future. As such, the Company uses an expected dividend yield of zero.

Performance-based stock options

For the Company's performance-based options, in addition to the service condition, the ultimate number of shares to be earned depends on the achievement of both a performance and market condition. The performance condition is based on the occurrence of a liquidity event and was satisfied in connection with the initial public offering in September 2016. The market condition is based upon the achievement of a minimum rate of return from the liquidity event, which will first be measured in March 2017, and holders of performance-based options must remain employed as of the measurement date.

A summary of the Company's performance-based stock option activity and related information is as follows:

	Options outstanding	Weighted-average exercise price (1)	Weighted-average remaining contractual life (in years)	Aggregate intrinsic values (in thousands)
Balance as of December 31, 2015	4,848,869	$ 3.64		
Granted	276,690	6.69		
Exercised	-	-		
Forfeited	(1,265,992)	3.57		
Cancelled	(23,460)	3.62		
Balance as of December 31, 2016	3,836,107	$ 2.46	7.8	$ 101,592

(1) The weighted-average exercise prices reflect the impact of the $1.79 exercise price modification for any activity occurring after the June 7, 2016 modification date.

In regards to the performance condition, if a liquidity event occurred on or prior to January 31, 2016, an additional number of options would have vested, assuming the minimum rate of return was achieved. During the year ended December 31, 2016, performance-based options to purchase a total of 919,611 shares of common stock did not vest and were forfeited because a liquidity event did not occur on or prior to January 31, 2016. The remaining forfeitures occurred in connection with the termination of employment of certain employees.

Additional information relating to performance-based options is as follows (in thousands, except per share data):

	Predecessor	Successor		
	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2016
Stock-based compensation expense	$ -	$ -	$ -	$ 1,813
Intrinsic value of options exercised	$ -	-	-	-
Weighted-average grant date fair value of options granted (per share) (1)	$ -	$ 0.40	$ 0.50	$ 1.52

(1) Based on the grant date fair value at the date of grant, excluding the impact of any subsequent modifications. The weighted-average incremental fair value related to 1,109,163 performance-based options modified in June 2016 was $0.31.

Because the achievement of the performance condition was not deemed probable until a liquidity event occurred, no compensation expense was recognized during the Successor 2014 Period or the year ended December 31, 2015 related to performance-based options. As of December 31, 2016, there was $0.3 million of total unrecognized compensation cost related to performance-based options, which is expected to be recognized over the remaining weighted-average vesting period of 0.2 years.

The remaining expense reflects the derived service period associated with the requirement to remain employed as of the date that the market co ndition is satisfied.

The fair values were determined using a Monte Carlo simulation model, based on rate of return from a potential liquidity event that ranges from 3.0x to 6.5x. The model assumed three potential liquidity scenarios and applied a probability weighting to each scenario. The rate of return is defined as the aggregate amount of distribution, dividends and sales proceeds received by equity holders, in a liquidity event, divided by the aggregate amount of original capital contribution made by these equity holders as of January 31, 2014.

Restricted stock units

A summary of the Company's restricted stock unit activity and related information is as follows:

	Restricted stock units outstanding	Weighted-average grant date fair value
Balance as of December 31, 2015	-	$ -
Granted	596,217	17.00
Vested	-	-
Forfeited	(9,993)	17.00
Cancelled	-	-
Balance as of December 31, 2016	586,224	$ 17.00

The fair value for restricted stock units is calculated based on the stock price on the date of grant. The weighted-average grant date fair value of restricted stock units granted during the year ended December 31, 2016 was $17.00. The Company recognized $0.7 million in stock-based compensation expense associated with restricted stock units in the year ended December 31, 2016. As of December 31, 2016, there was $9.3 million of total unrecognized compensation cost related to restricted stock units, which is expected to be recognized over the remaining weighted-average vesting period of 3.7 years.

Phantom shares

On November 14, 2014, the Company adopted the J.A. Cosmetics Holdings, Inc. 2014 Phantom Equity Plan (the "Phantom Plan"). The Phantom Plan authorizes the grant of up to 220,800 units of phantom equity to employees, directors and consultants of the Company and any of its subsidiaries. The phantom shares each represent a contractual right to payment of compensation in the future based on the amounts distributable to a holder of the Company's common stock in connection with a sale of the Company (defined below), less the exercise price. The phantom shares do not represent shares of the Company's common stock, and a recipient of phantom shares does not receive an ownership interest in the Company, stockholder voting rights or other incidents of ownership to the Company's common stock.

The phantom shares vest immediately on sale of the majority of the Company's outstanding common stock or substantially all of the Company's assets ("sale of the Company"), and the phantom stockholder remains continuously employed by the Company from the date of grant through the date of a sale of the Company. Upon a sale of the Company, holders of a vested phantom share will receive a one-time cash payment in an amount equal to the difference between the fair market value of the amounts to be received by a holder of a share of the Company's common stock in connection with the sale of the Company and the fair market value of a share of the Company's common stock on the grant date, as set forth in the phantom shares award agreement. During the Successor 2014 Period and the year ended December 31, 2015, the Company granted 131,100 and 62,100 phantom shares, respectively. No phantom shares were granted during the year ended December 31, 2016. As a cash payment is triggered only upon a sale of the Company, no compensation expense has been recognized related to these phantom shares. As of December 31, 2016, there was $4.5 million of unrecognized stock-based compensation related to the phantom shares; that cost is expected to be recognized upon sale of the Company, if any.

Note 14—Employee benefit plan

The Company maintains a defined contribution 401(k) profit-sharing plan (the "401(k) Plan") for eligible employees. Participants may make voluntary contributions up to the maximum amount allowable by law. The Company may make contributions to the 401(k) Plan on a discretionary basis which vest to the participants 100%. The Company elected not to make any contri butions to the 401(k) Plan during the Predecessor 2014 Period or the Successor 2014 Period. The Company made $18,000 and $0.1 million of matching contributions to the 401(k) Plan during the years ended December 31, 2015 and 2016, respectively.

Note 15—Related-party transactions

The Company previously rented office space in Shanghai, China from a lessor who was also an employee of the Company. During the Predecessor 2014 Period and the Successor 2014 Period, the Company incurred $36,000 and $0.4 million in rent expense to this lessor, which was included in selling, general and administrative expenses. In 2015, the employee ceased employment with the Company, and the lease was terminated.

Cosmopack and Promotions Plus, each a related party entity owned by a relative of a former executive officer, managed the Company's distribution and fulfillment operations for the New Jersey warehouse and charged the Company for these services. During the Predecessor 2014 Period and the Successor 2014 Period, the Company incurred $0.4 million and $3.7 million, respectively, for these services, which was included in selling, general and administrative expenses in the consolidated statement of operations. The former executive officer was an employee until December 31, 2014.

During the Successor 2014 Period and the years ended December 31, 2015 and 2016, the Company incurred $0.8 million, $0.9 million and $0.9 million, respectively, in management and consulting fees to its majority stockholder, TPG. Amounts owed are included in due to related parties in the consolidated balance sheet. Subsequent to the initial public offering, the Company ceased paying management and consulting fees to TPG and there are no amounts due to TPG as of December 31, 2016.

As disclosed in Note 13, during the year ended December 31, 2016, the Company extended loans to certain key management personnel totaling $12.0 million, which were repaid in full as of December 31, 2016.

As disclosed in Note 10, in November 2016, the Company vacated a previously leased office facility and has entered into a sublease agreement with a related party for that space. The estimated future sublease income as of December 31, 2016 is $0.9 million and has been recorded as a reduction to the accrual of all remaining lease operating lease payments recognized on the date the previous facility was vacated.

Note 16—Net income (loss) per share

The following is a reconciliation of the numerator and denominator in the basic and diluted net income (loss) per common share computations (in thousands, except share data):

	Predecessor	Successor		
	Period from January 1, 2014 through January 31, 2014	Period from February 1, 2014 through December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2016
Numerator:				
Net income (loss)	$ 1,093	$ (9,286)	$ 4,357	$ 5,313
Adjustments to numerator:				
Dividend paid to preferred stockholders	-	-	-	$ (66,531)
Accretion of convertible preferred stock to maximum redemption value	-	(10,287)	(51,967)	$ (436,317)
Net loss attributable to common stockholders	1,093	(19,573)	(47,610)	$ (497,535)
Denominator:				
Weighted average common shares outstanding - basic	1,000	27,593	30,523	12,606,529
Weighted average common shares outstanding - diluted	1,005	27,593	30,523	12,606,529
Net income (loss) per share:				
Basic	$ 1,093.00	$ (709.35)	$ (1,559.81)	$ (39.47)
Diluted	$ 1,087.56	$ (709.35)	$ (1,559.81)	$ (39.47)
Anti-dilutive securities excluded from diluted EPS:				
Service-based stock options	-	3,019,451	3,997,503	3,168,967
Common shares underlying convertible preferred stock	-	37,271,375	37,271,375	-
Performance-based stock options	-	3,557,057	4,848,869	3,836,107
Restricted stock units	-	-	-	586,224
Total	-	43,847,883	46,117,747	7,591,298

Note 17—Quarterly financial summary (unaudited)

Unaudited quarterly results for the last two years were as follows (in thousands, except per share data):

	Q1	Q2	Q3	Q4
2016				
Net sales	52,673	44,147	56,312	76,436
Gross profit	29,300	25,137	32,478	45,320
Net income (loss)	3,804	(2,715)	(2,377)	6,601
Net income (loss) attributable to common stockholders	(34,143)	(96,389)	(373,605)	6,378
Net income (loss) per share:				
Basic	$ (69.57)	$ (117.31)	$ (73.13)	$ 0.15
Diluted	$ (69.57)	$ (117.31)	$ (73.13)	$ 0.13
2015				
Net sales	38,941	36,253	50,783	65,436
Gross profit	20,190	19,108	26,002	35,029
Net income (loss)	1,315	1,363	(748)	2,427
Net loss attributable to common stockholders	(1,580)	(1,623)	(4,701)	(39,706)
Net loss per share:				
Basic	$ (57.26)	$ (58.82)	$ (154.42)	$ (1,151.13)
Diluted	$ (57.26)	$ (58.82)	$ (154.42)	$ (1,151.13)

Exhibit index

Exhibit Number	Exhibit Description	Provided Herewith	Incorporated by Reference Form	Exhibit Number	File Number	Filing Date
3.1	Amended and Restated Certificate of Incorporation of e.l.f. Beauty, Inc.		8-K	3.1	001-37873	9/27/2016
3.2	Amended and Restated Bylaws of e.l.f. Beauty, Inc.		8-K	3.2	001-37873	9/27/2016
4.1	Reference is made to exhibits 3.1 and 3.2.					
4.2	Registration Rights Agreement, dated January 31, 2014, by and among e.l.f. Beauty, Inc. and certain stockholders party thereto.		S-1	4.2	333-213333	8/26/2016
4.3	Second Amended and Restated Stockholders Agreement, dated as of March 3, 2017, by and among e.l.f. Beauty, Inc., TPG elf Holdings, L.P. and certain equityholders party thereto.		8-K	10.1	001-37873	3/3/2017
4.4	Form of Common Stock Certificate.		S-1/A	4.4	333-213333	9/12/2016
10.1	Standard Multi-Tenant Office Lease, dated as of March 31, 2014, by and between 1007 Clay Street Properties LLC and e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.).		S-1	10.1	333-213333	8/26/2016
10.2	Addendum to Standard Multi-Tenant Office Lease, dated as of March 31, 2014, by and between 1007 Clay Street Properties LLC and e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.).		S-1	10.2	333-213333	8/26/2016
10.3	Standard Multi-Tenant Office Lease, dated as of October 5, 2015, by and between 1007 Clay Street Properties LLC and e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.).		S-1	10.3	333-213333	8/26/2016
10.4	Addendum to Standard Multi-Tenant Office Lease, dated as of October 22, 2015, by and between 1007 Clay Street Properties LLC and e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.).		S-1	10.4	333-213333	8/26/2016
10.5	Standard Industrial/Commercial Multi-Tenant Lease, dated as of December 9, 2015, by and between Jurupa Gateway LLC and e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.).		S-1	10.5	333-213333	8/26/2016
10.6	Senior Secured Credit Agreement, dated as of December 23, 2016, by and among e.l.f. Beauty, Inc., as parent guarantor, e.l.f. Cosmetics, Inc., JA 139 Fulton Street Corp., JA 741 Retail Corp., JA Cosmetics Retail, Inc., J.A. RF, LLC and J.A. Cherry Hill, LLC, each as a borrower, and Bank of Montreal, as the administrative agent, swingline lender and l/c issuer.		8-K	10.1	001-37873	12/28/2016
10.7(a)#	2014 Equity Incentive Plan of e.l.f. Beauty, Inc.		S-1	10.12	333-213333	8/26/2016
10.7(b)#	Amendment to 2014 Equity Incentive Plan of e.l.f. Beauty, Inc., dated as of March 15, 2017.	X				

Exhibit Number	Exhibit Description	Provided Herewith	Form	Incorporated by Reference Exhibit Number	File Number	Filing Date
10.8#	Forms of stock option award agreements used under the 2014 Equity Incentive Plan of e.l.f. Beauty, Inc.		S-1	10.13	333-213333	8/26/2016
10.9#	2014 Phantom Equity Plan of e.l.f. Beauty, Inc.		S-1	10.14	333-213333	8/26/2016
10.10#	Amendment to 2014 Phantom Equity Plan of e.l.f. Beauty, Inc., dated as of September 5, 2016.		S-1/A	10.28	333-213333	9/12/2016
10.11#	Form of phantom shares award agreement used under the 2014 Phantom Equity Plan of e.l.f. Beauty, Inc.		S-1	10.15	333-213333	8/26/2016
10.12(a)#	2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc.		S-1/A	10.16	333-213333	9/12/2016
10.12(b)#	Form of Stock Option Grant Notice under the 2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc.		S-1/A	10.17	333-213333	9/12/2016
10.12(c)#	Form of Restricted Stock Unit Award Grant Notice under the 2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc.		S-1/A	10.27	333-213333	9/12/2016
10.12(d)#	Form of Restricted Stock Award Grant Notice under the 2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc. (Executives).	X				
10.12(e)#	Form of Restricted Stock Award Grant Notice under the 2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc. (Chief Executive Officer).	X				
10.13#	2016 Employee Stock Purchase Plan of e.l.f. Beauty, Inc.		S-1/A	10.18	333-213333	9/12/2016
10.14#	Employment Agreement, dated as of January 31, 2014, by and among Tarang Amin, e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.) and e.l.f. Beauty, Inc.		S-1	10.19	333-213333	8/26/2016
10.15#	Employment Agreement, dated as of August 13, 2015, by and among John Bailey, e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.) and e.l.f. Beauty, Inc.		S-1	10.20	333-213333	8/26/2016
10.16#	Employment Agreement, dated as of January 31, 2014, by and among Scott Milsten, e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.) and e.l.f. Beauty, Inc.		S-1	10.21	333-213333	8/26/2016
10.17#	Employment Agreement, dated as of February 2, 2014, by and among Richard Baruch, Jr., e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.) and e.l.f. Beauty, Inc.		S-1	10.22	333-213333	8/26/2016
10.18#	Amended and Restated Employment Agreement, dated as of September 7, 2016, by and among Erin Daley, e.l.f. Cosmetics, Inc. and e.l.f. Beauty, Inc.		S-1/A	10.23	333-213333	9/12/2016

Exhibit Number	Exhibit Description	Provided Herewith	Form	Incorporated by Reference Exhibit Number	File Number	Filing Date
10.19#	Second Amended and Restated Employment Agreement, dated as of December 5, 2016, by and among Erin Daley, e.l.f. Cosmetics, Inc. and e.l.f. Beauty, Inc.	X				
10.20#	Employment Agreement, dated as of July 8, 2016, by and between Jonathan T. Fieldman, e.l.f. Cosmetics, Inc. and e.l.f. Beauty, Inc.		S-1	10.24	333-213333	8/26/2016
10.21#	Form of Indemnification Agreement for directors and officers of e.l.f. Beauty, Inc.		S-1	10.25	333-213333	8/26/2016
10.22#	Non-Employee Director Compensation Program of e.l.f. Beauty, Inc.		S-1/A	10.26	333-213333	9/12/2016
21.1	List of Significant Subsidiaries of e.l.f. Beauty, Inc.	X				
23.1	Consent of Independent Registered Public Accounting Firm.	X				
24.1	Power of Attorney. Reference is made to the signature page to this Annual Report on Form 10-K.	X				
31.1	Certification of the Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.	X				
31.2	Certification of the Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.	X				
32.1*	Certification of the Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.	X				
101.INS	XBRL Instance.	X				
101.SCH	XBRL Taxonomy Extension Schema.	X				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	X				
101.LAB	XBRL Taxonomy Extension Label Linkbase.	X				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.	X				
101.DEF	XBRL Taxonomy Extension Definition Linkbase.	X				

\# Indicates management contract or compensatory plan

* This certification is deemed furnished, and not filed, with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of e.l.f. Beauty, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

Exhibit 10.7(b)

Amendment to the e.l.f. Beauty, Inc. 2014 Equity Incentive Plan

Effective March 15, 2017

This Amendment to the e.l.f. Beauty, Inc. 2014 Equity Incentive Plan (as amended, the " ***Plan*** ") is effective as of the date first set forth above, such amendment having been approved by the Board of Directors of e.l.f. Beauty, Inc., a Delaware corporation (the " ***Company*** "), on March 15, 2017 in accordance with Section 10.1 of the Plan.

As of result of the foregoing approval, the Plan is hereby amended as follows:

1. Section 11.3 of the Plan is hereby amended and restated in its entirety to read as follows:

" **11.3** **Removed and Reserved** ."

2. Section 13.7 of the Plan is hereby amende d and restated in its entirety to read as follows:

" **13.7** **Removed and Reserved** ."

(*Signature Page Follows*)

The undersigned, being the duly appointed and acting Corporate Secretary of the Company, hereby certifies that the foregoing amendment was duly approved and adopted by the Board of Directors of the Company effective as of the date first referenced above.

By:	/s/ Scott K. Milsten
Name:	Scott K. Milsten
Title:	Corporate Secretary

E xhibit 10 .12(d)

E.L.F. BEAUTY , INC.
2016 EQUITY INCENTIVE AWARD PLAN

RESTRICTED STOCK AWARD GRANT NOTICE

e.l.f. Beauty, Inc., a Delaware corporation, (the " Company "), pursuant to its 2016 Equity Incentive Award Plan, as amended from time to time (the " Plan "), hereby grants to the individual listed below (the " Participant "), in consideration of the mutual agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the number of shares of the Company's Common Stock set forth below (the " Shares "). This Restricted Stock award is subject to all of the terms and conditions as set forth herein and in the Restricted Stock Award Agreement attached hereto as Exhibit A (the " Agreement ") (including without limitation the Restrictions on the Shares set forth in the Agreement) and the Plan, each of which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Restricted Stock Award Grant Notice (the " Grant Notice ") and the Agreement.

Participant:	[____]
Grant Date:	[____]
Total Number of Shares of Restricted Stock:	[______________________] Shares
Vesting Commencement Date:	[____]
Vesting Schedule:	[_________________]
Termination:	If the Participant experiences a Termination of Service, any portion of the Award (and the Shares subject thereto) that has not become vested on or prior to the date of such Termination of Service (after taking into consideration any vesting that may occur in connection with such Termination of Service, if any) will thereupon be automatically forfeited by the Participant, and the Participant's rights in such portion of the Award and any Shares subject thereto shall thereupon lapse and expire.
Withholding Tax:	Participant understands that the terms of this Award explicitly include the following (a " Sell to Cover "): Sell to Cover : Upon vesting of the Shares, the Company, on the Participant's behalf, will instruct the Company's transfer agent (together with any other party the Company determines necessary to execute the Sell to Cover, the " Agent ") to sell that number of Shares determined in accordance with Section 2.2(c) of the Agreement as may be necessary to satisfy any resulting withholding tax obligations on the Company, and the Agent will remit the cash proceeds of such sale to the Company. The Company shall then make a cash payment equal to the required tax withholding from the cash proceeds of such sale directly to the appropriate taxing authorities.

By his or her signature and the Company's signature below, the Participant agrees to be bound by the terms and conditions of the Plan, the Agreement and this Grant Notice. The Participant has reviewed the Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Agreement and the Plan. The Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, this Grant Notice or the

Agreement . If the participant is married or part of a registered domestic partnership , his or her spouse or domestic partner has signed the Consent of Spouse or Registered Domestic Partner attached to this Grant Notice as Exhibit B .

E.L.F. BEAUTY, INC.: HOLDER:		**PARTICIPANT:**	
By:	______________________	By:	______________________
Print Name:	John P. Bailey	Print Name:	______________________
Title:	Chief Financial Officer		
Address:	570 10 th Street	Address:	______________________
	Oakland, CA 94607		______________________

EXHIBIT A
TO RESTRICTED STOCK AWARD GRANT NOTICE

RESTRICTED STOCK AWARD AGREEMENT

Pursuant to the Restricted Stock Award Grant Notice (the " Grant Notice ") to which this Restricted Stock Award Agreement (this " Agreement ") is attached, e.l.f. Beauty, Inc., a Delaware corporation (the " Company "), has granted to the Participant the number of shares of Restricted Stock (the " Shares ") under the Company's 2016 Equity Incentive Award Plan, as amended from time to time (the " Plan "), as set forth in the Grant Notice. Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and Grant Notice.

ARTICLE I.

GENERAL

1.1 Defined Terms . Wherever the following terms are used in this Agreement they shall have the meanings specified below, unless the context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and the Grant Notice.

(a) " Cause " shall mean (i) a breach by the Participant of the Participant's obligations pursuant to his or her employment or other similar agreement (other than as a result of physical or mental incapacity) which constitutes material nonperformance by the Participant of his or her obligations and duties thereunder, which the Participant has failed to remedy after the Board of Directors or delegate thereof has given the Participant written notice of, and at least fifteen (15) days to remedy, such breach, (ii) commission by the Participant of an act of fraud, embezzlement, misappropriation, willful misconduct or breach of fiduciary duty against the Company (other than acts, such as making personal use of Company office supplies, as have only a de minimis effect on the Company), (iii) a material breach by the Participant of any non-solicitation and or non-competition covenants contained in his or her employment or other similar agreement with the Company, (iv) the Participant's conviction, plea of no contest or nolo contendere, deferred adjudication or unadjudicated probation for any felony or any crime involving moral turpitude, (v) the failure of the Participant to carry out, or comply with, in any material respect, any lawful directive of the Board of Directors or delegate thereof (other than any such failure resulting from the Participant's physical or mental incapacity) which the Participant has failed to remedy after the Board of Directors or delegate thereof has given the Participant written notice of, and at least fifteen (15) days to remedy, such failure, or (vi) the Participant's unlawful use (including being under the influence) or possession of illegal drugs. For purposes of the previous sentence, no act or failure to act on the Participant's part shall be deemed "willful" unless done, or omitted to be done, by the Participant not in good faith and without reasonable belief that the Participant's action or omission was in the best interest of the Company.

(b) " Good Reason " shall mean (i) a material diminution of the Participant's responsibilities, duties or authority, or the responsibilities, duties or authority of the Participant's direct supervisor (it being understood that if following a Change in Control Participant ceases to serve as the most senior level [legal/financial/sales/marketing/operations] officer of a public company listed on a national securities exchange in the United States reporting directly to the Chief Executive Officer of such company, then such change shall be deemed a material diminution of Participant's duties, responsibilities and authority), (ii) a material diminution of the Participant's base compensation; or (iii) the relocation of the Participant's principal office to a location that is in excess of fifty (50) miles from the Participant's principal office prior to such change (it being understood and agreed that the Participant's reasonable travel for business purposes shall not be considered such a relocation); provided, however, that the

Participant's termination will not be for Good Reason unless (x) the Participant has given the Company at least thirty (30) days prior written notice of his or her intent to terminate his or her employment for Good Reason, which notice shall specify the facts and circumstances constituting Good Reason and be given within ninety (90) days of the initial occurrence thereof, (y) the Company has not remedied such facts and circumstances constituting Good Reason within thirty (30) days following the receipt of such notice, and (z) the Participant terminates employment within six (6) months following the expiration of such thirty (30) -day cure period .

1.2 Incorporation of Terms of Plan . The Award (as defined below) is subject to the terms and conditions of the Plan, which are incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

ARTICLE II.

AWARD OF RESTRICTED STOCK

2.1 Award of Restricted Stock .

(a) Award . Pursuant to the Grant Notice and upon the terms and conditions set forth in the Plan and this Agreement, effective as of the Grant Date set forth in the Grant Notice, the Company has granted to the Participant an award of Restricted Stock (the " Award ") under the Plan in consideration of the Participant's past and/or continued employment with or service to the Company or any Affiliate, and for other good and valuable consideration. The number of Shares subject to the Award is set forth in the Grant Notice. The Participant is an Employee, Director or Consultant of the Company or one of its Affiliates.

(b) Book Entry Form; Certificates . At the sole discretion of the Administrator, the Shares will be issued in either (i) uncertificated form, with the Shares recorded in the name of the Participant in the books and records of the Company's transfer agent with appropriate notations regarding the restrictions on transfer imposed pursuant to this Agreement, and upon vesting and the satisfaction of all conditions set forth in Sections 2.2(b) and (d) hereof, the Company shall remove such notations on any such vested Shares in accordance with Section 2.2(e) below; or (ii) certificated form pursuant to the terms of Sections 2.1(c), (d) and (e) below.

(c) Legend . Certificates representing Shares issued pursuant to this Agreement shall, until all Restrictions (as defined below) imposed pursuant to this Agreement lapse or have been removed and the Shares have thereby become vested or the Shares represented thereby have been forfeited hereunder, bear the following legend (or such other legend as shall be determined by the Administrator):

> "THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN VESTING REQUIREMENTS AND MAY BE SUBJECT TO FORFEITURE UNDER THE TERMS OF A RESTRICTED STOCK AWARD AGREEMENT, BY AND BETWEEN E.L.F. BEAUTY, INC. AND THE REGISTERED OWNER OF SUCH SHARES, AND SUCH SHARES MAY NOT BE, DIRECTLY OR INDIRECTLY, OFFERED, TRANSFERRED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF UNDER ANY CIRCUMSTANCES, EXCEPT PURSUANT TO THE PROVISIONS OF SUCH AGREEMENT."

(d) Escrow . The Secretary of the Company or such other escrow holder as the Administrator may appoint may retain physical custody of any certificates representing the Shares until all of the R estrictions on transfer imposed pursuant to this Agreement lapse or shall have been removed; in such event , the Participant shall not retain physical custody of any certificates representing unvested Shares issued to him or her . The Participant, by acceptance of the Award, shall be deemed to appoint, and does so appoint , the Company and each of its authorized representatives as the Participant's attorney(s)-in-fact to effect any transfer of unvested forfeited Shares (or Shares otherwise reacquired by the Company hereunder) and Retained Distributions (as defined below) , if any, paid on such forfeited Shares to the Company as may be required pursuant to the Plan or this Agreement and to execute such documents as the Company or such representatives deem necessary or advisable in connection with any such transfer .

(e) Retained Distributions . The Company will retain custody of all cash dividends and other distributions (" Retained Distributions ") made or declared with respect to unvested Shares (and such Retained Distributions will be subject to the Restrictions and the other terms and conditions under this Agreement that are applicable to the Shares) until such time, if ever, as the unvested Shares with respect to which such Retained Distributions shall have been made, paid or declared shall have become vested pursuant to Section 2.2(b) below. Any Retained Distributions with respect to unvested Shares shall be forfeited in the event such unvested Shares are forfeited. For purposes of this Agreement, " Restrictions " shall mean the restrictions on sale or other transfer set forth in Section 3.3 hereof and the exposure to forfeiture set forth in Section 2.2(a).

(f) Removal of Notations; Delivery of Certificates Upon Vesting . As soon as administratively practicable after the vesting of any Shares subject to the Award pursuant to Section 2.2(b) hereof, the Company shall, as applicable, either remove the notations on any Shares subject to the Award issued in book entry form which have vested or deliver to the Participant a certificate or certificates evidencing the number of Shares subject to the Award which have vested (or, in either case, such lesser number of Shares as may be permitted pursuant to Section 12.2 of the Plan). The Participant (or the beneficiary or personal representative of the Participant in the event of the Participant's death or incapacity, as the case may be) shall deliver to the Company any representations or other documents or assurances required by the Company. The Shares so delivered shall no longer be subject to the Restrictions hereunder. In addition, upon the vesting of any Shares, any Retained Distributions paid on such Shares shall be promptly paid by the Company to Participant.

2.2 Restrictions .

(a) Forfeiture . Notwithstanding any contrary provision of this Agreement, upon the Participant's Termination of Service for any or no reason, any portion of the Award (and the Shares subject thereto) which has not vested prior to or in connection with such Termination of Service (after taking into consideration any accelerated vesting and lapsing of Restrictions which may occur in connection with such Termination of Service (if any)) shall thereupon be forfeited immediately and without any further action by the Company, and the Participant's rights in any Shares and such portion of the Award shall thereupon lapse and expire.

(b) Vesting and Lapse of Restrictions; Accelerated Vesting . Subject to Section 2.2(a) above, the Award shall vest and Restrictions shall lapse in accordance with the vesting schedule set forth in the Grant Notice (rounding down to the nearest whole Share). Notwithstanding the foregoing, in the event the Participant experiences a Termination of Service by the Company (or any successor thereof) for other than Cause or by the Participant for Good Reason, in each case, within the twelve (12) month period commencing on the consummation of a Change in Control, then one hundred percent (100%) of the Award shall vest and the Restrictions thereto shall lapse as of immediately prior to such Termination of Service.

(c) Tax Withholding . As set forth in Section 12 .2 of the Plan, the Company shall have the authority and the right to deduct or withhold, or to require the Participant to remit to the Company, an amount sufficient to satisfy all applicable federal, state , foreign and local taxes required by law to be withheld with respect to any taxable event arising in connection with the Award . Such tax withholding obligations shall be made using a Sell to Cover pursuant to the Grant Notice. Notwithstanding any other provision of this Agreement, the Company shall not be obligated to deliver any certificate representing Shares to the Participant or the Participant 's legal representative or remove the notations on such Shares in book entry form unless and until the Participant or the Participant 's legal representative shall have paid or otherwise satisfied in full the amount of all federal, state , foreign and local taxes applicable to the taxable income of the Participant resulting from the grant or vesting of the Award or the issuance of Shares . By accepting this A ward, the Participant has agreed to a Sell to Cover to satisfy any tax withholding obligations and/or social security contributions and the Participant hereby acknowledges and agrees:

(i) The Participant hereby appoints the Agent as the Participant's agent and authorizes the Agent to (1) sell on the open market at the then prevailing market price(s), on the Participant's behalf, as soon as practicable on or after each vesting date, that number (rounded up to the next whole number) of the Shares so issued necessary to generate proceeds to cover (x) any tax withholding obligations incurred with respect to such vesting and (y) all applicable fees and commissions due to, or required to be collected by, the Agent with respect thereto and (2) in the Company's discretion, apply any remaining funds to the Participant's federal tax withholding or remit such remaining funds to the Participant.

(ii) The Participant hereby authorizes the Company and the Agent to cooperate and communicate with one another to determine the number of Shares that must be sold pursuant to subsection (i) above.

(iii) The Participant understands that the Agent may effect sales as provided in subsection (i) above in one or more sales and that the average price for executions resulting from bunched orders will be assigned to the Participant's account. In addition, the Participant acknowledges that it may not be possible to sell Shares as provided by in subsection (i) above due to (1) a legal or contractual restriction applicable to the Participant or the Agent, (2) a market disruption or (3) rules governing order execution priority on the national exchange where the Shares may be traded. In the event of the Agent's inability to sell Shares, the Participant will continue to be responsible for the timely payment to the Company and/or its affiliates of all federal, state, foreign and local taxes that are required by applicable laws and regulations to be withheld, including but not limited to those amounts specified in subsection (i) above.

(iv) The Participant acknowledges that regardless of any other term or condition of this Section 2.2(c), the Agent will not be liable to the Participant for (1) special, indirect, punitive, exemplary or consequential damages, or incidental losses or damages of any kind or (2) any failure to perform or for any delay in performance that results from a cause or circumstance that is beyond its reasonable control.

(v) The Participant hereby agrees to execute and deliver to the Agent any other agreements or documents as the Agent reasonably deems necessary or appropriate to carry out the purposes and intent of this Section 2.2(c). The Agent is a third-party beneficiary of this Section 2.2(c).

(vi) This Section 2.2(c) shall terminate not later than the date on which all tax withholding and obligations arising in connection with the vesting of the Shares have been satisfied.

(d) Conditions to Delivery of Shares . Subject to Section 2.1 above, the Shares deliverable under this Award may be either previously authorized but unissued Shares, treasury Shares or Shares purchased on the open market. Such Shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any Shares under this Award prior to fulfillment of the conditions set forth in Section 1 2 .4 of the Plan.

Notwithstanding the foregoing, the issuance of such Shares shall not be delayed if and to the extent that such delay would result in a violation of Section 409A of the Code. In the event that the Company delays the issuance of such Shares because it reasonably determines that the issuance of such Shares will violate Applicable Law, such issuance shall be made at the earliest date at which the Company reasonably determines that issuing such Shares will not cause such violation, as required by Treasury Regulation Section 1.409A-2(b)(7)(ii).

(e) To ensure compliance with the Restrictions, the provisions of the charter documents of the Company, and/or Applicable Law and for other proper purposes, the Company may issue appropriate "stop transfer" and other instructions to its transfer agent with respect to the Restricted Stock. The Company shall notify the transfer agent as and when the Restrictions lapse.

2.3 Consideration to the Company . In consideration of the grant of the Award pursuant hereto , the Participant agrees to render faithful and efficient services to the Company or any Affiliate.

ARTICLE III.

OTHER PROVISIONS

3.1 Section 83(b) Election . If the Participant makes an election under Section 83(b) of the Code to be taxed with respect to the Restricted Stock as of the date of transfer of the Restricted Stock rather than as of the date or dates upon which the Participant would otherwise be taxable under Section 83(a) of the Code, the Participant hereby agrees to deliver a copy of such election to the Company promptly after filing such election with the Internal Revenue Service.

3.2 Administration . The Administrator shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be final and binding upon the Participant, the Company and all other interested persons. No member of the Administrator or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Award.

3.3 Restricted Stock Not Transferable . Until the Restrictions hereunder lapse or expire pursuant to this Agreement and the Shares vest, the Restricted Stock (including any Shares received by holders thereof with respect to Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) and any Retained Distributions shall be subject to the restrictions on transferability set forth in Section 12.3 of the Plan; *provided, however* , that this Section 3.3 notwithstanding, with the consent of the Administrator, the Shares may be transferred to one or more Permitted Transferees, subject to and in accordance with Section 12.3 of the Plan.

3.4 Rights as Stockholder . Except as otherwise provided herein, upon the Grant Date, the Participant shall have all the rights of a stockholder of the Company with respect to the Shares, subject to the Restrictions, including, without limitation, voting rights and rights to receive any cash or stock dividends, in respect of the Shares subject to the Award and deliverable hereunder.

3.5 Tax Consultation. The Participant understands that the Participant may suffer adverse tax consequences in connection with the Restricted Stock granted pursuant to this Agreement (and the Shares issuable with respect thereto). The Participant represents that the Participant has consulted with any tax consultants the Participant deems advisable in connection with the Restricted Stock and that the Participant is not relying on the Company for any tax advice.

3.6 Adjustments Upon Specified Events. The Administrator may accelerate the vesting of the Restricted Stock in such circumstances as it, in its sole discretion, may determine. The Participant acknowledges that the Restricted Stock is subject to adjustment, modification and termination in certain events as provided in this Agreement and Section 14.2 of the Plan.

3.7 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the Company's principal office, and any notice to be given to the Participant shall be addressed to the Participant at the Participant's last address reflected on the Company's records. By a notice given pursuant to this Section 3.7, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

3.8 Participant's Representations. If the Shares issuable hereunder have not been registered under the Securities Act or any applicable state laws on an effective registration statement at the time of such issuance, the Participant shall, if required by the Company, concurrently with such issuance, make such written representations as are deemed necessary or appropriate by the Company and/or its counsel.

3.9 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

3.10 Governing Law. The laws of the State of Delaware shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Agreement regardless of the law that might be applied under principles of conflicts of laws.

3.11 Conformity to Securities Laws. The Participant acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act, and any and all Applicable Law. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Award is granted, only in such a manner as to conform to such Applicable Law. To the extent permitted by Applicable Law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such Applicable Law.

3.12 Amendment, Suspension and Termination. To the extent permitted by the Plan, this Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Administrator or the Board; *provided, however*, that, except as may otherwise be provided by the Plan, no amendment, modification, suspension or termination of this Agreement shall adversely affect the Award in any material way without the prior written consent of the Participant.

3.13 Successors and Assigns. The Company or any Affiliate may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company and its Affiliates. Subject to the restrictions on transfer set forth in Section 3.3 hereof, this Agreement shall be binding upon the Participant and his or her heirs, executors, administrators, successors and assigns.

3.14 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if the Participant is subject to Section 16 of the Exchange Act, then the Plan, the Award and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule .

3.15 Not a Contract of Service Relationship. Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue to serve as an Employee or other service provider of the Company or any of its Affiliates or shall interfere with or restrict in any way the rights of the Company and its Affiliates, which rights are hereby expressly reserved, to discharge or terminate the services of the Participant at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written agreement between the Company or an Affiliate and the Participant.

3.16 Entire Agreement. The Plan, the Grant Notice and this Agreement (including all Exhibits thereto, if any) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and its Affiliates and the Participant with respect to the subject matter hereof.

3.17 Limitation on the Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the Company and its Affiliates with respect to amounts credited and benefits payable, if any, with respect to the Shares issuable hereunder.

EXHIBIT B
TO RESTRICTED STOCK AWARD GRANT NOTICE

CONSENT OF SPOUSE OR REGISTERED DOMESTIC PARTNER

I, _______________, spouse or domestic partner of _______________, have read and approve the Restricted Stock Award Grant Notice (the " Grant Notice ") to which this Consent of Spouse or Registered Domestic Partner is attached and the Restricted Stock Award Agreement (the " Agreement ") attached to the Grant Notice. In consideration of issuing to my spouse or domestic partner the shares of the common stock of e.l.f. Beauty, Inc. set forth in the Grant Notice, I hereby appoint my spouse or domestic partner as my attorney-in-fact in respect to the exercise of any rights under the Agreement and agree to be bound by the provisions of the Agreement insofar as I may have any rights in said Agreement or any shares of the common stock of e.l.f. Beauty, Inc. issued pursuant thereto under the community property laws or similar laws relating to marital property in effect in the state of our residence as of the date of the signing of the foregoing Agreement.

Dated: ______________________________ ______________________________
Signature of Spouse or Domestic Partner

E xhibit 10.12(e)

E.L.F. BEAUTY , INC.
2016 EQUITY INCENTIVE AWARD PLAN

RESTRICTED STOCK AWARD GRANT NOTICE

e.l.f. Beauty, Inc., a Delaware corporation, (the " Company "), pursuant to its 2016 Equity Incentive Award Plan, as amended from time to time (the " Plan "), hereby grants to the individual listed below (the " Participant "), in consideration of the mutual agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the number of shares of the Company's Common Stock set forth below (the " Shares "). This Restricted Stock award is subject to all of the terms and conditions as set forth herein and in the Restricted Stock Award Agreement attached hereto as Exhibit A (the " Agreement ") (including without limitation the Restrictions on the Shares set forth in the Agreement) and the Plan, each of which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Restricted Stock Award Grant Notice (the " Grant Notice ") and the Agreement.

Participant:	[____]
Grant Date:	[____]
Total Number of Shares of Restricted Stock:	[______________________] Shares
Vesting Commencement Date:	[____]
Vesting Schedule:	[_________________]
Termination:	If the Participant experiences a Termination of Service, any portion of the Award (and the Shares subject thereto) that has not become vested on or prior to the date of such Termination of Service (after taking into consideration any vesting that may occur in connection with such Termination of Service, if any) will thereupon be automatically forfeited by the Participant, and the Participant's rights in such portion of the Award and any Shares subject thereto shall thereupon lapse and expire.
Withholding Tax:	Participant understands that the terms of this Award explicitly include the following (a " Sell to Cover "): Sell to Cover : Upon vesting of the Shares, the Company, on the Participant's behalf, will instruct the Company's transfer agent (together with any other party the Company determines necessary to execute the Sell to Cover, the " Agent ") to sell that number of Shares determined in accordance with Section 2.2(c) of the Agreement as may be necessary to satisfy any resulting withholding tax obligations on the Company, and the Agent will remit the cash proceeds of such sale to the Company. The Company shall then make a cash payment equal to the required tax withholding from the cash proceeds of such sale directly to the appropriate taxing authorities.

By his or her signature and the Company's signature below, the Participant agrees to be bound by the terms and conditions of the Plan, the Agreement and this Grant Notice. The Participant has reviewed the Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Agreement and the Plan. The Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, this Grant Notice or the

Agreement . If the participant is married or part of a registered domestic partnership , his or her spouse or domestic partner has signed the Consent of Spouse or Registered Domestic Partner attached to this Grant Notice as Exhibit B .

E.L.F. BEAUTY, INC.: HOLDER:		**PARTICIPANT:**	
By:	______________________	By:	______________________
Print Name:	John P. Bailey	Print Name:	______________________
Title:	Chief Financial Officer		
Address:	570 10 th Street	Address:	______________________
	Oakland, CA 94607		______________________

EXHIBIT A
TO RESTRICTED STOCK AWARD GRANT NOTICE

RESTRICTED STOCK AWARD AGREEMENT

Pursuant to the Restricted Stock Award Grant Notice (the " Grant Notice ") to which this Restricted Stock Award Agreement (this " Agreement ") is attached, e.l.f. Beauty, Inc., a Delaware corporation (the " Company "), has granted to the Participant the number of shares of Restricted Stock (the " Shares ") under the Company's 2016 Equity Incentive Award Plan, as amended from time to time (the " Plan "), as set forth in the Grant Notice. Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and Grant Notice.

ARTICLE I.

GENERAL

1.1 Incorporation of Terms of Plan . The Award (as defined below) is subject to the terms and conditions of the Plan, which are incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

ARTICLE II.

AWARD OF RESTRICTED STOCK

2.1 Award of Restricted Stock .

(a) Award . Pursuant to the Grant Notice and upon the terms and conditions set forth in the Plan and this Agreement, effective as of the Grant Date set forth in the Grant Notice, the Company has granted to the Participant an award of Restricted Stock (the " Award ") under the Plan in consideration of the Participant's past and/or continued employment with or service to the Company or any Affiliate, and for other good and valuable consideration. The number of Shares subject to the Award is set forth in the Grant Notice. The Participant is an Employee, Director or Consultant of the Company or one of its Affiliates.

(b) Book Entry Form; Certificates . At the sole discretion of the Administrator, the Shares will be issued in either (i) uncertificated form, with the Shares recorded in the name of the Participant in the books and records of the Company's transfer agent with appropriate notations regarding the restrictions on transfer imposed pursuant to this Agreement, and upon vesting and the satisfaction of all conditions set forth in Sections 2.2(b) and (d) hereof, the Company shall remove such notations on any such vested Shares in accordance with Section 2.2(e) below; or (ii) certificated form pursuant to the terms of Sections 2.1(c), (d) and (e) below.

(c) Legend . Certificates representing Shares issued pursuant to this Agreement shall, until all Restrictions (as defined below) imposed pursuant to this Agreement lapse or have been removed and the Shares have thereby become vested or the Shares represented thereby have been forfeited hereunder, bear the following legend (or such other legend as shall be determined by the Administrator):

> "THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN VESTING REQUIREMENTS AND MAY BE SUBJECT TO FORFEITURE UNDER THE TERMS OF A RESTRICTED STOCK AWARD AGREEMENT, BY AND BETWEEN E.L.F. BEAUTY, INC. AND THE REGISTERED OWNER OF

SUCH SHARES, AND SUCH SHARES MAY NOT BE, DIRECTLY OR INDIRECTLY, OFFERED, TRANSFERRED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHERWISE DISPOSED OF UNDER ANY CIRCUMSTANCES, EXCEPT PURSUANT TO THE PROVISIONS OF SUCH AGREEMENT."

(d) Escrow . The Secretary of the Company or such other escrow holder as the Administrator may appoint may retain physical custody of any certificates representing the Shares until all of the Restrictions on transfer imposed pursuant to this Agreement lapse or shall have been removed; in such event, the Participant shall not retain physical custody of any certificates representing unvested Shares issued to him or her. The Participant, by acceptance of the Award, shall be deemed to appoint, and does so appoint, the Company and each of its authorized representatives as the Participant's attorney(s)-in-fact to effect any transfer of unvested forfeited Shares (or Shares otherwise reacquired by the Company hereunder) and Retained Distributions (as defined below), if any, paid on such forfeited Shares to the Company as may be required pursuant to the Plan or this Agreement and to execute such documents as the Company or such representatives deem necessary or advisable in connection with any such transfer.

(e) Retained Distributions . The Company will retain custody of all cash dividends and other distributions (" Retained Distributions ") made or declared with respect to unvested Shares (and such Retained Distributions will be subject to the Restrictions and the other terms and conditions under this Agreement that are applicable to the Shares) until such time, if ever, as the unvested Shares with respect to which such Retained Distributions shall have been made, paid or declared shall have become vested pursuant to Section 2.2(b) below. Any Retained Distributions with respect to unvested Shares shall be forfeited in the event such unvested Shares are forfeited. For purposes of this Agreement, "Restrictions" shall mean the restrictions on sale or other transfer set forth in Section 3.3 hereof and the exposure to forfeiture set forth in Section 2.2(a).

(f) Removal of Notations; Delivery of Certificates Upon Vesting . As soon as administratively practicable after the vesting of any Shares subject to the Award pursuant to Section 2.2(b) hereof, the Company shall, as applicable, either remove the notations on any Shares subject to the Award issued in book entry form which have vested or deliver to the Participant a certificate or certificates evidencing the number of Shares subject to the Award which have vested (or, in either case, such lesser number of Shares as may be permitted pursuant to Section 12.2 of the Plan). The Participant (or the beneficiary or personal representative of the Participant in the event of the Participant's death or incapacity, as the case may be) shall deliver to the Company any representations or other documents or assurances required by the Company. The Shares so delivered shall no longer be subject to the Restrictions hereunder. In addition, upon the vesting of any Shares, any Retained Distributions paid on such Shares shall be promptly paid by the Company to Participant.

2.2 Restrictions .

(a) Forfeiture . Notwithstanding any contrary provision of this Agreement, upon the Participant's Termination of Service for any or no reason, any portion of the Award (and the Shares subject thereto) which has not vested prior to or in connection with such Termination of Service (after taking into consideration any accelerated vesting and lapsing of Restrictions which may occur in connection with such Termination of Service (if any)) shall thereupon be forfeited immediately and without any further action by the Company, and the Participant's rights in any Shares and such portion of the Award shall thereupon lapse and expire.

(b) Vesting and Lapse of Restrictions ; Accelerated Vesting . Subject to Section 2.2 (a) above , the Award shall vest and Restrictions shall lapse in accordance with the vesting schedule set forth in the Grant Notice (rounding down to the nearest whole Share) . Notwithstanding the foregoing, one hundred percent (100%) of the Award shall vest and the Restrictions thereto shall lapse immediately prior to the consummation of a Change in Control.

(c) Tax Withholding . As set forth in Section 12.2 of the Plan, the Company shall have the authority and the right to deduct or withhold, or to require the Participant to remit to the Company, an amount sufficient to satisfy all applicable federal, state, foreign and local taxes required by law to be withheld with respect to any taxable event arising in connection with the Award. Such tax withholding obligations shall be made using a Sell to Cover pursuant to the Grant Notice. Notwithstanding any other provision of this Agreement, the Company shall not be obligated to deliver any certificate representing Shares to the Participant or the Participant's legal representative or remove the notations on such Shares in book entry form unless and until the Participant or the Participant's legal representative shall have paid or otherwise satisfied in full the amount of all federal, state, foreign and local taxes applicable to the taxable income of the Participant resulting from the grant or vesting of the Award or the issuance of Shares. By accepting this Award, the Participant has agreed to a Sell to Cover to satisfy any tax withholding obligations and/or social security contributions and the Participant hereby acknowledges and agrees:

(i) The Participant hereby appoints the Agent as the Participant's agent and authorizes the Agent to (1) sell on the open market at the then prevailing market price(s), on the Participant's behalf, as soon as practicable on or after each vesting date, that number (rounded up to the next whole number) of the Shares so issued necessary to generate proceeds to cover (x) any tax withholding obligations incurred with respect to such vesting and (y) all applicable fees and commissions due to, or required to be collected by, the Agent with respect thereto and (2) in the Company's discretion, apply any remaining funds to the Participant's federal tax withholding or remit such remaining funds to the Participant.

(ii) The Participant hereby authorizes the Company and the Agent to cooperate and communicate with one another to determine the number of Shares that must be sold pursuant to subsection (i) above.

(iii) The Participant understands that the Agent may effect sales as provided in subsection (i) above in one or more sales and that the average price for executions resulting from bunched orders will be assigned to the Participant's account. In addition, the Participant acknowledges that it may not be possible to sell Shares as provided by in subsection (i) above due to (1) a legal or contractual restriction applicable to the Participant or the Agent, (2) a market disruption or (3) rules governing order execution priority on the national exchange where the Shares may be traded. In the event of the Agent's inability to sell Shares, the Participant will continue to be responsible for the timely payment to the Company and/or its affiliates of all federal, state, foreign and local taxes that are required by applicable laws and regulations to be withheld, including but not limited to those amounts specified in subsection (i) above.

(iv) The Participant acknowledges that regardless of any other term or condition of this Section 2.2(c), the Agent will not be liable to the Participant for (1) special, indirect, punitive, exemplary or consequential damages, or incidental losses or damages of any kind or (2) any failure to perform or for any delay in performance that results from a cause or circumstance that is beyond its reasonable control.

(v) The Participant hereby agrees to execute and deliver to the Agent any other agreements or documents as the Agent reasonably deems necessary or appropriate to carry out the purpose s and intent of this Section 2.2(c). The Agent is a third-party benefi ciary of this Section 2.2(c).

(vi) This Section 2.2(c) shall terminate not later than the date on which all tax withholding and obligations arising in connection with the vesting of the Shares have been satisfied.

(d) Conditions to Delivery of Shares . Subject to Section 2.1 above, the Shares deliverable under this Award may be either previously authorized but unissued Shares, treasury Shares or Shares purchased on the open market. Such Shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any Shares under this Award prior to fulfillment of the conditions set forth in Section 12.4 of the Plan.

Notwithstanding the foregoing, the issuance of such Shares shall not be delayed if and to the extent that such delay would result in a violation of Section 409A of the Code. In the event that the Company delays the issuance of such Shares because it reasonably determines that the issuance of such Shares will violate Applicable Law, such issuance shall be made at the earliest date at which the Company reasonably determines that issuing such Shares will not cause such violation, as required by Treasury Regulation Section 1.409A-2(b)(7)(ii).

(e) To ensure compliance with the Restrictions, the provisions of the charter documents of the Company, and/or Applicable Law and for other proper purposes, the Company may issue appropriate "stop transfer" and other instructions to its transfer agent with respect to the Restricted Stock. The Company shall notify the transfer agent as and when the Restrictions lapse.

2.3 Consideration to the Company . In consideration of the grant of the Award pursuant hereto , the Participant agrees to render faithful and efficient services to the Company or any Affiliate.

ARTICLE III.

OTHER PROVISIONS

3.1 Section 83(b) Election . If the Participant makes an election under Section 83(b) of the Code to be taxed with respect to the Restricted Stock as of the date of transfer of the Restricted Stock rather than as of the date or dates upon which the Participant would otherwise be taxable under Section 83(a) of the Code, the Participant hereby agrees to deliver a copy of such election to the Company promptly after filing such election with the Internal Revenue Service.

3.2 Administration . The Administrator shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be final and binding upon the Participant, the Company and all other interested persons. No member of the Administrator or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Award.

3.3 Restricted Stock Not Transferable . Until the Restrictions hereunder lapse or expire pursuant to this Agreement and the Shares vest, the Restricted Stock (including any Shares received by holders thereof with respect to Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) and any Retained Distributions shall be subject to the restrictions on transferability set forth in Section 12.3 of the Plan; *provided, however* , that this Section 3.3

notwithstanding, with the consent of the Administrator , the Shares may be transferred to one or more Permitted Transferees , subject to and in accordance with Section 1 2 .3 of the Plan .

3.4 Rights as Stockholder . Except as otherwise provided herein, upon the Grant Date, the Participant shall have all the rights of a stockholder of the Company with respect to the Shares, subject to the Restrictions, including, without limitation, voting rights and rights to receive any cash or stock dividends, in respect of the Shares subject to the Award and deliverable hereunder.

3.5 Tax Consultation . The Participant understands that the Participant may suffer adverse tax consequences in connection with the Restricted Stock granted pursuant to this Agreement (and the Shares issuable with respect thereto). The Participant represents that the Participant has consulted with any tax consultants the Participant deems advisable in connection with the Restricted Stock and that the Participant is not relying on the Company for any tax advice.

3.6 Adjustments Upon Specified Events . The Administrator may accelerate the vesting of the Restricted Stock in such circumstances as it, in its sole discretion, may determine. The Participant acknowledges that the Restricted Stock is subject to adjustment, modification and termination in certain events as provided in this Agreement and Section 14.2 of the Plan.

3.7 Notices . Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the Company's principal office, and any notice to be given to the Participant shall be addressed to the Participant at the Participant's last address reflected on the Company's records. By a notice given pursuant to this Section 3.7, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

3.8 Participant's Representations . If the Shares issuable hereunder have not been registered under the Securities Act or any applicable state laws on an effective registration statement at the time of such issuance, the Participant shall, if required by the Company, concurrently with such issuance, make such written representations as are deemed necessary or appropriate by the Company and/or its counsel.

3.9 Titles . Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

3.10 Governing Law . The laws of the State of Delaware shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Agreement regardless of the law that might be applied under principles of conflicts of laws.

3.11 Conformity to Securities Laws . The Participant acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act, and any and all Applicable Law. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Award is granted, only in such a manner as to conform to such Applicable Law. To the extent permitted by Applicable Law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such Applicable Law.

3.12 Amendment, Suspension and Termination . To the extent permitted by the Plan, this Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Administrator or the Board; *provided, however* , that, except as may otherwise be provided by the Plan, no amendment, modification, suspension or termination of this

Agreement shall adversely affect the Award in any material way without the prior written consent of the Participant .

3.13 Successors and Assigns . The Company or any Affiliate may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company and its Affiliates. Subject to the restrictions on transfer set forth in Section 3.3 hereof, this Agreement shall be binding upon the Participant and his or her heirs, executors, administrators, successors and assigns.

3.14 Limitations Applicable to Section 16 Persons . Notwithstanding any other provision of the Plan or this Agreement, if the Participant is subject to Section 16 of the Exchange Act, then the Plan, the Award and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

3.15 Not a Contract of Service Relationship . Nothing in this Agreement or in the Plan shall confer upon the Participant any right to continue to serve as an Employee or other service provider of the Company or any of its Affiliates or shall interfere with or restrict in any way the rights of the Company and its Affiliates, which rights are hereby expressly reserved, to discharge or terminate the services of the Participant at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in a written agreement between the Company or an Affiliate and the Participant.

3.16 Entire Agreement . The Plan, the Grant Notice and this Agreement (including all Exhibits thereto, if any) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and its Affiliates and the Participant with respect to the subject matter hereof.

3.17 Limitation on the Participant's Rights . Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the Company and its Affiliates with respect to amounts credited and benefits payable, if any, with respect to the Shares issuable hereunder.

EXHIBIT B
TO RESTRICTED STOCK AWARD GRANT NOTICE

CONSENT OF SPOUSE OR REGISTERED DOMESTIC PARTNER

I, ______________, spouse or domestic partner of ______________, have read and approve the Restricted Stock Award Grant Notice (the " Grant Notice ") to which this Consent of Spouse or Registered Domestic Partner is attached and the Restricted Stock Award Agreement (the " Agreement ") attached to the Grant Notice. In consideration of issuing to my spouse or domestic partner the shares of the common stock of e.l.f. Beauty, Inc. set forth in the Grant Notice, I hereby appoint my spouse or domestic partner as my attorney-in-fact in respect to the exercise of any rights under the Agreement and agree to be bound by the provisions of the Agreement insofar as I may have any rights in said Agreement or any shares of the common stock of e.l.f. Beauty, Inc. issued pursuant thereto under the community property laws or similar laws relating to marital property in effect in the state of our residence as of the date of the signing of the foregoing Agreement.

Dated: ______________________________ ______________________________
Signature of Spouse or Domestic Partner

Exhibit 10.19

SECOND AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This Second Amended and Restated Employment Agreement (this " **Agreement** "), is made and entered into on the 5 th day of December 2016 (the " **Effective Date** "), by and among e.l.f. Cosmetics, Inc. (together with its successor, the " **Company** "), e.l.f. Beauty, Inc., the owner of all of the outstanding capital stock of the Company (together with its successor, " **Holdings** "), and Erin Daley (" **Executive** "). This Agreement amends and restates in its entirety that certain Employment Agreement (the " **Prior Agreement** ") by and among the Company, Holdings and Executive dated as of February 3, 2014 (" **Prior Agreement Effective Date** ") and that certain Amended and Restated Employment Agreement by and among the Company, Holdings and Executive dated as of September 7, 2016.

WHEREAS, the Company desires to assure itself of the continued services of Executive on the terms and conditions contained herein; and

WHEREAS, Executive desires to continue to be employed by and render services to the Company upon and subject to the terms, conditions and other provisions set forth herein.

NOW THEREFORE, in consideration of the promises and mutual covenants and agreements contained herein, the adequacy of all of which consideration is hereby acknowledged, the parties hereby agree as follows:

1. DEFINITIONS

The following words and terms shall have the meanings set forth below for the purposes of this Agreement:

" **Board of Directors** " means the Board of Directors of Holdings.

" **Cause** " means (i) a breach by Executive of Executive's obligations under Section 2.2 (other than as a result of physical or mental incapacity) which constitutes material nonperformance by Executive of her obligations and duties thereunder, which Executive has failed to remedy after the Board of Directors has given Executive written notice of, and at least fifteen (15) days to remedy, such breach, (ii) commission by Executive of an act of fraud, embezzlement, misappropriation, willful misconduct or breach of fiduciary duty against the Company (other than acts, such as making personal use of Company office supplies, as have only a de minimis effect on the Company), (iii) a material breach by Executive of Section 6 of this Agreement, (iv) Executive's conviction, plea of no contest or nolo contendere, deferred adjudication or unadjudicated probation for any felony or any crime involving moral turpitude, (v) the failure of Executive to carry out, or comply with, in any material respect, any lawful directive of the Board of Directors (other than any such failure resulting from Executive's physical or mental incapacity) which Executive has failed to remedy after the Board of Directors has given Executive written notice of, and at least fifteen (15) days to remedy, such failure, or (vi) Executive's unlawful use (including being under the influence) or possession of illegal drugs. For purposes of the previous sentence, no act or failure to act on Executive's part shall be deemed “willful” unless done, or omitted to be done, by Executive not in good faith and without reasonable belief that Executive’s action or omission was in the best interest of the Company.

“ **Disability** ” means Executive’s inability to perform, with or without reasonable accommodation, the essential functions of her position hereunder for a period of one hundred eighty (180) consecutive days due to mental or physical incapacity, as determined by mutual agreement of a physician selected by the Company or its insurers and a physician selected by Executive; provided, however, if the opinion of the Company’s physician and Executive’s physician conflict, the Company’s physician and Executive’s physician shall together agree upon a third physician, whose opinion shall be binding ; provided , however , that Executive shall not be considered to have a Disability unless it is also treated as a disability under the Company’s long-term disability policy.

“ **Good Reason** ” means: (i) a material default in the performance of the Company’s obligations under this Agreement; (ii) a significant diminution of Executive’s responsibilities, duties or authority as Senior Vice President – Innovation and Corporate Strategy , or a material diminution of Executive’s base compensation, unless such diminution is mutually agreed between Executive and the Company; or (iii) the relocation of Executive’s principal office, without her consent, to a location that is in excess of fifty (50) miles from San Francisco (it being understood and agreed that Executive’s travel for business purposes shall not be considered such a relocation); provided, however, that Executive’s termination will not be for Good Reason unless (x) Executive has given the Company at least thirty (30) days prior written notice of her intent to terminate her employment for Good Reason, which notice shall specify the facts and circumstances constituting Good Reason and be given within ninety (90) days of the initial occurrence thereof, (y) the Company has not remedied such facts and circumstances constituting Good Reason within thirty (30) days following the receipt of such notice, and (z) Executive terminates employment within six (6) months following the expiration of such thirty (30)-day cure period.

“ **Notice of Termination** ” means a dated notice that (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive’s employment under the provision so indicated, (iii) specifies a Termination Date, except in the case of the Company’s termination of Executive’s employment for Cause, for which the Termination Date may be the date of the notice; provided , however , that Executive has been provided with any applicable cure period, and (iv) is given in the manner specified in Section 7.2 hereof. With the exception of termination of Executive’s employment due to Executive’s death, any purported termination of Executive’s employment by the Company for any reason, including without limitation for Cause or Disability, or by Executive for any reason, shall be communicated by a written “Notice of Termination” to the other party. The failure by the Company or Executive to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Cause or Good Reason, as applicable, shall not waive any right of the Company or Executive under this Agreement or preclude the Company or Executive from asserting such fact or circumstance in enforcing the Company’s or Executive’s rights under this Agreement.

“ **Termination Date** ” means (i) if Executive’s employment is terminated for Cause or Disability, the date specified in the Notice of Termination, (ii) in the case of termination of employment due to death, the date of Executive’s death, (iii) if either party elects not to extend the Term of this Agreement pursuant to Section 2.1, the close of business on the day immediately preceding the next scheduled Extension Date, or (iv) if Executive’s employment is terminated for any other reason, the date on which a Notice of Termination is given or as specified in such Notice.

2. EMPLOYMENT

2.1 Agreement and Term. The Company hereby agrees to continue to employ Executive as an employee of the Company, and Executive hereby agrees to continue to render services to the Company, on the terms and conditions set forth in this Agreement. Unless terminated earlier as set forth herein, the term of employment under this Agreement shall commence on the Effective Date and shall end on the fifth (5^{th}) anniversary of the Prior Agreement Effective Date (the “ **Term** ”); provided , however , that commencing on the fifth (5^{th}) anniversary of the Prior Agreement Effective Date and on each anniversary thereafter (each an “ **Extension Date** ”), the Term shall be automatically extended for an additional one (1) year period, unless either party gives written notice that the Term shall not be so extended at least sixty (60) days prior to the next Extension Date.

2.2 Position and Duties. Except as otherwise provided in this Agreement, during the Term of this Agreement, Executive shall continue to serve as Senior Vice President – Innovation and Corporate Strategy and report directly to the Chief Executive Officer. Executive shall perform duties, undertake the responsibilities, and exercise the authorities customarily performed, undertaken and exercised by persons situated in a similar capacity at a similar company. Executive shall carry out her duties and responsibilities at all times in compliance with the Company’s Manual of Corporate Authorities, as in effect from time to time, and in compliance with any other policies promulgated from time to time by the Company. Executive shall also perform such other duties, commensurate with her position, as reasonably requested by the Board of Directors. During the Term of this Agreement, Executive shall use her best efforts to serve the Company faithfully, diligently and competently and to the best of her ability, and to devote her full time business hours, energy, ability, attention and skill to the business of the Company; provided , however , that the foregoing is not intended to preclude Executive from noncompetitive activities, conducted outside normal business hours permitted under Section 2.3 hereof.

2.3 Outside Activities. It shall not be a violation of this Agreement for Executive to (i) deliver lectures or fulfill speaking engagements; (ii) manage personal investments; or (iii) subject to the prior consent of the Board of Directors (which consent shall not be unreasonably withheld), serve on industry trade, civic, or charitable boards or committees or on for-profit corporate boards of directors and advisory committees, as long as the activities set forth in (i) – (iii) (taken together or separately) do not materially interfere with the performance of Executive’s duties hereunder and are not in conflict or competitive with, or adverse to, the Company. Executive shall not, however, under any circumstances, provide services or advice in any capacity whatsoever for, or on behalf of, any entity that competes with, or is competitive with, the Company.

2.4 Location . During the Term, Executive shall continue to be based in the San Francisco Bay A rea.

3. COMPENSATION AND BENEFITS

3.1 Salary. The Company shall compensate and pay Executive for her services at a rate equivalent to $275,000 per year, less payroll deductions and all required tax withholdings (" **Base Salary** "), which salary shall be payable in accordance with the Company's customary payroll practices applicable to its executives, but no less frequently than monthly.

3.2 Bonus. During the Term of this Agreement, Executive shall have the opportunity to earn annual performance bonuses based on performance criteria to be established by the Board of Directors after consultation with Executive. For fiscal year 2016, Executive shall be eligible to receive a target cash bonus of 30% of her base salary stated in the Amended and Restated Employment Agreement based upon the attainment of performance objectives established by the Board of Directors after consultation with Executive. Commencing in fiscal year 2017, Executive shall be eligible to receive a target cash bonus of 30% of her Base Salary (stated above) based upon the attainment of performance objectives established by the Board of Directors after consultation with Executive. Unless set forth otherwise herein, Executive must be actively employed with the Company through the end of the applicable fiscal year in order to receive any annual bonus payout pursuant to this subsection. Any bonus payable hereunder in respect of a fiscal year shall be paid at the same time annual bonuses are paid to other senior executives of the Company in respect of such fiscal year; but in any event within the fiscal year following the fiscal year of performance.

3.3 Employee Benefits. During the Term of this Agreement, to the extent eligible under the applicable plans or programs, Executive shall be entitled to participate in the employee benefits plans and programs made available to executive level employees of the Company generally, such as health, medical, dental and other insurance coverage and group retirement plans. The terms and conditions of Executive's participation in any employee benefit plan or program shall be subject to the terms and conditions of such plan or program, as may be modified by the Company from time to time. Nothing in this Agreement shall preclude the Company from amending or terminating any employee benefit plan or program.

3.4 Paid Leave. Executive shall be entitled to four (4) weeks of paid time off each year, subject an annual accrual cap of thirty (30) days. Executive shall also be entitled to all paid holidays to which executive level employees of the Company are entitled. Accrued unused paid time off shall be paid in the event of a termination of employment.

4. EXPENSES

4.1 Expenses. The Company shall reimburse Executive or otherwise provide for or pay for reasonable out-of-pocket expenses incurred by Executive in furtherance of or in connection with the business of the Company, including, but not limited to, travel and entertainment expenses commensurate with her duties hereunder (including attendance at industry conferences), subject to the Company's policies as periodically reviewed by the Board of Directors and in effect from time to time, including without limitation such reasonable documentation and other limitations as may be established or required by the Company.

5. TERMINATION

5.1 Termination Due to Death or Disability. If Executive's employment is terminated by reason of Executive's death or Disability, Executive or her estate shall be entitled to receive: (a) Executive's accrued Base Salary through the Termination Date; (b) an amount for reimbursement, paid within sixty (60) days following submission by Executive (or if applicable, Executive's estate) to the Company of appropriate supporting documentation for any unreimbursed business expenses properly incurred prior to the Termination Date by Executive pursuant to Section 4 and in accordance with Company policy; (c) any accrued and unpaid paid time off , paid within sixty (60) days of the Termination Date; and (d) such employee benefits, if any, to which Executive (or, if applicable, Executive's estate) or her dependents may be entitled under the employee benefit plans or programs of the Company, paid in accordance with the terms of the applicable plans or programs (the amounts described in clauses (a) through (d) hereof being referred to as the " **Accrued Rights** "). In addition, Executive or her estate shall be entitled to receive (x) in a lump sum in cash within two and one-half (2 ½) months after the Termination Date (or such earlier date as required by applicable law), the amount of any annual bonus earned for any previously completed fiscal year in accordance with Section 3.2 that has not been paid (the " **Accrued Bonus** ").

5.2 Termination by Executive without Good Reason and other than Disability or Death. I n the event Executive terminates her employment for any reason other than Good Reason, Disability or death, Executive shall be entitled to receive the Accrued Rights, but following the Termination Date, Executive shall have no further rights to any other compensation or benefits under this Agreement, including without limitation any severance or continuation of benefits or otherwise.

5.3 Termination by the Company for Cause. In the event the Company terminates her employment for Cause, Executive shall be entitled to receive the Accrued Rights, but following the Termination Date, Executive shall have no further rights to any other compensation or benefits under this Agreement, including without limitation any severance or continuation of benefits or otherwise.

5.4 Termination by the Company Other Than for Death, Disability or Cause or by Executive for Good Reason. If Executive's employment is terminated by the Company prior to the end of the Term for reasons other than death, Disability or Cause, or by Executive prior to the end of the Term for Good Reason, Executive shall be entitled to receive (a) an amount equal to six weeks of Base Salary; (b) the Accrued Bonus; and (c) the Accrued Rights; provided that the payment described in clause (a) shall be subject to Executive's continued compliance with the provisions of Section 6 and of the release delivered under Section 5.9.

5.5 Termination by Mutual Consent. Notwithstanding any of the foregoing provisions of this Section 5, if at any time during the course of this Agreement the parties by mutual consent decide to terminate Executive's employment, they may do so by separate agreement setting forth the terms and conditions of such termination.

5.6 Termination by Non-Extension of Term. Notwithstanding anything herein to the contrary, in the event either party elects not to extend the Term of this Agreement pursuant to Section 2.1 hereto, Executive's employment with the Company hereunder shall automatically terminate upon expiration of the Term of this Agreement on the Termination Date. In the event of such non-extension of the Term, unless Executive's employment is earlier terminated otherwise pursuant to Section 5 hereof, Executive shall be entitled to receive the Accrued Rights and the Accrued Bonus . Following the Termination Date, Executive shall have no further rights to any other compensation or benefits under this Agreement, including without limitation any severance or continuation of benefits or otherwise.

5.7 Payment of Severance. Subject to Section 7.13, any severance payments pursuant to Section 5.4(a) hereof shall be paid within ten (10) days of the expiration of the revocation period set forth in a duly executed release delivered by Executive per the terms of Section 5.8 hereof.

5.8 Release of Claims; Offsets. As a condition to the receipt of any payments of benefits described hereunder subsequent to the termination of the employment of Executive (other than Accrued Rights), Executive shall be required to execute, and not subsequently revoke, within sixty (60) days following the termination of her employment a release in a form reasonably acceptable to the Company of all claims arising out of her employment or the termination thereof. Subject to the limitations of applicable wage laws, the Company's obligations to pay the severance benefits hereunder shall be subject to set-off, counterclaim or recoupment of amounts owed by Executive to the Company or any of its affiliates, except to the extent that the severance benefits constitute "nonqualified deferred compensation" for purposes of Section 409A (as defined in Section 7.13) and such offset would result in the imposition of tax or other adverse tax consequences under Section 409A. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not Executive obtains other employment.

5.9 Cooperation with Company after Termination of Employment. Following termination of Executive's employment for any reason, Executive shall reasonably cooperate with the Company in all matters relating to the winding up of her pending work on behalf of the Company including, but not limited to, any litigation in which the Company is involved and the orderly transfer of any such pending work to other employees of the Company as may be designated by the Company. The Company shall reasonably compensate Executive for services rendered pursuant to this Section 5.9 at a rate to be determined by the parties. In addition, the Company shall reimburse Executive for any reasonable out-of-pocket expenses she incurs in performing any work on behalf of the Company following the termination of her employment.

6. NON-SOLICITATION & NON-COMPETITION

6.1 Non-Compete. Executive agrees that during the Term and for one year following the Termination Date (the " **Restricted Period** "), Executive shall not, anywhere in the areas where the Company conducts business during the Term (the " **Restricted Territory** "), directly or indirectly, own, manage, operate, join, control or participate in the ownership, management, operation or control of, or be an officer or an employee of any business or organization that, directly or indirectly, develops, processes, packages, markets, promotes or sells color cosmetics or related services in the Restricted Territories (each, a " **Restricted Business** ") . The foregoing shall not restrict Executive from (a) owning up to five percent (5%) of any class of securities of any person engaged in a Restricted Business if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934, as amended, as long as such securities are held solely as a passive investment and not with a view to influencing, controlling or directing the affairs of such person), or (b) following Executive's termination of employment, being an officer, director, employee, shareholder, consultant, contractor, partner, joint venturer, agent, equity owner or acting in another capacity of or for (i) a business that principally sells retail goods (such as Wal -Mart) for which sales of products manufactured by a Restricted Business generate less than ten percent (10 %) of its revenue or (ii) a business entity that has multiple lines of business, some of which are not a Restricted Business, so long as Executive's services for such entity are restricted so that s he will provide no services or other assistance in support of, and will not otherwise be involved with, any Restricted Business conducted by such entity (except that Executive shall be permitted to serve in a management capacity with responsibility for multiple product lines so long as such responsibility does not cover product lines for which more than 10 % of the collective revenues are generated by a Restricted Business).

6.2 Non-Solicitation. Executive agrees that during the Restricted Period, Executive will not, directly or indirectly, for herself or on behalf of or in conjunction with any other person, (i) hire or attempt to hire any person that is an employee of the Company or was within six (6) months prior to the Termination Date; provided , however , this Section 6.2 (including clause (ii) below) shall not be breached by a solicitation to the general public or through general advertising, and Executive may solicit for employment any person who at the Termination Date had not been an employee of the Company at any time within six (6) months preceding such date or whose employment with the Company had terminated more than six months prior to Executive's solicitation of such person or (ii) solicit, advise or encourage any person, firm, government agency or corporation to withdraw, curtail or cancel its business with the Company.

6.3 Non-Disparagement. During the Term and thereafter, Executive agrees that she will not, at any time, make, directly or indirectly, any oral or written statements that are disparaging of the Company, its products or services, or any of its present or former officers, directors, stockholders or employees (or any of their respective Affiliates), and the Company shall instruct its Board and executives not to disparage Executive orally or in writing at any time; provided that either party may confer in confidence with its legal representatives and make truthful statements as required by law.

6.4 Reasonable Limitation and Severability. The parties agree that the above restrictions on competition are (i) reasonable given Executive's role with the Company, and are necessary to protect the interests of the Company and (ii) completely severable and independent agreements supported by good and valuable consideration and, as such, shall survive the termination of this Agreement for any reason whatsoever. The parties further agree that any invalidity or unenforceability of any one or more of such restrictions on competition shall not render invalid or unenforceable any remaining restrictions on competition. Additionally, should a court of competent jurisdiction determine that the scope of any provision of this Section 6 is too broad to be enforced as written, the parties hereby authorize the court to reform the provision to such narrower scope as it determines to be reasonable and enforceable and the parties intend that the affected provision be enforced as so amended.

6.5 Confidential Information. Executive acknowledges and agrees that the customers, business connections, customer lists, procedures, operations, techniques and other aspects of and information about the business of the Company (the " **Confidential Information** ") are established at great expense and protected as confidential information and provide the Company with a substantial competitive advantage in conducting its business. Executive further acknowledges and agrees that by virtue of her employment with the Company, she has had access to and will have access to, and has been entrusted with and will be entrusted with Confidential Information, and that the Company would suffer great loss and injury if Executive would disclose this information or use it in a manner not specifically authorized by the Company. Therefore, Executive agrees that during the Term and at all times thereafter, she will not, directly or indirectly, either individually or as an employee, agent, partner, shareholder, owner trustee, beneficiary, co-venturer distributor, consultant or in any other capacity, use or disclose or cause to be used or disclosed any Confidential Information, unless and to the extent (i) that any such information becomes generally known to and available for use by the public other than as a result of Executive's acts or omissions, (ii) authorized in writing by the Board of Directors or compelled by legal process (provided that Executive provides the Company with advance notice adequate to afford the Company reasonable opportunity to limit or prevent such disclosure), or (iii) use or disclosure is to an employee of the Company or a person to whom disclosure is reasonably necessary or appropriate in connection with the performance by Executive of her duties as an employee or director of the Company. Executive shall deliver to the Company at the termination of the Term, or at any other time the Company may request, all memoranda, notes, plans, records, reports, computer tapes, printouts and software and other documents and data (and copies thereof) relating to the Confidential Information or Work Product (as defined below) which she may then possess or have under her control, provided that Executive shall be entitled to retain her telephone, address and other contact directories subject to compliance with Sections 6.1 through 6.3. Executive acknowledges and agrees that all inventions, innovations, improvements, developments, methods, designs, analyses, drawings, reports and all similar or related information (whether or not patentable) that relate to the Company's actual or anticipated business and that are conceived, developed or made by Executive while employed by the Company and during work hours or by the use of the facilities or Confidential Information of the Company (" **Work Product** ") belong to the Company.

7. GENERAL PROVISIONS

7.1 Assignment. The Company shall assign this Agreement and its rights and obligations hereunder in whole, but not in part, to any company or other entity with or into which the Company may hereafter merge or consolidate or to which the Company may transfer all or substantially all of its assets, and in any such case said company or other entity shall by operation of law or expressly in writing assume all obligations of the Company hereunder as fully as if it had been originally made a party hereto. Such assignment will not release the Company from any payment obligations hereunder. Executive may not assign or transfer this Agreement or any rights or obligations hereunder.

7.2 Notice. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below:

To the Company:	TPG Growth 345 California Street, Suite 3300 San Francisco, California 94104 Attn: Shamik Patel Email: spatel@tpg.com
To Executive:	Erin Daley 239 Chenery Street San Francisco, CA 94131 Email: erin_daley@yahoo.com

7.3 Amendment and Waiver. No provision of this Agreement may be amended or waived unless such amendment or waiver is in writing and signed by each of the parties hereto.

7.4 Non-Waiver of Breach. No failure by either party to declare a default due to any breach of any obligation under this Agreement by the other, nor failure by either party to act quickly with regard thereto, shall be considered to be a waiver of any such obligation, or of any future breach.

7.5 Severability. In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect.

7.6 Governing Law. To the extent not preempted by federal law, the validity and effect of this Agreement and the rights and obligations of the parties hereto shall be construed and determined in accordance with the law of California.

7.7 Arbitration .

(a) Except with respect to disputes and claims under Section 6 (which the parties hereto may pursue in any court of competent jurisdiction as specified herein and with respect to which each party shall bear the cost of its own attorneys' fees and expenses, except to the extent otherwise required by applicable law), each party hereto agrees that arbitration, pursuant to the procedures set forth in the National Rules for the Resolution of Employment Disputes of the American Arbitration Association (" **AAA** ") as adopted and effective as of June 1, 1997 or such later version as may then be in effect) (the " **AAA Rules** "), shall be the sole and exclusive method for resolving any claim or dispute (" **Claim** ") arising out of or relating to the rights and obligations of the parties under this Agreement and the employment of Executive by the Company (including any Claim regarding employment discrimination, sexual harassment, termination and discharge), whether such Claim arose or the facts on which such Claim is based occurred prior to or after the execution and delivery of this Agreement.

(b) The parties hereto agree that (i) one arbitrator shall be appointed pursuant to the AAA Rules to conduct any such arbitration, (ii) all meetings of the parties and all hearings with respect to any such arbitration shall take place in Oakland, California and (iii) each party to the arbitration shall bear its own costs and expenses (including all attorneys' fees and expenses, except to the extent otherwise required by applicable law) and all costs and expenses of the arbitration proceeding (such as filing fees, the arbitrator's fees, hearing expenses, etc.) shall be borne equally by the parties hereto; provided, however, that the arbitrator shall, in the award, allocate all such costs and expenses against the party who did not prevail.

(c) In addition, the parties hereto agree that (i) the arbitrator shall have no authority to make any decision, judgment, ruling, finding, award or other determination that does not conform to the terms and conditions of this Agreement (as executed and delivered by the parties hereto), (ii) the arbitrator shall have no greater authority to award any relief than a court having proper jurisdiction and (iii) the arbitrator shall have no authority to commit an Error of Law (as defined below) in its decision, judgment, ruling, finding, award or other determination, and on appeal from or motion to vacate or confirm such decision, judgment, ruling, finding, award or other determination, a court having proper jurisdiction may vacate any such decision, judgment, ruling, finding, award or other determination to the extent containing an Error of Law. For purposes of this Agreement, an " **Error of Law** " means any decision, judgment, ruling, finding, award or other determination that is inconsistent with the laws governing this Agreement pursuant to Section 7.6. Any decision, judgment, ruling, finding, award or other determination of the arbitrator and any information disclosed in the course of any arbitration hereunder (collectively, the " **Arbitration Information** ") shall be kept confidential by the parties subject to Section 7.7(d), and any appeal from or motion to vacate or confirm such decision, judgment, ruling, finding, award or other determination shall be filed under seal if permitted by the court.

(d) In the event that any party or such party's affiliates, associates or representatives is requested or required (by oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process) to disclose any Arbitration Information (the " **Disclosing Party** "), such Disclosing Party shall notify the other party promptly of the request or requirement so that the other party may seek an appropriate protective order or waive compliance with the provisions of this Section 7.7. If, in the absence of a protective order or the receipt of a waiver hereunder, the Disclosing Party or any of its affiliates, associates or representatives believes in good faith, upon the advice of legal counsel, that it is compelled to disclose any such Arbitration Information, such Disclosing Party may disclose such portion of the Arbitration Information as it believes in good faith, upon the advice of legal counsel, it is required to disclose; provided that the Disclosing Party shall use reasonable efforts to obtain, at the request and expense of the other party, an order or other assurance that confidential treatment shall be accorded to such portion of the Arbitration Information required to be disclosed as the other party shall designate. Notwithstanding anything in this Section 7.7 to the contrary, the parties shall have no obligation to keep confidential any Arbitration Information that becomes generally known to and available for use by the public other than as a result of the disclosing party's acts or omissions or the acts or omissions of such party's affiliates, associates or representatives. The parties agree that, subject to the right of any party to appeal or move to vacate or confirm any decision, judgment, ruling, finding, award or other determination of an arbitration as provided in this Section 7.7, the decision, judgment, ruling, finding, award or other determination of any arbitration under the

AAA Rules shall be final, conclusive and binding on all of the parties hereto; provided, however, nothing in this Section 7.7 shall prohibit any party hereto from instituting litigation to enforce any final decision, judgment, ruling, finding, award or other determination of the arbitration.

7.8 Entire Agreement. This Agreement contains all of the terms agreed upon by the Company, Holdings and Executive with respect to the subject matter hereof and supersedes all prior agreements, arrangements and communications between the parties dealing with such subject matter, whether oral or written, including without limitation, the Prior Agreement and the Amended and Restated Employment Agreement, and all such prior agreements, arrangements and communications are hereby canceled and terminated. To the extent there is any conflict between the terms and conditions of this Agreement and the terms and conditions of any prior employment or consulting agreement, including, without limitation, the Prior Agreement and the Amended and Restated Employment Agreement, the terms and conditions of this Agreement shall control.

7.9 Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the transferees, successors and assigns of the Company, including any company with which the Company may merge or consolidate.

7.10 Headings. Numbers and titles to Sections hereof are for information purposes only and, where inconsistent with the text, are to be disregarded.

7.11 Counterparts. This Agreement may be executed in any number of counterparts, including by facsimile or other electronic transmission, each of which shall be deemed an original, but all of which when taken together, shall be and constitute one and the same instrument.

7.12 Specific Enforcement; Remedies. The provisions of Section 6 of this Agreement are to be specifically enforced if not performed according to their terms. Without limiting the generality of the foregoing, the parties acknowledge that the Company would be irreparably damaged and there would be no adequate remedy at law for Executive's breach of Section 6 of this Agreement and further acknowledge that the Company may seek entry of a temporary restraining order or preliminary injunction, in addition to any other remedies available at law or in equity, to enforce the provisions thereof, without the Company being required to post a bond or other security therefor. In addition, in the event of a material violation by Executive of the provisions of Section 6, any severance being paid to Executive pursuant to this Agreement or otherwise shall immediately cease, and any severance previously paid to Executive shall be immediately repaid to the Company.

7.13 Taxes & IRC Section 409A Matters. The Company may withhold from any payment hereunder such state, federal or local income, employment or other taxes and other legally mandated withholdings as it reasonably deems appropriate. The Company makes no representation about the tax treatment or impact of any payment(s) hereunder. The intent of the parties is that payments and benefits under this Agreement comply with Section 409A of the Code, as amended (" **Section 409A** "), to the extent subject thereto, and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted and administered to be in compliance therewith. Notwithstanding anything herein to the contrary: (i) if at the time of

Executive's termination of employment with the Company , Executive is a "specified employee" as defined in Section 409A and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A, then the Company will defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to Executive) until the date that is six (6) months following Executive's termination of employment with the Company (or the earliest date as is permitted under Section 409A); (ii) if any other payments of money or other benefits due to Executive hereunder could cause the application of an accelerated or additional tax under Section 409A, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner determined by the Company that does not cause such an accelerated or additional tax; (iii) to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A, Executive shall not be considered to have terminated employment with the Company for purposes of this Agreement and no payment shall be due to Executive under this Agreement until Executive would be considered to have incurred a "separation from service" from the Company within the meaning of Section 409A; and (iv) each amount to be paid or benefit to be provided to Executive pursuant to this Agreement, which constitutes deferred compensation subject to Section 409A, shall be construed as a separate identified payment for purposes of Section 409A. To the extent required to avoid an accelerated or additional tax under Section 409A, amounts reimbursable to Executive under this Agreement shall be paid to Executive on or before the last day of the year following the year in which the expense was incurred and the amount of expenses eligible for reimbursement (and in-kind benefits provided to Executive) during any one year may not affect amounts reimbursable or provided in any subsequent year, or be subject to liquidation or exchange for another benefit. N either the Company nor any of its employees or representatives shall have any liability to Executive with respect to Section 409A.

7.14 Survival. Except as otherwise expressly provided in this Agreement, all covenants, representations and warranties, express or implied, in addition to the provisions of Sections 6 and 7 of this Agreement, shall survive the termination of this Agreement.

7.15 Indemnification and Insurance . The Company shall indemnify Executive to the full extent provided for in its corporate Bylaws and to the maximum extent that the Company indemnifies any of its other directors and senior executive officers, and she will be entitled to the protection of any insurance policies the Company may elect to maintain generally for the benefit of its directors and senior executive officers against all costs, charges, liabilities and expenses incurred or sustained by her in connection with any action, suit or proceeding to which she may be made a party by reason of her being or having been a director, officer or employee of the Company or any of its affiliates or her serving or having served any other enterprise, plan or trust as a director, officer, employee or fiduciary at the request of the Company or any of its affiliates (other than any dispute, claim or controversy arising under or relating to this Agreement (except for this Section 7.15)). The Company will enter into an indemnification agreement with Executive in the standard form that it has or will adopt for the benefit of its other directors and senior executive officers. The provisions of this Section 7.15 shall survive any termination of Executive's employment or any termination of this Agreement.

7.16 Section 280G . In the event that it shall be determined that any payment or distribution to or for the benefit of Executive under this Agreement or under any other Company plan, contract or agreement would, but for the effect of this Section 7.16 , be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties with respect to such excise tax (collectively, such excise tax, together with any such interest or penalties, the " **Excise Tax** "), then, at the election of Executive, in the event that the after-tax value of all Payments (as defined below) to Executive (such after-tax value to reflect the deduction of the Excise Tax and all income or other taxes on such Payments) would, in the aggregate, be less than the after-tax value to Executive of the Safe Harbor Amount (as defined below), (1) the cash portions of the Payments payable to Executive under this Agreement shall be reduced, in the order in which they are due to be paid, until the Parachute Value (as defined below) of all Payments paid to Executive, in the aggregate, equals the Safe Harbor Amount, and (2) if the reduction of the cash portions of the Payments, payable under this Agreement, to zero would not be sufficient to reduce the Parachute Value of all Payments to the Safe Harbor Amount, then any cash portions of the Payments payable to Executive under any other plans shall be reduced, in the order in which they are due to be paid, until the Parachute Value of all Payments paid to Executive, in the aggregate, equals the Safe Harbor Amount, and (3) if the reduction of all cash portions of the Payments, payable pursuant to this Agreement and otherwise, to zero would not be sufficient to reduce the Parachute Value of all Payments to the Safe Harbor Amount, then non-cash portions of the Payments shall be reduced, in the order in which they are due to be paid, until the Parachute Value of all Payments paid to Executive, in the aggregate, equals the Safe Harbor Amount. As used herein, (x) " **Payment** " shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable pursuant to this Agreement or otherwise, (y) " **Safe Harbor Amount** " shall mean 2.99 times Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code, and (z) " **Parachute Value** " of a Payment shall mean the present value as of the date of the Change in Control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2) of the Code for purposes of determining whether and to what extent the Excise Tax will apply to such Payment. All calculations under this section shall be made reasonably by the Company and the Company's outside auditor at the Company's expense and at the times reasonably requested by Executive.

[Signatures on next page]

IN WITNESS WHEREOF, the parties hereto have caused this Second Amended and Restated Employment Agreement to be duly executed on the date and year first written above.

e.l.f. Cosmetics, Inc.

By: /s/ Tarang P. Amin
Name: Tarang P. Amin
Title: Chairman & CEO

/s/ Erin Daley
Erin Daley

e.l.f. Beauty, Inc.

By: /s/ Tarang P. Amin
Name: Tarang P. Amin
Title: Chairman & CEO

Exhibit 21.1

List of Significant Subsidiaries of
e.l.f. Beauty, Inc.

Subsidiary	Jurisdiction of Incorporation or Organization
e.l.f. Cosmetics, Inc.	Delaware
J.A. China Holdings, LLC (a wholly owned subsidiary of e.l.f. Cosmetics, Inc.)	Delaware
J.A. Cosmetics Trading (Shanghai) Co., Ltd. (a wholly owned subsidiary of J.A. China Holdings, LLC)	People’s Republic of China – Wholly Foreign-Owned Enterprise

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-213818 on Form S-8 of our report dated March 15, 2017, relating to the consolidated financial statements of e.l.f. Beauty, Inc. and its subsidiaries appearing in this Annual Report on Form 10-K of e.l.f. Beauty, Inc. for the year ended December 31, 2016.

/s/ *DELOITTE & TOUCHE LLP*

San Francisco, CA
March 15, 2017

Exhibit 31.1

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)**

I, Tarang P. Amin, certify that:

1. I have reviewed this Annual Report on Form 10-K of e.l.f. Beauty, Inc.;

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

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

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

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

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

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

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

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

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

Date: March 15, 2017

/s/ Tarang P. Amin

Tarang P. Amin
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)

I, John P. Bailey, certify that:

1. I have reviewed this Annual Report on Form 10-K of e.l.f. Beauty, Inc.;

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

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

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

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

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

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

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

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

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

Date: March 15, 2017

/s/ John P. Bailey
John P. Bailey
President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of e.l.f. Beauty, Inc. (the “Company”) on Form 10-K for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission (the “Report”), Tarang P. Amin, Chief Executive Officer of the Company, and John P. Bailey, President and Chief Financial Officer of the Company, respectively, do each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2017

/s/ Tarang P. Amin

Tarang P. Amin
Chairman & Chief Executive Officer
(Principal Executive Officer)

/s/ John P. Bailey

John P. Bailey
President & Chief Financial Officer
(Principal Financial and Accounting Officer)