

Physicians Formula Holdings, Inc.

CORPORATE GOVERNANCE GUIDELINES

(Adopted as of October 28, 2009)

Physicians Formula Holdings, Inc. and its subsidiaries (the “Company”) are committed to developing effective, transparent and accountable corporate governance practices. These Corporate Governance Guidelines (“Guidelines”) were approved by the Company’s Board of Directors as a set of guiding principles to govern the affairs of the Company. The Guidelines are subject to regular review by the Nominating and Corporate Governance Committee which may recommend to the Board that they be modified or updated, when appropriate.

I. General Responsibility of the Board

The business of the Company is conducted by management under the direction of the Chief Executive Officer (“CEO”). The Board’s general responsibility is to oversee, on behalf of stockholders, and provide counsel to the CEO and senior management in their conduct of the Company’s business, to protect the Company’s best interests and to foster the creation of long term value for stockholders.

II. Board Organization and Operations

A. Number.

Subject to the conditions outlined in the Company’s bylaws and certificate of incorporation, the number of directors which shall constitute the Board of Directors shall be fixed from time to time by resolution adopted by the affirmative vote of a majority of the total number of directors then in office.

B. Board Committees.

The Board has three standing committees: Audit, Compensation, and Nominating and Corporate Governance. The committees’ charters are posted online at:

<http://investor.physiciansformula.com/documents.cfm>

C. Nominating Process.

1. Nomination by the Nominating and Corporate Governance Committee. In addition to supporting the Company’s compliance with the governance policies in this document, the Nominating and Corporate Governance Committee is responsible for the identification and recruitment of director candidates and makes recommendations to the Board of Directors with respect to the nomination of new Board members. In developing recommendations for new Board candidates, the Nominating and Corporate Governance Committee shall take the following steps:

- i. With the assistance of senior management and other directors, review current Board composition to determine needs for particular skills or experience to be addressed through the recruitment of new Board members;
- ii. Review candidates against such identified Board needs and any other director criteria including those listed below, and prepare a “short list” of candidates accordingly;

- iii. Interview leading candidates from the “short list” who have strong references by one or more members of the Nominating and Corporate Governance Committee, by the CEO and, if appropriate, other Board members, other members of senior management or long-standing and trusted advisors of the Company;
- iv. Conduct reference checks on “short listed” candidates, including gathering references and perspectives from current Board members or members of senior management who may know the candidate; and
- v. Meet to discuss and make recommendations to the Board with respect to the candidates.

The Chairperson and CEO of the Company will contact any candidate(s) so approved, invite them to attend the Company’s annual meeting of stockholders and to join the Board at its first meeting thereafter, if they are elected by the Company’s stockholders at the annual meeting of stockholders. In the case of a Board candidate appointed between annual meetings of stockholders, the same nominating process will generally apply except that the approved candidate will be invited to join the Board at its next meeting after his/her approval by the Board and will stand for election by stockholders at the first annual meeting of stockholders thereafter. Where a third party has the right to nominate one or more directors to the Company’s Board, the selection and nomination of such directors need not be subject to this process.

D. Qualifications.

1. General Criteria. In deciding whether to approve the recommendations of the Nominating and Corporate Governance Committee, the Board typically considers the following criteria, which seek to align Board composition with the Company’s strategic direction:

- i. the judgment, strength of character, reputation in the business community, ethics and integrity of the individual;
- ii. track record of accomplishment in leadership roles;
- iii. the business or other relevant experience, skills and knowledge that the individual may have that will enable him or her to provide effective oversight of the Company’s business;
- iv. the fit of the individual’s skills and personality with those of the other Board members in order to build a Board that works together effectively and constructively;
- v. the ability of the individual to be objective and fact-based;
- vi. the individual’s ability to devote sufficient time to carry out his or her responsibilities as a director in light of his or her occupation and the number of boards of directors of other public companies on which he or she serves; and
- vii. the independence of the individual as described in the following paragraph.

2. Independence Requirements. The Nominating and Corporate Governance Committee reviews Board and committee composition at least annually, or whenever a change in the Company’s or Board member’s circumstances so merit, to ensure that compliance with the NASDAQ Stock Market Listing Rules and any other regulatory requirements are met. In so doing, the Nominating and Corporate

Governance Committee conducts a review of the independence of all existing and prospective members of the Board for the purpose of determining which Board members are or would be deemed independent. In addition to a discussion of each candidate's independence at at least one annual Board meeting, the Board relies upon the candidate's completion of a comprehensive questionnaire about his/her qualifications and business dealings to determine his/her independence.

3. Notification of Changes.

- i. Any director whose primary employment changes from the position that he or she held when becoming a member of the Board will promptly notify the Chairperson of the Nominating and Corporate Governance Committee of this change and submit a written resignation from the Board. The director's resignation shall not become effective unless accepted by the Board.
- ii. Prior to becoming a director of another public company, a director shall notify the Chairperson of the Nominating and Corporate Governance Committee and the Chairperson of the Board and CEO in order to avoid potential conflicts of interest and to address whether the aggregate number of directorships held by such director would interfere with his or her ability to carry out his or her responsibilities as a director of the Company. In the event that the Board determines that the additional directorship constitutes a conflict of interest or interferes with such director's ability to carry out his or her responsibilities as a director of the Company, such director, upon the request of the Board, shall either offer his or her resignation or not accept the other directorship.

E. Meetings.

1. General. The Board shall hold at least four regular meetings each year and may hold additional or special meetings whenever necessary. Regular Board meetings shall generally be held in person, although Board members may participate by conference call, if necessary. Special meetings may be held either in person or by conference call. The Board may also act by unanimous written consent. Meetings of each committee shall be held in accordance with such committee's charter.

2. Chairperson and Lead Non-Management Director. The Chairperson of the Board and of each committee shall be elected by the majority of directors in accordance with the Company's bylaws, based on recommendations by the Nominating and Corporate Governance Committee. All committee chairs must be independent, as defined in the NASDAQ Stock Market Listing Rules.

If the Chairperson is a member of the Company's management, the independent directors will also appoint a lead, non-management director. The lead, non-management director will be responsible for representing the independent directors' perspectives to the Company's CEO and senior management and for facilitating the executive sessions of non-management directors at each Board meeting.

3. Meeting Agendas.

- i. Full Board Meetings. The Chairperson of the Board will establish the agenda for each Board meeting and distribute it to directors in advance of the meeting. If a Chairperson has not been elected, such duties shall be fulfilled by (i) the CEO, if a member of the Board, or (ii) if the CEO is not a member of the Board, a member of the Board selected by the Board. Any director may request that a subject be included

on the agenda for any Board meeting and may raise a subject that is not on the agenda at any such meeting.

- ii. Committee Meetings. The Chairperson of each committee will establish the agenda for each meeting of such committee and distribute it to the members of such committee in advance of the meeting. If a Chairperson of such committee has not been elected, such duties shall be fulfilled by a member of the committee selected by the committee. Any committee member may request that a subject be included on the agenda for any meeting of such committee and may raise a subject that is not on the agenda at any meeting.

4. Recordkeeping. The Corporate Secretary shall maintain, on behalf of the Board, a central repository accessible to all directors of all materials presented to the Board in connection with any Board meeting, draft minutes of such meeting (if final minutes have not yet been approved), and the final, approved minutes of such meeting. The Corporate Secretary shall maintain the same type of repository on behalf of each committee, accessible to all members of such committee.

5. Advance Reading Materials. The Company's CEO and Chief Financial Officer shall ensure that advance reading materials for the Board and committee meetings are distributed to directors sufficiently prior to each meeting, to the extent practicable, to permit meaningful review. Materials should be as concise as possible while still providing information necessary for directors to make informed judgments.

6. Executive Sessions of Non Management Directors. Non management directors shall meet regularly in executive session, without management present. Such sessions shall be chaired by the Chairperson of the Board or a lead director selected by the non-management directors if the Chairperson of the Board is part of Company's management. Non-management directors who are not independent under the NASDAQ Stock Market Listing Rules may participate in such executive sessions. The Board shall not take formal action at such sessions, but (i) the Chairperson of the Board or a designated participating director shall update the CEO on the key items discussed in each session and (ii) the participating directors may make recommendations for consideration by the full Board.

7. Strategic Planning Meeting. Once per year, the Board shall dedicate a regularly scheduled meeting to a two-year strategic plan update of the Company. The Board shall review such plans, conduct a question and answer session with management related to such plan, consider and discuss such plan in executive session (without management present) and approve or reject the plan by formal resolution.

F. Stockholder Access to the Board. Any interested parties who have concerns that they wish to make known to the Company's non management directors should send any such communication to the lead, non-management director of the Board of Directors in care of the Company's executive offices at 1055 West Eighth Street, Azusa, CA 91702.

III. Duties of the Board

A. Decision-Making Responsibilities.

Among other things, the Board's decision making responsibilities include:

1. Review and approval of the Company's mission, strategies, objectives and policies, as developed by the CEO and senior management.

2. Approval of director candidates recommended by the Nominating and Corporate Governance Committee (i) for election by stockholders at the annual meeting of stockholders or (ii) to fill any vacancy on the Board until the following annual meeting of stockholders.

3. Approval of candidates for appointment to committees of the board, as recommended by the Nominating and Corporate Governance Committee.

4. Approval of candidates for Chairperson of the Board and of each committee, as recommended by the Nominating and Corporate Governance Committee.

5. Election of officers in accordance with the Company's bylaws.

6. Creation and approval of succession and development plans for key Company executives, including the CEO.

7. Approval of certain strategic transactions and other significant transactions not in the ordinary course of the Company's business including:

- i. all annual operating and capital budgets, business acquisitions, business divestitures and capital contributions;
- ii. all capital projects not previously approved in the capital budget with a value greater than \$500,000;
- iii. disposition of assets with a value greater than \$1,000,000;
- iv. real property leases with a term greater than 5 years or annual rent greater than \$250,000;
- v. any issuance of Company securities (including incentive equity) and repurchase of Company securities;
- vi. dissolution or formation of wholly-owned entities or joint ventures;
- vii. all indebtedness other than capital or operating leases and amendment or termination thereof;
- viii. payment of damages in excess of \$1,000,000 and settlement of claims over \$250,000.

8. Approval of matters recommended by the Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee in accordance with each such committee's charter.

9. Determination of appropriate actions to be taken in the event of violations of the Company's Code of Conduct or Code of Ethics for Senior Financial Officers.

B. Oversight Responsibilities.

Among other things, the Board's oversight responsibilities include monitoring:

1. The Company's performance in relation to its mission, strategies, financial and non financial objectives.

2. The performance and effectiveness of the Company's management team.
3. The Compensation Committee in its annual review of CEO performance.
4. The Company's financial reporting processes and internal controls, and the auditing and accounting principles used in the preparation of the Company's financial statements.
5. Major risks facing the company and related risk management processes.
6. The Company's compliance with legal and regulatory requirements.
7. Monitoring the Audit Committee's review of the Whistleblower Hotline.

C. Expectations of Board Members.

In carrying out their responsibilities as members of the Board, directors are expected to:

1. Become and remain informed about the Company, its business and its industry.
2. Attend all meetings of the Board and committees on which they serve, having read and considered the reading materials distributed in advance of the meeting. Both incumbent and prospective Board members are also encouraged to attend the annual meeting of stockholders.
3. Participate constructively in Board and committee meetings, drawing upon their individual experience, knowledge and background, as appropriate, to provide perspectives and insights.
4. Act in ways that they reasonably believe will serve the best interests of the Company and its stockholders, and exercise their business judgment in making decisions (as appropriate, directors may also consider the interests of other stakeholders, including employees, customers and the members of the communities in which the Company operates).

D. Scope of Authority.

In the course of discharging their responsibilities:

1. Directors shall have full access to relevant Company records and may request that any officer or other employee of the Company or the Company's outside counsel or accountants meet with any members of, or consultants to, the Board or any committee, as long as such access does not interfere with the conduct of the Company's business and is coordinated, where possible, through the CEO.
2. The Board is permitted to select, retain and terminate any financial, legal, executive search, consulting and other professional advisors as they deem necessary or appropriate to advise the Board, with related fees and reasonable expenses borne by the Company.

E. Executive Succession Planning.

Once per year, the Board shall receive updates and recommendations from the Compensation Committee regarding succession planning for the CEO, President and CFO. The plan of succession shall include an assessment of the experience, performance, skills and planned career paths for possible successors for the CEO, President and CFO positions.

F. Executive Review Process.

The Compensation Committee shall lead the annual review of the CEO, President and CFO performance, in which all Board members provide input. It shall also oversee the CEO, President and CFO's performance reviews of other senior executives for purposes of compensation decisions, succession planning and leadership development.

IV. **Orientation and Continuing Education**

Directors are also encouraged to take advantage of any educational opportunities that would further their understanding of the Company's business and enhance their performance on the Board, and the Company shall reimburse each director for the reasonable expenses of two such courses per year approved in advance by the CEO.

V. **Director Compensation**

The Compensation Committee shall recommend to the full Board for its approval the amount and form of compensation to be paid to Company directors. In making its recommendations, the Compensation Committee shall consider the director compensation policies and practices at the Company's principal competitors and other comparable companies to ensure that the compensation (both direct and indirect forms) paid to the Company's directors is reasonable. The Board shall review its directors' compensation practices and levels annually. Members of management who are also members of the Board shall not receive any additional compensation for their service as directors, committee members or committee chairs.

VI. **Stock Ownership**

All directors are encouraged to own an amount of the Company's stock that is significant in light of the director's individual means. It is expected that, within three years of joining the Board, each director shall own at least 10,000 shares of the Company's stock (excluding the number of options to purchase the Company's stock granted to each director, whether or not vested).

VII. **Board and Committee Assessment**

1. The Board is committed to continuous improvement and shall conduct an annual self assessment process, developed by the Nominating and Corporate Governance Committee, of the Board's performance.

2. When self assessments have been completed, the results and any recommendations made by the Nominating and Corporate Governance Committee to enhance the Board's performance shall be discussed by the full Board.