

Physicians Formula Holdings, Inc.
1055 West 8th Street
Azusa, California 91702

April 27, 2009

To our Stockholders:

We are pleased to invite you to attend the annual meeting of stockholders of Physicians Formula Holdings, Inc. to be held on June 9, 2009, at 10:00 a.m. Pacific time at the Physicians Formula Holdings, Inc. corporate office located at 1055 West 8th Street, Azusa, California 91702.

Details regarding admission to the meeting and the business to be conducted are more fully described in the accompanying notice of annual meeting of stockholders and proxy statement. This year, we have elected to take advantage of rules adopted by the Securities and Exchange Commission that allow us to use the Internet as a means to furnish our proxy materials to stockholders. Consequently, most stockholders will receive a notice in the mail with instructions for accessing our proxy materials on the Internet instead of paper copies of our proxy materials. The notice provides information on how stockholders may obtain paper copies of our proxy materials if they so choose. Our holders of record will continue to receive a printed copy of the proxy materials by mail. These proxy materials are first being sent to our stockholders on or about April 27, 2009.

Your vote is important. Whether or not you plan to attend the annual meeting, we hope you will vote as soon as possible by following the instructions on the notice or proxy card. Voting by written proxy will ensure your representation at the annual meeting regardless of whether you attend in person.

Thank you for your ongoing support of and continued interest in Physicians Formula.

Sincerely,

A handwritten signature in black ink, appearing to read "Jackel", with a stylized flourish extending to the left and a horizontal line underneath.

Ingrid Jackel
Chief Executive Officer

2009 ANNUAL MEETING OF STOCKHOLDERS
NOTICE OF ANNUAL MEETING AND PROXY STATEMENT
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PHYSICIANS FORMULA

Your beauty. Our passion. We promise.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

The annual meeting of stockholders of Physicians Formula Holdings, Inc. (“Physicians Formula” or the “Company”) will be held on June 9, 2009, at 10:00 a.m. Pacific time at the Physicians Formula Holdings, Inc. corporate office located at 1055 West 8th Street, Azusa, California 91702, for the following purposes:

1. To elect five nominees named in the attached proxy statement to the Board of Directors;
2. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009; and
3. To transact any other business as may properly come before the meeting or any adjournment or postponement thereof.

Our Board of Directors recommends you vote “FOR” the election of directors and “FOR” the appointment of Deloitte & Touche LLP as our independent registered public accounting firm.


Stockholders of record at the close of business on April 15, 2009 are entitled to notice of and to vote at the annual meeting and any adjournment or postponement thereof.

Whether or not you expect to be present at the meeting, please vote your shares by following the instructions on the enclosed proxy card or Notice of Internet Availability of Proxy Materials. If your shares are held in the name of a bank, broker or other record holder, telephone or Internet voting may be available to you only if offered by them. Any person voting by proxy has the power to revoke it at any time prior to its exercise at the meeting in accordance with the procedures described in the accompanying proxy statement.

IF YOU PLAN TO ATTEND:

Please note that space limitations make it necessary to limit attendance to stockholders. Registration will begin at 9:00 a.m. Each stockholder may be asked to present valid picture identification, such as a drivers license or passport. Stockholders holding stock in brokerage accounts (“street name” holders) will need to bring a copy of the voting instruction card or a brokerage statement reflecting stock ownership as of the record date. Cameras, recording devices and other electronic devices will not be permitted at the meeting. You may obtain directions to the meeting place by calling our corporate offices at (626) 334-3395.

By Order of the Board of Directors,



Joseph J. Jaeger
Chief Financial Officer
Azusa, California
April 27, 2009

QUESTIONS AND ANSWERS

Proxy Materials

Why am I receiving this proxy statement?

Physicians Formula is soliciting proxies for the 2009 annual meeting of stockholders. You are receiving a proxy statement or a Notice of Internet Availability of Proxy Materials containing instructions on how to access this proxy statement because you owned shares of Physicians Formula common stock on April 15, 2009, the record date, and that entitles you to vote at the meeting. By use of a proxy, you can vote whether or not you attend the meeting. This proxy statement describes the matters on which we would like you to vote and provides information on those matters so that you can make an informed decision.

What information is contained in this proxy statement?

The information in this proxy statement relates to the proposals to be voted on at the annual meeting, the voting process, Physicians Formula's Board of Directors (the "Board of Directors" or the "Board") and Board committees, the compensation of directors and executive officers for fiscal 2008 and other required information.

Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials this year instead of a full set of proxy materials?

As permitted by rules adopted by the Securities and Exchange Commission, in order to reduce costs and the environmental impact, we are making this proxy statement and our 2008 Annual Report on Form 10-K available to our stockholders electronically via the Internet. On or about April 27, 2009, a Notice of Internet Availability of Proxy Materials (the "Notice") containing instructions on how to access this proxy statement and our 2008 Annual Report on Form 10-K was mailed to beneficial owners of our common stock (i.e., holders who hold their shares in "street name"). If you received a Notice by mail, you will not receive a printed copy of the proxy materials in the mail. Instead, the Notice instructs you on how to access and review all of the important information contained in the proxy statement and annual report. The Notice also instructs you on how you may submit your proxy over the Internet. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials contained on the Notice.

Will I receive a copy of Physicians Formula's annual report?

If you are a holder of record (that is, your shares are registered in your own name with our transfer agent), you will receive a package that includes a proxy statement, 2008 Annual Report on Form 10-K and proxy card.

If you hold your shares in "street name," you may access our 2008 Annual Report on Form 10-K by following the instructions on the Notice mailed to you.

Stockholders may request a free copy of our 2008 Annual Report on Form 10-K from:

Broadridge Financial Solutions, Inc.
(800) 579-1639
www.proxyvote.com
sendmaterial@proxyvote.com

Alternatively, stockholders can access the 2008 Annual Report on Form 10-K and other financial information in the Investor Relations section of Physicians Formula's web site at www.physiciansformula.com. Physicians Formula will also furnish any exhibit to the 2008 Annual Report on Form 10-K if specifically requested.

Voting Information

What will I be voting on?

- Election of the nominees named in this proxy statement to the Board of Directors (see page 5).
- Ratification of the independent registered public accounting firm (see page 6).

How does the Board of Directors recommend that I vote?

Physicians Formula's Board recommends that you vote your shares "FOR" each of the nominees to the Board named in this proxy statement and "FOR" the ratification of our independent registered public accounting firm for the 2009 fiscal year.

How do I vote?

If you are a holder of record, you can vote either in person at the annual meeting or by proxy without attending the annual meeting, by Internet, telephone or mail. We urge you to vote by proxy even if you plan to attend the annual meeting so that we will know as soon as possible that enough votes will be present for us to hold the meeting. If you attend the meeting in person, you may vote at the meeting and your proxy will not be counted.

If you hold your shares in "street name," you must either direct the bank, broker or other record holder of your shares as to how to vote your shares, or obtain a proxy from the bank, broker or other record holder to vote at the meeting. Please refer to the voting instructions from your bank, broker or other record holder for specific instructions on methods of voting, including by telephone or using the Internet if such services are offered by your bank, broker or other record holder.

Your shares will be voted as you indicate. If you return the proxy card but you do not indicate your voting preferences, then the individuals named on the proxy card will vote your shares in accordance with the recommendations of the Board. The Board and management do not now intend to present any matters at the annual meeting other than those outlined in the notice of the annual meeting. Should any other matter requiring a vote of stockholders arise, stockholders returning the proxy card confer upon the individuals named on the proxy card discretionary authority to vote the shares represented by such proxy on any such other matter in accordance with their best judgment.

Can I change my vote?

Yes. If you are a holder of record, at any time before your proxy is voted, you may change your vote by:

- revoking it by written notice to the Chief Financial Officer of Physicians Formula at the address on the cover of this proxy statement;
- delivering a later-dated proxy; or
- voting in person at the meeting.

If you hold your shares in "street name," please refer to the information forwarded by your bank, broker or other record holder for procedures on revoking or changing your proxy.

How many votes do I have?

You will have one vote for every share of Physicians Formula common stock that you owned on April 15, 2009.

How many shares are entitled to vote?

There were 13,577,118 shares of Physicians Formula common stock outstanding as of the record date and entitled to vote at the meeting. Each share is entitled to one vote.

How many shares must be present to hold the meeting?

Under Physicians Formula's Amended and Restated By-Laws, holders of a majority of the outstanding shares of capital stock entitled to vote must be present, in person or by proxy, to hold the annual meeting.

How many votes are needed for the proposals to pass?

- The five nominees for director who receive the highest number of votes at the annual meeting will be elected.
- The affirmative vote of a majority of the shares present in person or by proxy must be cast in favor of the ratification of the appointment of the independent registered public accounting firm.

What if I vote "withhold" or "abstain"?

In the election of directors, you may vote "FOR" all of the nominees or you may vote to "WITHHOLD" with respect to one or more of the nominees. A vote to "WITHHOLD" on the election of directors will have no effect on the outcome.

For the other items of business, you may vote "FOR," "AGAINST" or "ABSTAIN." A vote to "ABSTAIN" on the other items of business will have the same effect of a vote "AGAINST."

If you vote "ABSTAIN," your shares will be counted as present for purposes of determining whether enough votes are present to hold the annual meeting.

Is cumulative voting permitted for the election of directors?

No.

What if I don't vote by proxy and don't attend the annual meeting?

If you are a holder of record and you don't vote your shares, your shares will not be voted.

If you hold your shares in "street name," and you don't give your bank, broker or other record holder specific voting instructions and the bank, broker or other record holder does not vote on a particular proposal because it lacks discretionary authority to vote the shares, the votes will be "broker non-votes." "Broker non-votes" will have no effect on the vote for the election of directors or any other items of business because they are not counted or deemed represented for determining whether stockholders have approved the proposal.

What happens if a nominee for director declines or is unable to accept election?

If you vote by proxy, and if unforeseen circumstances make it necessary for the Board to substitute another person for a nominee, the individuals named on the proxy card will vote your shares for that other person.

Is my vote confidential?

Yes. Your voting records will not be disclosed to us except:

- as required by law;
- to the inspector of election; or
- if the election is contested.

If you are a holder of record, and you write comments on your proxy card, your comments will be provided to us, but your vote will remain confidential.

Stock Ownership Information

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

Most Physicians Formula stockholders hold their shares through a bank, broker or other record holder rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record

If your shares are registered directly in your name with Physicians Formula's transfer agent, Computershare Trust Company, N.A. ("Computershare"), you are considered, with respect to those shares, the stockholder of record, and these proxy materials are being sent directly to you by Physicians Formula. As the stockholder of record, you have the right to grant your voting proxy directly to Physicians Formula or to a third party, vote in person at the meeting, by internet, telephone or mail. Physicians Formula has enclosed a proxy card for you to use.

Beneficial Owner

If your shares are held in a brokerage account or by another nominee, you are considered the beneficial owner of shares held in "street name," and a Notice is being forwarded to you on behalf of your bank, broker or other record holder with instructions for accessing these proxy materials on the Internet. As the beneficial owner, you have the right to direct your bank, broker or other record holder how to vote and you also are invited to attend the annual meeting. Please follow the voting instructions on the Notice you received to direct your bank, broker or other record holder how to vote your shares.

Since a beneficial owner is not the stockholder of record, you may not vote these shares in person at the meeting unless you obtain a "legal proxy" from the bank, broker or other record holder that holds your shares, giving you the right to vote the shares at the meeting.

What if I have questions for Physicians Formula's transfer agent?

Please contact Computershare at the phone number or address listed below, with questions concerning stock certificates, transfer of ownership or other matters pertaining to your stock account.

Computershare Trust Company, N.A.
c/o Computershare Investor Services
P.O. Box 43070
Providence, RI 02940-3070
(800) 962-4284
Outside the U.S. (781) 575-3120

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2009 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON TUESDAY, JUNE 9, 2009:

This proxy statement and our 2008 Annual Report on Form 10-K are available at <http://investor.physiciansformula.com>.

PROPOSALS TO BE VOTED ON

Proposal No. 1: Election of Directors

There are five nominees for election to our Board of Directors this year. Ms. Jackel has served on our Board of Directors since 2006. Messrs. Berry and Eiref have served on our Board since 2007. Mr. Rogers has served on our Board since 2008. Mr. Spence was appointed to our Board on April 24, 2009. Information regarding the business experience of each nominee is provided below. Each director is elected annually to serve until the next annual meeting or until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. There are no family relationships among our executive officers and directors.

If you sign your proxy card but do not give instructions with respect to voting for directors, your shares will be voted for the five persons recommended by the Board. If you wish to give specific instructions with respect to voting for directors, you may do so by indicating your instructions on your proxy card or by following the instructions on the Notice you received from your bank, broker or other record holder.

All of the nominees have indicated to Physicians Formula that they will be available to serve as directors. In the event that any nominee should become unavailable, however, the proxy holders, Ingrid Jackel and Joseph Jaeger, will vote for a nominee or nominees designated by the Board, unless the Board chooses to reduce the number of directors serving on the Board.

Our Board recommends a vote "FOR" the election to the Board of the each of the following nominees.

Vote Required

The five persons receiving the highest number of "FOR" votes represented by shares of Physicians Formula common stock present in person or represented by proxy at the annual meeting will be elected.

Ingrid Jackel
Director since 2006
Age 39

Ingrid Jackel has served as chairwoman of our Board since January 2008, as a director since September 2006, as our Chief Executive Officer since August 2006 and as our Senior Vice President—Marketing from April 2003 to August 2006. Ms. Jackel oversees all aspects of our marketing, research and development and quality control functions. Ms. Jackel joined Pierre Fabre in the U.S. in 1994 and served in a variety of management roles, including Vice President of Marketing for Physicians Formula from May 1998 to March 2003 and Director of Marketing for Physicians Formula from July 1997 to April 1998. Prior to joining Physicians Formula in 1995, Ms. Jackel served in a variety of marketing management roles in the U.S. and France for cosmeceutical brands such as Avene, Elancyl and Aderma of the Pierre Fabre group. Ms. Jackel was awarded the Women's Wear Daily prize for the "most innovative marketer of the year" in mass market cosmetics in 2003.

Jeff M. Berry
Director since 2007
Age 38

Jeff M. Berry has served as a director since October 2007. Mr. Berry is currently working as a consultant to private equity firms to identify investment opportunities in the food industry. Mr. Berry served as Vice President and Treasurer of Del Monte Foods Company from August 2006 to October 2008, where his responsibilities included corporate treasury, corporate and financial strategy, M&A and business development and public relations. Mr. Berry served as Vice President, Strategic Planning and Business Development of Del Monte Foods Company from March 2003 to August 2006. Mr. Berry began his career with Bain and Company and held a variety of positions with McKinsey and Company from September 2001 to late 2002, where he advised several consumer products and retail clients in the areas of strategy, branding and marketing.

Zvi Eiref
Director since 2007
Age 70

Zvi Eiref has served as a director since August 2007. Mr. Eiref was employed as Chief Financial Officer of Church & Dwight Co. Inc. for a total of 20 years from 1979 to 1988, and again from 1995 to 2006. Mr. Eiref served as Chief Financial Officer of Chanel, Inc. from 1988 to 1995 and, prior to this, held positions at Unilever and Arthur Andersen in Europe. Mr. Eiref is a director of FGX International Holdings Limited and Unigene Laboratories, Inc. and is an English Chartered Accountant.

Jeffrey P. Rogers
Director since 2008
Age 45

Jeffrey P. Rogers has served as a director since January 2008, as our President since August 2006 and as our Senior Vice President—Sales from January 1998 to August 2006. Mr. Rogers is responsible for all aspects of sales, new business development and category management. In addition, Mr. Rogers maintains the relationships with the Company's key retailer customers. Mr. Rogers joined Physicians Formula in April 1991 as a Sales Director and was promoted to Vice President of Sales in June 1991. Mr. Rogers has more than 20 years of experience in the cosmetics industry. Prior to joining us, Mr. Rogers worked at Revlon, Inc., a manufacturer and marketer of cosmetics, skincare, fragrances and personal care products, and Del Laboratories, Inc., a manufacturer and marketer of cosmetics and over-the-counter pharmaceuticals.

Padraic L. Spence
Director since 2009
Age 41

Padraic L. Spence has served as a director since April 2009. Mr. Spence is currently working as a consultant to the consumer packaged goods industry. From January 2005 to January 2009, Mr. Spence served as the President of Levlad LLC, a leading manufacturer of cosmetics and over-the-counter pharmaceuticals. From 1995 to 2004, Mr. Spence was the founder and Chief Executive Officer of SPINS, Inc., a provider of syndicated market research for the health and wellness industry.

Proposal No. 2: Ratification of Independent Registered Public Accounting Firm

The Audit Committee of the Board has appointed Deloitte & Touche LLP as the independent registered public accounting firm to audit Physicians Formula's consolidated financial statements and internal control over financial reporting for the fiscal year ending December 31, 2009. During fiscal year 2008, Deloitte & Touche LLP served as Physicians Formula's independent registered public accounting firm and also provided certain tax and other audit-related services. See "Principal Accountant Fees and Services" on page 26. If the appointment of Deloitte & Touche LLP is not ratified, the Audit Committee will evaluate the basis for the stockholders' vote when determining whether to continue the firm's engagement, but may ultimately determine to continue the engagement of the firm or another audit firm without re-submitting the matter to stockholders. Even if the appointment of Deloitte & Touche LLP is ratified, the Audit Committee may in its sole discretion terminate the engagement of the firm and direct the appointment of another independent auditor at any time during the year if it determines that such an appointment would be in the best interests of us and our stockholders. Representatives of Deloitte & Touche LLP are expected to attend the annual meeting, where they will be available to respond to appropriate questions and, if they desire, to make a statement.

Our Board recommends a vote "FOR" the ratification of the appointment of Deloitte & Touche LLP as Physicians Formula's independent registered public accounting firm for the fiscal year ending December 31, 2009.

Vote Required

Ratification of the appointment of Deloitte & Touche LLP as Physicians Formula's independent registered public accounting firm for the fiscal year ending December 31, 2009 requires the affirmative vote of a majority of the shares of Physicians Formula common stock present in person or represented by proxy at the annual meeting.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Board Composition

Our amended and restated certificate of incorporation provides that our Board of Directors shall consist of such number of directors as determined from time to time by resolution adopted by a majority of the total number of directors then in office. The size of our Board of Directors is currently set at five directors. Our Board of Directors currently consists of five members. As previously announced, Ms. Sonya Brown resigned from the Board of Directors on April 24, 2009 and Mr. Spence was appointed to fill the vacancy. Any additional directorships resulting from an increase in the number of directors or vacancies may only be filled by the directors then in office. The term of office for each director will be until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. Elections for directors will be held annually.

The Board has determined Messrs. Berry, Eiref and Spence each qualifies as “independent” as independence is defined by Rule 5605(a)(2) (formerly Rule 4200(a)(15)) of the Nasdaq Stock Market LLC (“Nasdaq”) marketplace rules. The Board has not adopted categorical standards in making its determination of independence and instead relies on standards set forth in the Nasdaq marketplace rules.

Our Board of Directors met ten (10) times in 2008. Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. During 2008, all of the directors attended 75% or more of the meetings of the Board and the committees on which they served. Two of our directors then serving on our Board attended our 2008 annual meeting of stockholders. Directors are encouraged to attend the annual meeting of stockholders.

Communication with the Board of Directors

Stockholders may communicate with the Board by directing communications to the Chief Financial Officer and should prominently indicate on the outside of the envelope that the communication is intended for the Board or for individual directors. In accordance with instructions from the Board, the Chief Financial Officer will review all communications, organize the communications for review by the Board and promptly forward communications (other than communications unrelated to the operation of the Company, such as advertisements, mass mailings, solicitations and job inquiries) to the Board or individual directors.

Board Committees

We currently have an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. Each committee has three members. All of the members of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are “independent” as independence is defined by Rule 5605(a)(2) (formerly Rule 4200(a)(15)) of the Nasdaq marketplace rules. All of the members of the Audit Committee are “independent” as defined by the rules of the Securities and Exchange Commission (“SEC”). Ms. Brown, who served on our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee during 2008 was “independent” under the Nasdaq marketplace rules and the rules of the SEC.

Audit Committee. The Audit Committee is comprised of Messrs. Eiref (Chairman) Berry and Spence, who are “independent” under the heightened independence standard required for audit committee members under the Nasdaq marketplace rules and the rules of the SEC. The Audit Committee oversees our accounting, financial reporting and control processes and the audits of our financial statements, including: the preparation, presentation and integrity of our financial statements; our compliance with legal and regulatory requirements; our independent auditor’s qualifications and independence; and the performance of our independent auditor. Our Audit Committee, among other things, has sole responsibility to retain and terminate our independent auditor, pre-approves all audit and non-audit services performed by our independent auditor and the fees and terms of each engagement and reviews our quarterly and annual audited financial statements and related public disclosures, earnings press releases and other financial information provided to analysts or rating agencies.

Each member of the Audit Committee has the ability to read and understand fundamental financial statements. Our Board of Directors has determined that Zvi Eiref meets the requirements for an “audit committee financial expert” as defined by the rules of the SEC.

The charter of the Audit Committee is available in the Investor Relations section of our website at www.physiciansformula.com.

Compensation Committee. The Compensation Committee is comprised of Messrs. Berry (Chairman), Eiref and Spence. The Compensation Committee oversees the administration of our benefit plans, reviews and administers all compensation arrangements for executive officers and directors and establishes and reviews general policies relating to the compensation and benefits of our officers, employees and directors. Our executive officers make recommendations regarding executive compensation to the Compensation Committee and the Committee considers these recommendations. The Committee then considers other available information, applies its own judgment and experience and makes an independent determination regarding both the components and amounts of executive compensation. Our human resources department supports the Compensation Committee in the administration of the benefit plans and compensation arrangements.

The charter of the Compensation Committee allows the Compensation Committee to delegate authority to subcommittees and engage compensation consultants as it deems appropriate. The Compensation Committee does not delegate any of its functions to others in setting compensation. In 2009, at the request of the Compensation Committee, we engaged Mercer Health and Benefits LLC, a compensation consultant, to conduct an independent review and assessment of the severance and change-in-control provisions in the named executive officers’ employment agreements and the named executive officers’ non-compete agreements.

The charter of the Compensation Committee is available in the Investor Relations section of our website at www.physiciansformula.com.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is comprised of Messrs. Berry (Chairman), Eiref and Spence. The Nominating and Corporate Governance Committee's responsibilities include identifying and recommending to the Board appropriate director nominee candidates and providing oversight with respect to corporate governance matters.

The policy of the Nominating and Corporate Governance Committee is to consider as potential nominees individuals properly recommended by stockholders. Recommendations concerning individuals proposed for consideration by the Nominating and Corporate Governance Committee should be addressed to Joseph J. Jaeger, Chief Financial Officer, Physicians Formula Holdings, Inc., 1055 West 8th Street, Azusa, California 91702. Each recommendation should include a personal biography of the suggested nominee, an indication of the background or experience that qualifies the person for consideration and a statement that the person has agreed to serve if nominated and elected. Stockholders who themselves wish to effectively nominate a person for election to the Board of Directors, as contrasted with recommending a potential nominee to the Nominating and Corporate Governance Committee for its consideration, are required to comply with the advance notice and other requirements set forth in our by-laws as described under "Other Matters—Stockholder Proposals and Director Nominations." The Nominating and Corporate Governance Committee will consider all nominees for election as directors of Physicians Formula, including all nominees recommended by stockholders, in accordance with the mandate contained in its charter. In evaluating candidates, the Nominating and Corporate Governance Committee considers the person's judgment, skills, experience, independence, understanding of Physicians Formula's business or other related industries as well as the needs of the Board, and will review all candidates in the same manner, regardless of the source of the recommendation. The Nominating and Corporate Governance Committee will select qualified candidates and review its recommendations with the Board.

Physicians Formula has not paid a fee to any third party to identify or assist in identifying or evaluating potential nominees.

The charter of the Nominating and Corporate Governance Committee is available in the Investor Relations section of our website at www.physiciansformula.com.

The following table shows the current membership of each committee and the number of meetings held by each committee in 2008:

<u>Name of Director</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Nominating and Corporate Governance Committee</u>
Zvi Eiref	Chairman	Member	Member
Jeff M. Berry	Member	Chairman	Chairman
Padraic L. Spence	Member	Member	Member
Number of Meetings in 2008	4	2	1

Compensation Committee Interlocks and Insider Participation

No member of our Compensation Committee serves as a member of the Board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

Code of Ethics

We have adopted a code of ethics for senior financial employees that applies to our Chief Executive Officer, President, Chief Financial Officer, principal accounting officer and other employees. The code of ethics is available in the Investor Relations section of our website at www.physiciansformula.com and is available in print to any stockholder who requests it. If we waive any material provision of our code of ethics or substantively change the code, we will disclose that fact on our website within four business days of the waiver or substantive change.

EXECUTIVE OFFICERS

The following table sets forth information concerning our executive officers. Executive officers serve at the request of the Board of Directors.

<u>Name</u>	<u>Age</u>	<u>Principal Position</u>
Ingrid Jackel	39	Chief Executive Officer
Jeffrey P. Rogers	45	President
Joseph J. Jaeger	56	Chief Financial Officer

Set forth below is information concerning our executive officers who are not directors.

Joseph J. Jaeger, Chief Financial Officer. Joseph J. Jaeger has served as Chief Financial Officer of Physicians Formula since March 2004. In addition to accounting and finance, Mr. Jaeger is responsible for information technology, human resources, operations and legal. Mr. Jaeger has more than 24 years of experience in the cosmetics industry, including 17 years at L'Oréal, a manufacturer and marketer of cosmetics and personal care products, where he most recently served as a Vice President of Finance in the Luxury Products Division from 1999 until December 2001. Prior to joining Physicians Formula, Mr. Jaeger served as Vice President—Finance, Interventional Products Division at Datascope, Inc., a medical device company, from December 2003 to February 2004, and as Executive Vice President and Chief Financial Officer at Zirh International Corp., a division of Shiseido Co. Ltd., from July 2003 to August 2003, and as President of Cosmetic Concepts International, LLC from January 2002 to June 2003 and from September 2003 to November 2003.

COMMON STOCK OWNERSHIP

Beneficial Ownership Table

The following table provides information concerning beneficial ownership of our common stock as of April 15, 2009, by:

- each of our directors;
- each of our named executive officers;
- each person known by us to beneficially own 5% or more of our outstanding common stock; and
- all of our directors and executive officers as a group.

The following table lists the number of shares and percentage of shares beneficially owned based on 13,577,118 shares of common stock outstanding as of April 15, 2009 and a total of 553,631 common stock options currently exercisable or exercisable by our directors and executive officers as a group within 60 days of April 15, 2009.

Beneficial ownership is determined in accordance with the rules of the SEC, and generally includes voting power and/or investment power with respect to the securities held. Shares of common stock subject to options currently exercisable or exercisable within 60 days of April 15, 2009 are deemed outstanding and beneficially owned by the person holding such options for purposes of computing the number of shares and percentage beneficially owned by such person, but are not deemed outstanding for purposes of computing the percentage beneficially owned by any other person. Except as indicated in the footnotes to this table, and subject to applicable community property laws, the persons or entities named have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them.

<u>Name of Beneficial Owner</u>	<u>Shares of Common Stock Beneficially Owned</u>	
	<u>Number</u>	<u>Percentage</u>
5% or More Beneficial Owners:		
Mill Road Capital, LP ⁽¹⁾	2,466,943	18.2%
Diker Management, LLC ⁽²⁾	1,833,524	13.5
FMR LLC ⁽³⁾	1,665,200	12.3
DDJ Capital Management, LLC ⁽⁴⁾⁽⁶⁾	1,580,021	11.6
William Blair & Company, L.L.C. ⁽⁵⁾	1,045,355	7.7
General Motors Investment Management Corporation ⁽⁶⁾⁽⁴⁾	751,111	5.5
Directors and Named Executive Officers:		
Ingrid Jackel ⁽⁷⁾	444,830	3.2
Jeffery P. Rogers ⁽⁸⁾	483,859	3.5
Joseph J. Jaeger ⁽⁹⁾	140,859	1.0
Zvi Eiref ⁽¹⁰⁾	44,943	*
Jeff M. Berry ⁽¹¹⁾	13,270	*
Padraic L. Spence ⁽¹²⁾	7,031	*
All directors and executive officers as a group	1,134,792	8.4

* Less than 1%.

- (1) Information reported is based on a Schedule 13D/A filed on March 11, 2009 by Mill Road Capital, L.P., on which each of Mill Road Capital, L.P. and Mill Road Capital GP LLC reported sole voting and dispositive power over 2,466,943 shares of our common stock, and each of Thomas E. Lynch, Charles M.B. Goldman and Scott P. Scharfman, reported shared voting and dispositive power over 2,466,943 shares of our common stock. The address of Mill Road Capital, L.P., Mill Road Capital GP LLC and Messrs. Lynch, Goldman and Scharfman is Two Sound View Drive, Suite 300, Greenwich, Connecticut 06830.
- (2) Information reported is based on a Schedule 13G/A filed on February 17, 2009 by Diker Management, LLC, on which each of Diker GP, LLC, Diker Management, LLC, Charles M. Diker and Mark N. Diker reported shared voting and dispositive power over 1,833,524 shares of our common stock and Diker Micro Value QP Fund LP reported shared voting and dispositive power over 695,518 shares of our common stock. The address of Diker GP, LLC, Diker Management, LLC, Diker Micro Value QP Fund LP and Messrs. Diker and Diker is 745 Fifth Avenue, Suite 1409, New York, New York 10151.
- (3) Information reported is based on a Schedule 13G/A filed on February 17, 2009 by FMR LLC, on which FMR LLC reported sole dispositive power over 1,665,200 shares of our common stock. According to the Schedule 13G/A, various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the shares. The interest of one person, Fidelity Low Priced Stock Fund, an investment company registered under the Investment Company Act of 1940, in the shares amounted to 1,049,992 of our common stock. The address of FMR LLC is 82 Devonshire Street, Boston, Massachusetts 02109.
- (4) Information reported is based on a Schedule 13G/A filed on March 11, 2009 by DDJ Capital Management, LLC ("DDJ"), on which DDJ reported sole voting and dispositive power over 1,580,021 shares of our common stock, and each of DDJ/Ontario Credit Opportunities Fund, L.P. ("DDJ/Ontario Fund"), GP DDJ/Ontario Credit Opportunities Fund, L.P. ("GP DDJ/Ontario") and GP Credit Opportunities Ltd. ("GP Credit Opportunities") reported sole voting and dispositive power over 828,910 shares of our common stock. DDJ, as investment manager to DDJ/Ontario Fund as well as to an account managed on behalf of an institutional investor (together, the "DDJ Funds"), may be deemed the beneficial owner of 1,580,021 shares held by the DDJ Funds in the aggregate. The address of DDJ, DDJ/Ontario Fund, GP DDJ/Ontario and GP Credit Opportunities is 130 Turner Street, Building #3, Suite 600, Waltham, Massachusetts 02453.

- (5) Information reported is based on a Schedule 13G/A filed on January 12, 2009 by William Blair & Company, L.L.C., on which William Blair & Company, L.L.C. reported sole voting and dispositive power over 1,045,355 shares of our common stock. The address of William Blair & Company, L.L.C. is 222 W. Adams, Chicago, Illinois 60606.
- (6) Information reported is based on a Schedule 13G/A filed on February 12, 2009 by General Motors Investment Management Corporation (“GMIMCo”), on which each of GMIMCo and General Motors Trust Bank, N.A. as trustee for GMAM Investment Funds Trust II (“Trust”) reported shared voting and dispositive power over 751,111 shares of our common stock. According to the Schedule 13G/A, the Trust is a trust formed under and for the benefit of one or more employee benefit plans (“Plans”) of General Motors Corporation, its subsidiaries and unrelated employers. GMIMCo has the responsibility to select and terminate investment managers with respect to the Plans. One investment manager acting with respect to the Plans is DDJ Capital Management. The address of GMIMCo and Trust is 767 Fifth Avenue, New York, NY 10153.
- (7) Includes options to purchase 373,162 shares of common stock exercisable within 60 days of April 15, 2009.
- (8) Includes options to purchase 87,359 shares of common stock exercisable within 60 days of April 15, 2009.
- (9) Includes options to purchase 58,366 shares of common stock exercisable within 60 days of April 15, 2009.
- (10) Includes options to purchase 14,443 shares of common stock exercisable within 60 days of April 15, 2009.
- (11) Includes options to purchase 13,270 shares of common stock exercisable within 60 days of April 15, 2009.
- (12) On April 20, 2009, the Compensation Committee of the Board of Directors approved the grant of options to purchase 25,000 shares of common stock to Mr. Spence upon his appointment to the Board of Directors on April 24, 2009. Includes options to purchase 7,031 shares of common stock exercisable within 60 days of April 15, 2009.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and holders of more than 10% of Physicians Formula common stock to file reports with the SEC regarding their ownership and changes in ownership of our securities. Based solely on a review of such reports and representations and information provided by our directors and executive officers, we believe that, during fiscal year 2008, our directors, executive officers and 10% stockholders complied with all Section 16(a) filing requirements.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Compensation Philosophy and Objectives

The compensation program for our executive officers is designed to attract and retain key executive officers and to motivate them to achieve our operating objectives. Different elements of compensation are linked to short and long-term performance, with the goal of increasing stockholder value over the long term. We seek to reward the achievement of specific annual goals through cash incentive compensation. We also strive to promote an ownership mentality among our executive officers by offering equity-based compensation that aligns their interests with those of our stockholders and our business. To that end, the Compensation Committee, which we refer to in this section as the “Committee,” believes executive compensation should include both cash and equity-based compensation.

The primary objectives of our compensation program are:

- to attract and retain the best possible executive talent;
- to achieve accountability for performance by linking annual cash incentive compensation to the achievement of measurable performance objectives; and
- to align executive officers’ incentives with increases in stockholder value and the achievement of corporate objectives.

Overview of Compensation and Process

The Committee has the overall responsibility for evaluating and approving the annual compensation and compensation programs for our three executive officers: the Chief Executive Officer, the President and the Chief Financial Officer (collectively, the “named executive officers”). Our executive officers make recommendations regarding executive compensation to the Committee and the Committee considers these recommendations. The Committee then considers other available information, applies its own judgment and experience and makes an independent determination regarding both the components and amounts of executive compensation.

Our executive officer compensation consists of:

- base salary;
- annual cash incentive compensation; and
- long-term equity incentive compensation.

In addition, employment agreements with each of the named executive officers provide for severance upon certain termination events. We also provide certain retirement benefits and perquisites and other benefits.

The amount of each element of compensation is determined by the Committee, which reviews the following factors to determine the amount of compensation and combination of elements to pay each named executive officer:

- performance against corporate objectives for the year;
- difficulty of achieving desired results in the coming year;
- value of an individual’s unique skills and capabilities to support our objectives; and
- contribution as a member of the executive management team.

The Committee does not consider prior compensation, including gains from prior stock option awards, in setting future compensation levels.

Our policy for allocating between short-term and long-term compensation is to ensure adequate compensation to attract and retain key executive officers, while providing them with an incentive to maximize long-term stockholder value. We do not have an exact formula for allocating between short-term and long-term compensation or between cash and equity-based compensation. The Committee makes an effort to ensure that our compensation program for executive officers is perceived as fundamentally fair.

In February 2008, at the request of the Committee, we engaged Mercer Health and Benefits LLC, a compensation consultant (“Mercer”), to conduct an independent review and assessment of the severance and change-in-control provisions in the named executive officers’ employment agreements and the named executive officers’ non-compete agreements. In February 2008, Mercer evaluated the severance and change-in-control practices of seven companies identified as our peer companies, Estee Lauder, Revlon, Elizabeth Arden, Bare Escentuals, Procter & Gamble, Parlux Fragrances and Stepan Co., and reviewed information on market severance practices in several published surveys. Mercer’s review covered both non change-in-control severance practices and change-in-control severance practices, including cash severance triggers, cash severance multiples, accelerated equity vesting triggers, continuation of benefits and gross-ups for excise taxes, which provided the Committee with a context for evaluating our severance and change-in-control practices.

Compensation Elements

Base Salary

We provide a base salary to our executive officers to compensate them for their services during the year. Base salaries are intended to promote retention of existing executive officers. Therefore, the Committee seeks to offer base salaries that are competitive. The Committee sets base salaries based on the executive officer’s role, responsibilities and experience.

On March 7, 2008, the Committee approved an inflation-based increase of an average of 4% to the base salaries of all employees, including the named executive officers (other than increases related to promotions for certain non-executive officers). The increased salaries, which became effective as of January 1, 2008, for each of the named executive officers were:

- Ingrid Jackel—\$378,560
- Jeffrey P. Rogers—\$378,560
- Joseph J. Jaeger—\$351,520

On March 25, 2009, the Committee and the named executive officers agreed to a 10% decrease to the base salaries of the named executive officers as a part of our effort to reduce costs in light of the weak consumer environment. The decreased salaries, which became effective as of April 6, 2009, for each of the named executive officers are:

- Ingrid Jackel—\$340,704
- Jeffrey P. Rogers—\$340,704
- Joseph J. Jaeger—\$316,368

Annual Cash Incentive Compensation

We provide an opportunity for our named executive officers to earn annual cash incentive compensation under our annual bonus plan. In 2008, the Committee approved a new structure for the 2008 bonus objective for the named executive officers. In 2007, bonuses for the named executive officers were calculated based on the achievement of an adjusted EBITDA target. On March 7, 2008, the Committee expanded the performance goals such that bonuses for each of the named executive officers under the 2008 Bonus Plan were calculated as follows: 40% of the bonus was based on the attainment of an adjusted EBITDA target; 40% of the bonus was based on the attainment of a net sales target; and 20% of the bonus was based on a discretionary performance evaluation. We had traditionally used adjusted EBITDA as the target performance metric under our non-equity incentive plans when we were a private company because a market multiple methodology based on an EBITDA multiple is commonly used in private company valuations and we sought to reward the executive officers for increasing value for our investors. The Committee also believed that adjusted EBITDA was a measure that best reflected our overall operating performance without the effects of certain non-cash charges. In 2008, the Committee expanded the performance metrics to include a net sales target and an individual performance evaluation. The Committee decided to reward the executive officers for achievement of a net sales target because, as a high-growth public company, year-over-year improvement in our net sales is an important part of our strategy to create long-term stockholder value. The Committee believed that the new bonus structure would motivate the executive officers to successfully execute our top-line growth objectives, which would be reflected in our net sales. The Committee added a discretionary component based on individual performance to reward the named executive officers for individual contributions to our long-term strategy that are not necessarily reflected in our annual financial results.

The objective of annual cash incentive compensation is to set clearly defined expectations for our executive officers and to reward executive officers for our performance and their personal performance. Annual target cash bonuses are determined initially as a percentage of each executive officer's base salary for the fiscal year, and the payment of actual cash bonuses depends upon the achievement of the pre-determined adjusted EBITDA and net sales targets and the Committee's discretionary determination of the executive officer's contributions to our long-term strategy. Depending on our performance relative to the targets, the actual cash bonus for our executive officers may be less than or greater than the target cash bonus. If our performance of a company-wide measure (i.e., adjusted EBITDA and net sales) for the year is less than 80% of the applicable target, no bonus will be earned in respect of that measure. If our performance for the year is between 80% and 100% of the applicable target, the bonus earned in respect of that measure will be based on a straight-line interpolation of 0% and 20% of base salary. If our performance for the year equals 100% of the applicable target, the bonus earned in respect of that measure will equal 20% of base salary. If our performance for the year is between 100% and 200% of the applicable target, the bonus earned in respect of that measure will be based on a straight-line interpolation between 20% and 40% of base salary. If our performance for the year equals or exceeds 200% of the applicable target, the bonus earned in respect of that measure will equal 40% of base salary.

The named executive officers have the opportunity to earn a discretionary performance bonus of up to 10% of their annual salary at target performance levels and up to 20% of their annual salary at maximum performance levels based on the results of a discretionary performance evaluation prepared by the Committee. Their annual performance is rated based on reaching specified goals in the following areas: increasing market share, achieving budget on specific projects, increasing customer base and international sales growth.

The amount of the award under the 2008 Bonus Plan is determined based on our actual performance measured against the performance targets set by the Committee. The Committee does not have discretion to make payments under the 2008 Bonus Plan in excess of the amounts determined under the 2008 Bonus Plan formula, although the Committee reserves the right, at any time during the performance period, to adjust the performance targets upon the occurrence of unforeseen developments, changes in market conditions, changes in the Company's business plan, changes in the Committee's compensation philosophy or otherwise. The Committee also reserves the right, at any time, to adjust the performance measures to eliminate the effects of non-recurring gains and losses, accounting changes or other extraordinary events not foreseen at the time the 2008 Bonus Plan was established. These adjustments, if any, will be made solely to maintain the alignment between the performance measures and the underlying performance of the business, without giving effect to potentially volatile swings caused by these unusual or non-recurring gains and losses, accounting changes or other extraordinary events.

On March 7, 2008, the Board of Directors approved the 2008 target cash bonus and maximum cash bonus for each of the named executive officers, as well as the adjusted EBITDA and net sales targets under the 2008 Bonus Plan. The target cash bonus and maximum cash bonus, as a percentage of base salary, in effect for each of the named executive officers in 2008, was as follows:

	Target Cash Bonus, as a Percent of Base Salary	Maximum Cash Bonus, as a Percent of Base Salary
Ingrid Jackel	50%	100%
Jeffrey P. Rogers	50%	100%
Joseph J. Jaeger	50%	100%

The target performance measures under our 2008 Bonus Plan for each named executive officer were established based on our budgeted adjusted EBITDA and net sales for 2008 of \$23.7 million and \$125.6 million, respectively. We define adjusted EBITDA as earnings before interest, taxes, depreciation and amortization, adjusted to eliminate the effect of certain non-cash charges. In 2008, these non-cash charges were a stock-based compensation charge and goodwill and intangible asset impairment charges.

On March 10, 2009, the Committee approved payments in respect of 2008 performance under the 2008 Bonus Plan. The payments were based on our preliminary results because we had not completed our year-end financial reporting process for 2008 as of March 10, 2009. Based on our preliminary results, each of our named executive officers received 21.9% of their target cash bonus based on our preliminary 2008 net sales, which was equal to 90.9% of the net sales target for 2008. The named executive officers did not earn any cash bonus in respect of the adjusted EBITDA component of the 2008 Bonus Plan because our preliminary adjusted EBITDA was less than 80% of the adjusted EBITDA target for 2008, and the named executive officers did not earn any cash bonus in respect of the discretionary component of the 2008 Bonus Plan, as determined by the Committee. When we completed our year-end financial reporting process on March 31, 2009, we reported net sales of \$114.0 million, which was equal to 90.8% of the net sales target for 2008 and slightly lower than the preliminary net sales used to calculate the payments under the 2008 Bonus Plan. As a result, the payments to the named executive officers on March 10, 2009 exceeded the payments that would have resulted under the bonus plan formula based on our 2008 audited results by the following amounts: \$500 for Ms. Jackel, \$500 for Mr. Rogers and \$465 for Mr. Jaeger. These amounts were paid over and above the amounts earned by meeting the net sales performance measure in the 2008 Bonus Plan, based on reported results for 2008. Accordingly, these amounts are reported under the "Bonus" column in the Summary Compensation Table for 2008. These bonus payments were made based on 2008 preliminary net sales in order to meet the March 15th deadline under the Internal Revenue Code for deductibility in 2008.

In light of the weak economic environment, the Committee did not adopt a bonus plan for 2009.

Long-Term Equity Incentive Compensation

All of our executive officers have received long-term equity incentive compensation in the form of incentive stock options and non-qualified stock options. Our option program is designed to align the interests of our executive officers with our stockholders' long-term interests by creating an ownership mentality among our executive officers and to reward them for our performance, measured by increases in the price of our common stock. We provide options that vest over a period of time to encourage retention of our executive officers and focus their efforts on the creation of long-term stockholder value and corporate objectives. We believe our ability to grant equity-based awards would also serve to attract new executive talent, if necessary.

On February 6, 2007 we awarded options to purchase 50,000 shares of common stock to each of our named executive officers. As a newly public company, the Committee decided to develop a practice of granting equity awards annually to executive officers and certain salaried employees, to encourage their long-term retention. On February 6, 2007, the Committee made the first of these annual awards. Management made a recommendation for the number of options to be awarded to each of the three executive officers, and this recommendation became the basis for the option awards. The options were awarded in equal amounts to each executive officer based on recognition of each executive officer's contribution to the business in his or her respective area of responsibility, as well considerations of internal consistency and fairness among our senior management team.

On January 30, 2008, we awarded options to purchase 50,000 shares of common stock to each of our named executive officers. Since we became a public company, it had been the Committee's practice to grant equity awards in the first quarter of each year to executive officers and certain salaried employees to encourage their long-term retention and to reward them for their contributions to our company. In determining the number of options to grant each year, the Committee considers recommendations from the executive officers, existing equity ownership interests, values of previous equity grants, size of previous equity grants in relation to individual positions, length of time with us and anticipated contributions to us. In January 2008, in recognition of our performance in 2007, the Committee made a determination to award a total of 317,000 stock options, a number which roughly corresponds to the increase on January 1, 2008 in shares available for issuance under the evergreen provision of the 2006 Plan. Consistent with past practice, approximately 50% of the total stock options granted were allocated to the executive officers, and 50% were allocated to other salaried employees. The 150,000 options allocated to the executive officers were awarded in equal amounts to each of the three executive officers based on recognition of each executive officer's contribution to the business in his or her respective area of responsibility, as well considerations of internal consistency and fairness among our senior management team.

2003 Stock Option Plan

On November 3, 2003, before we were a public company, our Board of Directors adopted the 2003 Stock Option Plan (the "2003 Plan"), which authorizes the grant of incentive stock options and/or non-qualified stock options to our executive officers and other key employees. The purpose of the 2003 plan is to allow those persons who have a substantial responsibility for our management and growth to acquire an ownership interest in our company and thereby encourage them to contribute to our success and to remain in our employ. The 2003 Plan is also intended to increase our ability to attract and retain individuals of exceptional managerial talent upon whom, in large measure, our sustained progress, growth and profitability depend. We anticipate that all future option grants will be made under our 2006 Equity Incentive Plan and we do not intend to issue any further options under the 2003 Plan. As of December 31, 2008, 551,439 options were outstanding under the 2003 Plan.

In 2003 and 2004, we granted incentive stock options and non-qualified stock options under our 2003 Plan to our named executive officers. The options granted under the 2003 Plan included options that vested and became exercisable over time (the "time-vesting options"), as well as options that originally provided that they vest and become exercisable only upon a sale of Physicians Formula in which the aggregate cash proceeds received by the Summit Partners investors is equal to or greater than three times the amount of the Summit Partners investors' total original investment in Physicians Formula (the "performance-vesting options").

On November 14, 2006, the closing date of the initial public offering, we amended the performance-vesting options to accelerate the vesting of 550,781 of the 713,334 performance-vesting options then outstanding. The remaining performance-vesting options that did not vest on November 14, 2006, became time-vesting options that vest and become exercisable in 24 equal monthly installments over a period of two years from November 14, 2006.

The portion of the performance-vesting options that vested upon completion of the initial public offering was determined by multiplying the number of performance-vesting options held by each individual by a fraction, the numerator of which is the assumed aggregate cash proceeds received by the Summit Partners investors in respect of their investment in Physicians Formula and its subsidiaries prior to and upon the closing of the initial public offering based on certain assumptions made on October 23, 2006, the day the amendments to the performance-vesting options were approved, and the denominator of which was three times the amount of the Summit Partners investors' total original investment in Physicians Formula and its subsidiaries (including amounts paid in connection with our recapitalization in December 2005). The assumptions made on October 23, 2006 were: the common stock was priced at \$16.00, the midpoint of the range on the cover of the preliminary prospectus for our initial public offering; the Summit Partners entities sold the number of shares as set forth in the preliminary prospectus for the initial public offering; the over-allotment option was exercised in full; and the underwriting discount was \$1.12 per share. Although the actual price to the public of our common stock in the initial public offering was \$17.00 per share, the underwriting discount was \$1.19 per share and the number of shares sold by Summit Partners in the initial public offering was more than as set forth in the preliminary prospectus, we did not revise the number of performance-vesting options that vested on the closing of our initial public offering because that number was fixed at the time the amendments were approved.

Administration. The Committee administers the 2003 Plan. Under the 2003 Plan, the Committee has sole and complete authority to select participants, grant options to participants in forms and amounts as it determines, impose limitations, restrictions and conditions upon options as it deems appropriate, interpret the 2003 Plan and adopt, amend and rescind administrative guidelines and other rules and regulations relating to the 2003 Plan, correct any defect or omission or reconcile any inconsistency in the plan or an option granted under the 2003 Plan and make all other determinations and take all other actions necessary or advisable for the implementation and administration of the 2003 Plan.

Terms of awards. The exercise price of an option granted under the 2003 Plan may not be less than 100% of the fair market value of our common stock on the date the option is granted. Option awards were granted to each participant pursuant to an agreement entered into between us and such person. Provisions of such agreements set forth the types of options being granted, the total number of shares of common stock subject to the options, the price, the periods during which such options may be exercised and such other terms and performance objectives as are approved by our Board of Directors or its designated committee which are not inconsistent with the terms of the 2003 Plan. The 2003 Plan does not permit the term of an option to exceed ten years from the date of grant.

For a description of termination and change in control provisions applicable to options issued under the 2003 Plan, please see “—Potential Payments upon Termination or Change in Control—Stock Options under the 2003 Stock Option Plan.”

2006 Equity Incentive Plan

In connection with our initial public offering, we adopted the 2006 Equity Incentive Plan (the “2006 Plan”). The 2006 Plan provides for grants of stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock units and other performance awards. Directors, officers and other employees of Physicians Formula and its subsidiaries, as well as others performing services for us, are eligible for grants under the 2006 Plan. The purpose of the 2006 Plan is to provide these individuals with incentives to maximize stockholder value and otherwise contribute to our success and to enable us to attract, retain and reward the best available persons for positions of responsibility.

A total of 900,000 shares of our common stock were originally available for issuance under the 2006 Plan. This amount automatically increases on the first day of each fiscal year beginning in 2007 and ending in 2016 by the lesser of: (i) 2% of the shares of common stock outstanding on the last day of the immediately preceding fiscal year or (ii) such lesser number of shares as determined by the Committee. The number of shares available for issuance under the 2006 Plan is subject to adjustment in the event of a reorganization, stock split, merger or similar change in the corporate structure or the outstanding shares of common stock. In the event of any of these occurrences, we shall make any adjustments we consider appropriate to, among other things, the number and kind of shares, options or other property available for issuance under the plan or covered by grants previously made under the 2006 Plan. The shares available for issuance under the 2006 Plan may be, in whole or in part, authorized and unissued or held as treasury shares.

Eligibility. Directors, officers and employees of Physicians Formula and its subsidiaries, as well as other individuals performing services for us, or to whom we have extended an offer of employment, will be eligible to receive grants under the 2006 Plan. However, only employees may receive grants of incentive stock options. In each case, the Committee selects the grantees to participate in the 2006 Plan.

Stock Options. Under the 2006 Plan, the Committee or the Board may award grants of incentive stock options conforming to the provisions of Section 422 of the Internal Revenue Code, and other, non-qualified stock options. The Committee may not, however, award to any one person in any calendar year options to purchase common stock equal to more than 800,000 shares, and it may not award incentive stock options first exercisable in any calendar year whose underlying shares have an aggregate fair market value greater than \$100,000, determined at the time of grant.

The exercise price of an option granted under the 2006 Plan may not be less than 100% of the fair market value of a share of common stock on the date of grant, and the exercise price of an incentive stock option awarded to a person who owns stock representing more than 10% of Physicians Formula’s voting power may not be less than 110% of such fair market value on such date.

Unless the Committee determines otherwise, the exercise price of any option may be paid in cash, by delivery of shares of common stock with a fair market value equal to the exercise price, and/or by simultaneous sale through a broker of shares of common stock acquired upon exercise.

If a participant elects to deliver shares of common stock in payment of any part of an option’s exercise price, the Committee may at its discretion grant the participant a “reload option.” The reload option entitles the participant to purchase a number of shares of common stock equal to the number so delivered. The reload option may also include, if the Committee chooses, the right to purchase a number of shares of common stock equal to the number delivered or withheld in satisfaction of any of our tax withholding requirements in connection with the exercise of the original option. The terms of each reload option will be the same as those of the original exercised option, except that the grant date will be the date of exercise of the original option, and the exercise price will be the fair market value of the common stock on the date of exercise.

The Committee determines the term of each option at its discretion. However, no term may exceed ten years from the date of grant or, in the case of an incentive stock option granted to a person who owns stock representing more than 10% of the voting power of Physicians Formula or any of its subsidiaries, five years from the date of grant.

For a description of termination and change in control provisions applicable to options issued under the 2006 Plan, please see “—Potential Payments upon Termination or Change in Control—Stock Options under the 2006 Equity Incentive Plan.”

Stock Appreciation Rights. SARs entitle a participant to receive the amount by which the fair market value of a share of our common stock on the date of exercise exceeds the grant price of the SAR. The grant price and the term of a SAR will be determined by the Committee, except that the price of a SAR may never be less than the fair market value of the shares of our common stock subject to the SAR on the date the SAR is granted.

Restricted Stock. Under the 2006 Plan, the Committee may award restricted stock subject to the conditions and restrictions, and for the duration, which will generally be at least six months, that it determines in its discretion. Unless the Committee determines otherwise, all restrictions on a grantee’s restricted stock will lapse when the grantee ceases to be a director, officer or employee of, or to otherwise perform services for, Physicians Formula and its subsidiaries, if the cessation occurs due to a termination within one year after a change in control of Physicians Formula or due to death, disability or, in the discretion of the Committee, retirement. In addition, the Committee has the authority to award shares of restricted stock with respect to which all restrictions shall lapse automatically upon a change in control of Physicians Formula, whether or not the grantee is subsequently terminated. If termination of employment or service occurs for any other reason, all of a grantee’s restricted stock as to which the applicable restrictions have not lapsed will be forfeited immediately.

Restricted Stock Units; Deferred Stock Units. Under the 2006 Plan, the Committee may award restricted stock units subject to the conditions and restrictions, and for the duration, which will generally be at least six months, that it determines in its discretion. Each restricted stock unit is equivalent in value to one share of common stock and entitles the grantee to receive one share of common stock for each restricted stock unit at the end of the vesting period applicable to such restricted stock unit. Unless the Committee determines otherwise, all restrictions on a grantee's restricted stock units will lapse when the grantee ceases to be a director, officer or employee of, or to otherwise perform services for, Physicians Formula and its subsidiaries, if the cessation occurs due to a termination within one year after a change in control of Physicians Formula or due to death, disability or, in the discretion of the Committee, retirement. In addition, the Committee has the authority to award restricted stock units with respect to which all restrictions shall lapse automatically upon a change in control of Physicians Formula, whether or not the grantee is subsequently terminated. If termination of employment or service occurs for any other reason, all of a grantee's restricted stock units as to which the applicable restrictions have not lapsed will be forfeited immediately. Prior to the later of (i) the close of the tax year preceding the year in which restricted stock units are granted or (ii) 30 days of first becoming eligible to participate in the 2006 Plan (or, if earlier, the last day of the tax year in which the participant first becomes eligible to participate in the 2006 Plan) and on or prior to the date the restricted stock units are granted, a grantee may elect to defer the receipt of all or a portion of the shares due with respect to the restricted stock units and convert such restricted stock units into deferred stock units. Subject to specified exceptions, the grantee will receive shares in respect of such deferred stock units at the end of the deferral period.

Performance Awards. Under the 2006 Plan, the Committee may grant performance awards contingent upon achievement by the grantee, Physicians Formula and/or its subsidiaries or divisions, of set goals and objectives regarding specified performance criteria, such as, for example, return on equity, over a specified performance cycle, as designated by the Committee. Performance awards may include specific dollar-value target awards, such as performance units, the value of which is established by the Committee at the time of grant, and/or performance shares, the value of which is equal to the fair market value of a share of common stock on the date of grant. The value of a performance award may be fixed or fluctuate on the basis of specified performance criteria. A performance award may be paid in cash and/or shares of our common stock or other securities.

Unless the Committee determines otherwise, if a grantee ceases to be a director, officer or employee of, or to otherwise perform services for, Physicians Formula and its subsidiaries prior to completion of a performance cycle, due to death, disability or retirement, the grantee will receive the portion of the performance award payable to him or her based on achievement of the applicable performance criteria over the elapsed portion of the performance cycle. If termination of employment or service occurs for any other reason prior to completion of a performance cycle, the grantee will become ineligible to receive any portion of a performance award. If we undergo a change in control, a grantee will earn no less than the portion of the performance award that he or she would have earned if the applicable performance cycle had terminated as of the date of the change of control.

Vesting, Withholding Taxes and Transferability of All Awards. The terms and conditions of each award made under the 2006 Plan, including vesting requirements, will be set forth consistent with the 2006 Plan in a written agreement with the grantee. Except in limited circumstances, no award under the 2006 Plan may vest and become exercisable within six months of the date of grant, unless the Committee determines otherwise.

Unless the Committee determines otherwise, a participant may elect to deliver shares of common stock, or to have us withhold shares of common stock otherwise issuable upon exercise of an option or upon grant or vesting of restricted stock or a restricted stock unit, in order to satisfy our withholding obligations in connection with any such exercise, grant or vesting.

Unless the Committee determines otherwise, no award made under the 2006 Plan will be transferable other than by will or the laws of descent and distribution or to a grantee's family member by gift or a qualified domestic relations order, and each award may be exercised only by the grantee, his or her qualified family member transferee, or any of their respective executors, administrators, guardians or legal representatives.

Amendment and Termination of the 2006 Plan. The Board may amend or terminate the 2006 Plan in its discretion, except that no amendment will become effective without prior approval of our stockholders if such approval is necessary for continued compliance with applicable stock exchange listing requirements. Furthermore, any termination may not materially and adversely affect any outstanding rights or obligations under the 2006 Plan without the affected participant's consent. If not previously terminated by the Board, the 2006 Plan will terminate on the tenth anniversary of its adoption.

Awards Under the 2006 Plan. On February 6, 2007, we awarded 300,000 non-qualified stock options under the 2006 Plan to our executive officers and other key employees. These options vest in 48 equal monthly installments beginning on March 6, 2007 and have an exercise price equal to \$20.75 per share, the closing sales price of our common stock on the Nasdaq Global Select Market on the date of grant. These options will expire on February 6, 2017.

On August 30, 2007, we awarded 25,000 non-qualified stock options under the 2006 Plan to a non-employee director in connection with his appointment to the Board. 25% of these options vested on the date of the grant. The remaining options vest in 48 equal monthly installments beginning on September 30, 2007. The exercise price is equal to \$9.85 per share, the closing sales price of our common stock on the Nasdaq Global Select Market on the date of grant. These options will expire on August 30, 2017.

On November 8, 2007, we awarded 25,000 non-qualified stock options under the 2006 Plan to a non-employee director in connection with his appointment to the Board. 25% of these options vested on the date of the grant. The remaining options vest in 48 equal monthly installments beginning on December 8, 2007. The exercise price is equal to \$12.00 per share, the closing sales price of our common stock on the Nasdaq Global Select Market on the date of grant. These options will expire on November 8, 2017.

On January 30, 2008, we awarded 317,000 non-qualified stock options under the 2006 Plan to our executive officers and other key employees. These options vest in 48 equal monthly installments beginning on February 29, 2008 and have an exercise price equal to \$9.54 per share, the closing sales price of our common stock on the Nasdaq Global Select Market on the date of grant. These options will expire on January 30, 2018.

On April 24, 2009, we awarded 25,000 non-qualified stock options under the 2006 Plan to a non-employee director in connection with his appointment to the Board. 25% of these options vested on the date of the grant. The remaining options vest in 48 equal monthly installments beginning on May 24, 2009. The exercise price is equal to \$1.83 per share, the closing sales price of our common stock on the Nasdaq Global Select Market on the date of grant. These options will expire on April 24, 2019.

Post-Termination Benefits

Severance Payments

Prior to May 2008, the employment agreements for our named executive officers generally provided that if their employment was terminated without "Cause," they would be entitled to receive his or her base salary payable in regular installments as special severance payments for a period of twelve (12) months from the date of termination. The Committee decided to increase the cash severance payment to base salary payable in regular installments for a period of twenty-four (24) months from the date of any termination without "Cause," and to provide for benefits continuation for the length of the severance period and a pro-rated bonus payment. These modifications were intended to protect stockholders' interests by encouraging our named executive officers to remain with us and by enhancing their focus on us during rumored or actual change-in-control activity. The Committee did not target any particular benchmark of severance but sought to provide severance and change-in-control benefits that were generally in line with market practice and peer company practices identified in the Mercer report.

On May 6, 2008, upon approval from our Compensation Committee, we entered into amended and restated employment agreements with each of our named executive officers to give effect to these amendments to their severance benefits. For a description of the terms of the amended and restated employment agreements, please see "—Potential Payments upon Termination or Change in Control" on page 23.

As amended, the employment agreements with each of our named executive officers generally provide that if an executive officer's employment is terminated without "Cause," the executive officer will be entitled to (a) receive his or her base salary payable in regular installments as special severance payments for a period of twenty-four (24) months from the date of termination (the "Severance Period"), (b) continued use of a company car during the Severance Period, (c) participate in our benefit plans during the Severance Period and (d) receive a pro-rated portion of the executive officer's target annual bonus for the year in which employment terminated.

For more information on the severance payable under the employment agreements, please see "—Potential Payments upon Termination or Change in Control" on page 23.

Retirement Plans

We offer a defined contribution 401(k) plan to our salaried employees, including the named executive officers. An employee may contribute up to 50% of his or her salary to the 401(k) plan provided that he or she has been with the Company for six months or more and is over 21 years old. We provide a company matching contribution of 100% of the first 5% of salary contributed by each participant. Participant account balances are payable upon the earliest of death, total disability, termination of employment or retirement.

We also offer a voluntary deferred compensation plan for our executive officers. The plan allows these executive officers to defer all or a portion of their base salary. Under the terms of the deferred compensation plan, a participant's account balance will be distributed to a participant following his or her retirement or termination from Physicians Formula, disability or death, a change in control, or an unforeseeable financial emergency, or at a time specified by the participant when he or she enrolls in the plan.

Perquisites and Other Benefits

We provide named executive officers with perquisites and other personal benefits that the Committee believes are reasonable and consistent with our compensation program. The purpose of these perquisites and other personal benefits is to enable us to retain our key executive officers. Our perquisites and other personal benefits include: use of a company car, payment of health, dental, vision, short-term disability, long-term disability and group life insurance premiums.

In 2008, we agreed to reimburse our Chief Executive Officer for legal expenses incurred in connection with obtaining a protective order in her divorce proceeding relating to the production, disclosure and use of Physicians Formula's confidential information and expenses incurred related to her United States naturalization process.

Timing of Option Grants

We granted stock options under the 2006 Plan to our named executive officers on February 6, 2007 and January 30, 2008 and to our directors Zvi Eiref and Jeff M. Berry on August 30, 2007 and November 8, 2007, respectively. The exercise price of these stock options is the closing price of our common stock on the date of grant. Our Chief Executive Officer and other executive officers did not play a role in the Committee's decision on the timing of the stock option grants. We do not have a program in place related to the timing of stock options in coordination with the release of material non-public information.

Stock Ownership Guidelines

We do not have any stock ownership guidelines for our executive officers. We have a policy which requires that our directors and executive officers abstain from short-swing trading, short selling or entering into any derivative securities related to their ownership of common stock.

Accounting and Tax Considerations

We were formed in 2003 by members of our current management and entities affiliated with Summit Partners for the purpose of completing a management-led buy-out that closed on November 3, 2003, which we refer to as the "Acquisition." We granted incentive stock options to Ingrid Jackel and Jeffrey P. Rogers under the 2003 Plan in connection with the Acquisition in November 2003. All of the stock options granted since then under the 2003 Plan and the 2006 Plan are non-qualified stock options.

The Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that we may not deduct compensation of more than \$1 million that is paid to certain individuals. We believe that compensation paid under our compensation plans is generally fully deductible for federal tax purposes to the extent it is less than \$1 million for each named executive officer in a given year.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management, and based on such review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company's 2008 Annual Report on Form 10-K and this proxy statement.

The Compensation Committee
of the Board of Directors

Jeff M. Berry, *Chairman*
Zvi Eiref

Summary Compensation Table

The following table summarizes the total compensation earned in 2008, 2007 and 2006 by our named executive officers:

Name and Principal Position	Year	Salary(1)	Bonus(2)	Stock Awards	Option Awards(3)	Non-Equity Incentive Plan Compensation (4)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(5)	All Other Compensation (6)	Total(7)
Ingrid Jackel Chief Executive Officer	2008	\$ 378,560	\$ 500	-	\$ 680,082	\$ 40,972	-	\$ 62,332	\$ 1,162,446
	2007	366,800	-	-	680,374	173,442	-	43,329	1,263,945
	2006	308,601	-	-	3,879,715	172,889	-	73,236	4,434,441
Jeffrey P. Rogers President	2008	378,560	500	-	680,082	40,972	-	50,544	1,150,658
	2007	366,800	-	-	680,374	173,442	\$ 10,380	35,965	1,266,961
	2006	308,601	-	-	3,879,715	172,889	30,981	42,565	4,434,751
Joseph J. Jaeger Chief Financial Officer	2008	351,520	465	-	316,490	38,045	-	52,010	758,530
	2007	340,600	250,000	-	263,014	161,053	-	36,871	1,051,538
	2006	286,680	250,000	-	997,640	160,540	-	42,441	1,737,301

- (1) Amounts shown are not reduced to reflect Jeffrey P. Rogers election to defer receipt of salary into the Physicians Formula Holdings, Inc. 2005 Nonqualified Deferred Compensation Plan.
- (2) Joseph J. Jaeger received a special bonus of \$250,000 paid on April 26, 2007 in connection with our follow-on secondary offering and a special bonus of \$250,000 paid on November 15, 2006 in connection with our initial public offering, pursuant to our letter agreement with Mr. Jaeger dated October 26, 2006. Amounts shown for 2008 represent amounts paid over and above earned by meeting the net sales performance measure in the 2008 Bonus Plan, based on reported results for 2008.
- (3) Represents the dollar amount recognized for financial statement reporting purposes with respect to 2008, 2007 and 2006 under FAS 123R, except that no estimate of forfeitures is made. Please refer to Note 13, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2008, for the relevant assumptions underlying the valuation of our stock option awards. These amounts reflect our accounting expense for these awards, and do not correspond to the actual value that will be recognized by the named executive officers.
- (4) For 2008, represents amounts paid in March 2009 under the 2008 Bonus Plan. These amounts represent 21.6% of the target cash bonus for 2008 based on our reported 2008 net sales, which was equal to 90.8% of the net sales target for 2008. No bonus was earned respect of the adjusted EBITDA component of the 2008 Bonus Plan because our preliminary adjusted EBITDA was less than 80% of the adjusted EBITDA target for 2008 and no bonus was paid in respect of the discretionary component of the 2008 Bonus Plan, as determined by the Committee. For 2007, represents amounts paid in March 2008 under the 2007 Bonus Plan. For 2006, represents amounts paid in March 2007 under the 2006 Bonus Plan.
- (5) Represents the above-market earnings during 2006 and 2007. There were no above-market earnings in 2008.
- (6) Please see the "All Other Compensation Table" for information regarding the value of other compensation, benefits and perquisites provided to named executive officers in 2008.
- (7) Salary, Bonus and Non-Equity Incentive Plan Compensation received and reported in the Summary Compensation Table represents 36% of the total compensation received by Ms. Jackel, 37% of the total compensation received by Mr. Rogers and 51% of the total compensation received by Mr. Jaeger in 2008.

All Other Compensation Table

The following table provides information regarding the value of other compensation, benefits and perquisites provided to named executive officers in 2008.

Name	Year	Automobile Allowance(1)	Company Contribution to 401(k) Plan(2)	Insurance Premiums(3)	Other(4)	Total
Ingrid Jackel	2008	\$ 16,994	\$ 7,870	\$ 30,318	\$ 7,150	\$ 62,332
Jeffrey P. Rogers	2008	17,307	11,500	21,737	-	50,544
Joseph J. Jaeger	2008	18,607	11,500	21,903	-	52,010

- (1) Consists of automobile allowance, gas reimbursement, automobile insurance and license and registration fees. For Ms. Jackel, consists of \$12,750 of automobile allowance, \$2,544 of gas reimbursement, \$1,371 for automobile insurance and \$329 for license and registration fees. For Mr. Rogers, consists of \$14,060 of automobile allowance, \$1,588 of gas reimbursement, \$1,371 for automobile insurance and \$318 for license and registration fees. For Mr. Jaeger, consists of \$14,333 of automobile allowance, \$2,083 of gas reimbursement, \$1,371 for automobile insurance and \$820 for license and registration fees.
- (2) Under our 401(k) plan, an employee may contribute up to 50% of his or her salary to the 401(k) plan provided that he or she has been with the company for 6 months or more and is over 21 years old. We provide a company matching contribution of 100% of the first 5% of salary contributed by each participant.
- (3) Consists of medical, dental, vision, life insurance premiums and short and long-term disability premiums paid by us. For Ms. Jackel, consists of \$28,811 in medical, dental and vision insurance premiums, \$744 in life insurance premiums and \$763 in short and long-term disability premiums paid by us. For Mr. Rogers, consists of \$20,230 in medical, dental and vision insurance premiums, \$744 in life insurance premiums and \$763 in short and long-term disability premiums paid by us. For Mr. Jaeger, consists of \$20,402 in medical, dental and vision insurance premiums, \$744 in life insurance premiums and \$757 in short and long term disability premiums paid by us.
- (4) Consists of legal expenses incurred in connection with obtaining a protective order in her divorce proceeding relating to the production, disclosure and use of Physicians Formula's confidential information and expenses incurred related to her United States naturalization process.

Grants of Plan-Based Awards

The following table provides information regarding estimated possible payouts under our 2008 Bonus Plan for awards granted and stock options awarded under the 2006 Plan during 2008:

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			All Other Stock Awards: Number of Shares of Stocks or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards (\$ per share)	Grant Date Fair Value of Stock and Option Awards ⁽²⁾
		Threshold	Target	Maximum				
Ingrid Jackel	N/A	-	\$ 189,280	\$ 378,560	-	-	-	
	1/30/2008	-	-	-	-	50,000	\$ 9.54 \$ 256,450	
Jeffrey P. Rogers	N/A	-	189,280	378,560	-	-	-	
	1/30/2008	-	-	-	-	50,000	9.54 256,450	
Joseph J. Jaeger	N/A	-	175,760	351,520	-	-	-	
	1/30/2008	-	-	-	-	50,000	9.54 256,450	

(1) Represents the target and maximum amounts that could be earned in fiscal 2008 under the 2008 Bonus Plan.

(2) Represents the fair value, computed in accordance with FAS 123R, with respect to options awarded on January 30, 2008.

2008 Bonus Plan

Please see “—Compensation Discussion and Analysis—Annual Cash Incentive Compensation” for a description of our 2008 Bonus Plan.

Employment Agreements

On November 3, 2003, we entered into an employment agreement with each of Ingrid Jackel and Jeffrey P. Rogers. On March 8, 2004, we entered into an employment agreement with Joseph J. Jaeger. The Amended Employment Agreements provide that each named executive officer is entitled to an annual base salary and annual incentive bonus up to a maximum amount determined by the Board each year based on the executive's achievement and our achievement of performance criteria and other goals established by the Board. The annual base salary of each named executive officer is subject to an adjustment each year in accordance with the index of wages and salaries for all private industry white-collar wages published by the United States Bureau of Labor Statistics. The named executive officers may also participate in all benefit plans that are generally made available to our senior executive employees and are entitled to use of a company car while employed by us.

On May 6, 2008, we entered into an amended and restated employment agreement (the "Amended Employment Agreements") with each of our named executive officers to modify the severance benefits in their employment agreements. The Amended Employment Agreements provide that if a named executive officer's employment is terminated without Cause (as defined in the Amended Employment Agreements), then the named executive officer will be entitled to (a) receive his or her then-existing base salary for 24 months from the date his or her employment is terminated (the "Severance Period"), (b) continued use of a company car during the Severance Period, (c) participate in our benefit plans during the Severance Period and (d) receive a pro-rated portion of the named executive officer's target annual bonus for the year in which employment terminated. If the named executive officer is terminated without Cause within one year following a Change in Control (as defined in the Amended Employment Agreements), the named executive officer will be entitled to receive, in lieu of the benefit described in clause (d) above, the greater of (1) a pro-rated portion of the annual bonus the named executive officer would have received through the date of the Change in Control, and (2) a pro-rated portion of the named executive officer's target annual bonus for the year in which employment terminated. See "—Potential Payments upon Termination or Change in Control" below.

Outstanding Equity Awards at Fiscal Year-End

The following table summarizes the outstanding equity awards held by our named executive officers as of December 31, 2008.

Option Awards ⁽¹⁾⁽²⁾

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards:	Option Exercise Price	Option Expiration Date
			Number of Securities Underlying Unexercised Options (#) Unearned		
Ingrid Jackel	166,667	-	-	\$ 0.10	11/3/2013
	160,675	-	-	0.10	11/3/2013
	22,908	27,092	-	20.75	2/6/2017
	11,451	38,549	-	9.54	1/30/2018
Jeffrey P. Rogers	41,543	-	-	0.10	11/3/2013
	22,908	27,092	-	20.75	2/6/2017
	11,451	38,549	-	9.54	1/30/2018
Joseph J. Jaeger	12,550	-	-	0.10	3/8/2014
	22,908	27,092	-	20.75	2/6/2017
	11,451	38,549	-	9.54	1/30/2018

(1) We granted incentive stock options and non-qualified stock options under the 2003 Plan and non-qualified stock options under the 2006 Plan.

(2) The following table summarizes the vesting of each named executive officer's stock options that were not vested and exercisable on December 31, 2008:

Year in Which Options Vest and Become Exercisable

Name	Type of Option	Grant Date	Year in Which Options Vest and Become Exercisable				Total
			2009	2010	2011	2012	
Ingrid Jackel	Incentive Stock Option	11/3/2003	-	-	-	-	-
		11/03/03, as amended					
	Non-Qualified Stock Option	on 11/14/06	-	-	-	-	-
	Non-Qualified Stock Option	2/6/2007	12,504	12,504	2,084	-	27,092
	Non-Qualified Stock Option	1/30/2008	12,499	12,504	12,504	1,042	38,549
Jeffrey P. Rogers	Incentive Stock Option	11/3/2003	-	-	-	-	-
		11/03/03, as amended					
	Non-Qualified Stock Option	on 11/14/06	-	-	-	-	-
	Non-Qualified Stock Option	2/6/2007	12,504	12,504	2,084	-	27,092
	Non-Qualified Stock Option	1/30/2008	12,499	12,504	12,504	1,042	38,549
Joseph J. Jaeger	Non-Qualified Stock Option	3/8/2004	-	-	-	-	-
		3/08/04, as amended on					
	Non-Qualified Stock Option	11/14/06	-	-	-	-	-
	Non-Qualified Stock Option	2/6/2007	12,504	12,504	2,084	-	27,092
	Non-Qualified Stock Option	1/30/2008	12,499	12,504	12,504	1,042	38,549

Options Exercised and Stock Vested

The following table summarizes the option awards exercised by our named executive officers and the value realized on exercise in 2008:

Name	Option Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise ⁽¹⁾
Ingrid Jackel	-	-
Jeffrey P. Rogers	83,334	\$ 482,504
Joseph J. Jaeger	18,750	108,563

- (1) Represents the difference between the exercise price and the closing sale price of the common stock on the Nasdaq Global Select Market on the date of exercise, multiplied by the number of shares acquired on exercise. For Jeffrey P. Rogers, the value realized on exercise of options to purchase 83,334 shares of common stock on August 29, 2008 is calculated using a price of \$5.89 per share. For Joseph J. Jaeger, the value realized on exercise of options to purchase 18,750 shares of common stock on August 29, 2008 is calculated using a price of \$5.89 per share.

Non-Qualified Deferred Compensation

The following table summarizes the benefits to a named executive officer under our deferred compensation plans:

Name	Executive Contributions in Last FY ⁽¹⁾	Registrant Contributions in Last FY	Aggregate Earnings (Loss) in Last FY ⁽²⁾	Aggregate Withdrawals/Distributions	Aggregate Balance at Last FYE ⁽³⁾
	Jeffrey P. Rogers	\$ 91,316	\$ -	\$ (380,230)	\$ -

- (1) This amount is reported as compensation in the Summary Compensation Table for 2008.
- (2) Includes dividends and earnings of \$15,509 and change in market value of \$(395,740).
- (3) Of the aggregate balance at the last fiscal year-end, \$54,989 was reported as compensation in the Summary Compensation Table for 2007 and \$40,083 was reported as compensation in the Summary Compensation Table for 2006.

The Physicians Formula Holdings, Inc. 2005 Nonqualified Deferred Compensation Plan became effective January 1, 2005. The plan is an unfunded, nonqualified deferred compensation arrangement to provide deferred compensation to employees holding the titles of Chief Executive Officer, President, Chief Financial Officer or senior vice president and receiving total compensation of at least \$200,000 per year or such other employees as determined by us. The plan is administered by the Committee. Under this plan executives receive an allocation to their account based on a percentage of base salary and cash incentive compensation under the bonus plan elected by the executive. This allocation is made at the valuation date for service rendered during the year. All balances accrue interest at the rate of return on the investment vehicles held in the participant's account. The plan allows us to establish a trust to hold assets to be used for payment of benefits under the plan. Any assets of the trust would be subject to the claims of our general creditors. A participant's account balance will be distributed to a participant following his or her retirement or termination from Physicians Formula, disability or death, a change in control, or an unforeseeable financial emergency or at a time specified by the participant when he or she enrolls in the plan.

Prior to adopting the 2005 Nonqualified Deferred Compensation Plan, we had a Deferred Compensation Plan that was adopted by Pierre Fabre, Inc. on December 1, 1999, or the 1999 Nonqualified Deferred Compensation Plan. The terms of the 1999 Nonqualified Deferred Compensation Plan are similar in most material respects to the 2005 Nonqualified Deferred Compensation Plan, including that assets of the trust would be subject to the claims of our general creditors. The 1999 Nonqualified Deferred Compensation Plan was suspended on December 31, 2004 and the 2005 Nonqualified Deferred Compensation Plan was adopted effective January 1, 2005, to comply with certain tax law changes. Compensation earned through the end of 2004 and deferred under the 1999 Nonqualified Deferred Compensation Plan will continue to be subject to the terms of that plan, but no additional compensation may be deferred under that plan.

Potential Payments upon Termination or Change in Control

The following table reflects the amount of compensation to each of the named executive officers assuming each named executive officer's employment was terminated under each of the circumstances set forth below, or a change in control occurred, on December 31, 2008. The amounts shown in the table are estimates, and the actual amounts to be paid can only be determined at the time of the named executive officer's separation from the Physicians Formula or upon a change in control.

<u>Name</u>	<u>Termination without Cause</u>	<u>Voluntary Resignation</u>	<u>Termination for Cause</u>	<u>Retirement</u>	<u>Death or Disability</u>	<u>Change in Control</u>	<u>Termination without Cause following Change in Control</u>
Ingrid Jackel							
Cash Severance ⁽¹⁾	\$ 757,120	-	-	-	-	-	\$ 757,120
Value of Stock Options ⁽²⁾	-	-	-	-	-	-	-
Target Annual Bonus ⁽³⁾	189,280	-	-	-	-	-	189,280
Automobile Allowance ⁽⁴⁾	28,900	-	-	-	-	-	28,900
Insurance Premiums ⁽⁵⁾	61,680	-	-	-	-	-	61,680
Accrued Paid Time Off	24,503	\$ 24,503	\$ 24,503	\$ 24,503	\$ 24,503	-	24,503
	<u>1,061,483</u>	<u>24,503</u>	<u>24,503</u>	<u>24,503</u>	<u>24,503</u>	<u>-</u>	<u>1,061,483</u>
Jeff Rogers							
Cash Severance ⁽¹⁾	757,120	-	-	-	-	-	757,120
Value of Stock Options ⁽²⁾	-	-	-	-	-	-	-
Target Annual Bonus ⁽³⁾	189,280	-	-	-	-	-	189,280
Automobile Allowance ⁽⁴⁾	31,878	-	-	-	-	-	31,878
Insurance Premiums ⁽⁵⁾	44,065	-	-	-	-	-	44,065
Accrued Paid Time Off	59,696	59,696	59,696	59,696	59,696	-	59,696
	<u>1,082,039</u>	<u>59,696</u>	<u>59,696</u>	<u>59,696</u>	<u>59,696</u>	<u>-</u>	<u>1,082,039</u>
Joseph J. Jaeger							
Cash Severance ⁽¹⁾	703,040	-	-	-	-	-	703,040
Value of Stock Options ⁽²⁾	-	-	-	-	-	-	-
Target Annual Bonus ⁽³⁾	175,760	-	-	-	-	-	175,760
Automobile Allowance ⁽⁴⁾	35,460	-	-	-	-	-	35,460
Insurance Premiums ⁽⁵⁾	44,416	-	-	-	-	-	44,416
Accrued Paid Time Off	40,781	40,781	40,781	40,781	40,781	-	40,781
	<u>999,457</u>	<u>40,781</u>	<u>40,781</u>	<u>40,781</u>	<u>40,781</u>	<u>-</u>	<u>999,457</u>

- (1) Represents base salary payable in regular installments as special severance payments for a period of twenty-four (24) months from the date of termination without "Cause," pursuant to the named executive officer's Amended Employment Agreement in effect at December 31, 2008.
- (2) Under the terms of the option award agreements for named executive officers under the 2003 Plan and 2006 Plan, all unvested stock options vest and become exercisable immediately upon a change in control. Amounts in the table represent the number of unvested stock options on December 31, 2008, multiplied by the amount by which closing price of our common stock on the Nasdaq Global Select Market on December 31, 2008 exceeds the exercise price of the options. Because the closing price of our common stock on the Nasdaq Global Select Market was \$2.79, which is less than the exercise price of all unvested options, the amounts shown under the "Change in Control" and "Termination without Cause within One Year of Change in Control" columns is zero.
- (3) Under the Amended Employment Agreements, if an executive officer is terminated without Cause, each executive officer is entitled to receive a pro-rated portion of the executive officer's target annual bonus for the year in which employment is terminated. Under the Amended Employment Agreements, if an executive officer is terminated without Cause within one year of a Change in Control, each executive officer is entitled to receive the greater of (i) a pro-rated portion of the annual bonus the executive officer would have received through the date of the Change in Control (as defined in the Amended Employment Agreements), and (ii) a pro-rated portion of the executive officer's target annual bonus for the year in which employment is terminated. If either termination occurred on December 31, 2008, each executive officer would have been entitled to the entire target annual bonus for 2008, or 50% of his or her 2008 base salary.
- (4) Represents lease payments, automobile insurance and license and registration fees for the severance period and excludes all fuel and mileage expenses incurred.
- (5) Represents medical, dental, vision, life insurance and short and long-term disability insurance premiums for the severance period.

In addition to these benefits, Jeffrey P. Rogers is entitled to his account balance under the Physicians Formula Holdings, Inc. Nonqualified Deferred Compensation Plan in the event of his retirement or termination of employment, death, disability, or if there is a change in control.

Cash Severance

The Amended Employment Agreements with our named executive officers provide that upon termination, the executives are generally entitled to receive amounts earned during their term of employment. If an executive officer's employment is terminated without "Cause," the executive officer will be entitled to receive his or her base salary payable in regular installments as special severance payments for a period of twenty-four (24) months from the date of termination, if and only if the executive officer executes and delivers a general release of all claims against us and our directors, officers and affiliates and only so long as the executive officer does not revoke or breach the provisions of his or her nonsolicitation and confidentiality agreement with us. In addition, the executive officers are entitled to receive benefits continuation for the length of the severance period and a pro-rated bonus payment as described under "—Employment Agreements."

Under the Amended Employment Agreements, "Cause" means the occurrence of one or more of the following events:

- (i) the conviction of a felony or other crime involve moral turpitude or dishonesty, disloyalty or fraud with respect to us;
- (ii) reporting to work under the influence of alcohol or illegal drugs or the use of illegal drugs or other repeated conduct causing us substantial public disgrace or disrepute or substantial economic harm;
- (iii) substantial and repeated failure to perform his or her duties;
- (iv) breach of the duty of loyalty to us or any act of dishonesty or fraud with respect to us; or
- (v) any material breach of an agreement between the executive officer and Physicians Formula which is not cured within 15 days after written notice thereof.

Under the Amended Employment Agreements, "Change of Control" means the occurrence of one of the following events:

- (i) if any "person" or "group" as those terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, other than certain exempt persons, acquires 50% or more of our voting securities;
- (ii) during any period of two consecutive years, a majority of our Board of Directors is replaced (other than any new directors whose election or nomination was approved by at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election was previously so approved);
- (iii) consummation of a merger or consolidation of us with any other corporation, other than a merger or consolidation (a) which would result in our voting securities outstanding immediately prior to the merger or consolidation continuing to represent more than 50% of the combined voting power of the surviving entity or (b) by which our corporate existence is not affected and following which our Chief Executive Officer and directors retain their positions with us (and constitute at least a majority of the Board); or
- (iv) consummation of a sale or disposition by us of all or substantially all of our assets other than a sale to certain exempt persons.

Stock Options under the 2006 Equity Incentive Plan

Stock Options. Under the 2006 Plan, options that are exercisable on the date of termination of a participant's employment with Physicians Formula generally expire 30 days after the date of termination, so long as the participant does not compete with us during the 30-day period, and options that are not exercisable on the date of termination are forfeited immediately. There are, however, exceptions depending upon the circumstances of termination. In the event of retirement, a participant's exercisable options will remain so for up to 90 days after the date of retirement, so long as the participant does not compete with us during the 90-day period. The participant's options that are not exercisable on the date of retirement will be forfeited, unless the Committee determines in its discretion that the options shall become fully vested and exercisable. In the case of a participant's death or disability, all options will become fully vested and exercisable and remain so for up to 180 days after the date of death or disability, so long as the participant does not compete with us during the 180-day period. In each of the foregoing circumstances, the Board or Committee may elect to further extend the applicable exercise period in its discretion. Upon termination for "Cause," all options will terminate immediately, whether or not exercisable. If we undergo a "Change in Control" and a participant is terminated from service within one year thereafter, all of the participant's options will become fully vested and exercisable and remain so for up to one year after the date of termination. In addition, the Committee has the authority to grant options that will become fully vested and exercisable automatically upon a "Change in Control" of Physicians Formula, whether or not the participant is subsequently terminated. The option award agreements pursuant to which options have been awarded to the named executive officers under the 2006 Plan provide that the options will become fully vested and exercisable automatically upon a "Change in Control."

Under the 2006 Plan, "Cause" means the occurrence of one or more of the following events:

- (i) conviction of a felony or any crime or offense lesser than a felony involving our property;
- (ii) conduct that has caused demonstrable and serious injury to us, monetary or otherwise;
- (iii) willful refusal to perform or substantial disregard of duties properly assigned, as determined by us; or
- (iv) breach of duty of loyalty to us or other act of fraud or dishonesty with respect to us.

"Change in Control" for purposes of the 2006 Plan means the occurrence of one of the following events:

- (i) if any "person" or "group" as those terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, other than affiliates of Summit Partners and certain other exempt persons, acquires 50% or more of our voting securities;
- (ii) during any period of two consecutive years, a majority of our Board of Directors is replaced (other than any new directors whose election or nomination was approved by at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election was previously so approved);
- (iii) consummation of a merger or consolidation of Physicians Formula with any other corporation, other than a merger or consolidation (a) which would result in our voting securities outstanding immediately prior to the merger or consolidation continuing to represent more than 50% of the combined voting power of the surviving entity or (b) by which our corporate existence is not affected and following which our Chief Executive Officer and directors retain their positions with us (and constitute at least a majority of the Board); or
- (iv) consummation of a plan of complete liquidation of Physicians Formula or a sale or disposition of all or substantially all of our assets, other than a sale to affiliates of Summit Partners and certain other exempt persons.

Stock Options under the 2003 Stock Option Plan

Under the 2003 Plan, if a participant is terminated other than for "Cause," the participant's vested and exercisable options remain so for 30 days after the date of termination. If a participant retires, the participant's vested and exercisable options remain so for 45 days after the date of retirement. Upon death or disability of a participant, the participant's vested and exercisable options remain so for 90 days after the date of death or disability. All options that are not vested and exercisable on the date of termination of the participant's employment will be forfeited as of the date of termination. In the event of a "Sale of the Company," the Committee or the Board may provide, in its discretion, that the options shall become immediately exercisable by any participants who are employed by us at the time of the "Sale of the Company" and/or that all options shall terminate if not exercised on or prior to the date of the "Sale of the Company." The option award agreements pursuant to which options have been awarded to the named executive officers under the 2003 Plan provide that the options will become fully vested and exercisable automatically upon a "Sale of the Company."

Under the 2003 Plan, "Cause" means if a participant:

- (i) acts in bad faith and to the detriment of Physicians Formula;
- (ii) refuses or fails to act in accordance with any specific direction or order of Physicians Formula or the Board;
- (iii) exhibits in regard to his employment unfitness or unavailability for service, unsatisfactory performance, misconduct, dishonesty, habitual neglect, or incompetence;
- (iv) is convicted of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person; or
- (v) breaches any material term of the 2003 Plan or breaches any other agreement between or among the participant and Physicians Formula.

"Cause" can also have any other meaning that may be set forth in a participant's option award agreement. The option award agreements pursuant to which options have been awarded to the named executive officers under the 2003 Plan provide that "Cause" shall have the meaning set forth in their respective employment agreements.

"Sale of the Company" under the 2003 Plan means the sale of Physicians Formula pursuant to which any party or parties (other than Summit Partners, L.P. and/or any of its affiliated investment funds) acquire (i) our capital stock possessing the voting power under normal circumstances to elect a majority of our Board of directors (whether by merger, consolidation or sale or transfer of our capital stock) or (ii) all or substantially all of our assets determined on a consolidated basis.

2008 Director Compensation

The following table summarizes compensation paid to our non-employee directors in 2008:

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards ⁽¹⁾	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
Jeff Berry	\$ 30,000	-	\$ 30,823	-	-	-	\$ 60,823
Sonya T. Brown	30,000	-	-	-	-	-	30,000
Zvi Eiref	35,000	-	21,682	-	-	-	56,682

- (1) Represents the dollar amount recognized for financial statement reporting purposes with respect to 2008 under FAS 123R, except that no estimate of forfeitures is made. Please refer to Note 13, in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2008, for the relevant assumptions underlying the valuation of our stock option awards. These amounts reflect our accounting expense for these awards, and do not correspond to the actual value that will be recognized by the named directors. The stock awards granted to Jeff M. Berry consist of 25,000 non-qualified stock options awarded under the 2006 Plan on November 8, 2007 at an exercise price of \$12.00 per share and had a grant date fair value of \$164,655. 25% of these options vested on the date of the grant and the remaining options vest in 48 equal monthly installments beginning on December 31, 2007. The stock awards granted to Zvi Eiref consist of 25,000 stock options awarded under the 2006 Plan on August 30, 2007 at an exercise price of \$9.85 per share and had a grant date fair value of \$115,823. 25% of these options vested on the date of the grant and the remaining options vest in 48 equal monthly installments beginning on September 30, 2007. All of these stock options expire ten years from the date of grant. As of December 31, 2008, Mr. Berry and Mr. Eiref each held 25,000 stock options.

Our non-employee directors receive an annual retainer in the amount of \$15,000, and committee members receive an additional annual retainer in the amount of \$5,000 per committee on which they serve. In addition, the chair of our audit committee receives an annual fee in the amount of \$5,000. We also reimburse all directors for reasonable out-of-pocket expenses they incur in connection with their service as directors. Our directors are eligible to receive stock options and other equity-based awards when, as and if determined by the Committee pursuant to the terms of the 2006 Plan.

Protection of Trade Secrets, Nonsolicitation and Confidentiality Agreements

On November 3, 2003, we entered into protection of trade secrets, nonsolicitation and confidentiality agreements with Ingrid Jackel, our Chief Executive Officer, and Jeffrey P. Rogers, our President. On March 8, 2004, we entered into a protection of trade secrets, nonsolicitation and confidentiality agreement with Joseph J. Jaeger, our Chief Financial Officer. Pursuant to these agreements, each of Ms. Jackel and Messrs. Rogers and Jaeger have agreed not to solicit any of our employees, reveal trade secrets (as defined in the agreements) or disclose or use proprietary information (as defined in the agreements) during the period in which he or she is employed by us and for a 12-month period thereafter.

Director Indemnification Agreements

On October 23, 2006, we entered into a director indemnification agreement with Ingrid Jackel. Since our initial public offering, we have entered into indemnification agreements with each of our directors at the time they joined our Board. Pursuant to these director indemnification agreements, we have agreed to indemnify our directors if any of them are made party or threatened to be made party to any proceeding related to their service to the Company (as defined in the director indemnification agreements), subject to exceptions for failure to act in good faith or in a manner the director reasonably believed to be in or not opposed to our best interests, or, in a criminal proceeding, for conduct the director had reasonable cause to believe was unlawful. We have also agreed to obtain and maintain liability insurance on behalf of each of our directors.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Under the Nasdaq marketplace rules, we are required to conduct an appropriate review of all related party transactions for potential conflict of interest situations on an ongoing basis, and all such transactions must be approved by our audit committee or another independent body of the Board of Directors. Our conflict of interest and code of conduct policy provides that no director or executive officer will knowingly place themselves in a position that would have the appearance of being, or could be construed to be, in conflict with our interests.

Although we have not historically had formal policies and procedures regarding the review and approval of related party transactions, all transactions between us and any of our officers, directors and principal stockholders were approved by our Board of Directors. Since the beginning of our last fiscal year, we have not entered into any transactions or contractual arrangements with our principal stockholders or directors or executive officers.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Audit Committee has appointed Deloitte & Touche LLP as Physicians Formula's independent registered public accounting firm for the fiscal year ending December 31, 2009. Stockholders are being asked to ratify the appointment of Deloitte & Touche LLP at the annual meeting pursuant to Proposal No. 2.

The following table shows the fees paid or accrued by Physicians Formula for audit and other services provided by Deloitte & Touche LLP for fiscal years 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Audit Fees(1)	\$ 984,028	\$ 869,523
Audit-Related Fees(2)	-	95,176
Tax Fees(3)	75,616	133,731
All Other Fees(4)	5,400	4,500
Total	<u>\$ 1,065,044</u>	<u>\$ 1,102,930</u>

- (1) Audit fees represent fees for professional services provided in connection with the audits of our annual financial statements and review of our quarterly reports on Form 10-Q, including services related thereto such as consents and assistance with and review of documents filed with the Securities and Exchange Commission. In addition, the audit fees for 2008 and 2007 include those fees related to the audit of Physicians Formula's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. For 2007, audit fees include \$355,625 billed for services performed in 2008 with respect to the audit of our financial statements for 2007 and exclude \$205,965 billed for services performed in 2007 with respect to the audit of our financial statements for 2006 that were previously included in audit fees for 2007.
- (2) The 2007 fees include fees billed for work performed in connection with the secondary offering of our common stock including services related thereto such as comfort letters, consents and assistance with and review of documents filed with the Securities and Exchange Commission.
- (3) Tax fees represent fees billed for professional services provided in connection with tax compliance, tax advice and tax planning.
- (4) All other fees represent a subscription fee for an on-line research service providing access to accounting literature.

The Audit Committee's policy is to pre-approve all audit and permitted non-audit services by our independent registered public accounting firm. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm and the fees for services performed to date.

All services performed by Physicians Formula's independent registered public accounting firm in 2008 and 2007 were pre-approved by the Audit Committee.

REPORT OF THE AUDIT COMMITTEE

All of the members of the Audit Committee are independent under Nasdaq listing standards the SEC rules. The Board of Directors adopted a written Audit Committee charter, which is available in the Investor Relations section of our website at www.physiciansformula.com.

The Audit Committee oversees our financial reporting process on behalf of the Board of Directors. Management, however, has the primary responsibility to establish and maintain a system of internal controls over financial reporting, to plan and conduct audits and to prepare consolidated financial statements in accordance with generally accepted accounting principles. Deloitte & Touche LLP, our independent registered public accounting firm, is responsible for performing an independent audit of the Company's consolidated financial statements in conformity with the auditing standards of the Public Company Accounting Oversight Board (United States) and issuing a report thereon. The Audit Committee is responsible for monitoring and reviewing these procedures. It is not the Audit Committee's duty or responsibility to conduct auditing or accounting reviews or procedures. The members of the Audit Committee are not employees of Physicians Formula Holdings, Inc. and are not necessarily accountants or auditors by profession or experts in the fields of accounting or auditing. Therefore, the Audit Committee has relied, without independent verification, on management's representation that the Company's consolidated financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles and on the representations of Deloitte & Touche LLP included in its report on the Company's consolidated financial statements.

In fulfilling its oversight responsibilities, the Audit Committee met and held discussions, together and separately, with management and Deloitte & Touche LLP. Management represented to the Audit Committee that the Company's audited financial statements for the fiscal year ended December 31, 2008 were prepared in accordance with U.S. generally accepted accounting principles. The Audit Committee reviewed and discussed with management and Deloitte & Touche LLP the audited financial statements for the 2008 fiscal year.

The Audit Committee also discussed with Deloitte & Touche LLP the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, *Communications with Audit Committees* and Rule 2-07 of Regulation S-X, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. In addition, the Audit Committee has received from Deloitte & Touche LLP the written disclosures and the letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and discussed with them their independence relating to Physicians Formula Holdings, Inc.

Based on the Audit Committee's review and discussions of the matters referred to above, the Audit Committee recommended to the Board of Directors (and the Board of Directors has approved) that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for filing with the Securities and Exchange Commission. The Audit Committee has also selected and appointed Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009, subject to stockholder ratification.

The Audit Committee
of the Board of Directors

Zvi Eiref, *Chairman*
Jeff M. Berry

OTHER MATTERS

Stockholder Proposals and Director Nominations

Stockholder proposals for our 2010 Annual Meeting of Stockholders must be received at our principal executive offices by December 28, 2009, and must otherwise comply with the SEC's rules, to be considered for inclusion in our proxy materials relating to our 2010 Annual Meeting.

If you intend to present a proposal at next year's annual meeting, or if you want to nominate one or more directors, you must give timely notice thereof in writing to the Chief Financial Officer at the address below. The Secretary must receive this notice no earlier than February 9, 2010 and no later than March 11, 2010.

Notice of a proposal must include, as to each matter, (i) a brief description of the business desired to be brought before the annual meeting, (ii) the name and address, as it appears on Physicians Formula's books, of the stockholder proposing such business, (iii) the class and number of shares of Physicians Formula's capital stock which are beneficially owned by the stockholder and (iv) any material interest of the stockholder in such business.

Notice of a nomination must include:

- (i) as to each person whom you propose to nominate for election as a director (A) the name, age, business address and residence address of the person, (B) the principal occupation or employment of the person, (C) the class or series and number of shares of capital stock of Physicians Formula which are owned beneficially or of record by the person and (D) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and
- (ii) (A) the name and record address of such stockholder, (B) the class or series and number of shares of capital stock of Physicians Formula which are owned beneficially or of record by such stockholder, (C) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (D) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice and (E) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Regulation 14A under the Exchange Act.

Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

You may contact our Chief Financial Officer at our principal executive offices for a copy of the relevant by-law provisions regarding the requirements for making stockholder proposals and nominating director candidates. Our by-laws are also available in the Investor Relations section of our website at www.physiciansformula.com.

Proponents must submit notices of proposals and nominations in writing to the following address:

Chief Financial Officer
Physicians Formula Holdings, Inc.
1055 West 8th Street
Azusa, California 91702

The Chief Financial Officer will forward the notices of proposals and nominations to the Nominating and Corporate Governance Committee for consideration.

Cost of Solicitation

Physicians Formula pays the cost of the annual meeting and the cost of soliciting proxies. In addition, we have made arrangements with banks, brokers and other holders of record to send the Notice of Internet Availability of Proxy Materials to you, and we will reimburse them for their expenses in doing so.