

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, 2018

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 every Interactive Data File required to be submitted 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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Small reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was \$424.9 million.

The number of shares of registrant's Common Stock outstanding as of February 15, 2019 was 48,820,126 .

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement relating to the Registrant's 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2018.

e.l.f. Beauty, Inc.
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CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (“Annual Report”) contains 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 Item 1A. “Risk Factors” 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.

PART I

Item 1. Business.

Overview

e.l.f. Beauty, Inc. (“e.l.f. Beauty” and together with its subsidiaries, the “Company,” or “we”), which conducts business under the name e.l.f. Cosmetics, makes luxurious beauty accessible for all by offering high-quality, prestige-inspired cosmetic and skin care products at extraordinary value. Established in 2004 as an e-commerce business, the Company has become a multi-channel brand with strength across multiple channels.

- *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 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.
- *International* . e.l.f. products are sold in a number of international markets, including the United Kingdom, Canada, Mexico and Germany.

Since 2014, we have made significant investments in our business by adding top talent and building our functional capabilities. We have developed strong consumer relationships through our differentiated engagement model; accelerated our first-to-mass innovation capability, including our first category adjacency in skin care; expanded our distribution; and significantly strengthened our operations.

Product

Our portfolio spans the eyes, lips, face, kits, tools and skin care categories. Our consumers recognize our ability to provide a broad assortment of high-quality, prestige-inspired products at an extraordinary value. We do not define ourselves as strictly mass or prestige or limit our product availability to select channels. The majority of our products 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, encouraging frequent consumer purchasing and experimentation without the guilt of overspending.

All e.l.f. products are hypoallergenic, non-comedogenic and vegan and do not contain any animal-derived ingredients. 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 a “cruelty-free” company by People for the Ethical Treatment of Animals (PETA). Our products are also free from parabens, phthalates, microbeads, and sulfates.

Marketing

The Company has deployed a low-cost, consumer-centric marketing model. Total expenses for advertising and promotions in the year ended December 31, 2018 were \$10.2 million, approximately 4% 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 Instagram, Facebook, Twitter, YouTube and other social media outlets. Over 31 million people visited our e-commerce websites and/or followed us on social media in 2018. Our e-commerce websites reflect our passionate consumer base with approximately 136,000 ratings. Our digital content inspires our fans with looks and products they love and avoids common industry messaging that beauty is about perfection.

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 high category sales for our retail customers.

Innovation

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 insights. 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. Poreless Putty Primer at \$8 versus a prestige primer at \$52, the e.l.f. Beauty Shield Magnetic Mask at \$24 versus a similar type of mask at \$75, and the e.l.f. 16HR Camo Concealer at \$5 versus a similar type of concealer at \$27.
- *Core expansion* . Core expansion products 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 offerings and develop new products 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. For example, we entered the skin care category in 2015 with a high-quality skin care product assortment.

We leverage insights gained from each channel to drive performance across the business. Our direct channel enables us 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 beauty 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 in our direct channel.

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, with a significant portion of cosmetics retail sales in the United States generated by brands owned by a few large multinational companies, such as L’Oreal, Estee Lauder, Revlon, Coty and Shiseido. 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 traditional brands against which we compete, small independent companies continue to enter the market with new brands and customized product offerings.

Customers

Walmart and Target accounted for 30% and 21% , respectively, of our net sales in 2018. No other individual customer accounted for 10% or more of the Company's net sales in 2018. The Company expects that Walmart and Target and a small number of other customers will, in the aggregate, continue to account for a large portion of the Company's net sales in the future.

As is customary in the industry, none of the Company's customers is under an obligation to continue purchasing products from the Company in the future.

For more information regarding customer concentration see Item 7 "Management's discussion and analysis of financial condition and results of operations" under the heading "Overview."

Operations

We have developed a scalable, asset-light supply chain centered on speed to market and high-quality at low cost. 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 and, more recently, the United States. 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 13 weeks from concept and 20 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 believe we can provide higher, more reliable, longer-term volumes to our manufacturers.

We have improved our internal 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 redundant 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.

Our 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 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

We opened a new distribution center in Columbus, Ohio in 2018 to expand our e-commerce distribution capabilities. In conjunction with our existing distribution center in Ontario, California, this new facility supports multi-channel shipping, with the ability to pick and ship directly to e-commerce consumers, national retail customers and international

customers. We have also invested capital in picking, packaging, scanning, and conveying technology to more fully automate our processes. Our Ontario facility and our Columbus facility are both operated by a leading third-party logistics provider. Additionally, we utilize third-party logistics providers in Canada and the United Kingdom to distribute to certain international customers.

Seasonality

Our results of operations are subject to seasonal fluctuations, with net sales in the third and fourth calendar quarters typically being higher than in the first and second calendar quarters. The higher net sales in the third and fourth calendar 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 calendar 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 calendar quarters, we are required to make investments in working capital during the second and third calendar quarters. For more information 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.

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 in the United States with the U.S. Patent and Trademark Office for our goods and services of primary interest. These trademarks are also registered or have registrations pending in Australia, Brazil, Canada, China, the European Union, India, Mexico, Russia and approximately 25 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 are due for periodic renewals, presently scheduled between 2019 and 2032, provided that we comply with all applicable renewal requirements including, where necessary, the continued use of trademarks in connection with the listed goods or services. In addition to trademark protection, we own four U.S. Design Patents covering make-up tools and brush handle shapes with expiration dates in 2026, 2032, 2033, and 2034 and we own numerous domain names, including our e-commerce websites (www.elfcosmetics.com and www.elfcosmetics.co.uk). 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, 2018, we had 277 full-time employees and 137 part-time and seasonal employees. As of December 31, 2018, we had 206 and 71 full-time employees in the United States and China, respectively. The majority of our part-time employees in 2018 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 various federal, state and international laws and regulations, including regulation in the U.S. by the Food and Drug Administration (the “FDA”), the Consumer Product Safety Commission (the “CPSC”) and the Federal Trade Commission (the “FTC”). These laws and regulations principally relate to the ingredients, proper labeling, advertising (including the use of 3rd party influencers), packaging, marketing, manufacture, safety, shipment and disposal of our products. Further, as the vast majority of our products are imported from overseas manufacturers, we are subject to Customs Border Patrol clearance regulations prior to goods being released into the US market.

We are also subject to a number of federal, state and international laws and regulations that affect companies conducting business on the Internet, including regulations related to consumer protection, the promotion and sale of merchandise, privacy, use and protection of consumer and employee personal information and data (including the collection of data from minors), behavioral tracking, and advertising and marketing activities (including sweepstakes, contests and giveaways).

Additional laws in all these areas are likely to be passed in the future, which could result in significant limitations on or changes to the ways in which we operate and may significantly increase our compliance costs. For information regarding the risks related to the laws and regulations to which we are subject, see Item 1A “Risk factors”.

Expenditures for environmental compliance

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.

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 “Exhibits, financial statement schedules” under the heading “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 “Exhibits, financial statement schedules” under the heading “Segment reporting.” For information regarding the risks related to our non-U.S. operations, see Item 1A “Risk factors.”

Corporate information

e.l.f. Beauty was formed as a Delaware corporation on December 20, 2013 under the name J.A. Cosmetics Holdings, Inc. and we changed our name to e.l.f. Beauty, Inc. in April 2016. 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.” In December 2018, we changed our fiscal year-end from December 31st to March 31st, with our next fiscal year running from April 1, 2019 to March 31, 2020. We are an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), and therefore 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 and the investor relations portion of our website can be found at <http://investor.elfcosmetics.com>.

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 U.S. Securities and Exchange Commission (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 Item 7 “Management’s discussion and analysis of financial condition and results of operations”.

The beauty 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 beauty brands under ownership and standalone beauty brands, including those that may target the latest trends or specific distribution channels. Competition in the beauty 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 beauty 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. Increasing shelf space allocated to our products may be especially challenging in instances when a retailer has their own brand. In addition, 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 beauty industry. In recent years, numerous online, "indie" and influencer-backed beauty companies have emerged and garnered significant followings. 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 operational 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 of operations and financial condition.

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

The beauty 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 beauty 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 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 the eyes, lips, face, kits, tools and skin care categories, while also expanding our product launches into adjacent categories in which we may have little to no operating experience. 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 21% , respectively, of our net sales in 2018 . 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 beauty products 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 retail customers, increasing the number of our retail customers, growing our direct-to-consumer business and expanding internationally;
- leverage our high-performance team culture and executional capability to drive operating margins and efficiencies; and
- pursue strategic extensions, including by leveraging our capabilities in both the team and infrastructure to extend our platform into other growth areas.

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.

Our historical growth 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 substantially 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 beauty 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 grow our business effectively or efficiently, which would harm our business, financial condition and results of operations.

Growing our business will 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 and inventory control; 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. Growing our business may make 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 beauty 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 our e-commerce websites. 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 initiatives 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, brokers 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, brokers 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, brokers and delivery service providers could materially and adversely affect 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 our distribution facilities and logistics providers, 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 our e-commerce websites. 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. 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 depends on the proper operation of our distribution facilities, 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 facilities, and any loss, damage or disruption of the facilities, 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 and the United States to source and manufacture substantially 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 persons and the demands of those persons. 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 warehouses and distribution facilities are managed and staffed by third-party service providers, 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 e-commerce websites. 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, or to comply with applicable regulations, including those regarding the safety and quality of products and ingredients and good manufacturing practices;
- 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. 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, 2018, we had a total of \$150.7 million of indebtedness, consisting of amounts outstanding under our credit facilities and capital lease obligations, and a total availability of \$49.5 million under our Revolving Credit Facility (as defined in Item 7 “Management’s discussion and analysis of financial condition and results of operations” 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 calendar quarters as a result of higher sales during the holiday season, and adverse events that occur during the third or fourth calendar 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 calendar quarters, we are required to make investments in working capital during the second and third calendar quarters. 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, 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 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 customer and e-commerce orders or engage in normal business activities. If our information technology systems suffer damage, disruption or shutdown, we may incur substantial cost in repairing or replacing these systems, and if 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 introducing potential new consumers to our brand, product offerings and enhanced content. Due to the importance of our e-commerce operations, we are vulnerable to website downtime and other technical failures. Our failure to successfully respond to these risks in a timely manner 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 e-commerce websites 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 information technology, including our e-commerce websites and mobile applications (if we develop any). 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 important to our business. We also employ third-party service providers that collect, store, process and transmit proprietary, personal and confidential information, including consumer payment 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, disrupting business operations or communications infrastructure through 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. We are not aware of any breach or compromise of the personal data of our customers, but we have been subject to attacks (e.g. phishing, denial of service, etc.) and cannot guarantee that our security measures will be sufficient to prevent a material breach or compromise in the future.

Furthermore, such third parties may engage in various other illegal activities using such information, including credit card fraud or identity theft, 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' employees 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 providers 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 or data processing obligations and disclose or use information 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, all of which could have a material adverse effect on our business, financial condition and results of operations. We may be subject to post-breach review of the adequacy of our privacy and security controls by regulators and other third parties, which could result in post-breach regulatory and consumer litigation and regulatory oversight, at significant expense and risking reputational harm. We are subject to diverse laws and regulations in the United States and abroad requiring notification to affected individuals in the event of a breach involving personal information. Failure to comply with these regulations could subject us to regulatory scrutiny and additional liability. 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 e-commerce websites 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 and the United Kingdom, payments made with gift cards processed by third-party providers and payment through third-party online payment platforms such as PayPal and Apple Pay. 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 in that country.

We currently source and manufacture substantially all of our products from third-party suppliers and manufacturers in China. As of December 31, 2018, we had a team of 71 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 remuneration, 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.

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, hygiene supervision 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. See also “—Recent and potential additional tariffs imposed by the United States government or a global trade war could increase the cost of our products, which could materially and adversely affect our business, financial condition and results of operations.”

Recent and potential additional tariffs imposed by the United States government or a global trade war could increase the cost of our products, which could materially and adversely affect our business, financial condition and results of operations.

The United States government has recently imposed increased tariffs on certain imports from China, some of which cover products that we import from that country. Current tariffs may increase our cost of goods, which may result in lower gross margin on certain of our products. If we raise prices to account for any such increase in costs of goods, the competitiveness of the affected products and consumer purchases thereof could potentially be reduced. In either case, increased tariffs on imports from China could materially and adversely affect our business, financial condition and results of operations.

Furthermore, in retaliation for the current tariffs, China has already implemented tariffs on a wide range of American products. There is also a concern that the imposition of additional tariffs by the United States could result in the adoption of tariffs by other countries as well, leading to a global trade war. Trade restrictions implemented by the United States or other countries in connection with a global trade war could materially and adversely affect our business, financial condition and results of operations.

Changes in tax law, in our tax rates, or in exposure to additional income tax liabilities or assessments could materially and adversely affect our business, financial condition and results of operations.

Changes in law and policy relating to taxes could materially and adversely affect our business, financial condition and results of operations. For example, the Tax Cuts and Jobs Act (“2017 Tax Act”) remains unclear in many respects and could be subject to potential amendments and technical corrections and will be subject to interpretation and implementing regulations by the Treasury and U.S. Internal Revenue Service, any of which could mitigate or increase certain adverse effects of the 2017 Tax Act. In addition, it is still unclear how these U.S. federal income tax changes will affect state and local taxation .

We collect and remit sales tax in all states that currently impose a sales tax, regardless of whether we have a “nexus” in that particular state. As such, we do not anticipate that the recent Supreme Court decision in *Wayfair v. South Dakota* will have a meaningful impact on our operations. However, as we continue to expand our business internationally, the application and implementation of existing, new or future international laws regarding indirect taxes (such as a Value Added Tax) could materially and adversely affect our business, financial condition and results of operations.

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 Credit Agreement (as defined in Item 7 “Management’s discussion and analysis of financial condition and results of operations” under the heading “Description of indebtedness”) can terminate their commitments to loan money under our Revolving Credit Facility, and our lenders under our Credit Agreement 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 materially and adversely affect 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 larger 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.

Closing our e.l.f. stores may cause us to expend significant capital and other resources and incur other significant costs and liabilities and may not result in improvements to our business, financial condition, or results of operations.

On February 26, 2019, we announced that we are exiting the stand-alone e.l.f. retail store business (the “e.l.f. Store Closing”). As part of the e.l.f. Store Closing, we will close all 22 of our e.l.f. stores and implement a workforce reduction of our employees that manage and operate the e.l.f. stores. The e.l.f. Store Closing may cause us to expend significant capital and other resources, write-off assets, accelerate rent expenses, and may subject to us to litigation. Our reputation and brand may be damaged in connection with the e.l.f. Store Closing. Customers that shopped in our e.l.f. stores may not purchase the same number (or any) of our products from our e-commerce websites or our other retail customers after our e.l.f. stores are closed. Any of these results could have a material and adverse effect on our business, financial condition, or results of operations.

The e.l.f. Store Closing may not improve our business, financial condition, or results of operations. In addition, we may not be able to reallocate capital historically allocated to our e.l.f. stores efficiently or effectively to other strategic priorities.

Adverse economic conditions in the United States, Europe or China or any of the other countries in which we may conduct business could negatively affect our business, financial condition and results of operations.

Consumer spending on beauty products is influenced by general economic conditions and the availability of discretionary income. Adverse economic conditions in the United States, Europe, China or any of the other countries in which we do significant business, 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 March 2017, the United Kingdom formally notified the European Council of its intention to withdraw from the European Union pursuant to Article 50 of the Lisbon Treaty, with such withdrawal scheduled to become effective March 29,

2019. The referendum and the ensuing process of the United Kingdom's withdrawal from the European Union 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. There is also considerable uncertainty about whether the United Kingdom will be able to participate in transitional arrangements that would grant the United Kingdom and United Kingdom-based businesses full access to the European Union Customs Union and the Single Market until December 2020; failure to agree to these transitional arrangements could result in increased costs or otherwise adversely impact our operations. 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 and 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 materially and adversely affect 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, substantially all of 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 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 over-the-counter ("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 regulation 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 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. 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 state 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 Federal Food, Drug and Cosmetic Act (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 good manufacturing practices (“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, restrict importation of goods, 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. A 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, or private parties could seek to challenge our claims even in the absence of formal regulatory actions which could 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 and data protection. 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 regarding privacy and data protection, some of which can be enforced by private parties or government entities and some of which provide for significant penalties for non-compliance. For example, the General Data Protection Regulation (“GDPR”) allows for a private right of action, imposes stringent EU data protection requirements on companies established in the European Union or companies that offer goods or services to, or monitor the behavior of, individuals in the European Union. The GDPR establishes a robust framework of data subjects’ rights and imposes onerous accountability obligations on companies, with penalties for noncompliance of up to the greater of 20 million euros or four percent of annual global revenue.

Data privacy continues to remain a matter of interest to lawmakers and regulators. A number of proposals are pending before federal, state and foreign legislative and regulatory bodies and additional laws and regulations have been

passed but are not yet effective, all of which could significantly affect our business. For example, in June 2018, California enacted the California Consumer Privacy Act, or CCPA, which is presently going into effect on January 1, 2020. When effective, the new law will, among other things, require new disclosures to California consumers, impose new rules for collecting or using information about minors, and afford consumers new abilities to opt out of certain disclosures of personal information. California legislators have stated that they intend to propose amendments to the CCPA before it goes into effect, and it remains unclear what, if any, modifications will be made to this legislation or how it will be interpreted. The U.S. Congress may also pass a law to pre-empt all or part of the CCPA. As passed, the effects of the CCPA potentially are significant, however, and may require us to modify our data collection or processing practices and policies and to incur substantial costs and expenses in an effort to comply. In addition, the European Union's institutions are debating the ePrivacy Regulation, which would repeal and replace the current ePrivacy Directive. The proposed ePrivacy Regulation would impose strict opt-in marketing rules, alter rules on cookies, web beacons and similar technology and significantly increase penalties for breach of the rules to the greater of 20 million euros or four percent of annual global revenue. Increased regulation of privacy and data protection may lead to broader restrictions on our activities, our ability to reach our consumers, and our ability to provide our consumers with personalized services and experiences.

Further, the United Kingdom's withdrawal from the European Union has created uncertainty with regard to the status of the United Kingdom as an 'adequate country' for the purposes of data transfers outside the EEA. In particular, it is unclear how data transfers to and from the United Kingdom will be regulated. These changes may require us to find alternative bases for the compliant transfer of personal data outside the United Kingdom and we are monitoring developments in this area. Invalidation of any mechanism on which we rely could require operational changes and increased costs and may lead to governmental enforcement actions, litigation, fines and penalties or adverse publicity that could have an adverse effect on our business.

Laws and regulations regarding privacy and data protection are also constantly evolving and can be subject to significant change. There is also no harmonized approach to privacy and data protection laws and regulations globally although several frameworks exist. The application, 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. Changes in, or the interpretation of, a single law or regulation may affect how we comply with others. This has resulted in some uncertainty, and compliance obligations could cause us to incur costs or require us to change our business practices in a manner adverse to our business.

Compliance with existing, not yet effective, and proposed privacy and data protection laws and regulations can be costly and can delay or impede our ability to market and sell our products, impede our ability to conduct business through websites we and our partners may operate, change and limit the way we use consumer information in operating our business, cause us to have difficulty maintaining a single operating model, result in negative publicity, increase our operating costs, require significant management time and attention, or subject us to inquiries or investigations, claims or other remedies, including significant fines and penalties or demands that we modify or cease existing business practices. In addition, if our privacy or data security measures fail to comply with applicable current 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 or other liabilities, as well as negative publicity and a potential loss of business.

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 source and manufacture substantially all of our products from third-party suppliers and manufacturers in China, and we have an office in China from which we manage our supply chain. We sell our products in several countries outside of the United States, primarily through distributors. 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 unfavorable 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.

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 claims, class action lawsuits, intellectual property claims, employment litigation and regulatory investigations and causes of action 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 damages 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 or skin care 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 brand 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 brand 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 attempt to register our trademarks abroad in jurisdictions where we have not yet applied for trademark protection, 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, which 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 brand in the marketplace. We may need to engage in litigation or other activities to enforce our intellectual property rights, 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 our 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. 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. In addition, third parties may involve us in intellectual property disputes as part of a business model or strategy to gain competitive advantage.

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 or false statements 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 and YouTube 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 compliance of such materials and increase the risk that such materials could contain problematic product or marketing claims in violation of applicable regulations.

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 business, financial condition and results of operations may 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 and adversely affect our business, financial condition and operating results.

Actions of activist stockholders could be costly and time-consuming, divert management’s attention and resources, and have an adverse effect on our business.

Marathon Partners Equity Management, LLC and its affiliates (“Marathon”) disclosed in its Schedule 13D/A, filed on January 28, 2019, that it beneficially owns approximately 8.6% of our common stock. Marathon has communicated its opinions regarding opportunities and actions that it believes would increase value to our stockholders. While we value open dialogue and input from our stockholders, Marathon (or other activist stockholders) could take actions that could be costly and time-consuming to us, disrupt our operations, and divert the attention of our board of directors, management, and employees, such as public proposals and requests for potential nominations of candidates for election to our board of directors, requests to pursue a strategic combination or other transaction, or other special requests. As a result, we may retain the services of various professionals to advise us in these matters, including legal, financial, and communications advisers, the costs of which may negatively impact our future financial results. In addition, perceived uncertainties as to our future direction, strategy, or leadership created as a consequence of activist stockholder initiatives may result in the loss of potential business opportunities, harm our ability to attract new or retain existing investors, customers, directors, employees, or other partners, and cause our stock price to experience periods of volatility or stagnation.

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

While we currently generate 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, contingent 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 condition.

An active trading market for our common stock may not 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.

Although our common stock is listed on the NYSE, there can be no assurances that an active trading market for our common stock will be sustained. 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 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 beauty 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, stockholders may not receive any return on investment unless they sell our common stock for a price greater than that which they 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 Credit Agreement 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 201.2 million shares of common stock authorized but unissued and 48,820,126 shares of common stock outstanding as of February 15, 2019. 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 TPG Growth II Advisors, Inc. ("TPG Growth"), 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.

The holders of up to 23,444,578 shares of our common stock, or approximately 48% of our outstanding common stock based on shares outstanding as of February 15, 2019, 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 TPG Growth, J.A. Cosmetics Corp. (an affiliate of our founders) 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, all the shares of common stock subject to stock options and restricted stock units and shares of restricted stock awards outstanding and reserved under our 2014 Equity Incentive Plan, our 2016 Equity Incentive Award Plan and our 2016 Employee Stock Purchase Plan have been registered on Form S-8 under the Securities Act and such shares, once the underlying equity award vests, will be eligible for sale in the public markets, subject to Rule 144 limitations applicable to affiliates. 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.

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.

A few large stockholders have significant influence over our Company, 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"), TPG Growth has the right to designate up to three nominees for election to our board of directors so long as it holds at least 30% of the shares of our outstanding common stock, two nominees for election to 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 nominee for election to our board of directors so long as it holds less than 20% but greater than or equal to 5% of our outstanding common stock. TPG Growth's nominees (who are William E. McGlashan, Jr. and Maureen C. Watson) currently comprise two of the nine members of our board of directors.

As of February 15, 2019, TPG Growth held approximately 28% of our common stock, and our Chief Executive Officer, Mr. Amin (and certain family trusts of Mr. Amin), beneficially owned approximately 12% of our common stock. Accordingly, TPG Growth and Mr. Amin exert a significant degree of influence or actual control over our management, business policies and affairs and over matters requiring stockholder approval.

In addition, the Stockholders Agreement provides that for as long as TPG Growth owns or holds, directly or indirectly, at least 30% of our outstanding common stock, we must obtain the consent of TPG Growth 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 Credit Agreement); and
- increase or decrease the size of our board of directors.

Concentrated control by TPG Growth and Mr. Amin 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. TPG Growth's and Mr. Amin's combined voting power 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, concentration of ownership by TPG Growth and Mr. Amin 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.

Moreover, TPG Growth and Mr. Amin are not prohibited from selling their shares of common stock 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 TPG Growth and Mr. Amin did not maintain significant influence over our company.

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 TPG Growth.

TPG Growth 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 TPG

Growth 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 TPG Growth 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 TPG Growth nor any of its affiliates will be liable to us, for breach of any fiduciary duty or otherwise, by reason of the fact that TPG Growth 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 TPG Growth pursuant to the Stockholders Agreement may consider both the interests of TPG Growth and TPG Growth'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 TPG Growth to itself, its affiliates or third parties instead of to us.

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

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. 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 of 2002 (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 have opted out of the extended transition period to us available under Section 102(b)(1) of the JOBS Act 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.

We may remain an emerging growth company until March 31, 2022 (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 annual revenue exceeds \$1.07 billion in any fiscal year or (iii) if we issue more than \$1 billion in non-convertible notes in any three-year period.

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.

We may incur increased costs and may become subject to additional regulations and requirements, and our management may be required to devote substantial time to new compliance matters when we cease to qualify as an emerging growth company.

As noted above, we qualify as an emerging growth company as defined in the JOBS Act. When we cease to be an emerging growth company, we will be unable to continue to take advantage of cost savings associated with the JOBS Act and will be subject to additional regulations and requirements. 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. Furthermore, if we are unable to satisfy our obligations as a non-emerging growth company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

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.

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 and 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, Fairfield, New Jersey and Shanghai, China, and a distribution center located in Ontario, California. Our California, New York, New Jersey and China offices total an aggregate of approximately 28,583 square feet of commercial space, and approximately 212,668 square feet of commercial space for our distribution center. Additionally, we have a distribution center located in Columbus, Ohio operated by a third-party.

In addition, as of December 31, 2018, we operated 22 e.l.f. stores (17 in the New York metro area, four in Southern California, and one in Texas). On February 26, 2019, the Company announced its decision to close all e.l.f. retail stores—see Note 16 to our consolidated financial statements in Item 15 “Exhibits, financial statement schedules” for more information regarding the closing of our retail stores. All of our properties are leased. The leases expire at various times through 2028, 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. On February 15, 2019, the closing price for our common stock as reported by the New York Stock Exchange was \$9.38.

Holders of record

As of February 15, 2019, the approximate number of common stockholders of record was 16. 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. There were no dividends declared or paid during the year ended December 31, 2018.

Prior to this dividend, we had never declared or paid cash dividends on our capital stock. We intend to retain all available funds and 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 Credit Agreement limits our ability to pay dividends to our stockholders.

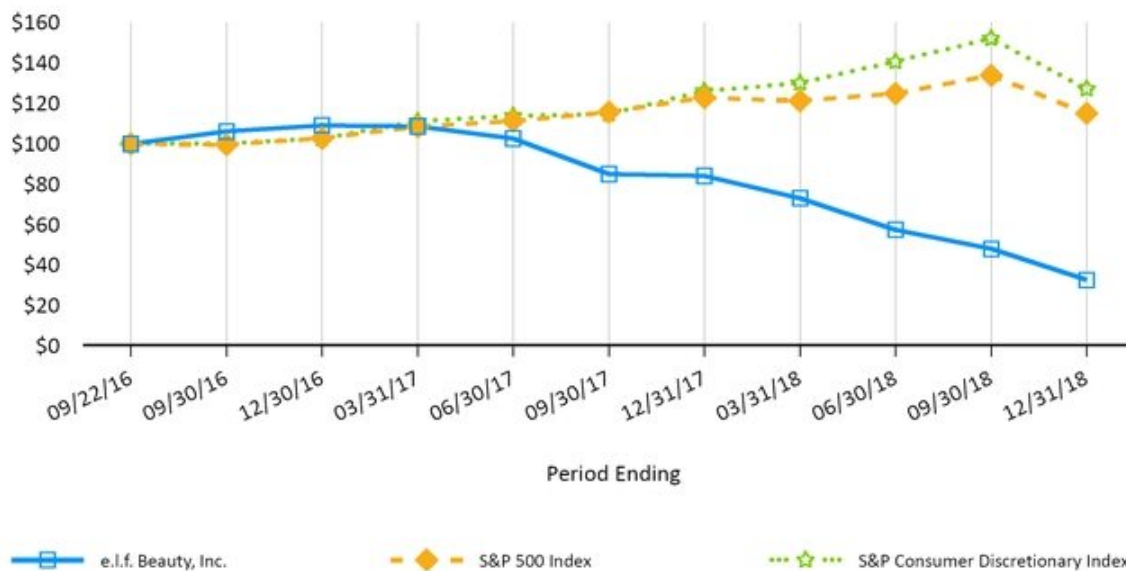
Any future determination related to dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and covenants and other factors that our 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 the Exchange Act, 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 cumulative 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, 2018. The graph assumes an investment of \$100 made at the closing of trading on September 22, 2016 in (i) e.l.f. Beauty's common stock, (ii) the stocks comprising the S&P 500 Index and (iii) stocks comprising the S&P 500 Consumer Discretionary 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.

Total Cumulative Stockholder Return



\$100 investment in stock or index	9/22/2016	9/30/2016	12/31/2016	3/31/2017	6/30/2017	9/30/2017	12/31/2017	3/31/2018	6/30/2018	9/30/2018	12/31/2018
e.l.f. Beauty, Inc. (ELF)	\$ 100.00	\$ 106.11	\$ 109.21	\$ 108.68	\$ 102.68	\$ 85.09	\$ 84.19	\$ 73.09	\$ 57.51	\$ 48.04	\$ 32.68
S&P 500 Index (GSPC)	\$ 100.00	\$ 99.59	\$ 102.83	\$ 108.52	\$ 111.31	\$ 115.72	\$ 122.80	\$ 121.30	\$ 124.86	\$ 133.84	\$ 115.14
S&P 500 Consumer Discretionary Index (SSCOND)	\$ 100.00	\$ 100.23	\$ 102.54	\$ 111.21	\$ 113.82	\$ 114.78	\$ 126.10	\$ 130.01	\$ 140.63	\$ 152.13	\$ 127.15

Recent sales of unregistered securities

None.

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

	Successor				Unaudited pro forma combined (1)	Successor (2)	Predecessor
	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014	Period from February 1, 2014 through December 31, 2014	Period from January 1, 2014 through January 31, 2014
<i>(dollars in thousands, except share and per share amounts)</i>							
Statement of operations data:							
Net sales	\$ 267,435	\$ 269,888	\$ 229,567	\$ 191,413	\$ 144,944	\$ 135,134	\$ 9,810
Gross profit	162,741	164,725	132,235	100,329	67,496	61,450	4,772
Operating income	26,162	33,279	23,079	25,571	16,119	5,347	1,727
Other income (expense), net	(390)	(2,035)	3,016	(4,172)	(6,597)	(6,633)	36
Interest expense, net	(7,816)	(8,775)	(16,283)	(12,721)	(12,546)	(11,545)	(128)
Income (loss) before provision for income taxes	17,956	22,469	9,812	8,678	(3,024)	(12,831)	1,635
Income tax benefit (provision)	(2,431)	11,006	(4,499)	(4,321)	143	3,545	(542)
Net income (loss)	\$ 15,525	\$ 33,475	\$ 5,313	\$ 4,357	\$ (2,881)	\$ (9,286)	\$ 1,093
Net income (loss) per share - basic	\$ 0.33	\$ 0.74	\$ (39.47)	\$ (1,559.81)	\$ (512.00)	\$ (709.35)	\$ 1,093.00
Net income (loss) per share - diluted	\$ 0.32	\$ 0.68	\$ (39.47)	\$ (1,559.81)	\$ (512.00)	\$ (709.35)	\$ 1,087.56
Other data:							
Depreciation and amortization	\$ 17,861	\$ 14,521	\$ 13,152	\$ 10,289	\$ 8,668	\$ 7,944	\$ 41
Capital expenditures	8,872	7,544	9,223	10,242	1,616	1,597	19

- (1) For the purpose of performing a comparison to the 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 e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.), 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.
- (2) For purposes of the table above, "Successor" refers to e.l.f. Beauty, Inc. (and its subsidiaries) after the acquisition by e.l.f. Beauty, Inc. of 100% of the outstanding shares of capital stock of e.l.f. Cosmetics, Inc. and "Predecessor" refers to e.l.f. Cosmetics, Inc. (and its subsidiaries) prior to the acquisition by e.l.f. Beauty, Inc. of 100% of the outstanding shares of capital stock of e.l.f. Cosmetics, Inc.

	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
<i>(dollars in thousands)</i>					
Balance sheet data:					
Cash and cash equivalents	\$ 51,205	\$ 10,059	\$ 15,295	\$ 14,004	\$ 4,668
Net working capital (3)	47,523	62,224	29,339	10,860	23,218
Property and equipment, net	21,804	18,037	17,151	9,854	2,125
Total assets	435,856	417,244	414,729	361,072	354,178
Capital leases	3,982	2,374	2,766	—	—
Debt, including current maturities (4)	146,402	153,974	162,061	144,919	148,424
Total liabilities	206,525	223,381	273,867	224,175	222,656
Convertible preferred stock	—	—	—	197,295	145,328
Total stockholders' equity (deficit)	229,331	193,863	140,862	(60,398)	(13,806)

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

- (4) Total bank debt, including current maturities, is net of \$0.3 million , \$0.4 million, \$0.6 million, \$3.2 million and \$4.3 million of debt issuance costs as of December 31, 2018 , 2017 , 2016 , 2015 and 2014, 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.

Overview

Driven by our mission to make luxurious beauty accessible for all, we offer high-quality, prestige-inspired cosmetic and skin care products at extraordinary value. Our portfolio spans the eyes, lips, face, kits, tools and skin care categories.

We sell our products in national and international retailers and direct-to-consumer channels. 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.

Our largest customers, Walmart and Target, accounted for 30% and 21% , respectively, of our net sales in 2018 . No other individual customer accounted for 10% or more of the Company's net sales in 2018 . National and international retailers comprised 87% of our net sales in 2018. The remaining 13% came from our direct-to-consumer channels, the majority of which was from e-commerce, with the balance from e.l.f. stores.

The primary market for our products is the United States, which accounted for 90% of our net sales in 2018 . The remaining 10% was attributable to international markets, primarily Canada, the United Kingdom and Australia.

For additional information regarding our business, see Item 1 "Business."

Components of our results of operations and trends affecting our business

Net sales

We develop, market and sell beauty products under the e.l.f. brand. Our net sales are derived from sales of beauty 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. While we have distribution with a number of key retail accounts, we expect to continue to grow through increased penetration into additional stores within existing retail accounts as well as the addition of new retail customers.

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 drive traffic and keep products in stock, our ability to continue to grow our customer base and competitive threats from other beauty companies.

Gross profit

Gross profit is our net sales less cost of sales. Cost of sales includes the aggregate costs to procure our products, including the amounts invoiced by our third-party contract manufacturers 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 substantially all of our 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.

Historically, we have improved our gross margin largely through changes in our product mix, pricing, purchasing efficiencies and cost reductions in our supply chain, and expect to continue leveraging our innovation and sourcing capabilities

in future periods. Other drivers of changes in gross margin include fluctuations in exchange rates, changes in customer mix, and changes in the balance of reserves for excess and obsolete inventory, among other things, which may offset the benefit of changes in pricing, product mix and cost reductions.

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, warehousing and distribution costs, depreciation of property and equipment, amortization of retail product displays and amortization of intangible assets. See “Critical accounting policies and estimates—Stock-based compensation” below for more detail regarding stock-based compensation.

In the near term, we expect to continue to invest in our growth initiatives, including investments in the e.l.f. brand and infrastructure. 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, including those made in 2015 and 2016 to support the reporting and compliance requirements associated with being a public company.

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 8 to the Notes to consolidated financial statements in Item 15 “Exhibits, financial statement schedules”.

Other income (expense), net

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 did not apply hedge accounting, and therefore the periodic impact of these legacy hedging activities was calculated on a mark-to-market basis. Other income (expense), net is primarily a result of changes in the notional value of exchange rate forward contracts outstanding in prior periods, as well as fluctuations in the exchange rate in the RMB to the U.S. dollar.

Income tax benefit (provision)

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.

On December 22, 2017, the 2017 Tax Act was signed into law making significant changes to the Internal Revenue Code of 1986, as amended. Changes included, but were not limited to, a reduction of the U.S. corporate tax rate from 35% to 21% effective January 1, 2018. The 2017 Tax Act also imposed a one-time transition tax on previously deferred foreign earnings. As of December 31, 2017, we completed our accounting for the tax effects of the 2017 Tax Act.

Net income (loss)

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

Seasonality

Our results of operations are subject to seasonal fluctuations, with net sales in the third and fourth calendar quarters typically being higher than in the first and second calendar quarters. The higher net sales in our third and fourth calendar 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 calendar 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 calendar quarters, we are required to make investments in working capital 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.

Business trends

Tariffs

Recent tariffs have impacted certain products that we import from China which, without mitigation, will increase our cost of goods and may lower our gross profit and gross margin in future periods. We are currently evaluating various initiatives, including but not limited to, negotiating lower prices with our suppliers and selectively increasing prices on certain products, to mitigate the impact of the tariffs on our results of operations. In addition, any favorable movements in foreign exchange rates may reduce the impact of the tariffs. We cannot provide any assurances that these mitigation initiatives will be successful. Based on the timing of product imports relative to the enactment date, these tariffs contributed to an increase in inventory as of December 31, 2018 but did not have a significant impact on gross profit in the year ended December 31, 2018.

e.l.f store closing

On February 26, 2019, the Company announced that it will exit the stand-alone e.l.f. retail store business. As part of the e.l.f. Store Closing, the Company will close all 22 of its e.l.f. stores on February 26, 2019 and implement a workforce reduction of its employees that manage and operate the e.l.f. stores. Refer to Note 16 to our consolidated financial statements in Item 15 “Exhibits, financial statement schedules” under the heading “Subsequent events” for further discussion of the e.l.f. Store Closing.

The e.l.f. Store Closing will result in changes to our financial results in subsequent periods. Net sales associated with e.l.f. stores were \$13.5 million, \$13.2 million and \$7.4 million during the years ended December 31, 2018, 2017 and 2016, respectively.

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:

	Year ended December 31,		
	2018	2017	2016
Net sales	\$ 267,435	\$ 269,888	\$ 229,567
Cost of sales	104,694	105,163	97,332
Gross profit	162,741	164,725	132,235
Selling, general, and administrative expenses	136,579	131,446	109,156
Operating income	26,162	33,279	23,079
Other income (expense), net	(390)	(2,035)	3,016
Interest expense, net	(7,816)	(8,775)	(16,283)
Income before provision for income taxes	17,956	22,469	9,812
Income tax benefit (provision)	(2,431)	11,006	(4,499)
Net income	\$ 15,525	\$ 33,475	\$ 5,313
Comprehensive income	\$ 15,525	\$ 33,475	\$ 5,313

(percentage of net sales)	Year ended December 31,		
	2018	2017	2016
Net sales	100 %	100 %	100 %
Cost of sales	39 %	39 %	42 %
Gross margin	61 %	61 %	58 %
Selling, general, and administrative expenses	51 %	49 %	48 %
Operating income	10 %	12 %	10 %
Other income (expense), net	— %	(1)%	1 %
Interest expense, net	(3)%	(3)%	(7)%
Income before provision for income taxes	7 %	8 %	4 %
Income tax benefit (provision)	(1)%	4 %	(2)%
Net income	6 %	12 %	2 %
Comprehensive income	6 %	12 %	2 %

Comparison of the year ended December 31, 2018 to the year ended December 31, 2017

Net sales

Net sales decreased \$2.5 million , or 1% , to \$267.4 million in the year ended December 31, 2018 , from \$269.9 million in the year ended December 31, 2017 . The decrease was primarily driven by declining trends at select national retailers and a \$4.9 million decrease in sales to discount channel customers. These impacts were mostly offset by increases in shelf space and distribution in new accounts.

Gross profit

Gross profit decreased \$2.0 million , or 1% , to \$162.7 million in the year ended December 31, 2018 , compared to \$164.7 million in the year ended December 31, 2017 . Lower volume accounted for \$1.5 million of the decrease in gross profit, with the remaining \$0.5 million decrease primarily driven by unfavorable movements in foreign exchange rates, partially offset by changes in customer mix and margin accretive innovation. Gross margin remained consistent at 61% in the years ended December 31, 2018 and 2017 , as unfavorable movements in foreign exchange rates were offset by changes in customer mix and margin accretive innovation.

Selling, general and administrative expenses

SG&A expenses were \$136.6 million in the year ended December 31, 2018 , an increase of \$5.1 million , or 4% , from \$131.4 million in the year ended December 31, 2017 . SG&A expenses as a percentage of net sales increased to 51% for the year ended December 31, 2018 from 49% in the year ended December 31, 2017 . The increase was primarily a result of higher stock-based compensation expense, an increase in depreciation and amortization expense, increased investments in sales and marketing, and expenses related to a full year of operating e.l.f. stores that were opened in 2017, partially offset by decreases in personnel expenses and general and administrative expenses.

Other income (expense), net

Other income (expense), net increased \$1.6 million to expense of \$0.4 million in the year ended December 31, 2018 from expense of \$2.0 million in the year ended December 31, 2017 . The change was primarily related to favorable foreign exchange rate movements relative to the comparable period.

Interest expense, net

Interest expense decreased \$1.0 million , or 11% , to \$7.8 million in the year ended December 31, 2018 , as compared to \$8.8 million in the year ended December 31, 2017 . This decrease was primarily due to the refinancing of our Credit Agreement in August 2017, as well as a lower outstanding balance under our Revolving Credit Facility, partially offset by an increase in LIBOR.

Income tax benefit (provision)

The provision for income taxes increased from a benefit of \$11.0 million , or an effective tax rate of (49)% , for the year ended December 31, 2017 to expense of \$2.4 million , or an effective tax rate of 14% , for the year ended December 31, 2018 . The change in the provision for income taxes was primarily driven by a non-cash tax benefit of \$11.6 million related to

the revaluation of deferred tax liabilities at the lower enacted corporate tax rate for the year ended December 31, 2017, as well as lower excess tax benefits on stock option exercises and vesting of restricted stock, which decreased to \$2.0 million in the year ended December 31, 2018, as compared to \$7.2 million in the year ended December 31, 2017. These items were partially offset by a reduction in our U.S. federal statutory rate from 35% to 21% as a result of the tax reform laws effective as of the beginning of 2018.

Comparison of the year ended December 31, 2017 to the year ended December 31, 2016

Net sales

Net sales increased \$40.3 million, or 18%, to \$269.9 million in the year ended December 31, 2017, from \$229.6 million in the year ended December 31, 2016. The increase was primarily driven by growth in leading national retailers due to increases in shelf space, distribution in new accounts, and the continued expansion of our direct channels.

Gross profit

Gross profit increased \$32.5 million, or 25%, to \$164.7 million in the year ended December 31, 2017, compared to \$132.2 million in the year ended December 31, 2016. Increased volume accounted for \$23.2 million of the increase in gross profit, with the remaining \$9.3 million attributable to margin accretive innovation, coupled with improvements in customer terms, freight costs and foreign exchange movements. Gross margin expanded to 61% from 58% in the year ended December 31, 2017, primarily as a result of margin accretive innovation, coupled with improvements in customer terms, freight costs and foreign exchange rate movements, partially offset by customer mix and an increase in the Company's inventory reserve.

Selling, general and administrative expenses

SG&A expenses were \$131.4 million in the year ended December 31, 2017, an increase of \$22.3 million, or 20%, from \$109.2 million in the year ended December 31, 2016. SG&A expenses as a percentage of net sales increased to 49% for the year ended December 31, 2017 from 48% in the year ended December 31, 2016. The increase was primarily a result of higher investments in sales and marketing, an increase in stock-based compensation expense, expenses related to the operations of additional e.l.f. stores, and higher information technology costs to support infrastructure improvements and business capabilities. These were partially offset by costs related to the move of our warehouse and distribution facility from New Jersey to California in 2016 that were not repeated in 2017.

Other income (expense), net

Other income (expense) changed \$5.1 million to expense of \$2.0 million in the year ended December 31, 2017 from income of \$3.0 million in the year ended December 31, 2016. The change was primarily related to the movement in the RMB and the impact of legacy exchange rate forward contracts in the year ended December 31, 2016.

Interest expense, net

Interest expense decreased \$7.5 million, or 46%, to \$8.8 million in the year ended December 31, 2017, compared to \$16.3 million in the year ended December 31, 2016. This decrease was due to the paydown of a portion of our debt with proceeds from our initial public offering in September 2016, as well as the refinancing of our Credit Agreement in December 2016, and subsequent amendment in August 2017, resulting in lower interest rates.

Income tax benefit (provision)

The provision for income taxes decreased from an expense of \$4.5 million, or an effective tax rate of 46%, for the year ended December 31, 2016 to a benefit of \$11.0 million, or an effective tax rate of (49)%, for the year ended December 31, 2017. The change in the provision for income taxes was driven primarily by a tax benefit of \$11.6 million related to the re-measurement of U.S. deferred tax liabilities at the lower enacted corporate tax rate and a \$7.2 million benefit generated by stock option exercises and vesting of restricted stock. The benefit for income taxes was partially offset by an increase in pretax net income of \$12.7 million.

Financial condition, liquidity and capital resources

Overview

As of December 31, 2018, we held \$51.2 million of cash and cash equivalents which consisted of cash and money market funds. In addition, as of December 31, 2018, we had borrowing capacity of \$49.5 million under our Revolving Credit Facility.

Our primary cash needs are for capital expenditures, retail product displays and working capital. Capital expenditures typically vary depending on strategic initiatives selected for the fiscal year, including investments in infrastructure, digital capabilities, and expansion into additional national retailer store locations. We expect to fund ongoing capital expenditures from existing cash on hand, 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, payroll, rent, distribution costs and advertising and marketing. Fluctuations in working capital are primarily driven by the timing of when a retailer rearranges or restocks its products, expansion of space within our existing retailer base and the general seasonality of our business. As of December 31, 2018, we had working capital, excluding cash, of \$47.5 million, compared to \$62.2 million as of December 31, 2017. Working capital, excluding cash and debt, was \$57.4 million and \$70.9 million as of December 31, 2018 and December 31, 2017, respectively.

We believe that our operating cash flow, cash on hand and available financing under our Revolving Credit Facility will be adequate to meet our operating, investing and financing needs for the next 12 months. If necessary, we can 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, additional equity financings or a combination of these potential sources of funds; however, such financing may not be available on favorable terms, 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 that are beyond our control, including those described elsewhere in Item 1A "Risk Factors". In addition to these general economic and industry factors, the principal factors in determining whether our cash flows will be sufficient to meet our liquidity requirements will be our ability to provide innovative products to our customers and manage production and our supply chain.

The e.l.f. Store Closing will require a use of cash to settle outstanding liabilities, which we expect to fund out of cash on hand as of December 31, 2018. The amount and timing of this cash outflow is uncertain. The substantial majority of the future minimum lease payments disclosed in Note 9 to our consolidated financial statements in Item 15 "Exhibits, financial statement schedules" under the heading "Commitments and contingencies" relates to e.l.f. store leases.

Cash flows

(in thousands)	Year ended December 31,		
	2018	2017	2016
Net cash provided by (used in):			
Operating activities	\$ 55,582	\$ 12,378	\$ 2,120
Investing activities	(8,872)	(10,419)	(9,139)
Financing activities	(5,564)	(7,195)	8,310
Net increase (decrease) in cash:	\$ 41,146	\$ (5,236)	\$ 1,291

Cash provided by operating activities

For the year ended December 31, 2018, net cash provided by operating activities was \$55.6 million. This included net income, before deducting depreciation, amortization and other non-cash items, of \$50.5 million and decreases in net working capital of \$5.0 million. The decreases in net working capital were largely driven by a \$10.3 million decrease in accounts payable and accrued expenses, primarily due to payments for inventory ordered at the end of fiscal year 2017. This was offset by a \$16.3 million decrease in inventory and a \$7.6 million decrease in accounts receivable.

For the year ended December 31, 2017, net cash provided by operating activities was \$12.4 million. This included net income, before deducting depreciation, amortization and other non-cash items, of \$50.6 million offset by a \$25.5 million decrease in accounts payable and accrued expenses primarily due to payments for inventory ordered at the end of fiscal year 2016 and an \$11.2 million increase in prepaid expenses and other assets primarily due to investment in retail product displays.

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.

Cash used in investing activities

For the year ended December 31, 2018, net cash used in investing activities was \$8.9 million, compared to \$10.4 million for the year ended December 31, 2017. The decrease was primarily attributable to a \$2.9 million investment in a social media analytics company in the period ended December 31, 2017. This was partially offset by an increase in purchases of property and equipment including the implementation costs of a new e-commerce platform.

For the year ended December 31, 2017, net cash used in investing activities was \$10.4 million, compared to \$9.1 million for the year ended December 31, 2016. The increase was primarily attributable to the investment in the social media analytics company referenced above, partially offset by lower purchases of property and equipment.

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.

Cash provided by (used in) financing activities

For the year ended December 31, 2018, net cash used in financing activities was \$5.6 million, primarily driven by \$8.3 million in mandatory principal payments under our Term Loan Facility (as defined under the heading "Description of indebtedness"). This was partially offset by \$3.2 million of proceeds from the exercise of options to purchase common stock.

For the year ended December 31, 2017, net cash used in financing activities was \$7.2 million, primarily driven by \$8.3 million in mandatory principal payments under our Term Loan Facility (as defined under the heading "Description of indebtedness"). This was partially offset by \$2.0 million of proceeds from the exercise of options to purchase common stock.

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 8 to the Notes to consolidated financial statements in Item 15 "Exhibits, financial statement schedules") 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 8 to the Notes to consolidated financial statements in Item 15 "Exhibits, financial statement schedules").

Description of indebtedness

Senior secured credit agreement, as amended

On December 23, 2016, we entered into a new five-year, \$200.0 million Senior Secured Credit Agreement (as amended, the "Credit Agreement") with a syndicate consisting of several large financial institutions. The Credit Agreement was amended on August 25, 2017 (the "First Amendment"), increasing the aggregate commitments to \$215.0 million. The Credit Agreement, as amended, consists of a \$50.0 million revolving line of credit (the "Revolving Credit Facility") and a \$165.0 million term loan (the "Term Loan Facility"). The Credit Agreement was amended again on December 7, 2018 (the "Second Amendment") to reflect the change in the Company's fiscal year-end from December 31 to March 31.

All amounts under the Revolving Credit Facility are available for draw until the maturity date on August 25, 2022. 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 \$50.0 million. The unused balance of the Revolving Credit Facility as of December 31, 2018 was \$49.5 million .

The Term Loan Facility maturity date is also August 25, 2022 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 September 30, 2017 through June 30, 2019, (ii) \$2,475,000 for fiscal quarters ending September 30, 2019 through June 30, 2020, (iii) \$3,093,750 for fiscal quarters ending September 30, 2020 through June 30, 2021 and (iv) \$4,125,000 for fiscal quarters ending September 30, 2021 through June 30, 2022. 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 our option, at either a rate per annum equal to (i) a rate per annum equal to an adjusted LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for the applicable interest period (subject to a minimum floor of 0%) plus an applicable margin ranging from 1.50% to 2.75% (amended from 2.00% to 3.50% as previously set forth in the Credit Agreement) based on our consolidated total net leverage ratio or (ii) a floating base rate plus an applicable margin ranging from 0.50% to 1.75% (amended from 1.00% to 2.50% as previously set forth in the Credit Agreement) based on our consolidated total net leverage ratio. The interest rate as of December 31, 2018 for the Term Loan was approximately 4.8% .

In December 2016, we incurred costs directly related to the Credit Agreement 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.

In August 2017, we paid approximately \$0.5 million in fees related to the First Amendment, none of which were capitalized as the amendment was treated as a modification of the original credit facility. We did not pay any fees related to the Second Amendment.

The Credit Agreement 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 Credit Agreement 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, 2018 and December 31, 2017 , we were in compliance with all financial covenants.

Contractual obligations and commitments

The following table summarizes our contractual obligations as of December 31, 2018 (in thousands):

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Bank debt ⁽¹⁾	\$ 148,500	\$ 9,075	\$ 25,575	\$ 113,850	\$ —
Interest on bank debt ⁽²⁾	19,650	5,995	10,699	2,956	—
Operating lease obligations	27,318	5,375	9,086	5,690	7,167
Capital lease obligations ⁽³⁾	4,499	976	1,885	1,638	—
Total contractual obligations ⁽⁴⁾	\$ 199,967	\$ 21,421	\$ 47,245	\$ 124,134	\$ 7,167

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

(2) Assumes an annual interest rate of 4.8% on the Credit Agreement 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 "Exhibits, financial statement schedules", 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 revenue when control of promised goods or services is transferred to a customer in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. Control of the substantial majority of the products that we sell will be transferred at a point in time. Factors that determine the specific point in time a customer obtains control and a performance obligation is satisfied are when we have a present right to payment for the goods, whether the customer has physical possession and title to the goods, and whether significant risks and rewards of ownership have transferred. Delivery is typically 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 such as sales discounts, markdown support and other incentives and allowances, which give rise to variable consideration. The amount of variable consideration is estimated at the time of sale based on either the expected value method or the most likely amount, depending on the nature of the variability. We regularly review and revise, when deemed necessary, our estimates of variable consideration based on both customer-specific expectations as well as historical rates of realization. A provision for unclaimed customer incentives and allowances is included on the consolidated balance sheet, net against accounts receivable.

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

We assess potential impairments to our long-lived assets, which include property and equipment, retail product displays, 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. We recorded an impairment charge of \$0.2 million in the year ended December 31, 2017 related to specific assets that were disposed. There were no impairment charges recorded on long-lived assets during the years ended December 31, 2018 or 2016 .

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 fair value, then a quantitative assessment may be required.

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. 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 have identified a single reporting unit for purposes of impairment testing.

We have selected October 1 as the date on which to perform our annual impairment tests. We also test for impairment whenever events or circumstances indicate that the fair value of goodwill or indefinite-lived intangible assets has been impaired. No impairment of goodwill or our indefinite-lived intangible asset was recorded during the years ended December 31, 2018, 2017 or 2016.

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 basis 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 market conditions on the date of grant using a Monte Carlo simulation model.

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 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 "Exhibits, Financial Statement Schedules" for information regarding new accounting pronouncements.

We have opted out of the extended transition period available to us under Section 102(b)(1) of the JOBS Act 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 had cash, cash equivalents of \$51.2 million and \$10.1 million as of December 31, 2018 and 2017, respectively. Our cash and cash equivalents consist of cash and money market funds, which are highly liquid and, as such, are not sensitive to interest rate risk.

We are exposed to changes in interest rates because the indebtedness incurred under our Credit Agreement 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, 2018, we had variable rate debt of \$146.7 million under our Credit Agreement. A hypothetical 1% increase or decrease of interest rates would result in a decrease or increase, respectively, in interest expense on an annualized basis of approximately \$1.5 million.

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 as compared to the US dollar, our cost of sales and net income would be adversely affected by approximately \$10.9 million, although the actual effects may differ materially from the hypothetical analysis.

Item 8. Financial statements and supplementary data.

The following consolidated financial statements are incorporated by reference herein:

e.l.f. Beauty, Inc. and subsidiaries**Index to consolidated financial statements**

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Report of Independent Registered Public Accounting Firm	59
Consolidated Balance Sheets	60
Consolidated Statements of Operations and Comprehensive Income	61
Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit)	62
Consolidated Statements of Cash Flows	63
Notes to Consolidated Financial Statements	65

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

None.

Item 9A. Controls and procedures.***Evaluation of disclosure controls and procedures***

As of December 31, 2018, our management conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that 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.

Management's annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2018.

In addition, because we are an "emerging growth company" as defined under the terms of the JOBS Act of 2012, our independent registered public accounting firm is not required to issue an attestation report on our internal control over financial reporting.

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, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other information.

On February 26, 2019, the Company, e.l.f. Cosmetics, Inc., and each of Tarang Amin (the Company's Chief Executive Officer), Scott Milsten (the Company's Senior Vice President, General Counsel, Chief People Officer, and Corporate Secretary), Richard Baruch, Jr. (the Company's Senior Vice President and Chief Commercial Officer), and Jonathan T. Fieldman (the Company's Senior Vice President, Operations) (collectively, the "Executive Officers") entered into an amended and restated employment agreement (each, an "Amended and Restated Employment Agreement").

The Amended and Restated Employment Agreements (i) remove the specified employment term and make each of the Executive Officers' respective employment with the Company on at-will basis, (ii) remove the post-employment non-compete covenant (as each of the Executive Officers is employed in our Oakland, California office), (iii) clarify that the confidentiality provisions do not impede whistleblowing in light of recent SEC rulemaking on the topic and (iv) add required language to permit the Company to recover exemplary damages and attorney's fees if any Executive Officer misappropriates trade secrets.

The compensation and benefits terms, including base salary, bonus target and severance benefits, provided to each Executive Officer under that Executive Officer's Amended and Restated Employment Agreement are the same as those provided to him previously under his original employment agreement.

The foregoing description of the Amended and Restated Employment Agreements is qualified in its entirety by reference to the full text of each Amended and Restated Employment Agreement, which are filed as Exhibit 10.16, Exhibit 10.17, Exhibit 10.18, and Exhibit 10.19 to this Annual Report and are incorporated by reference herein.

PART III

Item 10. Directors, executive officers and corporate governance.

The information required by this Item 10 is incorporated by reference to the sections entitled “Board of Directors”, “Executive Officers” and “Corporate Governance” that will be contained in our Definitive Proxy Statement for our 2019 Annual Meeting of Stockholders (the “Proxy Statement”). Our Proxy Statement will be filed with the SEC within 120 days of December 31, 2018.

Item 11. Executive compensation.

The information required by this Item 11 is incorporated by reference to the sections entitled “Executive Compensation” 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 to the sections entitled “Ownership of Common Stock of the Company” 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 to the sections entitled “Audit Matters” 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 [63](#) hereof, which is incorporated by reference herein.

2. Financial statement schedules:

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 [63](#) hereof and are incorporated herein by reference.

3. Exhibits

e.l.f. Beauty, Inc. and subsidiaries
Notes to consolidated financial statements

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Provided Herewith</u>	<u>Form</u>	<u>Incorporated by Reference</u>		<u>Filing Date</u>
				<u>Exhibit Number</u>	<u>File Number</u>	
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., J.A. 139 Fulton Street Corp., J.A. 741 Retail Corp., J.A. 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	First Amendment to Credit Agreement, dated as of August 25, 2017, by and among e.l.f. Beauty, Inc., as parent guarantor, e.l.f. Cosmetics, Inc., J.A. 139 Fulton Street Corp., J.A. 741 Retail Corp., J.A. Cosmetics Retail, Inc., J.A. RF, LLC and J.A. Cherry Hill, LLC, each as a borrower, Bank of Montreal, as the administrative agent, swingline lender and l/c issuer, and the lenders from time to time party thereto.		8-K	10.1	001-37873	8/28/2017
10.8(a)#	2014 Equity Incentive Plan of e.l.f. Beauty, Inc.		S-1	10.12	333-213333	8/26/2016
10.8(b)#	Amendment to 2014 Equity Incentive Plan of e.l.f. Beauty, Inc., dated as of March 15, 2017.		10-K	10.7(b)	001-3783	3/15/2017

e.l.f. Beauty, Inc. and subsidiaries
Notes to consolidated financial statements

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Provided Herewith</u>	<u>Form</u>	<u>Incorporated by Reference</u>		
				<u>Exhibit Number</u>	<u>File Number</u>	<u>Filing Date</u>
10.8(c)#	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(a)#	2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc.		S-1/A	10.16	333-213333	9/12/2016
10.9(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
10.9(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
10.9(d)#	Form of Restricted Stock Award Grant Notice under the 2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc. (Executives).		10-K	10.12(d)	001-3783	3/15/2017
10.9(e)#	Form of Restricted Stock Award Grant Notice under the 2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc. (Chief Executive Officer).		10-K	10.12(e)	001-3783	3/15/2017
10.10#	2016 Employee Stock Purchase Plan of e.l.f. Beauty, Inc.		S-1/A	10.18	333-213333	9/12/2016
10.11#	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
10.12#	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
10.13#	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
10.14#	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

e.l.f. Beauty, Inc. and subsidiaries
Notes to consolidated financial statements

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Provided Herewith</u>	<u>Form</u>	<u>Incorporated by Reference</u>		<u>Filing Date</u>
				<u>Exhibit Number</u>	<u>File Number</u>	
10.15#	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
10.16#	Amended and Restated Employment Agreement, dated as of February 26, 2019, between Tarang Amin, e.l.f. Cosmetics, Inc. and e.l.f. Beauty, Inc.	X				
10.17#	Amended and Restated Employment Agreement, dated as of February 26, 2019, between Scott Milsten, e.l.f. Cosmetics, Inc. and e.l.f. Beauty, Inc.	X				
10.18#	Amended and Restated Employment Agreement, dated as of February 26, 2019, between Richard Baruch, Jr., e.l.f. Cosmetics, Inc. and e.l.f. Beauty, Inc.	X				
10.19#	Amended and Restated Employment Agreement, dated as of February 26, 2019, between Jonathan T. Fieldman, e.l.f. Cosmetics, Inc. and e.l.f. Beauty, Inc.	X				
10.20#	Form of Indemnification Agreement for directors and officers of e.l.f. Beauty, Inc.		S-1	10.25	333-213333	8/26/2016
10.21#	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.

SIGNATURES

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.

February 28, 2019

Date

By: /s/ Tarang P. Amin

Tarang P. Amin
Chairman and Chief Executive Officer

February 28, 2019

Date

By: /s/ John P. Bailey

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 WITNESS 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.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Tarang P. Amin</u> Tarang P. Amin	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	February 22, 2019
<u>/s/ John P. Bailey</u> John P. Bailey	President and Chief Financial Officer (Principal Financial and Accounting Officer)	February 26, 2019
<u>/s/ Lauren Cooks Levitan</u> Lauren Cooks Levitan	Director	February 23, 2019
<u>/s/ William E. McGlashan, Jr.</u> William E. McGlashan, Jr.	Director	February 23, 2019
<u>/s/ Richelle P. Parham</u> Richelle P. Parham	Director	February 22, 2019
<u>/s/ Kirk L. Perry</u> Kirk L. Perry	Director	February 24, 2019
<u>/s/ Beth M. Pritchard</u> Beth M. Pritchard	Director	February 23, 2019
<u>/s/ Sabrina L. Simmons</u> Sabrina L. Simmons	Director	February 22, 2019
<u>/s/ Maureen C. Watson</u> Maureen C. Watson	Director	February 27, 2019
<u>/s/ Richard G. Wolford</u> Richard G. Wolford	Director	February 27, 2019

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<u>Consolidated balance sheets as of December 31, 2018 and December 31, 2017</u>	<u>60</u>
<u>Consolidated statements of operations and comprehensive income for the years ended December 31, 2018, December 31, 2017 and December 31, 2016</u>	<u>61</u>
<u>Consolidated statements of convertible preferred stock and stockholders' equity (deficit) for years ended December 31, 2018, December 31, 2017 and December 31, 2016</u>	<u>62</u>
<u>Consolidated statements of cash flows for the years ended December 31, 2018, December 31, 2017 and December 31, 2016</u>	<u>63</u>
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of e.l.f. Beauty, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of e.l.f. Beauty, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive income, preferred stock and stockholders' equity (deficit), and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
February 28, 2019

We have served as the Company's auditor since 2014.

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

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 51,205	\$ 10,059
Accounts receivable, net	36,724	44,634
Inventory, net	46,341	62,679
Prepaid expenses and other current assets	7,473	6,272
Total current assets	141,743	123,644
Property and equipment, net	21,804	18,037
Intangible assets, net	98,773	105,882
Goodwill	157,264	157,264
Investments	2,875	2,875
Other assets	13,397	9,542
Total assets	<u>\$ 435,856</u>	<u>\$ 417,244</u>
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 9,861	\$ 8,646
Accounts payable	20,483	26,776
Accrued expenses and other current liabilities	12,671	15,939
Total current liabilities	43,015	51,361
Long-term debt and capital lease obligations	140,523	147,702
Deferred tax liabilities	20,217	21,341
Other long-term liabilities	2,770	2,977
Total liabilities	206,525	223,381
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, par value of \$0.01 per share; 250,000,000 shares authorized as of December 31, 2018 and December 31, 2017; 48,715,276 and 46,617,830 shares issued and outstanding as of December 31, 2018 and December 31, 2017, respectively	478	463
Additional paid-in capital	740,354	720,372
Accumulated deficit	(511,501)	(526,972)
Total stockholders' equity	229,331	193,863
Total liabilities and stockholders' equity	<u>\$ 435,856</u>	<u>\$ 417,244</u>

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
(in thousands, except share and per share data)

	Year ended December 31,		
	2018	2017	2016
Net sales	\$ 267,435	\$ 269,888	\$ 229,567
Cost of sales	104,694	105,163	97,332
Gross profit	162,741	164,725	132,235
Selling, general, and administrative expenses	136,579	131,446	109,156
Operating income	26,162	33,279	23,079
Other income (expense), net	(390)	(2,035)	3,016
Interest expense, net	(7,816)	(8,775)	(16,283)
Income before provision for income taxes	17,956	22,469	9,812
Income tax benefit (provision)	(2,431)	11,006	(4,499)
Net income	\$ 15,525	\$ 33,475	\$ 5,313
Comprehensive income	\$ 15,525	\$ 33,475	\$ 5,313
Net income (loss) per share:			
Basic	\$ 0.33	\$ 0.74	\$ (39.47)
Diluted	\$ 0.32	\$ 0.68	\$ (39.47)
Weighted average shares outstanding:			
Basic	46,828,798	45,358,452	12,606,529
Diluted	49,268,616	49,374,758	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 convertible preferred stock and stockholders' equity (deficit)
(in thousands, except share data)

	Convertible preferred stock		Common stock		Employee note receivable	Additional paid-in capital	Accumulated deficit	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount				
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, net	—	—	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
Net income	—	—	—	—	—	—	33,475	33,475
Stock-based compensation	—	—	—	—	—	13,474	—	13,474
Vesting of early exercised stock options	—	—	1,522,826	15	—	4,059	—	4,074
Exercise of stock options, net	—	—	1,039,493	10	—	1,968	—	1,978
Balance as of December 31, 2017	—	—	46,315,630	463	—	720,372	(526,972)	193,863
Net income	—	—	—	—	—	—	15,525	15,525
Stock-based compensation	—	—	—	—	—	16,821	—	16,821
Exercise of stock options, net	—	—	1,514,126	15	—	3,161	—	3,176
Adoption of new accounting standard	—	—	—	—	—	—	(54)	(54)
Balance as of December 31, 2018	—	\$ —	47,829,756	\$ 478	\$ —	\$ 740,354	\$ (511,501)	\$ 229,331

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)

	Year ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$ 15,525	\$ 33,475	\$ 5,313
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,861	14,521	13,152
Stock-based compensation expense	16,821	13,474	7,149
Amortization of debt issuance costs and discount on debt	792	810	1,281
Deferred income taxes	(939)	(13,434)	(7,575)
Debt prepayment penalty	—	—	2,736
Loss/(gain) on foreign currency forward contracts	—	—	(10,702)
Other, net	476	1,728	247
Changes in operating assets and liabilities:			
Accounts receivable	7,649	(8,001)	(15,392)
Inventories	16,338	6,718	(37,994)
Prepaid expenses and other assets	(8,484)	(11,200)	(635)
Accounts payable and accrued expenses	(10,251)	(25,483)	43,144
Other liabilities	(206)	(230)	1,396
Net cash provided by operating activities	<u>55,582</u>	<u>12,378</u>	<u>2,120</u>
Cash flows from investing activities:			
Purchase of property and equipment	(8,872)	(7,544)	(9,223)
Investment in equity securities	—	(2,875)	—
Other, net	—	—	84
Net cash used in investing activities	<u>(8,872)</u>	<u>(10,419)</u>	<u>(9,139)</u>
Cash flows from financing activities:			
Proceeds from revolving line of credit	2,000	25,900	5,500
Repayment of revolving line of credit	(2,000)	(25,900)	(13,200)
Proceeds from long-term debt	—	—	172,749
Repayment of long-term debt	(8,250)	(8,250)	(151,540)
Debt issuance costs paid	—	(519)	(704)
Cash received from issuance of common stock	3,176	1,978	64,071
Proceeds from repayment of employee note receivable	—	—	7,912
Deferred offering costs paid	—	—	(7,821)
Dividend paid	—	—	(68,000)
Other, net	(490)	(404)	(657)
Net cash provided by (used in) financing activities	<u>(5,564)</u>	<u>(7,195)</u>	<u>8,310</u>
Net increase (decrease) in cash and cash equivalents	41,146	(5,236)	1,291
Cash and cash equivalents - beginning of period	10,059	15,295	14,004
Cash and cash equivalents - end of period	<u>\$ 51,205</u>	<u>\$ 10,059</u>	<u>\$ 15,295</u>

	Year ended December 31,		
	2018	2017	2016
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 7,124	\$ 8,162	\$ 12,170
Cash paid for income taxes, net of refunds	4,085	5,673	8,466
Supplemental disclosure of noncash investing and financing activities:			
Accretion of preferred stock to maximum redemption value	—	—	436,317
Deferred offering costs included in accounts payable and accrued expenses	—	—	193
Property and equipment acquired under capital leases	2,098	10	3,000
Property and equipment purchases included in accounts payable and accrued expenses	1,838	1,143	491
Vesting of shares related to early exercise of common stock options	—	4,074	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—Nature of operations

e.l.f. Beauty, Inc. (together with its subsidiaries, the “Company” or “we”) was formed as a Delaware corporation on December 20, 2013 under the name J.A. Cosmetics Holdings, Inc. and we changed our name to e.l.f. Beauty, Inc. in April 2016. The Company conducts business under the name e.l.f. Cosmetics and offers high-quality, prestige-inspired cosmetic and skin care products at extraordinary value.

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.

Note 2—Summary of significant accounting policies

Basis of presentation and fiscal year end change

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. During the fourth quarter of 2018, the Board of Directors approved a change in fiscal year end from December 31st to March 31st. Accordingly, the Company will report a transition quarter that runs from January 1, 2019 through March 31, 2019. The Company’s next fiscal year will run from April 1, 2019 through March 31, 2020.

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. The Company recorded an allowance for doubtful accounts of \$0.3 million and \$0.1 million as of December 31, 2018 and 2017 , respectively. The Company recorded a reserve for sales adjustments of \$7.8 million and \$8.5 million as of December 31, 2018 and 2017 , 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 including money market funds, foreign currency forward contracts prior to maturity in 2016 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. 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.

e.l.f. Beauty, Inc. and subsidiaries
Notes to consolidated financial statements

During the years ended December 31, 2018 , 2017 and 2016, two customers individually accounted for greater than 10% of the Company’s net sales as disclosed below:

	Year ended December 31,		
	2018	2017	2016
Customer A	21%	25%	28%
Customer B	30%	29%	30%

Customers that individually accounted for greater than 10% of the Company’s accounts receivable at the end of the periods are as presented :

	December 31, 2018	December 31, 2017
Customer A	27%	29%
Customer B	20%	17%
Customer C	*	17%

* Customer comprised less than 10% of accounts receivable in the period.

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. The Company also records a reserve for excess and obsolete inventory, which represents the excess of the cost of the inventory over its estimated market value. This reserve is based upon an assessment of historical trends, current market conditions and forecasted product demand. The Company recorded an adjustment for excess and obsolete inventory, which is presented as a reduction to inventory of \$2.3 million and \$1.5 million as of December 31, 2018 and 2017 , respectively. For the years ended December 31, 2018 and 2017 , the Company recognized \$0.8 million and \$1.5 million in cost of goods sold related to such adjustments.

Property and equipment and other assets

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

As of December 31, 2018 and 2017 , included in other assets are retail product displays, net, of \$10.9 million and \$5.7 million , respectively, that are generally amortized over a period of three years. Amortization expense for retail product displays was \$3.1 million and \$0.6 million for the year ended December 31, 2018 and 2017 , respectively.

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. For purposes of this assessment, long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The Company’s long-lived assets are grouped on an entity-wide basis. This is due, in part, to the integrated nature of the Company’s various distribution channels and the extent

e.l.f. Beauty, Inc. and subsidiaries
Notes to consolidated financial statements

of shared costs across those channels. 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. The Company recorded an impairment charge of \$ 0.2 million in the year ended December 31, 2017 . There were no impairment charges recorded in the years ended December 31, 2018 or 2016 .

Goodwill and intangible assets

Goodwill represents the excess of the purchase price for the acquisition of 100% of the outstanding shares of capital stock of e.l.f. Cosmetics, Inc. and its subsidiaries by e.l.f. Beauty, Inc. on January 31, 2014 (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. We have identified a single reporting unit for purposes of impairment testing due, in part, to the integrated nature of the Company's various distribution channels and the extent of shared costs across those channels.

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. We evaluate our indefinite-lived intangible asset to determine whether current events and circumstances continue to support an indefinite useful life. Amortization of intangible assets with finite useful lives is computed on a straight-line basis over periods of 3 years 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.

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 of 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.

e.l.f. Beauty, Inc. and subsidiaries
Notes to consolidated financial statements

During the years ended December 31, 2018 , 2017 and 2016 , net sales in the United States and outside of the United States were as follows (in thousands):

	Year ended December 31,		
	2018	2017	2016
U.S.	\$ 240,612	\$ 243,299	\$ 210,236
International	26,823	26,589	19,331
Total net sales	\$ 267,435	\$ 269,888	\$ 229,567

As of December 31, 2018 and 2017 , the Company had property and equipment in the United States and outside of the United States as follows (in thousands) :

	December 31, 2018	December 31, 2017
	U.S.	\$ 21,236
International	568	203
Total property and equipment, net	\$ 21,804	\$ 18,037

Revenue recognition

The Company adopted Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers (“ASC 606”), on a modified retrospective basis and recognized a net reduction of \$0.1 million to the opening balance of retained earnings, net of tax, for the cumulative effect of applying the new standard. The results for periods beginning after January 1, 2018 are presented under ASC 606, while comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of the new standard impacted net sales and accounts receivable. Net sales would have been \$0.3 million higher under the previous standard in the year ended December 31, 2018 . Accounts receivable would have been \$0.4 million higher under the previous standard as of December 31, 2018 .

Revenue is recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services.

For the Company's retail customer transactions, a contract exists when a written purchase order is received, and control transfers at the time of shipment or the time of delivery, depending upon the specific terms of the customer arrangement. For the Company's direct-to-consumer transactions, a contract exists when an order is placed online or in-store, and control transfers at the time of delivery of merchandise to the customer. Nearly all of the Company's transactions with its customers include a single performance obligation delivered at a point in time.

The transaction price can include both fixed and variable consideration. In most cases, it is entirely comprised of variable consideration with the variability driven by expected sales discounts, markdown support, and other incentives and allowances offered to customers. These incentives may be explicit or implied by the Company's historical business practices. Generally, these commitments represent cash consideration paid to a customer and do not constitute a promised good or service.

The amount of variable consideration is estimated at the time of sale based on either the expected amount or the most likely amount, depending on the nature of the variability. The Company regularly reviews and revises, when deemed necessary, its estimates of variable consideration, based on both customer-specific expectations as well as historical rates of realization. A provision for customer incentives and allowances is included on the consolidated balance sheet, net against accounts receivable.

Disaggregated revenue

The Company distributes product both through national and international retailers as well as direct-to-consumers through its e-commerce and e.l.f. stores channels. The marketing and consumer engagement benefits that the direct channels provide are integral to the Company's brand and product development strategy and drive sales across

e.l.f. Beauty, Inc. and subsidiaries
Notes to consolidated financial statements

channels. As such, the Company views its three primary distribution channels as components of one integrated business, as opposed to discrete revenue streams.

The Company sells a variety of beauty products but does not consider them to be meaningfully different revenue streams given similarities in the nature of the products, the target consumer, and the innovation and distribution processes. See *Segment Reporting* section above for the table providing disaggregated revenue from contracts with customers by geographical market, as the nature, amount, timing and uncertainty of revenue and cash flows can differ between domestic and international customers.

Contract assets and liabilities

The Company extends credit to retail customers based upon an evaluation of their credit quality. The majority of retail customers obtain payment terms between 30-60 days, and a contract asset is recognized for the related accounts receivable. Additionally, shipping terms can vary, giving rise to contract liabilities for contracts where payment has been received in advance of delivery. The contract liability balance can vary significantly depending on the timing of when an order is placed and when shipment or delivery occurs.

As of December 31, 2018, other than accounts receivable, the Company had no material contract assets, contract liabilities or deferred contract costs recorded on its condensed consolidated balance sheet.

Practical expedients

The Company has elected to record revenue net of taxes collected from customers and exclude the amounts from the transaction price. The Company includes in revenue any taxes assessed on the Company's total gross receipts for which it has the primary responsibility to pay the tax.

The Company has elected not to disclose revenues related to remaining performance obligations for partially completed or unfulfilled contracts that are expected to be fulfilled within one year as such amounts were insignificant.

A reconciliation of the beginning and ending amounts of the reserve for sales adjustments for the years ended December 31, 2018, 2017 and 2016 is as follows (in thousands):

Balance as of December 31, 2015	\$	3,866
Charges		24,427
Deductions		(16,366)
Balance as of December 31, 2016		11,927
Charges		25,680
Deductions		(29,149)
Balance as of December 31, 2017		8,458
Charges		26,971
Deductions		(27,655)
Balance as of December 31, 2018	\$	7,774

In the years ended December 31, 2018, 2017 and 2016, the Company recorded \$0.5 million, \$0.7 million and \$1.4 million respectively, of reimbursed shipping expenses from customers within revenues. The shipping and handling costs associated with product distribution were \$20.9 million, \$21.2 million and \$20.4 million in the years ended December 31, 2018, 2017 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

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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 market conditions using a Monte Carlo simulation model. 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 are recognized and accounted for as they occur.

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

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amounted to approximately and \$10.2 million , \$8.1 million , \$5.6 million in the years ended December 31, 2018 , 2017 and 2016 , respectively.

Net income (loss) per share

Basic net income (loss) per 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 outstanding during the period, to the extent such securities would not be anti-dilutive, and is determined using the treasury stock method.

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:

<u>Recently adopted accounting standards</u>			
Standard	Description	Date of expected adoption/adoption	Effect on the financial statements or other significant matters
ASU 2014-09, <i>Revenue from Contracts with Customers (Topic 606)</i>	The new standard replaced all existing revenue recognition standards including industry-specific guidance and significantly expanded 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 adopted ASC 606 on a modified retrospective basis, and recognized a net reduction of \$0.1 million to the opening balance of retained earnings, net of tax for the cumulative effect of applying the new standard. The results for periods beginning after January 1, 2018 are presented under ASC 606, while comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of the new standard impacted net sales and accounts receivable. Net sales would have been \$0.3 million higher under the previous standard in the year ended December 31, 2018. Accounts receivable would have been \$0.4 million higher under the previous standard as of December 31, 2018.
ASU 2016-01, <i>Recognition and Measurement of Financial Assets and Financial Liabilities</i>	The standard makes targeted improvements to US GAAP, including significant revisions to an entity's accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value.	January 1, 2018	The Company adopted this standard in the first quarter of 2018. The standard impacted the methods used to assess and identify impairment of its investments. Additionally, the standard eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments that are measured at amortized cost on the balance sheet. The standard had no impact on the Company's consolidated financial statements.

<u>Standards that are not yet adopted</u>			
Standard	Description	Date of expected adoption/adoption	Effect on the financial statements or other significant matters
ASU 2016-02, <i>Leases (Topic 842)</i>	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 payments. 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 initial 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 expects the standard to result in a material increase in long-term assets and long-term liabilities related to operating leases currently not recorded on the balance sheet. The Company is currently completing its implementation efforts and is continuing to evaluate other possible impacts of the adoption of this standard on its consolidated financial statements and related disclosures.
ASU 2018-15, <i>Intangibles-Goodwill and Other- Internal-Use Software (Subtopic 350-40)</i>	The standard will require customers in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. Certain implementation costs incurred during the application development stage would be deferred and capitalized (e.g., costs of integration with on-premises software, coding, configuration, customization). Other costs incurred during the preliminary project and post-implementation stages would be expensed (e.g., planning the project, training, maintenance after implementation, data conversion). The amendments in the ASU can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption.	January 1, 2020	The Company is currently evaluating the effect of the standard on its consolidated financial statements and related disclosures.

Note 3—Investment in equity securities

On April 14, 2017, the Company entered into an agreement to make a minority equity investment in a social media analytics company (the “Investee”). Pursuant to this agreement, the Company invested \$ 2.9 million and received 4.7 million shares of preferred stock, or approximately 15.0% of the total outstanding voting securities of the Investee. The Company’s investment is carried at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer.

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The fair value of the shares of preferred stock of Investee, which is not publicly traded, is not readily determinable. There were no observable price changes or impairment indicators identified during the years ended December 31, 2018 and 2017 .

Note 4—Goodwill and other intangible assets

Information regarding the Company’s goodwill and intangible assets as of December 31, 2018 is as follows (in thousands):

	Estimated useful life	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships – retailers	10 years	\$ 68,800	\$ (33,827)	\$ 34,973
Customer relationships – e-commerce	3 years	3,900	(3,900)	—
Total finite-lived intangibles		72,700	(37,727)	34,973
Trademarks	Indefinite	63,800	—	63,800
Goodwill		157,264	—	157,264
Total goodwill and other intangibles		\$ 293,764	\$ (37,727)	\$ 256,037

Information regarding the Company’s goodwill and intangible assets as of December 31, 2017 is as follows (in thousands):

	Estimated useful life	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships – retailers	10 years	\$ 68,800	\$ (26,947)	\$ 41,853
Customer relationships – e-commerce	3 years	3,900	(3,875)	25
Favorable leases, net	Varies	580	(376)	204
Total finite-lived intangibles		73,280	(31,198)	42,082
Trademarks	Indefinite	63,800	—	63,800
Goodwill		157,264	—	157,264
Total goodwill and other intangibles		\$ 294,344	\$ (31,198)	\$ 263,146

The Company has not recognized any impairment charges on its goodwill or intangible assets, as the anticipated future cash flows generated by each of these assets remain substantially in excess of their carrying values. Amortization expense on the finite-lived intangible assets was \$7.1 million for the years ended December 31, 2018 and 2017 , and \$8.3 million in the year ended December 31, 2016 .

The estimated future amortization expense related to the finite-lived intangible assets, assuming no impairment as of December 31, 2018 , is as follows (in thousands):

Year ending December 31,	
2019	\$ 6,880
2020	6,880
2021	6,880
2022	6,880
2023	6,880
Thereafter	573
Total	\$ 34,973

Note 5—Property and equipment

Property and equipment as of December 31, 2018 and 2017 consists of the following (in thousands):

	December 31, 2018	December 31, 2017
Machinery, equipment and software	\$ 13,007	\$ 6,733
Leasehold improvements	9,549	8,673
Furniture and fixtures	3,027	2,827
Store fixtures	13,481	10,896
Property and equipment, gross	39,064	29,129
Less: Accumulated depreciation and amortization	(17,260)	(11,092)
Property and equipment, net	<u>\$ 21,804</u>	<u>\$ 18,037</u>

Depreciation and amortization expense on property and equipment was \$7.6 million , \$6.8 million and \$4.9 million in the years ended December 31, 2018 , 2017 and 2016 , respectively.

Note 6—Accrued expenses and other current liabilities

Accrued expenses and other current liabilities as of December 31, 2018 and 2017 consists of the following (in thousands):

	December 31, 2018	December 31, 2017
Accrued expenses	\$ 8,783	\$ 9,422
Other current liabilities	1,834	1,894
Accrued compensation	1,983	3,998
Income taxes payable	71	625
Accrued expenses and other current liabilities	<u>\$ 12,671</u>	<u>\$ 15,939</u>

Note 7—Fair value of financial instruments

The fair value of financial instruments 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)

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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 following table sets forth the fair value of the Company's financial liabilities by level within the fair value hierarchy as of December 31, 2018 (in thousands):

	Fair value	Fair value measurements using		
		Level 1	Level 2	Level 3
Financial liabilities:				
Long-term debt, including current portion ⁽¹⁾	\$ 150,719	\$ —	\$ 150,719	\$ —
Total financial liabilities	\$ 150,719	\$ —	\$ 150,719	\$ —

(1) ⁽¹⁾ Of this amount, \$9,861 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, 2017 (in thousands):

	Fair value	Fair value measurements using		
		Level 1	Level 2	Level 3
Financial liabilities:				
Long-term debt, including current portion ⁽¹⁾	\$ 156,792	\$ —	\$ 156,792	\$ —
Total financial liabilities	\$ 156,792	\$ —	\$ 156,792	\$ —

(1) Of this amount, \$8,646 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 classifies its cash equivalents, primarily, its money market funds within Level 1 based on quoted market prices in active markets for identical assets. 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—Debt

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

- On January 31, 2014, the Company entered into a senior secured credit facility (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 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, 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 agreement, as further described below.
- On August 25, 2017, the Company amended its senior secured credit agreement to increase the total availability under the revolving line of credit to \$ 50.0 million and to lower the interest rates and extend the maturity date to August 25, 2022.

The Company's outstanding debt as of December 31, 2018 and 2017 consists of the following (in thousands):

	December 31, 2018	December 31, 2017
Debt:		
Term loan	\$ 146,737	\$ 154,418
Capital lease obligations	3,982	2,374
Total debt	150,719	156,792
Less: debt issuance costs	(335)	(444)
Total debt, net of issuance costs	150,384	156,348
Less: current portion	(9,861)	(8,646)
Long-term portion of debt	\$ 140,523	\$ 147,702

Senior secured credit agreement, as amended

On December 23, 2016, the Company entered into a new five-year, \$200.0 million Senior Secured Credit Agreement (as amended, the "Credit Agreement") with a syndicate consisting of several large financial institutions. The Credit Agreement was amended on August 25, 2017 (the "First Amendment"), increasing the aggregate commitments to \$ 215.0 million. The Credit Agreement consists of a \$ 50.0 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 August 25, 2022. 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% (based 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 \$50.0 million. The unused balance of the Revolving Credit Facility as of December 31, 2018 was \$49.5 million.

The Term Loan Facility maturity date is also August 25, 2022, 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 September 30, 2017 through June 30, 2019, (ii) \$2,475,000 for fiscal quarters ending September 30, 2019 through June 30, 2020, (iii) \$3,093,750 for fiscal quarters ending September 30, 2020 through June 30, 2021 and (iv) \$4,125,000 for fiscal quarters ending September 30, 2021 through June 30, 2022. 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 either (i) a rate per annum equal to an adjusted LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for the applicable interest period (subject to a minimum floor of 0%) plus an applicable margin ranging from 1.50% to 2.75% (amended from 2.00% to 3.50% as previously set forth in the Credit Agreement) based on the Company's consolidated total net leverage ratio or (ii) a floating base rate plus an applicable margin ranging from 0.50% to 2.75% (amended from 1.00% to 2.50%) based on the Company's consolidated total net leverage ratio. The interest rate for the Term Loan Facility as of December 31, 2018 was approximately 4.8% .

In December 2016, the Company incurred costs directly related to the Credit Agreement 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.

In August 2017, the Company paid approximately \$ 0.5 million in fees related to the First Amendment, none of which were capitalized as the First Amendment was treated as a modification of the original credit facility.

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The Credit Agreement 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 the Company's capital stock, incur additional indebtedness, create liens on assets, engage in mergers or consolidations and sell or otherwise dispose of assets. The Credit Agreement 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, 2018 and December 31, 2017, the Company was in compliance with all financial covenants.

Aggregate future minimum principal payments are as follows (in thousands):

Year ending December 31,	Term Loan	Capital lease obligations
2019	\$ 9,075	\$ 786
2020	11,138	801
2021	14,438	831
2022	113,849	846
2023	—	718
Thereafter	—	—
Total	\$ 148,500	\$ 3,982

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 the Credit Agreement 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 transaction. 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 amortized over the 5 years term of the Credit Agreement.

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

	Year ended December 31,		
	2018	2017	2016
Interest on term loan debt	\$ 6,774	\$ 7,271	\$ 12,076
Amortization of debt issuance costs	792	810	1,281
Loss on extinguishment of debt	—	—	2,736
Interest on revolving line of credit	132	526	190
Interest on capital leases	155	168	—
Other	(37)	—	—
Interest expense, net	\$ 7,816	\$ 8,775	\$ 16,283

Note 9—Commitments and contingencies

Operating leases

The Company leases office, retail and warehouse space in New York, New Jersey, California, Texas and China from third parties under non-cancelable operating leases that provide for minimum base rental payments (excluding taxes and other charges). A number of the Company's store leases provide for contingent rentals based upon sales. Contingent rent

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amounts have historically not been significant. The leases expire between 2019 and 2028 . Total rent expense was \$5.4 million , \$5.1 million and \$4.1 million for the years ended December 31, 2018 , 2017 and 2016 , respectively.

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

Year ending December 31,	
2019	\$ 5,375
2020	5,210
2021	3,876
2022	2,832
2023	2,858
Thereafter	7,167
Total	\$ 27,318

Legal Contingencies

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

Note 10—Income taxes

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

	Year ended December 31,		
	2018	2017	2016
Domestic	\$ 17,405	\$ 22,409	\$ 9,677
Foreign	551	60	135
Total	\$ 17,956	\$ 22,469	\$ 9,812

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

	Year ended December 31,		
	2018	2017	2016
Current:			
U.S. federal	\$ (2,414)	\$ (2,058)	\$ (9,978)
State	(948)	(369)	(2,096)
Foreign	(8)	—	—
Total current	(3,370)	(2,427)	(12,074)
Deferred:			
U.S. federal	1,005	13,246	8,384
State	101	(21)	(773)
Foreign	(167)	208	(36)
Total deferred	939	13,433	7,575
Total (provision) benefit for income taxes	\$ (2,431)	\$ 11,006	\$ (4,499)

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Effective January 1, 2018, the federal statutory rate decreased from 35% to 21% as a result of the enactment of the Tax Cuts and Jobs Act (the "2017 Tax Act"). The following table presents a reconciliation of the federal statutory rate to the Company's effective tax rate :

	Year ended December 31,		
	2018	2017	2016
Federal statutory rate	21.0 %	35.0 %	35.0 %
Federal tax deferred rate change	— %	(53.8)%	— %
State tax, net of federal benefit	2.6 %	0.6 %	0.7 %
State tax deferred rate change, net of federal benefit	0.9 %	0.9 %	18.7 %
Nondeductible business expenses	1.4 %	— %	2.0 %
Provision-to-return adjustment	(3.9)%	— %	— %
Uncertain tax positions	(1.3)%	(1.7)%	2.0 %
Stock based compensation	(8.6)%	(28.1)%	(16.8)%
Others	1.4 %	(1.9)%	4.3 %
Effective tax rate	13.5 %	(49.0)%	45.9 %

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

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Compensation	\$ 928	\$ 1,056
Inventories and receivables	3,008	2,965
Accrued expenses	424	663
Stock compensation	5,175	3,497
Net operating losses	43	210
Other	898	925
Deferred tax assets	10,476	9,316
Deferred tax liabilities:		
Goodwill	2,618	2,214
Fixed assets	2,405	1,923
Intangible assets	24,591	25,962
Other	1,023	313
Deferred tax liabilities	30,637	30,412
Net deferred tax liabilities	\$ 20,161	\$ 21,096

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

	December 31, 2018	December 31, 2017
Deferred tax assets	\$ 56	\$ 245
Deferred tax liabilities	20,217	21,341
Net deferred tax liabilities	\$ 20,161	\$ 21,096

At December 31, 2018 , the Company had gross state net operating loss carryforwards of \$0.6 million . The state net operating loss carryforwards will begin to expire in 2036 and have a carryforward period of 20 years .

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

	Year ended December 31,		
	2018	2017	2016
Balance at beginning of year	\$ 764	\$ 1,208	\$ 1,256
Increases for prior year tax positions	—	63	438
Increases for current year tax positions	173	68	103
Decreases for prior year tax positions	(8)	(1)	(589)
Decreases due to settlements	—	(32)	—
Decreases due to statutes lapsing	(358)	(542)	—
Balance at end of year	\$ 571	\$ 764	\$ 1,208

If all of the Company's unrecognized tax benefits as of December 31, 2018 and December 31, 2017 were recognized, \$0.4 million and \$0.3 million of unrecognized tax benefits, respectively, would impact the effective tax rate. The Company believes it is reasonably possible that \$0.2 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 \$0.1 million of accrued gross interest and penalties as of December 31, 2018 and 2017, respectively. The Company recognized net interest expense of \$(40,000), \$17,000 and \$0.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. As of December 31, 2018, with few exceptions, the Company or its subsidiaries are no longer subject to examination prior to tax year 2015. 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.

On December 22, 2017, the 2017 Tax Act was signed into law, which made significant changes to the Internal Revenue Code of 1986, as amended. One such change introduced the Global Intangible Low-Taxed Income ("GILTI") provision, which is first effective for the period ending December 31, 2018. Under U.S. GAAP, the Company is permitted to make an accounting policy election to either treat taxes due on inclusions in U.S. taxable income related to GILTI as a current-period expense when incurred or to include such amounts in the Company's measurement of its deferred taxes. The Company has chosen to treat GILTI as a current-period expense when incurred.

Note 11—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, 2018 or December 31, 2017.

Note 12—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 in September 2016. Immediately prior to the initial public offering, the 2014 Plan terminated and no further awards will be granted thereunder. 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. 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.

As of December 31, 2018, a total of 9,366,718 shares have been authorized for issuance under the 2016 Plan, and 4,608,064 remain available for grant. As of December 31, 2018, there were 2,063,122 options and awards outstanding under the 2014 Plan that, if forfeited, would increase the number of shares authorized for grant under the 2016 Plan.

Service-based vesting stock options

The following table summarizes the activity for options that vest solely based upon the satisfaction of a service condition as follows:

	Options outstanding	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic values (in thousands) (1)
Balance as of December 31, 2017	2,597,294	\$ 10.66		
Granted	585,250	18.43		
Exercised	(236,490)	3.75		
Canceled or forfeited	(199,384)	10.56		
Balance as of December 31, 2018	<u>2,746,670</u>	\$ 12.91	7.6	\$ 4,880
Exercisable, December 31, 2018	1,399,451	\$ 9.14	6.9	\$ 4,200

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the Company's closing stock price of \$8.66, as reported on the New York Stock Exchange on December 31, 2018.

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

	Year ended December 31,		
	2018	2017	2016
Stock-based compensation expense	\$ 3,219	\$ 2,435	\$ 4,286
Intrinsic value of options exercised	\$ 2,890	\$ 12,841	\$ 2,486
Weighted-average grant date fair value of options granted (per share)	\$ 6.81	\$ 9.51	\$ 5.07

As of December 31, 2018, there was \$7.3 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 2.4 years.

The fair value of service-based stock options granted were calculated using the following weighted-average assumptions:

	Year ended December 31,		
	2018	2017	2016
Expected term (in years)	6.3	6.2	5.9
Expected volatility	32.02%	32.42%	36.50%
Risk-free interest rate	2.68%	2.14%	1.34%
Expected dividend yield	—%	—%	—%

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 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

Prior to the initial public offering, the fair value of shares of common stock underlying stock options was the responsibility of, and determined by, the Company's board of directors, with input from management. 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

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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 and market-based vesting stock options

The following table summarizes the activity for options that vest based upon the satisfaction of performance or market conditions as follows:

	Options outstanding	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic values (in thousands) (1)
Balance as of December 31, 2017	2,406,537	\$ 6.58		
Exercised	(901,505)	2.54		
Canceled or forfeited	(22,250)	12.95		
Balance as of December 31, 2018	1,482,782	\$ 8.94	6.3	\$ 7,120
Exercisable, December 31, 2018	1,068,482	\$ 2.00	5.7	\$ 7,120

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the Company's closing stock price of \$8.66 , as reported on the New York Stock Exchange on December 31, 2018 .

As of December 31, 2018 , there was no further unrecognized compensation cost related to performance-based and market-based vesting stock options.

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Additional information relating to options that vest based upon the satisfaction of performance or market conditions is as follows (in thousands, except per share data):

	Year ended December 31,		
	2018	2017	2016
Stock-based compensation expense	\$ 1,168	\$ 3,489	\$ 1,813
Intrinsic value of options exercised	\$ 8,669	\$ 42,874	\$ —
Weighted-average grant date fair value of options granted (per share)	\$ —	\$ 10.65	\$ 1.52

Prior to the initial public offering, the Company granted options that vested based upon the achievement of both a performance and market condition. The performance condition was based on the occurrence of a liquidity event and was satisfied in connection with the initial public offering in September 2016. The market condition was based upon the achievement of a minimum rate of return from the liquidity event and was satisfied in March 2017. Accordingly, all such outstanding options vested in March 2017.

In February 2017, the Company granted options that vest based upon the achievement of specified stock prices. The fair values and derived service periods were determined using a Monte Carlo simulation model. If the awards vest prior to the end of the derived service period, the remaining unamortized compensation cost will be recognized in the period of vesting.

Restricted stock

The following table summarizes the activities for restricted stock awards (“RSAs”) and restricted stock units (“RSUs”) as follows:

	Shares of restricted stock outstanding	Weighted-average grant date fair value
Balance as of December 31, 2017	1,248,824	\$ 23.37
Granted	1,331,745	17.73
Vested	(376,130)	22.96
Canceled or forfeited	(168,315)	20.24
Balance as of December 31, 2018	2,036,124	\$ 20.01

As of December 31, 2018, there were 885,520 unvested shares subject to RSAs outstanding. Additional information relating to RSAs and RSUs is as follows (in thousands):

	Year ended December 31,		
	2018	2017	2016
Stock-based compensation expense	\$ 12,434	\$ 7,550	\$ 700
Intrinsic value of RSUs released	\$ 6,280	\$ 3,398	\$ —

As of December 31, 2018, there was \$31.7 million of total unrecognized compensation cost related to unvested RSAs and RSUs, which is expected to be recognized over the remaining weighted-average vesting period of 2.7 years.

Note 13—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 made \$0.2 million of matching contributions to the 401(k) Plan during the year ended December 31, 2018 and 2017, and \$0.1 million during the year ended December 31, 2016.

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Note 14—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 and per share data):

	Year ended December 31,		
	2018	2017	2016
Numerator:			
Net income	\$ 15,525	\$ 33,475	\$ 5,313
Adjustments to numerator:			
Dividend paid to preferred stockholders	—	—	(66,531)
Accretion of convertible preferred stock to maximum redemption value	—	—	(436,317)
Net income (loss) attributable to common stockholders	<u>\$ 15,525</u>	<u>\$ 33,475</u>	<u>\$ (497,535)</u>
Denominator:			
Weighted average common shares outstanding - basic	46,828,798	45,358,452	12,606,529
Dilutive common equivalent shares from equity awards	2,439,818	4,016,306	—
Weighted average common shares outstanding - diluted	<u>49,268,616</u>	<u>49,374,758</u>	<u>12,606,529</u>
Net income (loss) per share:			
Basic	\$ 0.33	\$ 0.74	\$ (39.47)
Diluted	\$ 0.32	\$ 0.68	\$ (39.47)
Weighted average anti-dilutive shares from outstanding equity awards excluded from diluted earnings per share	3,373,529	1,176,787	7,591,298

Note 15—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 (1)
2018				
Net sales	\$ 65,920	\$ 59,055	\$ 63,889	\$ 78,571
Gross profit	\$ 40,208	\$ 36,645	\$ 38,969	\$ 46,919
Net income	\$ 690	\$ 1,248	\$ 3,915	\$ 9,672
Net income per share:				
Basic	\$ 0.01	\$ 0.03	\$ 0.08	\$ 0.20
Diluted	\$ 0.01	\$ 0.03	\$ 0.08	\$ 0.20
2017				
Net sales	\$ 60,574	\$ 55,856	\$ 71,865	\$ 81,593
Gross profit	\$ 38,228	\$ 35,890	\$ 42,913	\$ 47,694
Net income	\$ 2,160	\$ 3,970	\$ 5,865	\$ 21,480
Net income per share:				
Basic	\$ 0.05	\$ 0.09	\$ 0.13	\$ 0.47
Diluted	\$ 0.04	\$ 0.08	\$ 0.12	\$ 0.44

e.l.f. Beauty, Inc. and subsidiaries
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(1) Results for the fourth quarter of fiscal 2017 included a tax benefit from the adoption of the 2017 Tax Act, which had a favorable impact of \$0.25 and \$0.23 on basic and diluted earnings per share, respectively.

Note 16—Subsequent events

On February 26, 2019, the Company announced its decision to close all e.l.f. retail stores (the “e.l.f. Store Closing”). As part of the e.l.f. Store Closing, the Company will close all 22 of its e.l.f. retail stores on February 26, 2019, and implement a workforce reduction of approximately 185 retail store employees and approximately 8 corporate employees that manage and operate the e.l.f. retail stores.

The Company currently expects to incur one-time, pre-tax charges and costs associated with the e.l.f. Store Closing of approximately \$23.0 to \$25.0 million in total, which will be taken in the transition period ended March 31, 2019. These charges include:

- acceleration of rent expense related to e.l.f. retail store lease right-of-use assets of approximately \$16.0 million ;
- write-offs of other assets, including property and equipment, of approximately \$5.0 to \$6.0 million ;
- employee severance payments of approximately \$0.5 million ;
- other costs of approximately \$1.5 to \$2.5 million .

The decision to close all e.l.f. retail stores was made during the transition period ended March 31, 2019. The property and equipment used to operate the e.l.f. retail stores is part of an entity-wide asset group. This is due, in part, to the integrated nature of the e.l.f. retail stores business with the Company’s various other distribution channels and the extent of shared costs across those channels.

Right-of-use assets and liabilities for all leases, including e.l.f. retail store leases, will be recorded effective January 1, 2019 in connection with the adoption of ASC 842.

Any outstanding liabilities associated with leases or other contracts will be adjusted at the time the liability is considered extinguished.

The above estimated costs and charges are preliminary and may vary materially based on various factors, including negotiations with third parties, and changes in management’s assumptions and projections.

**AMENDED AND RESTATED
EMPLOYMENT AGREEMENT**

This Amended and Restated Employment Agreement (this “Agreement”), is made and entered into on February 26, 2019 (the “Effective Date”), by and among e.l.f. Cosmetics, Inc. (together with any successor, the “Company”), e.l.f. Beauty, Inc., the owner of all of the outstanding capital stock of the Company (together with any successor, “e.l.f. Beauty”), and Tarang P. Amin (“Executive”).

WHEREAS, the Company, e.l.f. Beauty, and Executive are parties to that certain Employment Agreement, dated January 31, 2014 (the “Prior Agreement”);

WHEREAS, the Company desires to continue to employ Executive on the amended terms, conditions and other provisions set forth herein;

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

WHEREAS, this Agreement amends and restates the Prior Agreement in its entirety.

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:

**ARTICLE I
DEFINITIONS**

Section 1.01 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 e.l.f. Beauty.

“Cause” means (a) a breach by Executive of Executive’s obligations under Section 2.02 (other than as a result of physical or mental incapacity) which constitutes material nonperformance by Executive of his obligations and duties thereunder, which Executive has failed to remedy after the Board of Directors has given Executive written notice of, and at least 15 days to remedy, such breach, (b) 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), (c) a material breach by Executive of ARTICLE VI, (d) Executive’s conviction, plea of no contest or nolo contendere, deferred adjudication or unadjudicated probation for any felony or any crime involving moral turpitude, (e) 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 15 days to remedy, such failure, or (f) 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 his position hereunder for a period of 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: (a) a material default in the performance of the Company’s obligations under this Agreement; (b) a significant diminution of Executive’s responsibilities, duties or authority as Chief Executive Officer , or a material diminution of Executive’s base compensation, unless such diminution is mutually agreed between Executive and the Company; or (c) the relocation of Executive’s principal office, without his consent, to a location that is in excess of 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 (i) Executive has given the Company at least 30 days prior written notice of his intent to terminate his employment for Good Reason, which notice shall specify the facts and circumstances constituting Good Reason and be given within 90 days of the initial occurrence thereof, (ii) the Company has not remedied such facts and circumstances constituting Good Reason within 30 days following the receipt of such notice, and (iii) Executive terminates employment within six months following the expiration of such 30-day cure period.

“ Notice of Termination ” means a dated notice that (a) indicates the specific termination provision in this Agreement relied upon, (b) 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, (c) 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 (d) is given in the manner specified in Section 7.02. 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 (a) if Executive’s employment is terminated for Cause or Disability, the date specified in the Notice of Termination, (b) in the case of termination of employment due to death, the date of Executive’s death, or (c) 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.

ARTICLE II EMPLOYMENT

Section 2.01 Agreement and Term . The Company hereby employs Executive as an employee of the Company, and Executive hereby accepts said employment and agrees to render such services to the Company, on the terms and conditions set forth in this Agreement. The term of employment under this Agreement shall commence on the Effective Date and shall continue until terminated pursuant to ARTICLE V.

Section 2.02 Position and Duties . Except as otherwise provided in this Agreement, Executive shall serve as Chief Executive Officer and shall report directly to the Board of Directors. During Executive’s employment, the Company shall propose that Executive be appointed or elected to the Board and, the Company shall propose Executive for re-election to the Board of Directors, as applicable. 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 his duties and responsibilities at all times in compliance with the Company’s policies promulgated from time to time by the Company. Executive shall also perform such other duties, commensurate with his position, as reasonably requested by the Board of Directors. Executive shall use his best efforts to serve the Company faithfully, diligently and competently and to the best of his ability, and to devote his 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 2.03.

Section 2.03 Outside Activities. It shall not be a violation of this Agreement for Executive to (a) deliver lectures or fulfill speaking engagements; (b) manage personal investments; or (c) 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 (a) – (c) (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. In addition, it shall not be a violation of this Agreement for Executive to own any publicly-traded securities.

Section 2.04 Location. Executive shall be based in the Company’s Oakland, California offices (or such other San Francisco Bay Area office as the Company occupies).

ARTICLE III COMPENSATION AND BENEFITS

Section 3.01 Salary. The Company shall compensate and pay Executive for his services at a rate equivalent to \$475,000 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.

Section 3.02 Bonus. Executive shall have the opportunity to earn annual performance bonuses based on performance criteria to be established by the Board of Directors (or a committee thereof) after consultation with Executive. Executive shall be eligible to receive a target cash bonus of 100% of his Base Salary based upon the attainment of performance objectives established by the Board of Directors (or a committee thereof). Unless set forth otherwise herein, Executive must be actively employed with the Company through the date on which the bonus performance percentage is determined by the Board of Directors (or a committee thereof) in order to receive any annual bonus payout pursuant to this Section 3.02. 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.

Section 3.03 Employee Benefits. 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.

Section 3.04 Paid Leave. Executive shall be entitled to four weeks of paid time off (“PTO”) each year, subject an annual accrual cap of 30 days. Executive shall also be entitled to all paid holidays to which executive level employees of the Company are entitled. Accrued unused PTO shall not be paid in the event of a termination of employment unless otherwise required by applicable state law.

ARTICLE IV EXPENSES

Section 4.01 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 his 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. Executive shall also be entitled to reimbursement of financial planning and tax preparation assistance in an amount not to exceed \$20,000 per year.

ARTICLE V TERMINATION AND SEVERANCE

Section 5.01 At-Will Employment. The Company and Executive acknowledge that Executive's employment is and shall continue to be at-will, as defined under applicable law. This means that it is not for any specified period of time and can be terminated by Executive or by the Company at any time, with or without advance notice, and for any or no particular reason or cause. It also means that Executive's job duties, title, and responsibility and reporting level, work schedule, compensation, and benefits, as well as the Company's personnel policies and procedures, may be changed with prospective effect, with or without notice, at any time in the sole discretion of the Company (subject to any ramification such changes may have under this ARTICLE V). This "at-will" nature of Executive's employment shall remain unchanged during Executive's tenure as an employee and may not be changed, except in an express writing signed by Executive and a duly-authorized officer of the Company. If Executive's employment terminates for any lawful reason, Executive shall not be entitled to any payments, benefits, damages, award, or compensation other than as provided in this Agreement.

Section 5.02 Termination Due to Death or Disability. If Executive's employment is terminated by reason of Executive's death or Disability, Executive or his estate shall be entitled to receive: (a) Executive's accrued Base Salary through the Termination Date; (b) an amount for reimbursement, paid within 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 ARTICLE IV and in accordance with Company policy; (c) if required by applicable law, any accrued and unpaid PTO pay, paid within 60 days of the Termination Date; and (d) such employee benefits, if any, to which Executive (or, if applicable, Executive's estate) or his 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 his estate shall be entitled to receive (x) in a lump sum in cash within two and one-half 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 3.02 that has not been paid (the "Accrued Bonus"); and (y) an amount equal to the product of (i) the fraction of the current fiscal year that has elapsed through the date of Executive's termination and (ii) the Board of Directors-approved annual bonus payout for Executive for such fiscal year based on actual Company performance for such fiscal year measured following the completion thereof, payable at the time the annual bonus would have been paid to Executive had he remained employed through the end of the such fiscal year (the "Pro-Rata Bonus").

Section 5.03 Termination by Executive without Good Reason and other than Disability or Death. In the event Executive terminates his 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.

Section 5.04 Termination by the Company for Cause. In the event the Company terminates his 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.

Section 5.05 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 for reasons other than death, Disability or Cause, or by Executive for Good Reason, Executive shall be entitled to receive (a) an amount equal to two times his Base Salary; (b) for a period of 18 months following the Termination Date that Executive is eligible to elect and does elect to continue coverage for himself and his eligible dependents under the Company's group health plans, as

applicable, under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, and/or Sections 601 through 608 of the Employee Retirement Income Security Act of 1974, as amended (collectively, “COBRA”), medical and dental coverage as required by COBRA and prompt reimbursement for the premium costs charged to Executive for such COBRA continuation coverage; provided, however, that (i) such COBRA coverage shall terminate if and to the extent Executive becomes eligible to receive medical and dental coverage from a subsequent employer (and any such eligibility shall be promptly reported to the Company by Executive) and (ii) the Company’s obligation to reimburse Executive for such premium costs shall cease if, upon the advice of legal counsel, the Company determines that it would reasonably be expected to be subject to any penalty, excise or other tax for providing discriminatory benefits; provided that, in such event, the Company shall implement reasonable comparable alternative payments or benefits to Executive that would avoid such penalty, excise tax or other tax; (c) the Accrued Bonus; (d) the Pro-Rata Bonus, provided that Executive has been employed for at least six months of the fiscal year in which such termination occurs, and (e) the Accrued Rights; provided that the payments described in clauses (a), (b) and (d) shall be subject to Executive’s continued compliance with the provisions of ARTICLE VI and of the release delivered under Section 5.09.

Section 5.06 Termination by Mutual Consent. Notwithstanding any of the foregoing provisions of this ARTICLE V, 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.

Section 5.07 Payment of Severance. Subject to Section 7.13, any severance payments pursuant to Section 5.05(a) shall be paid commencing on the 60th day following the Termination Date (with a lump sum catch-up payment for any installments otherwise payable within 60 days following the Termination Date) and in accordance with the Company’s standard payroll schedule and practices.

Section 5.08 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 60 days following the termination of his employment a release in a form reasonably acceptable to the Company of all claims arising out of his 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 (except as specified in Section 5.05(b)).

Section 5.09 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 his 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 5.09 at a rate to be determined by the parties. In addition, the Company shall reimburse Executive for any reasonable out-of-pocket expenses he incurs in performing any work on behalf of the Company following the termination of his employment.

ARTICLE VI NON-SOLICITATION & NON-COMPETITION

Section 6.01 Non-Compete. Executive agrees that during Executive’s employment, Executive shall not, anywhere in the areas where the Company conducts business during Executive’s employment (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 owning up to 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.

Section 6.02 Non-Solicitation. Executive agrees that during the Executive’s employment and for one year following the Termination Date, Executive will not, directly or indirectly, for himself or on behalf of or in conjunction with any other person, (a) hire or attempt to hire any person that is an employee of the Company or was within six months prior to the Termination Date; provided, however, this Section 6.02 (including clause (b)) 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 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 (b) solicit, advise or encourage any person, firm, government agency or corporation to withdraw, curtail or cancel its business with the Company.

Section 6.03 Non-Disparagement. During Executive’s employment and thereafter, Executive agrees that he will not, at any time, make, directly or indirectly, any oral or written statements (including in social media, by tweet or via online job review boards, whether anonymous or not) 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 the Board of Directors and its executives not to disparage Executive orally or in writing; provided that either party may confer in confidence with its legal representatives and make truthful statements as required by law.

Section 6.04 Reasonable Limitation and Severability. The parties agree that the above restrictions on competition are (a) reasonable given Executive’s role with the Company and are necessary to protect the interests of the Company and (b) 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 ARTICLE VI 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.

Section 6.05 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 his employment with the Company, he 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 Executive’s employment and at all times thereafter, he 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 (a) 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, (b) that any such information is authorized to be disclosed 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 (c) 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 his duties as an employee or director of the Company. Executive shall deliver to the Company at the termination of Executive's employment, 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 he may then possess or have under his control, provided that Executive shall be entitled to retain his telephone, address and other contact directories subject to compliance with Section 6.01, Section 6.02, and Section 6.03. 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.

ARTICLE VII GENERAL PROVISIONS

Section 7.01 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.

Section 7.02 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 on the signature pages hereto.

Section 7.03 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.

Section 7.04 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.

Section 7.05 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.

Section 7.06 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.

Section 7.07 Arbitration.

(a) Except with respect to disputes and claims under ARTICLE VI (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"), a copy of which can be found at www.adr.org/employment, 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 7.06. 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 7.07(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 7.07. 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 7.07 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 7.07, 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 7.07 shall prohibit any party hereto from instituting litigation to enforce any final decision, judgment, ruling, finding, award or other determination of the arbitration.

Section 7.08 Entire Agreement. This Agreement contains all of the terms agreed upon by the Company 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.

Section 7.09 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.

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

Section 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.

Section 7.12 Specific Enforcement; Remedies. The provisions of ARTICLE VI 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 ARTICLE VI 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 ARTICLE VI, 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.

Section 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: (a) 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 months following Executive's termination of employment with the Company (or the earliest date as is permitted under Section 409A); (b) 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; (c) 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 (d) 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. Neither the Company nor any of its employees or representatives shall have any liability to Executive with respect to Section 409A.

Section 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 ARTICLE VI and ARTICLE VII, shall survive the termination of this Agreement.

Section 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 he 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 him in connection with any action, suit or proceeding to which he may be made a party by reason of his being or having been a director, officer or employee of the Company or any of its affiliates or his 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.

Section 7.16 Section 280G.

(a) 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 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, (i) 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 of all Payments paid to Executive, in the aggregate, equals the Safe Harbor Amount, and (ii) 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 (iii) 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.

(b) As used herein, (i) "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, (ii) "Safe Harbor Amount" shall mean 2.99 times Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code, and (iii) "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.

Section 7.17 Protected Rights. Executive understands that nothing contained in this Agreement limits Executive's ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("Government Agencies"). Executive further understands that this Agreement does not limit Executive's ability to communicate with any Government Agencies

or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. This Agreement does not limit Executive's right to receive an award for information provided to any Government Agencies. Executive, however, is not permitted to disclose any Company attorney-client privileged communications, unless permitted by Rule 21F-17 under the Securities Exchange Act of 1934, as amended, or other applicable law. In making any such disclosures or communications, Executive agrees to take all reasonable precautions to prevent any use or disclosure of information that may constitute Confidential Information to any parties other than the Government Agencies.

Section 7.18 Defend Trade Secrets Act Notice of Immunity Rights . Executive acknowledges that the Company has provided Executive with the following notice of immunity rights in compliance with the requirements of the Defend Trade Secrets Act: (a) Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of Confidential Information that is made in confidence to a federal, state, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, (b) Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of Confidential Information that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal and (c) if Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Executive may disclose the Confidential Information to Executive's attorney and use the Confidential Information in the court proceeding, if Executive files any document containing the Confidential Information under seal, and does not disclose the Confidential Information, except pursuant to court order.

[signatures on next page]

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

e.l.f. Cosmetics, Inc.

Executive

By: /s/ Scott K. Milsten
Name: Scott K. Milsten
Title: SVP, General Counsel and Chief People Officer

/s/ Tarang P. Amin
Tarang P. Amin

e.l.f. Beauty, Inc.

By: /s/ Scott K. Milsten
Name: Scott K. Milsten
Title: SVP, General Counsel and Chief People Officer

Address for Notices

e.l.f. Cosmetics, Inc.
570 10th Street
Oakland, CA 94607
Attn: General Counsel
Email: ***

Address for Notices

Use most recent address and email address on file with payroll

**AMENDED AND RESTATED
EMPLOYMENT AGREEMENT**

This Amended and Restated Employment Agreement (this “Agreement”), is made and entered into on February 26, 2019 (the “Effective Date”), by and among e.l.f. Cosmetics, Inc. (together with any successor, the “Company”), e.l.f. Beauty, Inc., the owner of all of the outstanding capital stock of the Company (together with any successor, “e.l.f. Beauty”), and Scott K. Milsten (“Executive”).

WHEREAS, the Company, e.l.f. Beauty, and Executive are parties to that certain Employment Agreement, dated January 31, 2014 (the “Prior Agreement”);

WHEREAS, the Company desires to continue to employ Executive on the amended terms, conditions and other provisions set forth herein;

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

WHEREAS, this Agreement amends and restates the Prior Agreement in its entirety.

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:

**ARTICLE I
DEFINITIONS**

Section 1.01 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 e.l.f. Beauty.

“Cause” means (a) a breach by Executive of Executive’s obligations under Section 2.02 (other than as a result of physical or mental incapacity) which constitutes material nonperformance by Executive of his obligations and duties thereunder, which Executive has failed to remedy after the Board of Directors has given Executive written notice of, and at least 15 days to remedy, such breach, (b) 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), (c) a material breach by Executive of ARTICLE VI, (d) Executive’s conviction, plea of no contest or nolo contendere, deferred adjudication or unadjudicated probation for any felony or any crime involving moral turpitude, (e) 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 15 days to remedy, such failure, or (f) 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 his position hereunder for a period of 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: (a) a material default in the performance of the Company’s obligations under this Agreement; (b) a significant diminution of Executive’s responsibilities, duties or authority as Senior Vice President, General Counsel and Corporate Secretary, or a material diminution of Executive’s base compensation, unless such diminution is mutually agreed between Executive and the Company; or (c) the relocation of Executive’s principal office, without his consent, to a location that is in excess of 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 (i) Executive has given the Company at least 30 days prior written notice of his intent to terminate his employment for Good Reason, which notice shall specify the facts and circumstances constituting Good Reason and be given within 90 days of the initial occurrence thereof, (ii) the Company has not remedied such facts and circumstances constituting Good Reason within 30 days following the receipt of such notice, and (iii) Executive terminates employment within six months following the expiration of such 30-day cure period.

“ Notice of Termination ” means a dated notice that (a) indicates the specific termination provision in this Agreement relied upon, (b) 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, (c) 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 (d) is given in the manner specified in Section 7.02. 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 (a) if Executive’s employment is terminated for Cause or Disability, the date specified in the Notice of Termination, (b) in the case of termination of employment due to death, the date of Executive’s death, or (c) 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.

ARTICLE II EMPLOYMENT

Section 2.01 Agreement and Term . The Company hereby employs Executive as an employee of the Company, and Executive hereby accepts said employment and agrees to render such services to the Company, on the terms and conditions set forth in this Agreement. The term of employment under this Agreement shall commence on the Effective Date and shall continue until terminated pursuant to ARTICLE V.

Section 2.02 Position and Duties . Except as otherwise provided in this Agreement, Executive shall serve as Senior Vice President, General Counsel, Chief People Officer, and Corporate Secretary and shall 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 his duties and responsibilities at all times in compliance with the Company’s policies promulgated from time to time by the Company. Executive shall also perform such other duties, commensurate with his position, as reasonably requested by the Board of Directors. Executive shall use his best efforts to serve the Company faithfully, diligently and competently and to the best of his ability, and to devote his 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 2.03.

Section 2.03 Outside Activities. It shall not be a violation of this Agreement for Executive to (a) deliver lectures or fulfill speaking engagements; (b) manage personal investments; or (c) 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 (a) – (c) (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.

Section 2.04 Location. Executive shall be based in the Company’s Oakland, California offices (or such other San Francisco Bay Area office as the Company occupies).

ARTICLE III COMPENSATION AND BENEFITS

Section 3.01 Salary. The Company shall compensate and pay Executive for his services at a rate equivalent to \$325,000 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.

Section 3.02 Bonus. Executive shall have the opportunity to earn annual performance bonuses based on performance criteria to be established by the Board of Directors (or a committee thereof) after consultation with Executive. Executive shall be eligible to receive a target cash bonus of 40% of his Base Salary based upon the attainment of performance objectives established by the Board of Directors (or a committee thereof). Unless set forth otherwise herein, Executive must be actively employed with the Company through the date on which the bonus performance percentage is determined by the Board of Directors (or a committee thereof) in order to receive any annual bonus payout pursuant to this Section 3.02. 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.

Section 3.03 Employee Benefits. 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.

Section 3.04 Paid Leave. Executive shall be entitled to four weeks of paid time off (“PTO”) each year, subject an annual accrual cap of 30 days. Executive shall also be entitled to all paid holidays to which executive level employees of the Company are entitled. Accrued unused PTO shall not be paid in the event of a termination of employment unless otherwise required by applicable state law.

ARTICLE IV EXPENSES

Section 4.01 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 his 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.

ARTICLE V
TERMINATION AND SEVERANCE

Section 5.01 At-Will Employment. The Company and Executive acknowledge that Executive's employment is and shall continue to be at-will, as defined under applicable law. This means that it is not for any specified period of time and can be terminated by Executive or by the Company at any time, with or without advance notice, and for any or no particular reason or cause. It also means that Executive's job duties, title, and responsibility and reporting level, work schedule, compensation, and benefits, as well as the Company's personnel policies and procedures, may be changed with prospective effect, with or without notice, at any time in the sole discretion of the Company (subject to any ramification such changes may have under this ARTICLE V). This "at-will" nature of Executive's employment shall remain unchanged during Executive's tenure as an employee and may not be changed, except in an express writing signed by Executive and a duly-authorized officer of the Company. If Executive's employment terminates for any lawful reason, Executive shall not be entitled to any payments, benefits, damages, award, or compensation other than as provided in this Agreement.

Section 5.02 Termination Due to Death or Disability. If Executive's employment is terminated by reason of Executive's death or Disability, Executive or his estate shall be entitled to receive: (a) Executive's accrued Base Salary through the Termination Date; (b) an amount for reimbursement, paid within 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 ARTICLE IV and in accordance with Company policy; (c) if required by applicable law, any accrued and unpaid PTO pay, paid within 60 days of the Termination Date; and (d) such employee benefits, if any, to which Executive (or, if applicable, Executive's estate) or his 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 his estate shall be entitled to receive (x) in a lump sum in cash within two and one-half 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 3.02 that has not been paid (the "Accrued Bonus"); and (y) an amount equal to the product of (i) the fraction of the current fiscal year that has elapsed through the date of Executive's termination and (ii) the Board of Directors-approved annual bonus payout for Executive for such fiscal year based on actual Company performance for such fiscal year measured following the completion thereof, payable at the time the annual bonus would have been paid to Executive had he remained employed through the end of the such fiscal year (the "Pro-Rata Bonus").

Section 5.03 Termination by Executive without Good Reason and other than Disability or Death. In the event Executive terminates his 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.

Section 5.04 Termination by the Company for Cause. In the event the Company terminates his 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.

Section 5.05 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 for reasons other than death, Disability or Cause, or by Executive for Good Reason, Executive shall be entitled to receive (a) an amount equal to his Base Salary; (b) for a period of 18 months following the Termination Date that Executive is eligible to elect and does elect to continue coverage for himself and his eligible dependents under the Company's group health plans, as applicable, under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, and/or Sections 601 through 608 of the Employee Retirement Income Security Act of 1974, as amended (collectively, "COBRA"), medical and dental coverage as required by COBRA and prompt reimbursement for the premium costs charged to Executive for such

COBRA continuation coverage; provided, however, that (i) such COBRA coverage shall terminate if and to the extent Executive becomes eligible to receive medical and dental coverage from a subsequent employer (and any such eligibility shall be promptly reported to the Company by Executive) and (ii) the Company's obligation to reimburse Executive for such premium costs shall cease if, upon the advice of legal counsel, the Company determines that it would reasonably be expected to be subject to any penalty, excise or other tax for providing discriminatory benefits; provided that, in such event, the Company shall implement reasonable comparable alternative payments or benefits to Executive that would avoid such penalty, excise tax or other tax; (c) the Accrued Bonus; (d) the Pro-Rata Bonus, provided that Executive has been employed for at least six months of the fiscal year in which such termination occurs, and (e) the Accrued Rights; provided that the payments described in clauses (a), (b) and (d) shall be subject to Executive's continued compliance with the provisions of ARTICLE VI and of the release delivered under Section 5.09.

Section 5.06 Termination by Mutual Consent. Notwithstanding any of the foregoing provisions of this ARTICLE V, 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.

Section 5.07 Payment of Severance. Subject to Section 7.13, any severance payments pursuant to Section 5.05(a) shall be paid commencing on the 60th day following the Termination Date (with a lump sum catch-up payment for any installments otherwise payable within 60 days following the Termination Date) and in accordance with the Company's standard payroll schedule and practices.

Section 5.08 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 60 days following the termination of his employment a release in a form reasonably acceptable to the Company of all claims arising out of his 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 (except as specified in Section 5.05(b)).

Section 5.09 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 his 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 5.09 at a rate to be determined by the parties. In addition, the Company shall reimburse Executive for any reasonable out-of-pocket expenses he incurs in performing any work on behalf of the Company following the termination of his employment.

ARTICLE VI NON-SOLICITATION & NON-COMPETITION

Section 6.01 Non-Compete. Executive agrees that during Executive's employment, Executive shall not, anywhere in the areas where the Company conducts business during Executive's employment (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 owning up to 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.

Section 6.02 Non-Solicitation. Executive agrees that during the Executive’s employment and for one year following the Termination Date, Executive will not, directly or indirectly, for himself or on behalf of or in conjunction with any other person, (a) hire or attempt to hire any person that is an employee of the Company or was within six months prior to the Termination Date; provided, however, this Section 6.02 (including clause (b)) 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 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 (b) solicit, advise or encourage any person, firm, government agency or corporation to withdraw, curtail or cancel its business with the Company.

Section 6.03 Non-Disparagement. During Executive’s employment and thereafter, Executive agrees that he will not, at any time, make, directly or indirectly, any oral or written statements (including in social media, by tweet or via online job review boards, whether anonymous or not) 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 the Board of Directors and its executives not to disparage Executive orally or in writing; provided that either party may confer in confidence with its legal representatives and make truthful statements as required by law.

Section 6.04 Reasonable Limitation and Severability. The parties agree that the above restrictions on competition are (a) reasonable given Executive’s role with the Company and are necessary to protect the interests of the Company and (b) 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 ARTICLE VI 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.

Section 6.05 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 his employment with the Company, he 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 Executive’s employment and at all times thereafter, he 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 (a) 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, (b) that any such information is authorized to be disclosed 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 (c) 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 his duties as an employee or director of the Company. Executive shall deliver to the Company at the termination of Executive’s employment, 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 he may then possess or have under his control, provided that Executive shall be entitled to retain his telephone, address and other contact directories subject to compliance with Section 6.01, Section 6.02, and Section 6.03. 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.

ARTICLE VII GENERAL PROVISIONS

Section 7.01 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.

Section 7.02 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 on the signature pages hereto.

Section 7.03 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.

Section 7.04 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.

Section 7.05 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.

Section 7.06 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.

Section 7.07 Arbitration.

(a) Except with respect to disputes and claims under ARTICLE VI (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"), a copy of which can be found at www.adr.org/employment, 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 7.06. 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 7.07(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 7.07. 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 7.07 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 7.07, 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 7.07 shall prohibit any party hereto from instituting litigation to enforce any final decision, judgment, ruling, finding, award or other determination of the arbitration.

Section 7.08 Entire Agreement. This Agreement contains all of the terms agreed upon by the Company 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.

Section 7.09 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.

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

Section 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.

Section 7.12 Specific Enforcement; Remedies. The provisions of ARTICLE VI 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 ARTICLE VI 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 ARTICLE VI, 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.

Section 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: (a) 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 months following Executive's termination of employment with the Company (or the earliest date as is permitted under Section 409A); (b) 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; (c) 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 (d) 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. Neither the Company nor any of its employees or representatives shall have any liability to Executive with respect to Section 409A.

Section 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 ARTICLE VI and ARTICLE VII, shall survive the termination of this Agreement.

Section 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 he 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 him in connection with any action, suit or proceeding to which he may be made a party by reason of his being or having been a director, officer or employee of the Company or any of its affiliates or his 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.

Section 7.16 Section 280G.

(a) 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 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, (i) 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 of all Payments paid to Executive, in the aggregate, equals the Safe Harbor Amount, and (ii) 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 (iii) 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.

(b) As used herein, (i) "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, (ii) "Safe Harbor Amount" shall mean 2.99 times Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code, and (iii) "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.

Section 7.17 Protected Rights. Executive understands that nothing contained in this Agreement limits Executive's ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("Government Agencies"). Executive further understands that this Agreement does not limit Executive's ability to communicate with any Government Agencies

or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. This Agreement does not limit Executive's right to receive an award for information provided to any Government Agencies. Executive, however, is not permitted to disclose any Company attorney-client privileged communications, unless permitted by Rule 21F-17 under the Securities Exchange Act of 1934, as amended, or other applicable law. In making any such disclosures or communications, Executive agrees to take all reasonable precautions to prevent any use or disclosure of information that may constitute Confidential Information to any parties other than the Government Agencies.

Section 7.18 Defend Trade Secrets Act Notice of Immunity Rights . Executive acknowledges that the Company has provided Executive with the following notice of immunity rights in compliance with the requirements of the Defend Trade Secrets Act: (a) Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of Confidential Information that is made in confidence to a federal, state, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, (b) Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of Confidential Information that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal and (c) if Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Executive may disclose the Confidential Information to Executive's attorney and use the Confidential Information in the court proceeding, if Executive files any document containing the Confidential Information under seal, and does not disclose the Confidential Information, except pursuant to court order.

[signatures on next page]

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

e.l.f. Cosmetics, Inc.

Executive

By: /s/ Tarang P. Amin
Name: Tarang P. Amin
Title: Chairman & Chief Executive Officer

/s/ Scott K. Milsten
Scott K. Milsten

e.l.f. Beauty, Inc.

By: /s/ Tarang P. Amin
Name: Tarang P. Amin
Title: Chairman & Chief Executive Officer

Address for Notices

e.l.f. Cosmetics, Inc.
570 10th Street
Oakland, CA 94607
Attn: Chief Executive Officer
Email: ***

Address for Notices

Use most recent address and email address on file with payroll

Signature Page to Amended and Restated Employment Agreement

**AMENDED AND RESTATED
EMPLOYMENT AGREEMENT**

This Amended and Restated Employment Agreement (this “Agreement”), is made and entered into on February 26, 2019 (the “Effective Date”), by and among e.l.f. Cosmetics, Inc. (together with any successor, the “Company”), e.l.f. Beauty, Inc., the owner of all of the outstanding capital stock of the Company (together with any successor, “e.l.f. Beauty”), and Richard Baruch, Jr. (“Executive”).

WHEREAS, the Company, e.l.f. Beauty, and Executive are parties to that certain Employment Agreement, dated February 2, 2014 (the “Prior Agreement”);

WHEREAS, the Company desires to continue to employ Executive on the amended terms, conditions and other provisions set forth herein;

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

WHEREAS, this Agreement amends and restates the Prior Agreement in its entirety.

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:

**ARTICLE I
DEFINITIONS**

Section 1.01 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 e.l.f. Beauty.

“Cause” means (a) a breach by Executive of Executive’s obligations under Section 2.02 (other than as a result of physical or mental incapacity) which constitutes material nonperformance by Executive of his obligations and duties thereunder, which Executive has failed to remedy after the Board of Directors has given Executive written notice of, and at least 15 days to remedy, such breach, (b) 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), (c) a material breach by Executive of ARTICLE VI, (d) Executive’s conviction, plea of no contest or nolo contendere, deferred adjudication or unadjudicated probation for any felony or any crime involving moral turpitude, (e) 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 15 days to remedy, such failure, or (f) 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 his position hereunder for a period of 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: (a) a material default in the performance of the Company’s obligations under this Agreement; (b) a significant diminution of Executive’s responsibilities, duties or authority as Senior Vice President and Chief Commercial Officer, or a material diminution of Executive’s base compensation, unless such diminution is mutually agreed between Executive and the Company; or (c) the relocation of Executive’s principal office, without his consent, to a location that is in excess of 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 (i) Executive has given the Company at least 30 days prior written notice of his intent to terminate his employment for Good Reason, which notice shall specify the facts and circumstances constituting Good Reason and be given within 90 days of the initial occurrence thereof, (ii) the Company has not remedied such facts and circumstances constituting Good Reason within 30 days following the receipt of such notice, and (iii) Executive terminates employment within six months following the expiration of such 30-day cure period.

“Notice of Termination” means a dated notice that (a) indicates the specific termination provision in this Agreement relied upon, (b) 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, (c) 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 (d) is given in the manner specified in Section 7.02. 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 (a) if Executive’s employment is terminated for Cause or Disability, the date specified in the Notice of Termination, (b) in the case of termination of employment due to death, the date of Executive’s death, or (c) 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.

ARTICLE II EMPLOYMENT

Section 2.01 Agreement and Term. The Company hereby employs Executive as an employee of the Company, and Executive hereby accepts said employment and agrees to render such services to the Company, on the terms and conditions set forth in this Agreement. The term of employment under this Agreement shall commence on the Effective Date and shall continue until terminated pursuant to ARTICLE V.

Section 2.02 Position and Duties. Except as otherwise provided in this Agreement, Executive shall serve as Senior Vice President and Chief Commercial Officer and shall 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 his duties and responsibilities at all times in compliance with the Company’s policies promulgated from time to time by the Company. Executive shall also perform such other duties, commensurate with his position, as reasonably requested by the Board of Directors. Executive shall use his best efforts to serve the Company faithfully, diligently and competently and to the best of his ability, and to devote his 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 2.03.

Section 2.03 Outside Activities. It shall not be a violation of this Agreement for Executive to (a) deliver lectures or fulfill speaking engagements; (b) manage personal investments; or (c) 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 (a) – (c) (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.

Section 2.04 Location. Executive shall be based in the Company’s Oakland, California offices (or such other San Francisco Bay Area office as the Company occupies).

ARTICLE III COMPENSATION AND BENEFITS

Section 3.01 Salary. The Company shall compensate and pay Executive for his services at a rate equivalent to \$325,000 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.

Section 3.02 Bonus. Executive shall have the opportunity to earn annual performance bonuses based on performance criteria to be established by the Board of Directors (or a committee thereof) after consultation with Executive. Executive shall be eligible to receive a target cash bonus of 40% of his Base Salary based upon the attainment of performance objectives established by the Board of Directors (or a committee thereof). Unless set forth otherwise herein, Executive must be actively employed with the Company through the date on which the bonus performance percentage is determined by the Board of Directors (or a committee thereof) in order to receive any annual bonus payout pursuant to this Section 3.02. 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.

Section 3.03 Employee Benefits. 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.

Section 3.04 Paid Leave. Executive shall be entitled to four weeks of paid time off (“PTO”) each year, subject an annual accrual cap of 30 days. Executive shall also be entitled to all paid holidays to which executive level employees of the Company are entitled. Accrued unused PTO shall not be paid in the event of a termination of employment unless otherwise required by applicable state law.

ARTICLE IV EXPENSES

Section 4.01 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 his 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.

ARTICLE V
TERMINATION AND SEVERANCE

Section 5.01 At-Will Employment. The Company and Executive acknowledge that Executive's employment is and shall continue to be at-will, as defined under applicable law. This means that it is not for any specified period of time and can be terminated by Executive or by the Company at any time, with or without advance notice, and for any or no particular reason or cause. It also means that Executive's job duties, title, and responsibility and reporting level, work schedule, compensation, and benefits, as well as the Company's personnel policies and procedures, may be changed with prospective effect, with or without notice, at any time in the sole discretion of the Company (subject to any ramification such changes may have under this ARTICLE V). This "at-will" nature of Executive's employment shall remain unchanged during Executive's tenure as an employee and may not be changed, except in an express writing signed by Executive and a duly-authorized officer of the Company. If Executive's employment terminates for any lawful reason, Executive shall not be entitled to any payments, benefits, damages, award, or compensation other than as provided in this Agreement.

Section 5.02 Termination Due to Death or Disability. If Executive's employment is terminated by reason of Executive's death or Disability, Executive or his estate shall be entitled to receive: (a) Executive's accrued Base Salary through the Termination Date; (b) an amount for reimbursement, paid within 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 ARTICLE IV and in accordance with Company policy; (c) if required by applicable law, any accrued and unpaid PTO pay, paid within 60 days of the Termination Date; and (d) such employee benefits, if any, to which Executive (or, if applicable, Executive's estate) or his 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 his estate shall be entitled to receive (x) in a lump sum in cash within two and one-half 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 3.02 that has not been paid (the "Accrued Bonus"); and (y) an amount equal to the product of (i) the fraction of the current fiscal year that has elapsed through the date of Executive's termination and (ii) the Board of Directors-approved annual bonus payout for Executive for such fiscal year based on actual Company performance for such fiscal year measured following the completion thereof, payable at the time the annual bonus would have been paid to Executive had he remained employed through the end of the such fiscal year (the "Pro-Rata Bonus").

Section 5.03 Termination by Executive without Good Reason and other than Disability or Death. In the event Executive terminates his 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.

Section 5.04 Termination by the Company for Cause. In the event the Company terminates his 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.

Section 5.05 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 for reasons other than death, Disability or Cause, or by Executive for Good Reason, Executive shall be entitled to receive (a) an amount equal to his Base Salary; (b) for a period of 18 months following the Termination Date that Executive is eligible to elect and does elect to continue coverage for himself and his eligible dependents under the Company's group health plans, as applicable, under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, and/or Sections 601 through 608 of the Employee Retirement Income Security Act of 1974, as amended (collectively, "COBRA"), medical and dental coverage as required by COBRA and prompt reimbursement for the premium costs charged to Executive for such

COBRA continuation coverage; provided, however, that (i) such COBRA coverage shall terminate if and to the extent Executive becomes eligible to receive medical and dental coverage from a subsequent employer (and any such eligibility shall be promptly reported to the Company by Executive) and (ii) the Company's obligation to reimburse Executive for such premium costs shall cease if, upon the advice of legal counsel, the Company determines that it would reasonably be expected to be subject to any penalty, excise or other tax for providing discriminatory benefits; provided that, in such event, the Company shall implement reasonable comparable alternative payments or benefits to Executive that would avoid such penalty, excise tax or other tax; (c) the Accrued Bonus; (d) the Pro-Rata Bonus, provided that Executive has been employed for at least six months of the fiscal year in which such termination occurs, and (e) the Accrued Rights; provided that the payments described in clauses (a), (b) and (d) shall be subject to Executive's continued compliance with the provisions of ARTICLE VI and of the release delivered under Section 5.09.

Section 5.06 Termination by Mutual Consent. Notwithstanding any of the foregoing provisions of this ARTICLE V, 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.

Section 5.07 Payment of Severance. Subject to Section 7.13, any severance payments pursuant to Section 5.05(a) shall be paid commencing on the 60th day following the Termination Date (with a lump sum catch-up payment for any installments otherwise payable within 60 days following the Termination Date) and in accordance with the Company's standard payroll schedule and practices.

Section 5.08 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 60 days following the termination of his employment a release in a form reasonably acceptable to the Company of all claims arising out of his 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 (except as specified in Section 5.05(b)).

Section 5.09 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 his 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 5.09 at a rate to be determined by the parties. In addition, the Company shall reimburse Executive for any reasonable out-of-pocket expenses he incurs in performing any work on behalf of the Company following the termination of his employment.

ARTICLE VI NON-SOLICITATION & NON-COMPETITION

Section 6.01 Non-Compete. Executive agrees that during Executive's employment, Executive shall not, anywhere in the areas where the Company conducts business during Executive's employment (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 owning up to 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.

Section 6.02 Non-Solicitation. Executive agrees that during the Executive’s employment and for one year following the Termination Date, Executive will not, directly or indirectly, for himself or on behalf of or in conjunction with any other person, (a) hire or attempt to hire any person that is an employee of the Company or was within six months prior to the Termination Date; provided, however, this Section 6.02 (including clause (b)) 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 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 (b) solicit, advise or encourage any person, firm, government agency or corporation to withdraw, curtail or cancel its business with the Company.

Section 6.03 Non-Disparagement. During Executive’s employment and thereafter, Executive agrees that he will not, at any time, make, directly or indirectly, any oral or written statements (including in social media, by tweet or via online job review boards, whether anonymous or not) 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 the Board of Directors and its executives not to disparage Executive orally or in writing; provided that either party may confer in confidence with its legal representatives and make truthful statements as required by law.

Section 6.04 Reasonable Limitation and Severability. The parties agree that the above restrictions on competition are (a) reasonable given Executive’s role with the Company and are necessary to protect the interests of the Company and (b) 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 ARTICLE VI 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.

Section 6.05 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 his employment with the Company, he 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 Executive’s employment and at all times thereafter, he 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 (a) 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, (b) that any such information is authorized to be disclosed 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 (c) 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 his duties as an employee or director of the Company. Executive shall deliver to the Company at the termination of Executive’s employment, 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 he may then possess or have under his control, provided that Executive shall be entitled to retain his telephone, address and other contact directories subject to compliance with Section 6.01, Section 6.02, and Section 6.03. 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.

ARTICLE VII GENERAL PROVISIONS

Section 7.01 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.

Section 7.02 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 on the signature pages hereto.

Section 7.03 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.

Section 7.04 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.

Section 7.05 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.

Section 7.06 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.

Section 7.07 Arbitration.

(a) Except with respect to disputes and claims under ARTICLE VI (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"), a copy of which can be found at www.adr.org/employment, 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 7.06. 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 7.07(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 7.07. 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 7.07 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 7.07, 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 7.07 shall prohibit any party hereto from instituting litigation to enforce any final decision, judgment, ruling, finding, award or other determination of the arbitration.

Section 7.08 Entire Agreement. This Agreement contains all of the terms agreed upon by the Company 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.

Section 7.09 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.

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

Section 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.

Section 7.12 Specific Enforcement; Remedies. The provisions of ARTICLE VI 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 ARTICLE VI 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 ARTICLE VI, 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.

Section 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: (a) 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 months following Executive's termination of employment with the Company (or the earliest date as is permitted under Section 409A); (b) 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; (c) 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 (d) 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. Neither the Company nor any of its employees or representatives shall have any liability to Executive with respect to Section 409A.

Section 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 ARTICLE VI and ARTICLE VII, shall survive the termination of this Agreement.

Section 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 he 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 him in connection with any action, suit or proceeding to which he may be made a party by reason of his being or having been a director, officer or employee of the Company or any of its affiliates or his 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.

Section 7.16 Section 280G.

(a) 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 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, (i) 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 of all Payments paid to Executive, in the aggregate, equals the Safe Harbor Amount, and (ii) 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 (iii) 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.

(b) As used herein, (i) "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, (ii) "Safe Harbor Amount" shall mean 2.99 times Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code, and (iii) "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.

Section 7.17 Protected Rights. Executive understands that nothing contained in this Agreement limits Executive's ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("Government Agencies"). Executive further understands that this Agreement does not limit Executive's ability to communicate with any Government Agencies

or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. This Agreement does not limit Executive's right to receive an award for information provided to any Government Agencies. Executive, however, is not permitted to disclose any Company attorney-client privileged communications, unless permitted by Rule 21F-17 under the Securities Exchange Act of 1934, as amended, or other applicable law. In making any such disclosures or communications, Executive agrees to take all reasonable precautions to prevent any use or disclosure of information that may constitute Confidential Information to any parties other than the Government Agencies.

Section 7.18 Defend Trade Secrets Act Notice of Immunity Rights . Executive acknowledges that the Company has provided Executive with the following notice of immunity rights in compliance with the requirements of the Defend Trade Secrets Act: (a) Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of Confidential Information that is made in confidence to a federal, state, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, (b) Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of Confidential Information that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal and (c) if Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Executive may disclose the Confidential Information to Executive's attorney and use the Confidential Information in the court proceeding, if Executive files any document containing the Confidential Information under seal, and does not disclose the Confidential Information, except pursuant to court order.

[signatures on next page]

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

e.l.f. Cosmetics, Inc.

Executive

By: /s/ Tarang P. Amin
Name: Tarang P. Amin
Title: Chairman & Chief Executive Officer

/s/ Richard Baruch, Jr.
Richard Baruch, Jr.

e.l.f. Beauty, Inc.

By: /s/ Tarang P. Amin
Name: Tarang P. Amin
Title: Chairman & Chief Executive Officer

Address for Notices

e.l.f. Cosmetics, Inc.
570 10th Street
Oakland, CA 94607
Attn: General Counsel
Email: ***

Address for Notices

Use most recent address and email address on file with payroll

**AMENDED AND RESTATED
EMPLOYMENT AGREEMENT**

This Amended and Restated Employment Agreement (this “Agreement”), is made and entered into on February 26, 2019 (the “Effective Date”), by and among e.l.f. Cosmetics, Inc. (together with any successor, the “Company”), e.l.f. Beauty, Inc., the owner of all of the outstanding capital stock of the Company (together with any successor, “e.l.f. Beauty”), and Jonathan T. Fieldman (“Executive”).

WHEREAS, the Company, e.l.f. Beauty, and Executive are parties to that certain Employment Agreement, dated July 8, 2016 (the “Prior Agreement”);

WHEREAS, the Company desires to continue to employ Executive on the amended terms, conditions and other provisions set forth herein;

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

WHEREAS, this Agreement amends and restates the Prior Agreement in its entirety.

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:

**ARTICLE I
DEFINITIONS**

Section 1.01 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 e.l.f. Beauty.

“Cause” means (a) a breach by Executive of Executive’s obligations under Section 2.02 (other than as a result of physical or mental incapacity) which constitutes material nonperformance by Executive of his obligations and duties thereunder, which Executive has failed to remedy after the Board of Directors has given Executive written notice of, and at least 15 days to remedy, such breach, (b) 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), (c) a material breach by Executive of ARTICLE VI, (d) Executive’s conviction, plea of no contest or nolo contendere, deferred adjudication or unadjudicated probation for any felony or any crime involving moral turpitude, (e) 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 15 days to remedy, such failure, or (f) 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 his position hereunder for a period of 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: (a) a material default in the performance of the Company’s obligations under this Agreement; (b) a significant diminution of Executive’s responsibilities, duties or authority as Senior Vice President, Operations, or a material diminution of Executive’s base compensation, unless such diminution is mutually agreed between Executive and the Company; or (c) the relocation of Executive’s principal office, without his consent, to a location that is in excess of 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 (i) Executive has given the Company at least 30 days prior written notice of his intent to terminate his employment for Good Reason, which notice shall specify the facts and circumstances constituting Good Reason and be given within 90 days of the initial occurrence thereof, (ii) the Company has not remedied such facts and circumstances constituting Good Reason within 30 days following the receipt of such notice, and (iii) Executive terminates employment within six months following the expiration of such 30-day cure period.

“Notice of Termination” means a dated notice that (a) indicates the specific termination provision in this Agreement relied upon, (b) 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, (c) 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 (d) is given in the manner specified in Section 7.02. 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 (a) if Executive’s employment is terminated for Cause or Disability, the date specified in the Notice of Termination, (b) in the case of termination of employment due to death, the date of Executive’s death, or (c) 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.

ARTICLE II EMPLOYMENT

Section 2.01 Agreement and Term. The Company hereby employs Executive as an employee of the Company, and Executive hereby accepts said employment and agrees to render such services to the Company, on the terms and conditions set forth in this Agreement. The term of employment under this Agreement shall commence on the Effective Date and shall continue until terminated pursuant to ARTICLE V.

Section 2.02 Position and Duties. Except as otherwise provided in this Agreement, Executive shall serve as Senior Vice President, Operations and shall 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 his duties and responsibilities at all times in compliance with the Company’s policies promulgated from time to time by the Company. Executive shall also perform such other duties, commensurate with his position, as reasonably requested by the Board of Directors. Executive shall use his best efforts to serve the Company faithfully, diligently and competently and to the best of his ability, and to devote his 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 2.03.

Section 2.03 Outside Activities. It shall not be a violation of this Agreement for Executive to (a) deliver lectures or fulfill speaking engagements; (b) manage personal investments; or (c) 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 (a) – (c) (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.

Section 2.04 Location. Executive shall be based in the Company’s Oakland, California offices (or such other San Francisco Bay Area office as the Company occupies).

ARTICLE III COMPENSATION AND BENEFITS

Section 3.01 Salary. The Company shall compensate and pay Executive for his services at a rate equivalent to \$325,000 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.

Section 3.02 Bonus. Executive shall have the opportunity to earn annual performance bonuses based on performance criteria to be established by the Board of Directors (or a committee thereof) after consultation with Executive. Executive shall be eligible to receive a target cash bonus of 40% of his Base Salary based upon the attainment of performance objectives established by the Board of Directors (or a committee thereof). Unless set forth otherwise herein, Executive must be actively employed with the Company through the date on which the bonus performance percentage is determined by the Board of Directors (or a committee thereof) in order to receive any annual bonus payout pursuant to this Section 3.02. 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.

Section 3.03 Employee Benefits. 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.

Section 3.04 Paid Leave. Executive shall be entitled to four weeks of paid time off (“PTO”) each year, subject an annual accrual cap of 30 days. Executive shall also be entitled to all paid holidays to which executive level employees of the Company are entitled. Accrued unused PTO shall not be paid in the event of a termination of employment unless otherwise required by applicable state law.

ARTICLE IV EXPENSES

Section 4.01 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 his 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.

ARTICLE V
TERMINATION AND SEVERANCE

Section 5.01 At-Will Employment. The Company and Executive acknowledge that Executive's employment is and shall continue to be at-will, as defined under applicable law. This means that it is not for any specified period of time and can be terminated by Executive or by the Company at any time, with or without advance notice, and for any or no particular reason or cause. It also means that Executive's job duties, title, and responsibility and reporting level, work schedule, compensation, and benefits, as well as the Company's personnel policies and procedures, may be changed with prospective effect, with or without notice, at any time in the sole discretion of the Company (subject to any ramification such changes may have under this ARTICLE V). This "at-will" nature of Executive's employment shall remain unchanged during Executive's tenure as an employee and may not be changed, except in an express writing signed by Executive and a duly-authorized officer of the Company. If Executive's employment terminates for any lawful reason, Executive shall not be entitled to any payments, benefits, damages, award, or compensation other than as provided in this Agreement.

Section 5.02 Termination Due to Death or Disability. If Executive's employment is terminated by reason of Executive's death or Disability, Executive or his estate shall be entitled to receive: (a) Executive's accrued Base Salary through the Termination Date; (b) an amount for reimbursement, paid within 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 ARTICLE IV and in accordance with Company policy; (c) if required by applicable law, any accrued and unpaid PTO pay, paid within 60 days of the Termination Date; and (d) such employee benefits, if any, to which Executive (or, if applicable, Executive's estate) or his 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 his estate shall be entitled to receive (x) in a lump sum in cash within two and one-half 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 3.02 that has not been paid (the "Accrued Bonus"); and (y) an amount equal to the product of (i) the fraction of the current fiscal year that has elapsed through the date of Executive's termination and (ii) the Board of Directors-approved annual bonus payout for Executive for such fiscal year based on actual Company performance for such fiscal year measured following the completion thereof, payable at the time the annual bonus would have been paid to Executive had he remained employed through the end of the such fiscal year (the "Pro-Rata Bonus").

Section 5.03 Termination by Executive without Good Reason and other than Disability or Death. In the event Executive terminates his 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.

Section 5.04 Termination by the Company for Cause. In the event the Company terminates his 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.

Section 5.05 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 for reasons other than death, Disability or Cause, or by Executive for Good Reason, Executive shall be entitled to receive (a) an amount equal to his Base Salary; (b) for a period of 18 months following the Termination Date that Executive is eligible to elect and does elect to continue coverage for himself and his eligible dependents under the Company's group health plans, as applicable, under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, and/or Sections 601 through 608 of the Employee Retirement Income Security Act of 1974, as amended (collectively, "COBRA"), medical and dental coverage as required by COBRA and prompt reimbursement for the premium costs charged to Executive for such

COBRA continuation coverage; provided, however, that (i) such COBRA coverage shall terminate if and to the extent Executive becomes eligible to receive medical and dental coverage from a subsequent employer (and any such eligibility shall be promptly reported to the Company by Executive) and (ii) the Company's obligation to reimburse Executive for such premium costs shall cease if, upon the advice of legal counsel, the Company determines that it would reasonably be expected to be subject to any penalty, excise or other tax for providing discriminatory benefits; provided that, in such event, the Company shall implement reasonable comparable alternative payments or benefits to Executive that would avoid such penalty, excise tax or other tax; (c) the Accrued Bonus; (d) the Pro-Rata Bonus, provided that Executive has been employed for at least six months of the fiscal year in which such termination occurs, and (e) the Accrued Rights; provided that the payments described in clauses (a), (b) and (d) shall be subject to Executive's continued compliance with the provisions of ARTICLE VI and of the release delivered under Section 5.09.

Section 5.06 Termination by Mutual Consent. Notwithstanding any of the foregoing provisions of this ARTICLE V, 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.

Section 5.07 Payment of Severance. Subject to Section 7.13, any severance payments pursuant to Section 5.05(a) shall be paid commencing on the 60th day following the Termination Date (with a lump sum catch-up payment for any installments otherwise payable within 60 days following the Termination Date) and in accordance with the Company's standard payroll schedule and practices.

Section 5.08 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 60 days following the termination of his employment a release in a form reasonably acceptable to the Company of all claims arising out of his 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 (except as specified in Section 5.05(b)).

Section 5.09 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 his 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 5.09 at a rate to be determined by the parties. In addition, the Company shall reimburse Executive for any reasonable out-of-pocket expenses he incurs in performing any work on behalf of the Company following the termination of his employment.

ARTICLE VI NON-SOLICITATION & NON-COMPETITION

Section 6.01 Non-Compete. Executive agrees that during Executive's employment, Executive shall not, anywhere in the areas where the Company conducts business during Executive's employment (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 owning up to 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.

Section 6.02 Non-Solicitation. Executive agrees that during the Executive’s employment and for one year following the Termination Date, Executive will not, directly or indirectly, for himself or on behalf of or in conjunction with any other person, (a) hire or attempt to hire any person that is an employee of the Company or was within six months prior to the Termination Date; provided, however, this Section 6.02 (including clause (b)) 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 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 (b) solicit, advise or encourage any person, firm, government agency or corporation to withdraw, curtail or cancel its business with the Company.

Section 6.03 Non-Disparagement. During Executive’s employment and thereafter, Executive agrees that he will not, at any time, make, directly or indirectly, any oral or written statements (including in social media, by tweet or via online job review boards, whether anonymous or not) 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 the Board of Directors and its executives not to disparage Executive orally or in writing; provided that either party may confer in confidence with its legal representatives and make truthful statements as required by law.

Section 6.04 Reasonable Limitation and Severability. The parties agree that the above restrictions on competition are (a) reasonable given Executive’s role with the Company and are necessary to protect the interests of the Company and (b) 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 ARTICLE VI 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.

Section 6.05 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 his employment with the Company, he 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 Executive’s employment and at all times thereafter, he 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 (a) 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, (b) that any such information is authorized to be disclosed 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 (c) 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 his duties as an employee or director of the Company. Executive shall deliver to the Company at the termination of Executive’s employment, 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 he may then possess or have under his control, provided that Executive shall be entitled to retain his telephone, address and other contact directories subject to compliance with Section 6.01, Section 6.02, and Section 6.03. 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.

ARTICLE VII GENERAL PROVISIONS

Section 7.01 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.

Section 7.02 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 on the signature pages hereto.

Section 7.03 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.

Section 7.04 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.

Section 7.05 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.

Section 7.06 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.

Section 7.07 Arbitration.

(a) Except with respect to disputes and claims under ARTICLE VI (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"), a copy of which can be found at www.adr.org/employment, 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 7.06. 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 7.07(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 7.07. 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 7.07 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 7.07, 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 7.07 shall prohibit any party hereto from instituting litigation to enforce any final decision, judgment, ruling, finding, award or other determination of the arbitration.

Section 7.08 Entire Agreement. This Agreement contains all of the terms agreed upon by the Company 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.

Section 7.09 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.

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

Section 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.

Section 7.12 Specific Enforcement; Remedies. The provisions of ARTICLE VI 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 ARTICLE VI 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 ARTICLE VI, 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.

Section 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: (a) 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 months following Executive's termination of employment with the Company (or the earliest date as is permitted under Section 409A); (b) 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; (c) 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 (d) 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. Neither the Company nor any of its employees or representatives shall have any liability to Executive with respect to Section 409A.

Section 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 ARTICLE VI and ARTICLE VII, shall survive the termination of this Agreement.

Section 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 he 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 him in connection with any action, suit or proceeding to which he may be made a party by reason of his being or having been a director, officer or employee of the Company or any of its affiliates or his 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.

Section 7.16 Section 280G.

(a) 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 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, (i) 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 of all Payments paid to Executive, in the aggregate, equals the Safe Harbor Amount, and (ii) 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 (iii) 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.

(b) As used herein, (i) "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, (ii) "Safe Harbor Amount" shall mean 2.99 times Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code, and (iii) "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.

Section 7.17 Protected Rights. Executive understands that nothing contained in this Agreement limits Executive's ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission ("Government Agencies"). Executive further understands that this Agreement does not limit Executive's ability to communicate with any Government Agencies

or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. This Agreement does not limit Executive's right to receive an award for information provided to any Government Agencies. Executive, however, is not permitted to disclose any Company attorney-client privileged communications, unless permitted by Rule 21F-17 under the Securities Exchange Act of 1934, as amended, or other applicable law. In making any such disclosures or communications, Executive agrees to take all reasonable precautions to prevent any use or disclosure of information that may constitute Confidential Information to any parties other than the Government Agencies.

Section 7.18 Defend Trade Secrets Act Notice of Immunity Rights. Executive acknowledges that the Company has provided Executive with the following notice of immunity rights in compliance with the requirements of the Defend Trade Secrets Act: (a) Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of Confidential Information that is made in confidence to a federal, state, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, (b) Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of Confidential Information that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal and (c) if Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, Executive may disclose the Confidential Information to Executive's attorney and use the Confidential Information in the court proceeding, if Executive files any document containing the Confidential Information under seal, and does not disclose the Confidential Information, except pursuant to court order.

[signatures on next page]

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

e.l.f. Cosmetics, Inc.

Executive

By: /s/ Tarang P. Amin
Name: Tarang P. Amin
Title: Chairman & Chief Executive Officer

/s/ Jonathan T. Fieldman
Jonathan T. Fieldman

e.l.f. Beauty, Inc.

By: /s/ Tarang P. Amin
Name: Tarang P. Amin
Title: Chairman & Chief Executive Officer

Address for Notices

e.l.f. Cosmetics, Inc.
570 10th Street
Oakland, CA 94607
Attn: General Counsel
Email: ***

Address for Notices

Use most recent address and email address on file with payroll

Signature Page to Amended and Restated Employment Agreement

**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
e.l.f. (Shanghai) Trading Co., Ltd. (a wholly owned subsidiary of J.A. China Holdings, LLC)	People's Republic of China – Wholly Foreign-Owned Enterprise

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-213818, 333-216718 and 333-223383 on Form S-8 of our report dated February 28, 2019 , 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, 2018 .

/s/ DELOITTE & TOUCHE LLP

San Francisco, CA
February 28, 2019

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: February 28, 2019

/s/ Tarang P. Amin

Tarang P. Amin
Chairman and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: February 28, 2019

/s/ John P. Bailey

John P. Bailey

President and Chief Financial Officer
(Principal Financial Officer)

**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, 2018, as filed with the Securities and Exchange Commission (the "Report"), Tarang P. Amin, Chairman and Chief Executive Officer of the Company, and John P. Bailey, President and Chief Financial Officer of the Company, 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: February 28, 2019

/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 Officer)