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

Form 10-K

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from to

Commission File Number: 001-37344

Party City Holdco Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**46-0539758**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

80 Grasslands Road
Elmsford, NY 10523
(Address of Principal Executive Offices)

(914) 345-2020
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

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

Securities Registered Pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☑

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

Indicate by a check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) Yes ☑ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

The aggregate market value of common stock held by non-affiliates as of June 30, 2018 was $759,243,988. As of January 31, 2019, there were 93,662,699 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2019 annual meeting of stockholders, to be held on June 6, 2019, are incorporated by reference

in Part III.

FORM 10-K

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PART I

Forward-Looking Statements

This Annual Report on Form 10-K, including the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7, contains information that may constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth and the development and introduction of new products. In many cases you can identify forward-looking statements by terms such as "believes," "anticipates," "expects," "targets," "estimates," "intends," "will," "may" or "plans" and similar expressions. These forward-looking statements reflect our current expectations and are based upon data available to us at the time the statements were made.

Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from expectations. These risks, as well as other risks and uncertainties, are detailed in the section Item 1A. "Risk Factors." Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. All forward-looking statements are qualified by these cautionary statements and are made only as of the date of this Annual Report on Form 10-K. Any such forward-looking statements should be considered in context with the various disclosures made by us about our business. Unless required by law, we undertake no obligation to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. You should, however, review the factors and risks we describe in the reports we will file from time to time with the Securities and Exchange Commission (the "SEC") after the date of the filing of this Annual Report on Form 10-K.

In this Annual Report on Form 10-K references to "Party City Holdco," "Party City," the "Company," "we," "our," "ours" and "us" refer to Party City Holdco Inc. and its consolidated subsidiaries unless stated or the context otherwise requires.

Item 1. Business

Overview

Party City Holdco is a Delaware corporation formed in 2012. It has no operating assets or operations. Party City Holdco owns 100% of PC Nextco Holdings, LLC ("PC Nextco"), which owns 100% of PC Intermediate Holdings, Inc. ("PC Intermediate"). PC Intermediate owns 100% of Party City Holdings Inc. ("PCHI"). PCHI or its direct or indirect subsidiaries conduct most of our operations. The Company's principal executive offices are located at 80 Grasslands Road, Elmsford, New York 10523.

We are the leading decorated party goods superstore retailer, by revenue, in North America and, we believe, the largest vertically integrated supplier of decorated party goods globally by revenue. With approximately 960 locations (inclusive of franchised stores), we have the only coast-to-coast network of party superstores in the U.S. and Canada and such stores make it easy and fun to enhance special occasions with a differentiated shopping experience and an unrivaled assortment of innovative and exciting merchandise offered at a compelling value. We also operate multiple e-commerce sites, principally under the domain name PartyCity.com. Further, we open a network of approximately 250—300 temporary Halloween City stores, including approximately 50 jointly under the Halloween City and Toy City banners.

In addition to our retail operations, we are also one of the largest global designers, manufacturers and distributors of decorated consumer party products, with items found in over 40,000 retail outlets worldwide, including independent party supply stores, mass merchants, grocery retailers, e-commerce merchandisers and dollar stores. Our products are available in over 100 countries with the United Kingdom ("U.K."), Canada, Germany, Mexico and Australia among the largest end markets for our products outside of the United States. During 2018, our third-party wholesale revenues were $614 million.

The 2005 combination of Amscan, which focused on the wholesale market, and Party City, which focused on the retail market, represented an important step in our evolution. Since the acquisition of Party City, we have steadily increased the selection of Amscan merchandise offered in our Party City stores from approximately 25% to approximately 80% in 2018, allowing us to capture multiple levels of gross margin on a significant portion of our retail sales.

Industry Overview

We operate in the broadly defined $10 billion retail party goods industry (including decorative paper and plastic tableware, costumes, decorations, accessories and balloons), which is supported by a range of suppliers from commodity paper goods producers to party goods manufacturers. Sales of party goods are fueled by everyday events such as birthdays, baby showers, weddings and anniversaries, as well as seasonal events such as holidays and other special occasions. As a result of numerous and diverse occasions, the U.S. party goods market enjoys broad demographic appeal. We also operate in the $7 billion Halloween market, a portion of which overlaps with the $10 billion retail party goods industry. The Halloween market includes products that we sell such as costumes, candy and makeup. However, it also includes products and services which we do not supply, such as pumpkins, hay rides and haunted house tours.

The retail landscape for decorated party goods is comprised primarily of party superstores, mass merchants, e-commerce merchandisers, craft stores, grocery retailers, and dollar stores. The party superstore has emerged as a preferred destination for party goods shoppers, similar to the dominance of specialty retailers in other categories such as home improvement, pet products and sporting goods. This is typically due to the superstore chain's ability to offer a wider variety of merchandise at more compelling prices in a convenient setting as well as the knowledgeable staff often found at superstores. Other retailers that cater to the party goods market typically offer a limited assortment of party supplies and seasonal items. Mass merchants tend to focus primarily on juvenile and seasonal goods, greeting cards and gift wrap; craft stores on decorations and seasonal merchandise; and dollar stores on general and seasonal party goods items.

Segments

We have two reporting segments: Retail and Wholesale. In 2018, we generated 74.7% of our total revenues from our retail segment and 25.3% of our total revenues from our wholesale segment.

Our retail operations generate revenue primarily through the sale of our party supplies, which are sold under the Amscan, Designware, Anagram and Costumes USA brand names, through our Party City stores, Halloween City stores and PartyCity.com. During 2018, 79% of the product that was sold by our retail operations was supplied by our wholesale operations and 23% of the product that was sold by our retail operations was self-manufactured.

Our wholesale revenues are generated from the sale of decorated party goods for all occasions, including paper and plastic tableware, accessories and novelties, costumes, metallic and latex balloons and stationery. Our products are sold at wholesale to party goods superstores (including our franchise stores), other party goods retailers, mass merchants, independent card and gift stores, dollar stores and e-commerce merchandisers.

Financial information about our business segments and geographical areas is provided in Note 15, Segment Information, to our consolidated financial statements in Part II, Item 8, "Financial Statements and Supplementary Data," in this Annual Report on Form 10-K.

Retail Operations

Overview

After opening its first company-owned store in 1986, Party City has grown to become what we believe is the largest operator of owned and franchised party superstores by revenue in the United States. At the time of the combination of Party City and Amscan in 2005, Party City's network consisted of 502 stores, including 254 franchised locations. Since the acquisition, we have expanded the Party City network to approximately 900 superstore locations in the United States (inclusive of franchised stores) and approximately 60 locations in Canada. We also operate approximately 250—300 temporary Halloween City stores, including approximately 50 jointly under the Halloween City and Toy City banners.

The following table shows the change in our company-owned Party City store network over the past three years:

	2018	2017	2016
Stores open at beginning of year	803	750	712
Stores opened	15	16	29
Stores acquired from franchisees/others	58	44	19
Stores closed	(10)	(7)	(10)
Stores open at end of year	866	803	750

E-commerce

Our websites, including PartyCity.com, offer a convenient, user-friendly and secure online shopping option for new and existing customers. In addition to the ability to order products, our websites provide a substantial amount of content about our party products, party planning ideas and promotional offers. The websites are also one of our key marketing vehicles, specifically as they relate to social media marketing initiatives.

Additionally, during 2018, the Company initiated a pilot program under which it sells a selection of its products via a Party City storefront on Amazon Marketplace.

Retail Advertising and Marketing

Our advertising focuses on promoting specific seasonal occasions and general party themes, with a strong emphasis on our price-value proposition, with the goal of increasing customer traffic and further building our brand.

Competition at Retail

In our retail segment, our stores compete primarily on the basis of product assortment, store location and layout, customer convenience and value. Although we compete with a variety of smaller and larger retailers, including, but not limited to, independent party goods supply stores, specialty stores, dollar stores, e-commerce merchandisers, warehouse/merchandise clubs, drug stores, and mass merchants, we believe that, based on our revenues and strong brand awareness with our customers, our retail stores maintain a leading position in the party goods business by offering a wider breadth of merchandise than most competitors and a greater selection within merchandise classes, at a compelling value. We are one of only a few vertically integrated suppliers of decorated party goods. While some of our competitors in our markets may have greater financial resources, we believe that our significant buying power, which results from the size of our retail store network and the breadth of our assortment, is an important competitive advantage. Many of our retail competitors are also customers of our wholesale business.

Retail Seasonality

Our retail operations are subject to significant seasonal variations. Historically, this segment has realized a significant portion of its revenues, cash flow and net income in the fourth quarter of the year, principally due to our Halloween sales in October and, to a lesser extent, year-end holiday sales. Halloween business represents approximately 20% of our total domestic retail sales. To maximize our seasonal opportunity, we operate a chain of temporary Halloween stores, under the Halloween City banner, during the months of September and October of each year.

Franchise Operations

We have franchised stores throughout the United States, Mexico and Puerto Rico run by franchisees utilizing our format, design specifications, methods, standards, operating procedures, systems and trademarks. Our wholesale sales to franchised stores generally mirror, with respect to relative size, mix and category, those to our company-owned stores. The following table shows the change in our franchise-owned store network over the past three years:

	2018	2017	2016
Stores open at beginning of year	148	184	200
Stores opened/acquired by existing franchisees	1	3	5
Stores sold to the Company	(50)	(36)	(19)
Stores closed or converted to independent stores	(3)	(3)	(2)
Stores open at end of year	96	148	184

We are not currently marketing, nor do we plan to market, new franchise territories in the United States or Canada. However, in the future, we do plan on marketing new franchise territories internationally. During 2015, the Company entered into an agreement with a subsidiary of Grupo Oprimax to franchise the Party City concept throughout Mexico. Under the terms of the agreement, Grupo Oprimax will have the exclusive right to open up Party City stores in Mexico.

We receive revenue from our franchisees, consisting of an initial one-time fee and ongoing royalty fees generally ranging from 4% to 6% of net sales. In exchange for these franchise fees, franchisees principally receive brand value and company support with respect to planograms. Each franchisee has a mandated advertising budget, which consists of a minimum initial store opening promotion and ongoing local advertising and promotions. Additionally, franchisees must pay 1% to 2.25% of net sales to a group advertising fund to cover common advertising materials. We do not offer financing to our franchisees for one-time fees or ongoing royalty fees. Our franchise agreements provide us with a right of first refusal should any franchisee look to dispose of its operations.

Current franchise agreements provide for an assigned area or territory that typically equals a three or four-mile radius from the franchisee's store location and the right to use the Party City ® logo and trademark. In addition, certain agreements with our franchisees and other business partners contain geographic limitations on opening new stores. For most stores, the franchisee or the majority owner of a corporate franchisee devotes full time to the management, operation and on-premises supervision of the stores or groups of stores.

Wholesale Operations

Overview

We currently offer over 400 party goods ensembles, which range from approximately five to 50 design-coordinated items spanning tableware, accessories, novelties, balloons and decorations. The breadth of these ensembles enables retailers to promote additional sales of related products for every occasion. To enhance our customers' celebrations of life's important events, we market party goods ensembles for a wide variety of occasions, including seasonal and religious holidays, special events and themed celebrations.

Our Amscan, Anagram, Costumes USA and Designware branded products are offered in over 40,000 retail outlets worldwide, ranging from party goods superstores (including our franchise stores), other party goods retailers, mass merchants, independent card and gift stores, dollar stores and e-commerce merchandisers. We have long-term relationships with many of our wholesale customers.

The table below shows the breakdown of our total wholesale sales by channel for the year ended December 31, 2018:

Channel	Sales (dollars in millions)
Owned stores and e-commerce	$ 712
Party City franchised stores and other domestic retailers	241
Domestic balloon distributors/retailers	87
International balloon distributors	23
Other international	262
Total wholesale sales	$ 1,325

Product Lines

The following table sets forth the principal products we distribute by product category, and the corresponding percentage of revenue that each category represents:

Wholesale Sales by Product for the Year Ended December 31, 2018

Category	Items	% of Sales
Tableware	Plastic Plates, Paper Plates, Plastic Cups, Paper Cups, Paper Napkins, Plastic Cutlery, Tablecovers	23%
Costumes & Accessories	Costumes, Other Wearables, Wigs	23%
Decorations	Latex Balloons, Piñatas, Crepes, Flags & Banners, Decorative Tissues, Stickers and Confetti, Scene Setters, Garland, Centerpieces	22%
Favors, Stationery & Other	Party Favors, Gift Bags, Gift Wrap, Invitations, Bows, Stationery	16%
Metallic Balloons	Bouquets, Standard 18 Inch Sing-A-Tune, SuperShapes, Weights	16%

Our products span a wide range of lifestyle events from birthdays to theme parties and sporting events, as well as holidays such as Halloween and New Year's. Approximately 70% of our wholesale sales consist of items designed for everyday occasions, with the remaining sales comprised of items used for holidays and seasonal celebrations throughout the year. Our product offerings cover the following broad range of occasions and life celebrations:

Current Product Offering

Everyday	Seasonal
Anniversaries	New Year's
Bar Mitzvahs	Valentine's Day
Birthdays	St. Patrick's Day
Bridal/Baby Showers	Easter
Christenings	Passover
Confirmations	Graduations
First Communions	Cinco de Mayo
Theme-oriented*	Fourth of July
Weddings	Halloween
	Fall
	Thanksgiving
	Hanukkah
	Christmas

* Our theme-oriented ensembles enhance various celebrations and include Bachelorette, Card Party, Casino, Chinese New Year, Cocktail Party, Disco, Fiesta, Fifties Rock-and-Roll, Hawaiian Luau, Hollywood, Mardi Gras, Masquerade, Patriotic, Retirement, Sports, Summer Barbeque and Western.

Wholesale Manufactured Products

We manufacture items representing approximately 40% of our net sales at wholesale (including sales to our retail operations). Our manufacturing facilities in Minnesota, Kentucky, New York, Rhode Island, Malaysia, New Mexico, Mexico and Madagascar are generally highly automated and produce paper and plastic plates and cups, paper napkins, metallic and latex balloons, injection molded product, costumes, pinatas and other party and novelty items at globally competitive costs. State-of-the-art printing, forming, folding and packaging equipment support most of these manufacturing operations. Given our size and sales volume, we are generally able to operate our manufacturing equipment on the basis of at least two shifts per day, thus lowering production costs per unit. In select cases, we use available capacity to manufacture products for third parties, which allows us to maintain a satisfactory level of equipment utilization.

The table below summarizes our principal manufacturing facilities:

Location	Principal Products	Approximate Square Feet
Monterrey, Mexico	Stickers, gift wrap, bags and invites	355,500
Newburgh, New York	Paper napkins and paper cups	248,000
East Providence, Rhode Island	Plastic plates, cups and bowls	229,230(1)
Louisville, Kentucky	Paper plates	189,175
Tijuana, Mexico	Piñatas and other party products	135,000
Eden Prairie, Minnesota	Metallic balloons and accessories	115,600
Melaka, Malaysia	Latex balloons	100,000
Los Lunas, New Mexico	Injection molded plastics	85,055
Antananarivo, Madagascar	Costumes	41,000

(1) The square footage represents an industrial park, which includes a 48,455 square foot office and warehouse.

Complementing our manufacturing facilities, we have a diverse global network of third-party suppliers that supports our strategy of consistently offering a broad selection of high quality, innovative and competitively priced product. We have over 20-year relationships with many of our vendors and often represent a significant portion of their overall business. They generally produce items designed by and created for us, are located in Asia, and are managed by our sourcing office in Hong Kong. We actively work with our third-party suppliers to ensure product cost, quality and safety.

The principal raw materials used in manufacturing our products are paper, petroleum-based resin and cotton. While we currently purchase such raw material from a relatively small number of sources, paper, resin and cotton are available from numerous sources. Therefore, we believe our current suppliers could be replaced without adversely affecting our manufacturing operations in any material respect.

Wholesale Product Safety and Quality Assurance

We are subject to regulatory requirements in the United States and internationally, and we believe that all products that we manufacture and source comply with the requirements in the markets in which they are sold. Third-party manufactured products are tested both at the manufacturing site and upon arrival at our distribution centers. We have a full-time staff of professionals in the United States, Asia and Europe dedicated to product safety and quality assurance.

Wholesale Distribution and Systems

We ship our products directly to retailers and distributors throughout the world from our distribution facilities, as well as directly from our domestic and international factories. Our electronic order entry and information systems allow us to manage our inventory with minimal obsolescence while maintaining strong fill rates and quick order turnaround time.

Our main distribution facility for domestic party customers is located in Chester, New York, with nearly 900,000 square feet under one roof. This state-of-the-art facility serves as the main point of distribution for our Amscan-branded products and utilizes paperless, pick-by-light systems, offering superior inventory management and turnaround times as short as 48 hours.

We utilize a bypass system which allows us to ship products directly from selected third-party suppliers to our company-owned and franchised stores, thus bypassing our distribution facilities. In addition to lowering our distribution costs, this bypass system creates warehouse capacity.

The distribution center for our main retail e-commerce platform is located in Naperville, Illinois. We also have other distribution centers in the U.K., Germany and Mexico in order to support our international customers.

Wholesale Customers

We have a diverse third party customer base at wholesale. During 2018, no individual third party customer accounted for more than 10% of our total third-party sales at wholesale.

Competition at Wholesale

In our wholesale segment, we compete primarily on the basis of diversity and quality of our product designs, breadth of product line, product availability, price, reputation and customer service. Although we have many competitors with respect to one or more of our products, we believe that there are no competitors who design, manufacture, source and distribute products with the complexity of design and breadth of product lines that we do. Furthermore, our design and manufacturing processes create efficiencies in manufacturing that few of our competitors can achieve in the production of numerous coordinated products in multiple design types. Competitors include smaller independent manufacturers and distributors, as well as divisions or subsidiaries of

large companies. Certain of these competitors control various party goods product licenses for widely recognized images, such as cartoon or motion picture characters, which could provide them with a competitive advantage. However, we control a strong portfolio of character licenses for use in the design and production of our metallic balloons and we have access to a strong portfolio of character and other licenses for party goods.

Information Systems

We continually evaluate and upgrade our information systems to enhance the quantity, quality and timeliness of information available to management and to improve the efficiency of our manufacturing and distribution facilities, as well as our service at the store level. We have implemented merchandise replenishment software to complement our distribution, planning and allocation processes. The system enhances the store replenishment function by improving in-stock positions, leveraging our distribution infrastructure and allowing us to become more effective in our use of store labor. We have implemented a Point of Sale system and upgraded merchandising systems to standardize technology across all of our domestic retail superstores, and we have implemented similar systems at our temporary Halloween City and Toy City locations.

Employees

As of December 31, 2018, the Company had approximately 10,300 full-time employees and 9,600 part-time employees, none of whom is covered by a collective bargaining agreement. We consider our relationship with our employees to be good.

Intellectual Property

We own the copyrights in the designs we create and use on our products and various trademarks and service marks used on or in connection with our products. It is our practice to register our copyrights with the United States Copyright Office and our trademarks and service marks with the United States Patent and Trademark Office, or with other foreign jurisdictions, to the extent we deem necessary. In addition, we rely on unregistered common law trademark rights and unregistered copyrights under applicable U.S. law to distinguish and/or protect our products, services and branding. We do not believe that the loss of copyrights or trademarks with respect to any particular product or products would have a material adverse effect on our business. We hold numerous intellectual property licenses from third parties, allowing us to use various third-party cartoon and other characters and designs on our products, and the images on our metallic balloons and costumes are principally covered by these licenses. None of these licenses is individually material to our aggregate business. We also own patents relating to display racks and balloon weights, none of which is individually material to our aggregate business.

We permit our franchisees to use a number of our trademarks and service marks, including Party City, The Discount Party Super Store, Party America and Halloween City.

Government Regulation

As a franchisor, we must comply with regulations adopted by the Federal Trade Commission, such as the Trade Regulation Rule on Franchising, which requires us, among other things, to furnish prospective franchisees with a franchise offering circular. We also must comply with a number of state laws that regulate the offer and sale of our franchises and certain substantive aspects of franchisor-franchisee relationships. These laws vary in their application and in their regulatory requirements. State laws that regulate the offer and sale of franchises typically require us to, among other things, register before the offer and sale of a franchise can be made in that state and to provide a franchise offering circular to prospective franchisees.

State laws that regulate the franchisor-franchisee relationship presently exist in a substantial number of states. Those laws regulate the franchise relationship, for example, by restricting a franchisor’s rights with regard

to the termination, transfer and renewal of a franchise agreement (for example, by requiring "good cause" to exist as a basis for the termination and the franchisor's decision to refuse to permit the franchisee to exercise its transfer or renewal rights), by requiring the franchisor to give advance notice to the franchisee of the termination and give the franchisee an opportunity to cure most defaults. To date, those laws have not precluded us from seeking franchisees in any given area and have not had a material adverse effect on our operations.

Our wholesale and retail segments must also comply with applicable regulations adopted by federal agencies, including product safety regulations, and with licensing and other regulations enforced by state and local health, sanitation, safety, fire and other departments. Difficulties or failures in obtaining the required licenses or approvals can delay and sometimes prevent the opening of a new store or the shutting down of an existing store.

Our manufacturing operations, stores and other facilities must comply with applicable environmental, health and safety regulations, although the cost of complying with these regulations to date has not been material. More stringent and varied requirements of local governmental bodies with respect to zoning, land use, and environmental factors can delay, and sometimes prevent, development of new stores in particular locations. Our stores must comply with the Fair Labor Standards Act and various state laws governing various matters such as minimum wages, overtime and other working conditions. Our stores must also comply with the provisions of the Americans with Disabilities Act, which requires that employers provide reasonable accommodation for employees with disabilities and that stores must be accessible to customers with disabilities.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith, we file reports, proxy and information statements and other information with the SEC. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other information to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available through the investor relations section of our website at www.partycity.com. Reports are available free of charge as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. The information contained on our website is not incorporated by reference into this Annual Report on Form 10-K. The SEC maintains an Internet site that contains our reports, proxy and information statements, and other information that we file electronically with the SEC at www.sec.gov.

Item 1A. Risk Factors

The following risk factors may be important to understanding any statement in this Annual Report on Form 10-K or elsewhere. Our business, financial condition and operating results can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below. Any one or more of such factors could directly or indirectly cause our actual results of operations and financial condition to vary materially from past or anticipated future results of operations and financial condition. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, results of operations and stock price.

We operate in a competitive industry, and our failure to compete effectively could cause us to lose our market share, revenues and growth prospects.

Our wholesale segment competes with many other manufacturers and distributors, including smaller, independent manufacturers and distributors and divisions or subsidiaries of larger companies with greater financial and other resources than we have. Some of our competitors control licenses for widely recognized images and have broader access to mass market retailers that could provide them with a competitive advantage.

The party goods retail industry is large and highly fragmented. Our retail stores compete with a variety of smaller and larger retailers including, but not limited to, independent party goods supply stores, specialty stores, warehouse/merchandise clubs, drug stores, dollar stores, mass merchants and e-commerce merchants. We face competition from internet-based retailers in addition to store-based retailers. These internet-based retailers may have a significant collective online presence and may be able to offer similar products to those that we sell, which may result in increased price competition. We compete, among other ways, on the basis of product mix and availability, customer convenience, quality, price and, with respect to our retail stores, location and store layout. We may not be able to continue to compete successfully against existing or future competitors in the retail space. Expansion into markets served by our competitors and entry of new competitors or expansion of existing competitors into our markets could materially adversely affect our business, results of operations, cash flows and financial performance.

We must remain competitive in the areas of quality, price, breadth of selection, customer service and convenience. Competing effectively may require us to reduce our prices or increase our costs, which could lower our margins and adversely affect our revenues and growth prospects.

A decrease in our Halloween sales could have a material adverse effect on our operating results for the year.

Our retail business realizes a significant portion of its revenues, net income and cash flows in September and October, principally due to Halloween sales. We believe that this general pattern will continue in the future. An economic downturn, or adverse weather, during this period could adversely affect us to a greater extent than at other times of the year. Any unanticipated decrease in demand for our products during the Halloween season could require us to maintain excess inventory or sell excess inventory at substantial markdowns, which could have a material adverse effect on our business, profitability, ability to repay any indebtedness and our brand image. In addition, our sales during the Halloween season could be affected if we are not able to find sufficient and adequate lease space for our temporary Halloween City stores or if we are unable to hire qualified temporary personnel to adequately staff these stores and our distribution facility during the Halloween season, whether due to labor market conditions or a failure in our internal recruiting and staffing processes. Failure to have proper lease space and adequate personnel could hurt our business, financial condition and results of operations.

Our failure to appropriately respond to changing merchandise trends and consumer preferences could significantly harm our customer relationships and financial performance.

As a manufacturer, distributor and retailer of consumer goods, our products must appeal to a broad range of consumers whose preferences are constantly changing. We also sell certain licensed products, with images such

as cartoon or motion picture characters, which are in great demand for short time periods, making it difficult to project our inventory needs for these products. In addition, we may not be able to obtain the licenses for certain popular characters and could lose market share to competitors who are able to obtain those licenses. Additionally, if consumers' demand for single-use, disposable party goods were to diminish in favor of reusable products for environmental or other reasons, our sales could decline.

The success of our business depends upon many factors, such as our ability to accurately predict the market for our products and our customers' purchasing habits, to identify product and merchandise trends, to innovate and develop new products, to manufacture and deliver our products in sufficient volumes and in a timely manner and to differentiate our product offerings from those of our competitors. We may not be able to continue to offer assortments of products that appeal to our customers or respond appropriately to consumer demands. We could misinterpret or fail to identify trends on a timely basis. Our failure to anticipate, identify or react appropriately to changes in consumer tastes could, among other things, lead to excess inventories and significant markdowns or a shortage of products and lost sales. Our failure to do so could harm our customer relationships and financial performance.

Our business may be adversely affected by material fluctuations in commodity prices.

The costs of our key raw materials (paper, petroleum-based resin and cotton) fluctuate. In general, we absorb movements in raw material costs that we consider temporary or insignificant. However, cost increases that are considered other than temporary may require us to increase our prices to maintain our margins. Raw material prices may increase in the future and we may not be able to pass on these increases to our customers. A significant increase in the price of raw materials that we cannot pass on to customers could have a material adverse effect on our results of operations and financial performance. In addition, the interruption in supply of certain key raw materials essential to the manufacturing of our products may have an adverse impact on our and our suppliers' abilities to manufacture the products necessary to maintain our existing customer relationships.

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

Our ability to increase our sales depends on many factors including, among others, our ability to:

- grow our e-commerce business;
- identify suitable store locations, including temporary lease space for our Halloween City locations, the availability of which is largely outside of our control;
- negotiate and secure acceptable lease terms, desired tenant allowances and assurances from operators and developers that they can complete the project, which depend in part on the financial resources of the operators and developers;
- obtain or maintain adequate capital resources on acceptable terms;
- manufacture and source sufficient levels of inventory at acceptable costs;
- hire, train and retain an expanded workforce of store managers and other store-level personnel, many of whom are in entry-level or part-time positions with historically high rates of turnover;
- successfully integrate new stores/e-commerce operations into our existing control structure and operations, including information system integration;
- maintain adequate manufacturing and distribution facilities, information system and other operational system capabilities;
- identify and satisfy the merchandise and other preferences of our customers in new geographic areas and markets;
- gain brand recognition and acceptance in new markets; and

- address competitive, merchandising, marketing, distribution and other challenges encountered in connection with expansion into new geographic areas and markets, including geographic restrictions on the opening of new stores/e-commerce operations based on certain agreements with our franchisees and other business partners.

In addition, as the number of our stores increases, along with our online sales, we may face risks associated with market saturation of our product offerings. To the extent that our new store openings are in markets in which we have existing operations, and as we expand our e-commerce operations, we may experience reduced net sales at such existing stores. Finally, there can be no assurance that any newly opened stores/new e-commerce operations will achieve net sales or profitability levels comparable to those of our existing operations in the time frame assumed by us. If our new operations fail to achieve, or are unable to sustain, acceptable net sales and profitability levels, our business may be materially harmed and we may incur significant costs associated with closing those operations. Our failure to effectively address challenges such as these could adversely affect our ability to successfully open and operate new operations in a timely and cost-effective manner, and could have a material adverse effect on our business, results of operations and financial condition.

Unexpected or unfavorable consumer responses to our promotional or merchandising programs could materially adversely affect our business, results of operations, cash flows and financial performance.

Brand recognition, quality and price have a significant influence on consumers' choices among competing products and brands. Advertising, promotion, merchandising and the cadence of new product introductions also have a significant impact on consumers' buying decisions. If we misjudge consumer responses to our existing or future promotional activities, this could have a material adverse impact on our business, results of operations, cash flow and financial performance.

Our marketing programs, e-commerce initiatives and use of consumer information are governed by an evolving set of laws and enforcement trends and unfavorable changes in those laws or trends, or our failure to comply with existing or future laws, could substantially harm our business and results of operations.

We collect, maintain and use data provided to us through our online activities and other customer interactions in our business. Our current and future marketing programs depend on our ability to collect, maintain and use this information, and our ability to do so is subject to certain contractual restrictions in third-party contracts as well as evolving international, federal and state laws and enforcement trends. We strive to comply with all applicable laws and other legal obligations relating to privacy, data protection and consumer protection, including those relating to the use of data for marketing purposes. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another, may conflict with other rules or may conflict with our practices. If so, we may suffer damage to our reputation and be subject to proceedings or actions against us by governmental entities or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts to defend our practices, distract our management, increase our costs of doing business and result in monetary liability.

In addition, as data privacy and marketing laws change, we may incur additional costs to ensure we remain in compliance with such laws. If applicable data privacy and marketing laws become more restrictive at the federal or state level, our compliance costs may increase, our ability to effectively engage customers via personalized marketing may decrease, our investment in our e-commerce platform may not be fully realized, our opportunities for growth may be curtailed by our compliance capabilities or reputational harm and our potential liability for security breaches may increase.

Because we rely heavily on our own manufacturing operations and those of our suppliers, disruptions at manufacturing facilities could adversely affect our business, results of operations, cash flows and financial performance.

Any significant disruption in manufacturing facilities, in the United States or abroad, for any reason, including regulatory requirements, unstable labor relations, the loss of certifications, power interruptions, fires,

hurricanes, war or other forces of nature, could disrupt our supply of products, adversely affecting our business, results of operations, cash flows and financial performance. The occurrence of one or more natural disasters, or other disruptive geo-political events, could also result in increases in fuel (or other energy) prices or a fuel shortage, the temporary or permanent closure of one or more of manufacturing or distribution centers, the temporary lack of an adequate work force in a market, the temporary or long-term disruption in the supply of products from some local and overseas suppliers, the temporary disruption in the transport of goods from overseas or delays in the delivery of goods to our distribution centers or stores or to third parties who purchase from us. If one or more of these events occurred, our revenues and profitability would be reduced.

Disruption to the transportation system or increases in transportation costs may negatively affect our operating results.

We rely upon various means of transportation, including shipments by air, sea, rail and truck, to deliver products to our distribution centers from vendors and manufacturers and from other distribution centers to our stores, as well as for direct shipments from vendors to stores and sales to third-party customers. Independent third parties with whom we conduct business may employ personnel represented by labor unions. Labor stoppages, shortages or capacity constraints in the transportation industry, disruptions to the national and international transportation infrastructure, fuel shortages or transportation cost increases could adversely affect our business, results of operations, cash flows and financial performance.

Product recalls and/or product liability may adversely impact our business, merchandise offerings, reputation, results of operations, cash flow and financial performance.

We may be subject to product recalls if any of the products that we manufacture or sell are believed to cause injury or illness. In addition, as a retailer of products manufactured by third parties, we may also be liable for various product liability claims for products we do not manufacture. Indemnification provisions that we may enter into are typically limited by their terms and depend on the creditworthiness of the indemnifying party and its insurer and the absence of significant defenses. We may be unable to obtain full recovery from the insurer or any indemnifying third party in respect of any claims against us in connection with products manufactured by such third party. In addition, if our vendors fail to manufacture or import merchandise that adheres to our quality control standards or standards established by applicable law, our reputation and brands could be damaged, potentially leading to an increase in customer litigation against us. Furthermore, to the extent we are unable to replace any recalled products, we may have to reduce our merchandise offerings, resulting in a decrease in sales, especially if a recall occurs near or during a peak seasonal period. If our vendors are unable or unwilling to recall products failing to meet our quality standards, we may be required to recall those products at a substantial cost to us.

Our business is sensitive to consumer spending and general economic conditions, and other factors beyond our control, including adverse weather conditions or the outbreak of disease, and an economic slowdown could adversely affect our financial performance.

In general, our retail sales, and the retail sales of our business partners to whom we sell, represent discretionary spending by our customers and our business partners' customers. Discretionary spending is affected by many factors, such as general business conditions, interest rates, availability of consumer credit, unemployment levels, taxation, weather, hurricanes, outbreaks of contagious diseases (such as the flu) and consumer confidence in future economic conditions. Our customers' purchases and our business partners' customers' purchases of discretionary items, including our products, often decline during periods when disposable income is lower or during periods of actual or perceived unfavorable economic conditions. If this occurs, our revenues and profitability will decline. In addition, economic downturns may make it difficult for us to accurately forecast future demand trends, which could cause us to purchase excess inventories, resulting in increases in our inventory carrying cost, or insufficient inventories, resulting in our inability to satisfy our customer demand and potential loss of market share.

Our business may be adversely affected by the loss or actions of our third-party vendors.

Our ability to find new qualified vendors who meet our standards and supply products in a timely and efficient manner can be a significant challenge, especially for goods sourced from outside the United States. Many of our vendors currently provide us with incentives such as volume purchasing allowances and trade discounts. If our vendors were to reduce or discontinue these incentives, costs would increase. Should we be unable to pass cost increases to consumers, our profitability would be reduced.

Our business and results of operations may be harmed if our suppliers or third-party manufacturers fail to follow acceptable labor practices or to comply with other applicable laws and guidelines.

Many of the products sold in our stores and on our websites are manufactured outside of the United States, which may increase the risk that the labor, manufacturing safety and other practices followed by the manufacturers of these products may differ from those generally accepted in the United States as well as those with which we are required to comply under many of our image or character licenses. Although we require each of our vendors to sign a purchase order and vendor agreement that requires adherence to accepted labor practices and compliance with labor, manufacturing safety and other laws and we test merchandise for product safety standards, we do not supervise, control or audit our vendors or the manufacturers that produce the merchandise we sell to our customers. The violation of labor, manufacturing safety or other laws by any of our vendors or manufacturers, or the divergence of the labor practices followed by any of our vendors or manufacturers from those generally accepted in the United States could interrupt or otherwise disrupt the shipment of finished products to us, damage our brand image, subject us to boycotts by our customers or activist groups or cause some of our licensors of popular images to terminate their licenses to us. Our future operations and performance will be subject to these factors, which are beyond our control and could materially hurt our business, financial condition and results of operations or require us to modify our current business practices or incur increased costs.

Changes in regulations or enforcement, or our failure to comply with existing or future regulations, may adversely impact our business.

We are subject to federal, state and local regulations with respect to our operations in the United States. Additionally, we are subject to regulations in the foreign countries in which we operate and such regulations are increasingly distinct from those in the United States. Further, we may be subject to greater international regulation as our business expands. There are a number of legislative and regulatory initiatives that could adversely impact our business if they are enacted or enforced. Those initiatives include increased or new tariffs on imported products, wage or workforce issues (such as minimum-wage requirements, overtime and other working conditions and citizenship requirements), collective bargaining matters, environmental regulation, price and promotion regulation, trade regulations, data and privacy protection and others.

Proposed changes in tax regulations may also change our effective tax rate as our business is subject to a combination of applicable tax rates in the various countries, states and other jurisdictions in which we operate. New accounting pronouncements and interpretations of existing accounting rules and practices have occurred and may occur in the future. A change in accounting standards or practices can have a significant effect on our reported results of operations. Failure to comply with legal requirements could result in, among other things, increased litigation risk that could affect us adversely by subjecting us to significant monetary damages and other remedies or by increasing our litigation expenses, administrative enforcement actions, fines and civil and criminal liability. If such issues become more expensive to address, or if new issues arise, they could increase our expenses, generate negative publicity, or otherwise adversely affect us.

Certain aspects of recent U.S. federal income tax reform could negatively affect us.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“the Act”) was signed into law. The Act should result in an overall benefit to us because it reduced our marginal U.S. federal income rate to 21%, effective January 1, 2018, and generally allows us to immediately deduct 100% of the cost of tangible, depreciable property that we acquire and place into service on or before January 1, 2023 for federal income tax purposes.

Certain aspects of the Act, however, could negatively affect us. For example, under the Act, we will generally not be able to deduct our business interest expense to the extent that it exceeds 30% of our Adjusted Taxable Income for our 2018 through 2021 tax years or 30% of our EBIT thereafter. However, such non-deductible interest will be available for an indefinite carryforward.

Additionally, under the Act, we were required to pay a one-time transition tax on the previously untaxed deferred foreign earnings that our foreign subsidiaries have accrued since 1986 at a rate of 15.5% for cash and cash-equivalent profits and 8% on other reinvested foreign earnings (the "Transition Tax"). We have elected to pay this Transition Tax over eight annual installments without interest.

Further, under the Act, we lost the domestic production activities deduction and we are subject to a tax on global intangible low-taxed income.

Our international operations subject us to additional risks, which risks and costs may differ in each country in which we do business and may cause our profitability to decline.

We conduct our business in a number of foreign countries, including contracting with manufacturers and suppliers located outside of the United States, many of which are located in Asia. We have expanded our international operations through numerous acquisitions and we plan on continuing to expand them through additional acquisitions, investments in joint ventures and organic growth. Our operations and financial condition may be adversely affected if the markets in which we compete or source our products are affected by changes in political, economic or other factors. These factors, over which we have no control, may include:

- recessionary or expansive trends in international markets;
- changes in foreign currency exchange rates, principally fluctuations in the British Pound Sterling, the Canadian Dollar, the Euro, the Malaysian Ringgit, the Mexican Peso and the Australian Dollar;
- hyperinflation or deflation in the foreign countries in which we operate;
- work stoppages or other employee rights issues;
- the imposition of restrictions on currency conversion or the transfer of funds;
- transportation delays and interruptions;
- increases in the taxes we pay and other changes in applicable tax laws;
- difficulty enforcing our intellectual property and competition against counterfeit goods;
- legal and regulatory changes and the burdens and costs of our compliance with a variety of laws, including new or additional trade restrictions, tariffs and changes in environmental regulations; and
- political and economic instability.

International trade disputes and the U.S. government's trade policy could adversely affect our business.

International trade disputes could result in tariffs and other protectionist measures that could adversely affect our business. Tariffs could increase the cost of our products and the components and raw materials that go into making them. These increased costs could adversely impact the gross margin that we earn on our products. Countries may also adopt other protectionist measures that could limit our ability to offer our products and services, including, but not limited to, the Trump Administration's tariffs on China and China's retaliatory tariffs on certain products from the U.S. Political uncertainty surrounding international trade disputes and protectionist measures could also have a negative effect on consumer confidence and spending, which could adversely affect our business.

The U.S. government has indicated its intent to adopt a new approach to trade policy and in some cases to renegotiate, or potentially terminate, certain existing bilateral or multi-lateral trade agreements. It has also

initiated tariffs on certain foreign goods and has raised the possibility of imposing significant, additional tariff increases or expanding the tariffs to capture other types of goods. Although the tariffs that have been initiated to date have not had a material impact on the Company's operating results, to the extent that significant additional tariffs are imposed, depending on the extent of such tariffs, they could have a material impact on our operating results.

In response to the U.S. government's actions, certain foreign governments have imposed retaliatory tariffs on goods that their countries import from the U.S. Changes in U.S. trade policy could result in one or more foreign governments adopting responsive trade policies that, depending on the scope of the policies, could make it more difficult or costly for us to do business in those countries.

We cannot predict the extent to which the U.S. or other countries will impose quotas, duties, tariffs, taxes or other similar restrictions upon the import or export of our products in the future, nor can we predict future trade policy or the terms of any renegotiated trade agreements and their impact on our business. The adoption and expansion of trade restrictions, the occurrence of a trade war, or other governmental action related to tariffs or trade agreements or policies has the potential to adversely impact demand for our products, our costs, our customers, our suppliers, and the U.S. economy, which in turn could have a material adverse effect on our business, operating results and financial condition.

Our business may be adversely impacted by helium shortages.

Although not used in the actual manufacture of our products, helium gas is currently used to inflate the majority of our metallic balloons and a portion of our latex balloons. We rely upon the exploration and refining of natural gas to ensure adequate supplies of helium as helium is a by-product of the natural gas production process. Helium shortages can adversely impact our financial performance.

During the middle of 2018, helium supplies tightened due to various factors. As a result, our balloon sales and gross margins were negatively impacted. However, should the shortage continue, it could continue to have a material impact on our results.

We may face risks associated with litigation and claims.

From time to time, we may become involved in other legal proceedings relating to the conduct of our business, including but not limited to, employee-related and consumer matters. Additionally, as a retailer and manufacturer of decorated party goods, we have been and may continue to be subject to product liability claims if the use of our products, whether manufactured by us or third party manufacturers, is alleged to have resulted in injury or if our products include inadequate instructions or warnings. Such matters can be time-consuming, divert management's attention and resources and cause us to incur significant expenses. Due to the uncertainties of litigation, we can give no assurance that we will prevail on all claims made against us in the lawsuits that we currently face or that additional claims will not be made against us in the future. Furthermore, because litigation is inherently uncertain, there can be no assurance that the results of any of these actions will not have a material adverse effect on our business, results of operations or financial condition.

We may require additional capital to fund our business, which may not be available to us on satisfactory terms or at all.

We currently rely on cash generated by operations and borrowings available under the credit facilities to meet our working capital needs. However, if we are unable to generate sufficient cash from operations or if borrowings available under the credit facilities are insufficient, we may be required to adopt one or more alternatives to raise cash, such as incurring additional indebtedness, selling our assets, seeking to raise additional equity capital or restructuring, which alternatives may not be available to us on satisfactory terms or at all. Any of the foregoing could have a material adverse effect on our business.

Our success depends, in large part, on our senior management team.

The success of our business depends, to a large extent, on the continued service of our senior management team. James M. Harrison, our Chief Executive Officer, has been with the Company for over 20 years. We may not be able to adequately mitigate the negative impact on our business and competitive position that the loss of his services and leadership could have, as we may not be able to find management personnel internally or externally with similar experience and industry knowledge to replace him on a timely basis. We may also experience similar risks with respect to other members of our senior management team. We do not maintain key life insurance on any of our senior officers.

Our supply of qualified personnel and our labor costs depend in part on factors outside of our control.

As our business expands, we believe that our future success will depend greatly on our continued ability to attract, motivate and retain qualified personnel who are able to successfully meet the needs of our business. Although we generally have been able to meet our staffing requirements in the past, our ability to meet our labor needs while controlling costs is subject to external factors, such as unemployment levels, labor market conditions, minimum wage legislation and changing demographics. Recently, various legislative movements have sought to increase the federal minimum wage in the United States, as well as the minimum wage in a number of individual states. As federal or state minimum wage rates increase, we may need to increase not only the wage rates of our minimum wage employees, but also the wages paid to our other hourly employees as well. Our inability to meet our staffing requirements in the future at costs that are favorable to us, or at all, could impair our ability to increase revenue, and our customers could experience lower levels of customer service.

We are subject to risks associated with leasing substantial amounts of space.

We lease all of our company-owned stores, our corporate headquarters and most of our distribution facilities. Payments under our leases account for a significant portion of our operating expenses and we expect payment obligations under our leases to account for a significant portion of our future operating expenses. The majority of our store leases contain provisions for base rent and a small number of store leases contain provisions for base rent, plus percentage rent based on sales in excess of an agreed upon minimum annual sales level. Our continued growth and success depends in part on our ability to renew leases for successful stores and negotiate leases for new stores, including temporary leases for our Halloween City and Toy City stores. There is no assurance that we will be able to negotiate leases at similar or favorable terms, and we may decide not to enter a market or be forced to exit a market if a favorable arrangement cannot be made. If an existing or future store is not profitable and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease, including, among other things, paying the base rent for the balance of the lease term. Moreover, even if a lease has an early cancellation clause, we may not satisfy the contractual requirements for early cancellation under the lease.

Our business could be harmed if our existing franchisees do not conduct their business in accordance with agreed upon standards.

Our success depends, in part, upon the ability of our franchisees to operate their stores and promote and develop our store concept. Although our franchise agreements include certain operating standards, all franchisees operate independently and their employees are not our employees. We provide certain training and support to our franchisees, but the quality of franchise store operations may be diminished by any number of factors beyond our control. Consequently, franchisees may not successfully operate stores in a manner consistent with our standards and requirements, or may not hire and train qualified managers and other store personnel. If they do not, our image, brand and reputation could suffer.

Our information systems, order fulfillment and distribution facilities may prove inadequate or may be disrupted.

We depend on our management information systems for many aspects of our business. We will be materially adversely affected if our management information systems are disrupted or we are unable to improve, upgrade, maintain and expand our systems. In particular, we believe our perpetual inventory, automated replenishment and stock ledger systems are necessary to properly forecast, manage and analyze our inventory levels, margins and merchandise ordering quantities. We may fail to properly optimize the effectiveness of these systems, or to adequately support and maintain the systems. Moreover, we may not be successful in developing or acquiring technology that is competitive and responsive to our customers and might lack sufficient resources to make the necessary investments in technology needs and to compete with our competitors, which could have a material adverse impact on our business, results of operations, cash flows and financial performance.

In addition, we may not be able to prevent a significant interruption in the operation of our electronic order entry and information systems, e-commerce platforms or manufacturing and distribution facilities due to natural disasters, accidents, systems failures or other events. Any significant interruption in the operation of these facilities, including an interruption caused by our failure to successfully expand or upgrade our systems or manage our transition to utilizing the expansions or upgrades, could reduce our ability to receive and process orders and provide products and services to our stores, third-party stores, and other customers, which could result in lost sales, cancelled sales and a loss of loyalty to our brand.

We may fail to adequately maintain the security of our electronic and other confidential information.

We have become increasingly centralized and dependent upon automated information technology processes. In addition, a portion of our business operations is conducted over the internet. We could experience operational problems with our information systems and e-commerce platforms as a result of system failures, viruses, computer “hackers” or other causes. Any material disruption or slowdown of our systems could cause information, including data related to customer orders, to be lost or delayed, which could—especially if the disruption or slowdown occurred during a peak sales season—result in delays in the delivery of merchandise to our stores and customers or lost sales, which could reduce demand for our merchandise and cause our sales to decline.

In addition, in the ordinary course of our business, we collect and store certain personal information from individuals, such as our customers and suppliers, and our employees, and we process customer payment card and check information, including via our e-commerce platforms. Computer hackers may attempt to penetrate our computer system, payment card terminals or other payment systems and, if successful, misappropriate personal information, payment card or check information or confidential Company business information. In particular, the techniques used by criminals to obtain unauthorized access to sensitive data change frequently and often are not recognized until launched against a target; accordingly, we may be unable to anticipate these techniques or implement adequate preventative measures. In addition, a Company employee, contractor or other third party with whom we do business may attempt to circumvent our security measures in order to obtain such information and may purposefully or inadvertently cause a breach involving such information. Any failure to maintain the security of our customers’ confidential information, or data belonging to us or our suppliers, could put us at a competitive disadvantage, result in deterioration in our customers’ confidence in us, subject us to potential litigation and liability, and fines and penalties, resulting in a possible material adverse impact on our business, results of operations, cash flows and financial performance. While we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses and would not remedy damage to our reputation. There can be no assurance that we will not suffer a criminal attack in the future, that unauthorized parties will not gain access to personal information, or that any such incident will be discovered in a timely manner.

Historically we have made a number of acquisitions, and we may make more acquisitions in the future as part of our growth strategy. Future acquisitions or investments could disrupt our ongoing business, distract

management and employees, increase our expenses and adversely affect our business. In addition, we may not be able to identify suitable acquisitions.

We have made a number of recent acquisitions which have contributed to our growth. Acquisitions require significant capital resources and can divert management's attention from our existing business. Acquisitions also entail an inherent risk that we could become subject to contingent or other liabilities, including liabilities arising from events or conduct predating the acquisition, that were not known to us at the time of acquisition. We may also incur significantly greater expenditures in integrating an acquired business than we had anticipated at the time of the acquisition, which could impair our ability to achieve anticipated cost savings and synergies. Acquisitions may also have unanticipated tax and accounting ramifications. Furthermore, acquisitions might consume a significant portion of our senior management team's time and efforts with issues unrelated to advancing our core business strategies and operation issues. Our failure to successfully identify and consummate acquisitions or to manage and integrate the acquisitions we make could have a material adverse effect on our business, financial condition or results of operations.

In addition, we may not be able to:

- identify suitable acquisition candidates;
- consummate acquisitions on acceptable terms;
- successfully integrate any acquired business into our operations or successfully manage the operations of any acquired business; or
- retain an acquired company's significant customer relationships, goodwill and key personnel or otherwise realize the intended benefits of an acquisition.

In the event that the operations of an acquired business do not meet our performance expectations, we may have to restructure the acquired business or write-off the value of some or all of the assets of the acquired business.

Our intellectual property rights may be inadequate to protect our business.

We hold a variety of United States trademarks, service marks, patents, copyrights, and registrations and applications therefor, as well as a number of foreign counterparts thereto and/or independent foreign intellectual property asset registrations. In some cases, we rely solely on unregistered common law trademark rights and unregistered copyrights under applicable United States law to distinguish and/or protect our products, services and branding from the products, services and branding of our competitors. We cannot assure you that no one will challenge our intellectual property rights in the future. In the event that our intellectual property rights are successfully challenged by a third party, we could be forced to re-brand, re-design or discontinue the sale of certain of our products or services, which could result in loss of brand recognition and/or sales and could require us to devote resources to advertising and marketing new branding or re-designing our products. Further, we cannot assure you that competitors will not infringe our intellectual property rights, or that we will have adequate resources to enforce these rights. We also permit our franchisees to use a number of our trademarks and service marks, including Party City, The Discount Party Super Store, Nobody Has More Party for Less, Party America and Halloween City. Our failure to properly control our franchisees' use of such trademarks could adversely affect our ability to enforce them against third parties. A loss of any of our material intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

We license from many third parties and do not own the intellectual property rights necessary to sell products capturing many popular images, such as cartoon or motion picture characters. While none of these licenses is individually material to our aggregate business, a large portion of our business depends on the continued ability to license the intellectual property rights to these images in the aggregate. Any injury to our reputation or our inability to comply with, in many cases, stringent licensing guidelines in these agreements may adversely affect

our ability to maintain these relationships. A termination of any of our significant intellectual property licenses, or any other similarly material limitation on our ability to use certain licensed material may prevent us from manufacturing and distributing certain licensed products and could cause our customers to purchase these products from our competitors. In addition, we may be unable to renew some of our significant intellectual property licenses on terms favorable to us or at all. A large aggregate loss of our right to use intellectual property under our license agreements could have a material adverse effect on our business, financial condition and results of operations.

We also face the risk of claims that we have infringed third parties' intellectual property rights, which could be expensive and time consuming to defend, cause us to cease using certain intellectual property rights, redesign certain products or packaging or cease selling certain products or services, result in our being required to pay significant damages or require us to enter into costly royalty or licensing agreements in order to obtain the rights to use third parties' intellectual property rights, which royalty or licensing agreements may not be available at all, any of which could have a negative impact on our operating profits and harm our future prospects.

Our substantial indebtedness and lease obligations could adversely affect our financial flexibility and our competitive position.

As of December 31, 2018, we had total indebtedness of $1,938.0 million, net of deferred financing costs, capitalized call premiums and original issue discounts. Additionally, we had $210.3 million of borrowing capacity available under our asset-based revolving credit facility ("ABL Facility", collectively with our senior secured term loan facility, the "Senior Credit Facilities").

As of December 31, 2018, we had outstanding approximately $1,092.2 million in aggregate principal amount of indebtedness under the Senior Credit Facilities, net of deferred financing costs, capitalized call premiums and original issue discounts. Such indebtedness bears interest at a floating rate.

We also have, and will continue to have, significant lease obligations. As of December 31, 2018, our minimum aggregate rental obligation under operating leases for fiscal 2019 through 2023 totaled $811.7 million.

Our substantial level of indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness and any failure to comply with the obligations under any of our debt instruments, including restrictive covenants, could result in an event of default under the agreements governing such other indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing funds available for working capital, capital expenditures, acquisitions, selling and marketing efforts, product development and other purposes;
- increase our vulnerability to adverse economic and industry conditions, which could place us at a competitive disadvantage compared to our competitors that have relatively less indebtedness;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- expose us to the risk of increasing rates as certain of our borrowings, including under the Senior Credit Facilities, will be at variable interest rates;
- restrict us from making strategic acquisitions or cause us to make non-strategic divestitures; and
- limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for working capital, capital expenditures, acquisitions, product development and other corporate purposes.

The occurrence of any one of these events could have an adverse effect on our business, financial condition, results of operations, prospects and ability to satisfy our obligations under our indebtedness.

Restrictions under our existing and future indebtedness may prevent us from taking actions that we believe would be in the best interest of our business.

The agreements governing our existing indebtedness contain and the agreements governing our future indebtedness will likely contain customary restrictions on us or our subsidiaries, including covenants that, among other things and subject to certain exceptions, restrict us or our subsidiaries, as the case may be, from:

- incurring additional indebtedness or issuing disqualified stock;
- paying dividends or distributions on, redeeming, repurchasing or retiring our capital stock;
- making payments on, or redeeming, repurchasing or retiring indebtedness;
- making investments, loans, advances or acquisitions;
- entering into sale and leaseback transactions;
- engaging in transactions with affiliates;
- creating liens;
- transferring or selling assets;
- guaranteeing indebtedness;
- creating restrictions on the payment of dividends or other amounts to us from our subsidiaries; and
- consolidating, merging or transferring all or substantially all of our assets and the assets of our subsidiaries.

In addition, the ABL Facility requires us to comply, under specific circumstances, including certain types of acquisitions, with a minimum fixed charge coverage ratio covenant of 1.00 to 1.00. Our ability to comply with this covenant can be affected by events beyond our control and we may not be able to satisfy them. A breach of this covenant would be an event of default. If an event of a default occurs under the ABL Facility, the ABL Facility lenders could elect to declare all amounts outstanding under the ABL Facility to be immediately due and payable or terminate their commitments to lend additional money, which would also lead to an event of default under the senior secured term loan facility (“the Term Loan Credit Agreement”) and would lead to an event of default under our senior notes if any of the Senior Credit Facilities were accelerated. If the indebtedness under the Senior Credit Facilities or our other indebtedness were to be accelerated, our assets may not be sufficient to repay such indebtedness in full. We have pledged a significant portion of our assets as collateral under the Senior Credit Facilities.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at

higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest and principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The Senior Credit Facilities and the indentures governing the senior notes restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or obtain the proceeds that we could realize from them and the proceeds may not be adequate to meet any debt service obligations then due. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

Our ability to repay our debt is affected by the cash flow generated by our subsidiaries.

Our subsidiaries own substantially all of our assets and conduct substantially all of our operations. Accordingly, repayment of our indebtedness will be dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us, by dividend, debt repayment or otherwise. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness. Each subsidiary is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. While the indentures governing the senior notes limit the ability of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments to us, these limitations are subject to certain qualifications and exceptions.

In addition, under certain circumstances, legal restrictions may limit our ability to obtain cash from our subsidiaries. Under the Delaware General Corporation Law (the “DGCL”), our subsidiaries organized in the State of Delaware may only make dividends (i) out of their “surplus” as defined in the DGCL or (ii) if there is no such surplus, out of their net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Under fraudulent transfer laws, certain of our subsidiaries may not pay dividends if the relevant entity is insolvent or is rendered insolvent thereby. The measures of insolvency for purposes of these fraudulent transfer laws vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, an entity would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they became due.

While we believe that we and our relevant subsidiaries currently have surplus and are not insolvent, there can otherwise be no assurance that we and these subsidiaries will not become insolvent or will be permitted to make dividends in the future in compliance with these restrictions in amounts needed to service our indebtedness.

Significant interest rate changes could affect our profitability and financial performance.

Our earnings are affected by changes in interest rates as a result of our variable rate indebtedness under the ABL Facility and the Term Loan Credit Agreement. The interest rate swap agreements that we use to manage the risk associated with fluctuations in interest rates (if any) may not be able to fully eliminate our exposure to these changes.

Concentration of ownership by investment funds affiliated with Thomas H. Lee Partners, L.P. ("THL") could limit other stockholders' ability to influence the outcome of key transactions, including a change of control.

Although we are no longer a "controlled company", THL beneficially owns approximately 38% of our outstanding common stock as of December 31, 2018. As a result, THL will be able to exert a significant degree of influence over our business and affairs, including any determinations with respect to mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional common stock or other equity securities, the repurchase or redemption of common stock and the payment of dividends. Similarly, THL may effectively control matters submitted to a vote of our stockholders without the consent of our other stockholders, may have the power to prevent a change in our control and could take other actions that might be favorable to them.

Maintaining and improving our financial controls and the requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting and other requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the New York Stock Exchange (the "NYSE") rules. The requirements of these rules and regulations have increased and will continue to significantly increase our legal and financial compliance costs, including costs associated with the hiring of additional personnel, making some activities more difficult, time-consuming or costly, and may also place undue strain on our personnel, systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition.

The Sarbanes-Oxley Act requires, among other things, that we maintain disclosure controls and procedures and internal control over financial reporting. Ensuring that we have adequate internal financial and accounting controls and procedures in place is a costly and time-consuming effort that needs to be re-evaluated frequently. We test our internal controls in order to comply with the requirements of Section 404 of the Sarbanes-Oxley Act ("Section 404"). Section 404 requires that we evaluate our internal control over financial reporting to enable management to report on, and our independent auditors to audit, the effectiveness of those controls. Both we and our independent registered public accounting firm test our internal controls in connection with the Section 404 requirements and could, as part of that testing, identify material weaknesses, significant deficiencies or other areas for further attention or improvement.

Implementing any appropriate changes to our internal controls may require specific compliance training for our directors, officers and employees, require the hiring of additional finance, accounting and other personnel, entail substantial costs to modify our existing accounting systems, and take a significant period of time to complete. These changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. Moreover, adequate internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to satisfy the requirements of Section 404 on a timely basis could result in the loss of investor confidence in the reliability of our financial statements, which in turn could cause the market value of our common stock to decline.

Various rules and regulations applicable to public companies make it more difficult and more expensive for us to maintain directors' and officers' liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to maintain coverage. If we are unable to maintain adequate directors' and officers' liability insurance, our ability to recruit and retain qualified officers and directors, especially those directors who may be deemed independent for purposes of the NYSE rules, will be significantly curtailed.

The market price of our common stock could decline due to the large number of outstanding shares of our common stock eligible for future sale.

Sales of substantial amounts of our common stock in the public market in future offerings, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future, at a time and price that we deem appropriate. In addition, the additional sale of our common stock by our officers, directors or THL in the public market, or the perception that these sales may occur, could cause the market price of our common stock to decline.

We may issue shares of our common stock or other securities from time to time as consideration for, or to finance, future acquisitions and investments or for other capital needs. We cannot predict the size of future issuances of our shares or the effect, if any, that future sales and issuances of shares would have on the market price of our common stock. If any such acquisition or investment is significant, the number of shares of common stock or the number or aggregate principal amount, as the case may be, of other securities that we may issue may in turn be substantial and may result in additional dilution to our stockholders. We may also grant registration rights covering shares of our common stock or other securities that we may issue in connection with any such acquisitions and investments.

To the extent that any of us, our executive officers, directors or THL sell, or indicate an intent to sell, substantial amounts of our common stock in the public market, the trading price of our common stock could decline significantly.

Anti-takeover provisions in our charter documents and Delaware law might discourage, delay or prevent a change in control of our company.

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

- the division of our board of directors into three classes and the election of each class for three-year terms;
- certain rights of THL with respect to the designation of directors for nomination and election to our board of directors;
- advance notice requirements for stockholder proposals and director nominations;
- the sole ability of the board of directors to fill a vacancy created by the expansion of the board of directors;
- the required approval of holders of at least 75% of our outstanding shares of capital stock entitled to vote generally at an election of the directors to remove directors only for cause;
- the required approval of holders of at least 66 2⁄3 % of our outstanding shares of capital stock entitled to vote at an election of directors to adopt, amend or repeal our bylaws, or amend or repeal certain provisions of our amended and restated certificate of incorporation;
- limitations on the ability of stockholders to call special meetings and take action by written consent; and
- provisions that reproduce much of the provisions that limit the ability of "interested stockholders" (other than THL and certain of its transferees) from engaging in specified business combinations with us absent prior approval of the board of directors or holders of 66 2⁄3 % of our voting stock.

The existence of the foregoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in the acquisition.

Our amended and restated certificate of incorporation designates courts in the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation provides that, subject to limited exceptions, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action asserting a claim against us arising pursuant to any provision of the DGCL, our amended and restated certificate of incorporation or our amended and restated bylaws or (iv) any other action asserting a claim against us that is governed by the internal affairs doctrine (each, a "Covered Proceeding"). In addition, our amended and restated certificate of incorporation provides that if any action the subject matter of which is a Covered Proceeding is filed in a court other than the specified Delaware courts without the approval of our board of directors (each, a "Foreign Action"), the claiming party will be deemed to have consented to (i) the personal jurisdiction of the specified Delaware courts in connection with any action brought in any such courts to enforce the exclusive forum provision described above and (ii) having service of process made upon such claiming party in any such enforcement action by service upon such claiming party's counsel in the Foreign Action as agent for such claiming party. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to these provisions. These provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find these provisions of our amended and restated certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition.

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

We plan to retain future earnings, if any, for future operation, expansion and debt repayment and have no current plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our board of directors may deem relevant. In addition, our ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness we or our subsidiaries incur. As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than you paid.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Company maintains the following facilities for its corporate and retail headquarters and to conduct its principal design, manufacturing and distribution operations:

Location	Principal Activity	Square Feet	Owned or Leased (With Expiration Date)
Elmsford, New York	Executive and other corporate offices, showrooms, design and art production for party products	146,346 square feet	Leased (1)

Location	Principal Activity	Square Feet	Owned or Leased (With Expiration Date)
Rockaway, New Jersey	Retail corporate offices	106,000 square feet	Leased (expiration date: July 31, 2022)
Antananarivo, Madagascar	Manufacture of costumes	41,000 square feet	Leased (expiration date: December 31, 2023)
Dallas, Texas	Manufacture/personalization of cups and napkins	54,413 square feet	Leased (expiration date: October 31, 2022)
East Providence, Rhode Island	Manufacture and distribution of plastic plates, cups and bowls	229,231 square feet (2)	Leased (expiration date: February 28, 2033)
Eden Prairie, Minnesota	Manufacture of metallic balloons and accessories	115,600 square feet	Owned
Los Lunas, New Mexico	Manufacture of injection molded plastics	85,055 square feet	Owned
Louisville, Kentucky	Manufacture and distribution of paper plates	213,958 square feet	Leased (expiration date: March 31, 2025)
Melaka, Malaysia	Manufacture and distribution of latex balloons	100,000 square feet	Leased (expiration date: May 30, 2072)
Monterrey, Mexico	Manufacture and distribution of party products	355,500 square feet	Leased (expiration date: March 3, 2027)
Newburgh, New York	Manufacture of paper napkins and cups	248,000 square feet	Leased (expiration date: July 31, 2027)
Tijuana, Mexico	Manufacture and distribution of party products	135,000 square feet	Leased (3)
Chester, New York	Distribution of party products	896,000 square feet	Owned
Edina, Minnesota	Distribution of metallic balloons and accessories	122,312 square feet	Leased (expiration date: March 31, 2021)
Kirchheim unter Teck, Germany	Distribution of party goods	215,000 square feet	Owned
Milton Keynes, Buckinghamshire, England	Distribution of party products throughout Europe	130,858 square feet	Leased (expiration date: December 31, 2025)
Naperville, Illinois	Distribution of party goods for e-commerce sales	440,343 square feet	Leased (expiration date: December 31, 2033)

(1) Property is comprised of two buildings with various lease expiration dates through December 31, 2027.
(2) This figure represents an industrial park, which includes a 48,455 square foot office and warehouse.
(3) Property is comprised of two buildings with various lease expiration dates through March 31, 2022.

In addition to the facilities listed above, we maintain a smaller distribution facility in the United Kingdom, smaller manufacturing facilities in Minnesota, small administrative offices in California, Australia, Canada and the United Kingdom, and sourcing offices in China, Hong Kong, India, Indonesia and Vietnam. We also maintain warehouses in Colorado, Florida, Georgia, Michigan, Minnesota, New Jersey and New York and showrooms in Georgia, Nevada, Canada and the United Kingdom.

As of December 31, 2018, Company-owned and franchised permanent stores were located in the following states and Puerto Rico:

State	Company-owned	Franchise	Chain-wide
Alabama	9	0	9
Arizona	16	0	16
Arkansas	0	3	3
California	104	15	119
Colorado	15	0	15
Connecticut	16	0	16
Delaware	1	1	2
Florida	65	7	72
Georgia	30	1	31
Hawaii	0	2	2
Illinois	48	0	48
Indiana	21	0	21
Iowa	9	0	9
Kansas	6	0	6
Kentucky	9	0	9
Louisiana	12	0	12
Maine	3	0	3
Maryland	23	1	24
Massachusetts	24	0	24
Michigan	27	0	27
Minnesota	15	0	15
Mississippi	1	2	3
Missouri	19	1	20
Montana	0	1	1
Nebraska	3	0	3
Nevada	6	0	6
New Hampshire	7	0	7
New Jersey	27	2	29
New Mexico	3	0	3
New York	55	11	66
North Carolina	14	5	19
North Dakota	3	0	3
Ohio	30	0	30
Oklahoma	11	0	11
Oregon	1	1	2
Pennsylvania	30	1	31
Puerto Rico	0	5	5
Rhode Island	3	0	3
South Carolina	9	1	10
Tennessee	9	7	16
Texas	70	14	84
Vermont	1	0	1
Virginia	15	8	23
Washington	18	1	19
West Virginia	4	0	4
Wisconsin	12	0	12
Total	804	90	894

Additionally, at December 31, 2018, there were 62 company-owned stores in Canada (including six opened during fiscal year 2018) and six franchise stores in Mexico.

In 2018, we operated 249 temporary stores in the U.S. and Canada, principally under the Halloween City banner, and approximately 25 temporary stores in the U.K. We operate such stores under short-term leases with terms of approximately four to six months.

We lease the property for all of our company-operated stores, which generally range in size from 10,000 square feet to 15,000 square feet. We do not believe that any individual store property is material to our financial condition or results of operations. Of the leases for the company-owned stores at December 31, 2018, 54 expire in 2019, 87 expire in 2020, 85 expire in 2021, 82 expire in 2022, 147 expire in 2023 and the balance expire in 2024 or thereafter. We have options to extend many of these leases for a minimum of five years.

We believe that our properties have been adequately maintained, are in generally good condition and are suitable for our business as presently conducted. We believe our existing manufacturing facilities provide sufficient production capacity for our present needs and for our anticipated needs in the foreseeable future. To the extent such capacity is not needed for the manufacture of our products, we generally use such capacity for the manufacture of products for others pursuant to terminable agreements. All manufacturing and distribution facilities generally are used on a basis of two shifts per day. We also believe that, upon the expiration of our current leases, we will be able either to secure renewal terms or to enter into leases for alternative locations at market terms.

Item 3. Legal Proceedings

From time to time, we are subject to various legal proceedings and claims that arise in the ordinary course of our business activities. We do not believe we are currently party to any pending legal action, the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our business or operating results.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock is listed on the NYSE under the symbol "PRTY".

As of the close of business on January 31, 2019, there were forty two holders of record of the Company's common stock, which does not reflect those shares held beneficially or those shares held in "street" name. Accordingly, the number of beneficial owners of our common stock exceeds this number.

Dividend Policy

Most of the Company's indebtedness contains restrictions on the Company's activities, including paying dividends on its capital stock and restricting dividends or other payments to the Company. See Note 8, Long-Term Obligations, of Item 8, "Financial Statements and Supplementary Data," in this Annual Report on Form 10-K for further discussion. The Company currently intends to retain all of its future earnings, if any, to finance operations, development and growth of its business and repay indebtedness. Any future determination relating to our dividend policy will be made at the discretion of the Company's board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and covenants and other factors that the board of directors may deem relevant.

Securities Authorized for Issuance Under Equity Compensation Plans

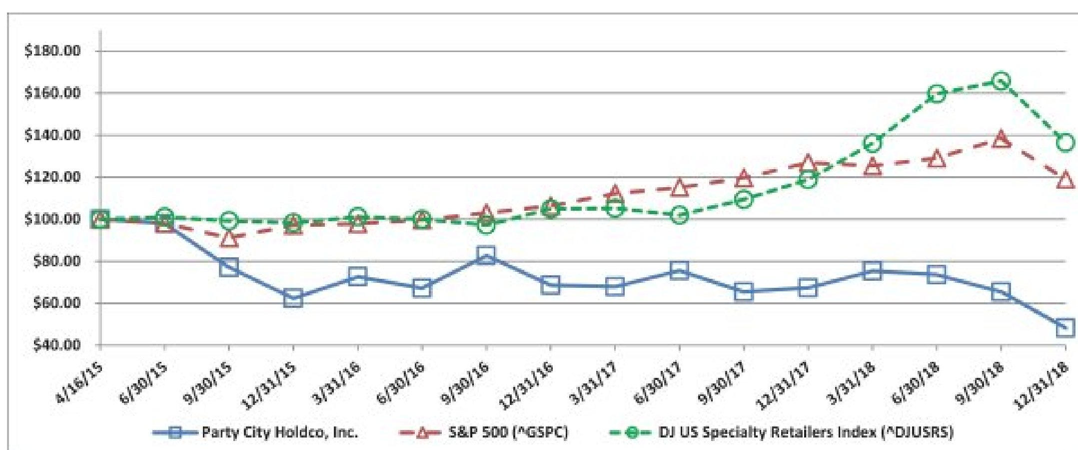
Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	7,658,982(1)	$ 8.49(1)	5,932,162
Equity compensation plans not approved by security holders	596,000	15.60	254,000
Total	8,254,982	$ 9.01	6,186,162

(1) Column (a) includes 6,927,174 outstanding stock options and 731,808 restricted stock units. The restricted stock units amount assumes that the maximum number of shares ultimately vest for awards that are performance-based. Additionally, the stock options amount assumes that all performance-based stock options vest. The weighted-average exercise price in column (b) takes into account the restricted stock units, which have no exercise price. The weighted average exercise price solely with respect to stock options outstanding under the approved plans is $9.39.

Stock Performance Graph

The line graph below compares the cumulative total stockholder return on the Company's common stock with the S&P 500 Index and the Dow Jones U.S. Specialty Retailers Index for the period from the completion of our initial public offering on April 16, 2015 through December 31, 2018. The graph assumes an investment of $100 made at the closing of trading on April 16, 2015 in (i) the Company's common stock, (ii) the stocks comprising the S&P 500 Index and (iii) the stocks comprising the Dow Jones U.S. Specialty Retailers Index. All values assume reinvestment of the full amount of all dividends, if any, into additional shares of the same class of equity securities at the frequency with which dividends were paid on such securities during the applicable time

period. The stock price performance included in the line graph below is not necessarily indicative of future stock price performance. The stock performance graph shall not be deemed “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing by us under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate the graph by reference in such filing.



Common Stock Repurchases

The following table contains information for common stock repurchased during the fourth quarter of 2018:

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
October 1 to October 31	—	—	—	$ 100,000,000
November 1 to November 30	2,645,369	$ 11.34	2,645,369	70,000,008
December 1 to December 31	1,140,289	$ 8.94	1,140,289	59,802,712
Total	3,785,658		3,785,658	

(1) Represents shares repurchased in open market transactions pursuant to the Share Repurchase Program (as defined below).

(2) All share repurchases were made pursuant to a share repurchase program (the “Share Repurchase Program”) authorized by our board of directors. This program was announced on November 8, 2018 and allows for the purchase of up to $100 million of outstanding share of our common stock in privately negotiated transactions or in the open market, or otherwise. The Share Repurchase Program expires on November 12, 2019.

Item 6. Selected Consolidated Financial Data

The following table sets forth selected historical consolidated financial data for the periods and as of the dates indicated below. Our selected historical consolidated financial data as of December 31, 2017 and December 31, 2018 and for the years ended December 31, 2016, December 31, 2017 and December 31, 2018 presented in this table has been derived from our historical audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. Our selected historical consolidated financial data for the years ended December 31, 2014 and December 31, 2015 were derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. The following information should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our financial statements and the notes thereto contained in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

	Fiscal Year Ended December 31, 2014 (1)	Fiscal Year Ended December 31, 2015 (2)	Fiscal Year Ended December 31, 2016 (3)	Fiscal Year Ended December 31, 2017 (4)	Fiscal Year Ended December 31, 2018 (5)
Income Statement Data:					
Revenues:					
Net sales (6)	$ 2,251,589	$ 2,275,122	$ 2,266,386	$ 2,357,986	$ 2,416,442
Royalties and franchise fees	19,668	19,411	17,005	13,583	11,073
Total revenues (6)	2,271,257	2,294,533	2,283,391	2,371,569	2,427,515
Expenses:					
Cost of sales	1,375,706	1,370,884	1,350,387	1,395,279	1,435,358
Wholesale selling expenses	73,910	64,260	59,956	65,356	71,502
Retail operating expenses	397,110	401,039	408,583	415,167	425,996
Franchise expenses	14,281	14,394	15,213	14,957	13,214
General and administrative expenses	147,718	151,097	152,919	168,369	172,764
Art and development costs	19,390	20,640	22,249	23,331	23,388
Development stage expenses (7)	—	—	—	8,974	7,008
Income from operations	243,142	272,219	274,084	280,136	278,285
Interest expense, net	155,917	123,361	89,380	87,366	105,706
Other expense (income), net (8)	5,891	130,990	(2,010)	4,626	10,982
Income before income taxes	81,334	17,868	186,714	188,144	161,597
Income tax expense (benefit) (9)	25,211	7,409	69,237	(27,196)	38,778
Net income	56,123	10,459	117,477	215,340	122,819
Add: net income attributable to redeemable securities holder	—	—	—	—	409
Less: net loss attributable to noncontrolling interests	—	—	—	—	(31)
Net income attributable to common shareholders of Party City Holdco Inc.	$ 56,123	$ 10,459	$ 117,477	$ 215,340	$ 123,259
Statement of Cash Flow Data:					
Net cash provided by (used in)					
Operating activities (10)	$ 136,268	$ 80,385	$ 257,782	$ 267,883	$ 101,856
Investing activities (10)	(89,632)	(100,136)	(113,733)	(141,645)	(150,907)
Financing activities (10)	(23,530)	18,941	(119,740)	(139,962)	56,170
Per Share Data:					
Basic	$ 0.60	$ 0.09	$ 0.98	$ 1.81	$ 1.28
Diluted	$ 0.59	$ 0.09	$ 0.98	$ 1.79	$ 1.27
Weighted Average					
Outstanding basic	93,996,355	111,917,168	119,381,842	118,589,421	96,133,144
Diluted	94,444,137	112,943,807	120,369,672	119,894,021	97,271,050
Cash dividend per common share	—	—	—	—	—
Other Financial Data:					
Adjusted EBITDA (11)	$ 362,125	$ 380,293	$ 390,049	$ 409,210	$ 400,116
Adjusted net income (11)	$ 86,838	$ 114,206	$ 138,277	$ 148,643	$ 156,842
Adjusted net income per common share—diluted (11)	$ 0.92	$ 1.01	$ 1.15	$ 1.24	$ 1.61
Number of company-owned Party City stores	693	712	750	803	866
Capital expenditures	$ 78,241	$ 78,825	$ 81,948	$ 66,970	$ 85,661
Party City brand comp sales (12)	5.8%	1.5%	(0.4)%	(0.7)%	(0.7)%
Wholesale Share of shelf (13)	70.2%	75.0%	76.6%	79.6%	78.9%
Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 47,214	$ 42,919	$ 64,610	$ 54,291	$ 58,909
Working capital (14).	467,115	382,788	387,565	194,632	312,398
Total assets (14)	3,336,491	3,292,403	3,393,978	3,454,756	3,642,347
Total debt (14)(15)	2,120,796	1,786,809	1,673,090	1,831,440	1,938,030
Redeemable common securities	35,062	—	—	3,590	3,351
Total equity (15)	487,226	913,017	1,016,789	968,790	1,043,621

(1) The acquisition of U.S. Balloon Manufacturing Co., Inc. ("U.S. Balloon") is included in the financial statements from the acquisition date (fourth quarter 2014).

(2) The acquisitions of Travis Designs Limited ("Travis") and Accurate Custom Injection Molding Inc. ("ACIM") are included in the financial statements from their acquisition dates (first quarter 2015 and third quarter 2015, respectively).

(3) The acquisitions of nineteen franchise stores and Festival S.A. are included in the financial statements from their acquisition dates during the first quarter of 2016.

(4) The acquisitions of thirty-six franchise stores and Granmark S.A. de C.V. ("Granmark") are included in the financial statements from their acquisition dates during the first quarter of 2017. The acquisition of Print Appeal, Inc. ("Print Appeal") is included in the financial statements from its acquisition date during the third quarter of 2017.

(5) The acquisitions of eleven franchise stores are included in the financial statements from their acquisition dates during the first quarter of 2018. Additionally, the acquisitions of thirty-seven franchise stores are included in the financial statements from their acquisition dates during the third quarter of 2018.

(6) In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)". The pronouncement contains a five-step model which replaces most existing revenue recognition guidance. The Company adopted the standard on January 1, 2018 via a modified retrospective approach and recognized the cumulative effect of the adoption by reducing January 1, 2018 retained earnings by $0.1 million. See the footnotes to the consolidated financial statements in Item 8. for further discussion.

(7) During the first quarter of 2017, the Company and Ampology, a subsidiary of Trivergence, reached an agreement to form a new legal entity (Kazzam, LLC) for the purpose of designing, developing and launching an online exchange platform for party-related services. The website allows consumers to select, schedule and pay for various services (including entertainment, activities and food) all through a single portal. During 2017 and 2018, Kazzam incurred $9.0 million and $7.0 million of start-up expenses, respectively, which are recorded in development stage expenses in the Company's consolidated statement of operations and comprehensive income.

(8) During April 2015, in conjunction with the Company's initial public offering, the Company paid a 2% prepayment penalty, or $7.0 million, in order to redeem $350.0 million of senior PIK toggle notes (the "Nextco Notes") issued by the Company's wholly-owned subsidiaries, PC Nextco and PC Nextco Finance, Inc., and paid a management agreement termination fee of $30.7 million to affiliates of THL and Advent. The Company recorded the prepayment penalty and termination fee in other expense, net. Additionally, in conjunction with the redemption of the Nextco Notes, the Company wrote off $8.6 million of capitalized debt issuance costs and original issuance discounts. The write-off was also recorded in other expense, net.

During August 2015, PCHI redeemed all $700 million of its 8.875% senior notes ("Old Senior Notes") and refinanced its existing $1,125 million senior secured term loan facility ("Old Term Loan Credit Agreement") and $400 million asset-based revolving credit facility ("Old ABL Facility") with new indebtedness consisting of: (i) a senior secured term loan facility ("Term Loan Credit Agreement"), (ii) a $540 million asset-based revolving credit facility (with a seasonal increase to $640 million during a certain period of each calendar year) ("ABL Facility") and (iii) $350 million of 6.125% senior notes ("6.125% Notes"). The redemption price for the Old Senior Notes was 6.656% of the principal amount, or $46.6 million. The Company recorded such amount in other expense, net. Additionally, in conjunction with the refinancing, the Company wrote-off $22.7 million of previously capitalized deferred financing costs, original issuance discounts and call premiums and also recorded such amount in other expense, net. Further, in conjunction with the refinancing of the term loans, the Company incurred banker and legal fees, $9.8 million of which was recorded in other expense, net.

During August 2018, PCHI executed a refinancing of its debt portfolio and issued $500 million of new senior notes at an interest rate of 6.625%. The Company used the proceeds from the notes to: (i) reduce the outstanding balance under its existing ABL Facility by $90 million and (ii) voluntarily prepay $400 million of the outstanding balance under its existing Term Loan Credit Agreement. Additionally, as part of the refinancing, the Company extended the maturity of the ABL Facility to August 2023 (subject to a springing maturity at an earlier date if the maturity date of certain of our other debt has not been extended or refinanced). As the partial prepayment of the Term Loan Credit Agreement was in accordance with the terms of such agreement, at the time of such prepayment the Company wrote-off a pro-rata portion of the existing capitalized deferred financing costs and original issuance discounts, $1.8 million, for investors who did not participate in the new notes. To the extent that investors in the Term Loan Credit Agreement participated in the new notes, the Company assessed whether the refinancing should be accounted for as an extinguishment on a creditor-by-creditor basis and wrote-off $1.0 million of existing deferred financing costs and original issuance discounts. Additionally, in conjunction with the issuance of the notes, the Company incurred third-party fees (principally banker fees). To the extent that such fees related to investors for whom their original debt was not extinguished, the Company expensed the portion of such fees, $2.3 million in aggregate, that related to such investors.

(9) On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("the Act") was signed into law. The Act significantly changed U.S. tax law, including lowering the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018, and implementing a one-time "deemed repatriation" tax on unremitted earnings accumulated in non-U.S. jurisdictions. Due to the complexities of accounting for the Act, the SEC issued Staff Accounting Bulletin No. 118 which allows entities to include a provisional estimate of the impact of the Act in its 2017 financial statements. Therefore, based on then currently available information, during 2017 the Company recorded a provisional estimate of the impact of the Act, which included an income tax benefit of $91.0 million related to the remeasurement of its domestic deferred tax liabilities and deferred tax assets due to the lower U.S. corporate tax rate. Additionally, during 2017, the Company recorded an income tax expense of $1.1 million as its provisional estimate of the Transition Tax related to the deemed repatriation of unremitted earnings of foreign subsidiaries. During the fourth quarter of 2018, the Company finalized its assessment of the impact of the Act on the Company's domestic deferred tax liabilities and deferred tax assets and recorded an additional income tax benefit of $2.0 million. Additionally, during such quarter, the Company finalized its assessment of the Transition Tax and recorded additional income tax expense of $0.2 million. See footnote 13 to the consolidated financial statements in Item 8. for further discussion.

(10) See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity,” for a discussion of cash flows.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows: Restricted Cash”. The pronouncement requires companies to show changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in their statement of cash flows. The Company adopted the pronouncement, which requires retrospective application, during 2018.

(11) The Company presents adjusted EBITDA, adjusted net income and adjusted net income per common share—diluted as supplemental measures of its operating performance. The Company defines EBITDA as net income (loss) before interest expense, net, income taxes, depreciation and amortization and defines adjusted EBITDA as EBITDA, as further adjusted to eliminate the impact of certain items that the Company does not consider indicative of our core operating performance. These further adjustments are itemized below. Adjusted net income represents the Company’s net income (loss) adjusted for, among other items, intangible asset amortization, non-cash purchase accounting adjustments, amortization of deferred financing costs and original issue discounts, refinancing charges, equity based compensation, and impairment charges. Adjusted net income per common share—diluted represents adjusted net income divided by diluted weighted average common shares outstanding. The Company presents these measures as supplemental measures of its operating performance. You are encouraged to evaluate these adjustments and the reasons the Company considers them appropriate for supplemental analysis. In evaluating the measures, you should be aware that in the future the Company may incur expenses that are the same as, or similar to, some of the adjustments in this presentation. The Company’s presentation of adjusted EBITDA, adjusted net income and adjusted net income per common share—diluted should not be construed as an inference that the Company’s future results will be unaffected by unusual or non-recurring items. The Company presents the measures because the Company believes they assist investors in comparing the Company’s performance across reporting periods on a consistent basis by eliminating items that the Company does not believe are indicative of its core operating performance. In addition, the Company uses adjusted EBITDA: (i) as a factor in determining incentive compensation, (ii) to evaluate the effectiveness of its business strategies and (iii) because its credit facilities use adjusted EBITDA to measure compliance with certain covenants. The Company also believes that adjusted net income and adjusted net income per common share—diluted are helpful benchmarks to evaluate its operating performance.

Adjusted EBITDA, adjusted net income, and adjusted net income per common share—diluted have limitations as analytical tools. Some of these limitations are:

- they do not reflect the Company’s cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, the Company’s working capital needs;
- adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on the Company’s indebtedness;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for such replacements;
- non-cash compensation is and will remain a key element of the Company’s overall long-term incentive compensation package, although the Company excludes it as an expense when evaluating its core operating performance for a particular period;
- they do not reflect the impact of certain cash charges resulting from matters the Company considers not to be indicative of its ongoing operations; and
- other companies in the Company’s industry may calculate adjusted EBITDA, adjusted net income and adjusted net income per common share differently than the Company does, limiting its usefulness as a comparative measure.

Because of these limitations, adjusted EBITDA, adjusted net income, and adjusted net income per common share—diluted should not be considered in isolation or as substitutes for performance measures calculated in accordance with GAAP. The Company compensates for these limitations by relying primarily on its GAAP results and using the metrics only on a supplemental basis. The reconciliations from net income (loss) to adjusted EBITDA and adjusted net income for the periods presented follow (dollars in thousands, except per share amounts):

	Fiscal Year Ended December 31, 2014	Fiscal Year Ended December 31, 2015	Fiscal Year Ended December 31, 2016	Fiscal Year Ended December 31, 2017	Fiscal Year Ended December 31, 2018
Net income	$ 56,123	$ 10,459	$ 117,477	$ 215,340	$ 122,819
Interest expense, net	155,917	123,361	89,380	87,366	105,706
Income taxes	25,211	7,409	69,237	(27,196)	38,778
Depreciation and amortization	82,890	80,515	83,630	85,168	78,575
EBITDA	320,141	221,744	359,724	360,678	345,878
Non-cash purchase accounting adjustments	8,868	4,470	4,114	7,378	6,196
Management fee	3,356(a)	31,627(a)	—	—	—
Impairment charges	1,012	852	—	—	—
Restructuring, retention and severance	3,391	2,318	911	9,718(b)	3,397(b)
Refinancing charges	4,396	94,607(c)	1,458	—	6,237(c)
Deferred rent	14,418(d)	13,407(d)	18,835(d)	7,287(d)	5,351(d)
Corporate development expenses	700(e)	1,786(e)	4,290(e)	9,401(e)	11,314(e)
Foreign currency losses (gains)	1,447	3,691	(7,417)	466	24
Closed store expense	1,199(f)	1,901(f)	3,688(f)	4,875(f)	4,211(f)
Stock option expense	1,583(g)	3,042(g)	3,853(g)	5,309(g)	1,744(g)
Non-employee equity based compensation	—	—	—	3,033(h)	81(h)
Restricted stock units expense—time based	—	—	—	—	1,174(i)
Undistributed loss (income) in equity method investments	1,556	562	314	(194)	(369)
Non-recurring consulting charges	—	—	—	—	12,514(j)
Non-recurring legal settlements/costs	—	—	—	—	2,380(k)
Gain on sale of assets	—	(2,660)	—	—	—
Hurricane-related costs	—	—	—	455	—
Change-of-control license premium	—	3,000	—	—	—
Other	58	(54)	279	804	(16)
Adjusted EBITDA	$ 362,125	$ 380,293	$ 390,049	$ 409,210	$ 400,116

	Fiscal Year Ended December 31, 2014	Fiscal Year Ended December 31, 2015	Fiscal Year Ended December 31, 2016	Fiscal Year Ended December 31, 2017	Fiscal Year Ended December 31, 2018
Income before income taxes	$ 81,334	$ 17,868	$ 186,714	$ 188,144	$ 161,597
Intangible asset amortization	22,195(l)	18,885(l)	17,247(l)	16,959(l)	12,271(l)
Non-cash purchase accounting adjustments	13,692	6,445	5,300	9,549	6,812
Amortization of deferred financing costs and original issuance discounts	15,610(m)	40,516(m)(c)	5,818(m)	4,937(m)	10,989(m)(c)
Management fee	3,356(a)	31,627(a)	—	—	—
Refinancing charges	1,407	65,338(c)	725	—	—
Stock option expense	1,583(g)	3,042(g)	3,853(g)	5,309(g)	1,744(g)
Non-employee equity based compensation	—	—	—	3,033(h)	81(h)
Non-recurring consulting charges	—	—	—	—	12,514(j)
Restructuring	—	—	—	3,195(b)	—
Executive severance	—	—	—	3,918(b)	809(b)
Hurricane-related costs	—	—	—	455	—
Non-recurring legal settlements/costs	—	—	—	—	2,380(k)
Impairment charges	1,012	852	—	—	—
Gain on sale of assets	—	(2,660)	—	—	—
Change-of-control license premium	—	3,000	—	—	—
Adjusted income before income taxes	140,189	184,913	219,657	235,499	209,197
Adjusted income taxes	53,351(n)	70,707(n)	81,380(n)	86,856(n)(o)	52,355(n)(o)
Adjusted net income	$ 86,838	$ 114,206	$ 138,277	$ 148,643	$ 156,842
Adjusted net income per common share—diluted	$ 0.92	$ 1.01	$ 1.15	$ 1.24	$ 1.61

(a) In 2012, the Company entered into a management agreement with two of its investors under which the investors provided advice to the Company on, among other things, financing, operations, acquisitions and dispositions. Under the agreement, the investors were paid an annual management fee for such services. In connection with the Company's initial public offering in April 2015, the management agreement was terminated and the Company paid the investors a termination fee. Such amount, $30.7 million, was recorded in other expense, net.

(b) On March 15, 2017, the Company and its then Chairman of the Board of Directors, Gerald Rittenberg, entered into a Transition and Consulting Agreement under which Mr. Rittenberg's employment as Executive Chairman of the Company terminated effective March 31, 2017. As a result of the agreement, the Company recorded a $3.9 million severance charge in general and administrative expenses during 2017. Such amount is included in "Restructuring, Retention and Severance" in the Adjusted EBITDA table above and in "Executive Severance" in the Adjusted Net Income table above. Additionally, during 2017, the Company recorded a $3.2 million severance charge related to a restructuring of its Retail segment. Such amount is included in "Restructuring, Retention and Severance" in the Adjusted EBITDA table above and in "Restructuring" in the Adjusted Net Income table above. Further, during 2018, the Company recorded $0.8 million of senior executive severance. Such amount is included in "Restructuring, Retention and Severance" in the Adjusted EBITDA table above and in "Executive Severance" in the Adjusted Net Income table above. Finally, the 2017 and 2018 "Restructuring, Retention and Severance" amounts in the "Adjusted EBITDA" table above also include costs incurred while moving one of the Company's domestic manufacturing facilities to a new location.

(c) During August 2018, the Company executed a refinancing of its debt portfolio and issued $500 million of new senior notes at an interest rate of 6.625%. The notes will mature in August 2026. The Company used the proceeds from the notes to: (i) reduce the outstanding balance under its existing ABL Facility by $90 million and (ii) voluntarily prepay $400 million of the outstanding balance under its existing Term Loan Credit Agreement. Additionally, as part of the refinancing, the Company extended the maturity of the ABL Facility to August 2023 (subject to a springing maturity at an earlier date if the maturity date of certain of our other debt has not been extended or refinanced). As the partial prepayment of the Term Loan Credit Agreement was in accordance with the terms of such agreement, at the time of such prepayment the Company wrote-off a pro-rata portion of the existing capitalized deferred financing costs and original issuance discounts, $1.8 million, for investors who did not participate in the new notes. To the extent that investors in the Term Loan Credit Agreement participated in the new notes, the Company assessed whether the refinancing should be accounted for as an extinguishment on a creditor-by-creditor basis and wrote-off $1.0 million of existing deferred financing costs and original issuance discounts. Additionally, in conjunction with the issuance of the notes, the Company incurred third-party fees (principally banker fees). To the extent that such fees related to investors for whom their original debt was not extinguished, the Company expensed the portion of such fees, $2.3 million in aggregate, that related to such investors. Such amounts are included in "Refinancing Charges" in the "Adjusted EBITDA" table above and in "Amortization of Deferred Financing Costs and Original Issuance Discounts" in the "Adjusted Net Income" table above.

Additionally, during February 2018, the Company amended the Term Loan Credit Agreement. In conjunction with the amendment, the Company wrote-off $0.3 million of capitalized deferred financing costs, original issue discounts and call premiums. Further, in conjunction with the February 2018 amendment, the Company expensed $0.8 million of investment banking and legal fees. Such amounts are included in "Refinancing Charges" in the "Adjusted EBITDA" table above and in "Amortization of Deferred Financing Costs and Original Issuance Discounts" in the "Adjusted Net Income" table above.

During 2015, the Company redeemed all $700 million of its 8.875% senior notes and refinanced its $1,125 million senior secured term loan facility and $400 million asset-based revolving credit facility with new indebtedness. Additionally, during 2015, the Company used proceeds from the initial public offering to redeem outstanding notes. See the Company's 2015 Form 10-K for a discussion of the charges that were recorded in conjunction with such refinancings.

(d) The deferred rent adjustment reflects the difference between accounting for rent and landlord incentives in accordance with GAAP and the Company's actual cash outlay for such items.

(e) Principally represents third-party costs related to acquisitions (primarily legal expenses and diligence fees). Such costs are excluded from the definition of "Consolidated Adjusted EBITDA" that is utilized for certain covenants in the Company's credit agreements. Additionally, 2017 and 2018 include start-up costs for Kazzam (see footnote 21 to the consolidated financial statements in Item 8. for further discussion of Kazzam).

(f) Principally charges incurred related to closing underperforming stores.

(g) Represents non-cash charges related to stock options.

(h) Principally represents shares of Kazzam awarded to Ampology as compensation for Ampology's services. See Note 21 to the consolidated financial statements in Item 8. for further discussion.

(i) Non-cash charges for restricted stock units that vest based on service conditions.

(j) Primarily non-recurring consulting charges related to the Company's retail operations.

(k) Non-recurring legal settlements/costs.

(l) Represents the non-cash amortization of intangible assets.

(m) Includes the non-cash amortization of deferred financing costs, original issuance discounts and capitalized call premiums. Additionally, certain years include charges related to debt refinancings. See note (c) for further discussion.

(n) Represents income tax expense/benefit after excluding the specific tax impacts for each of the pre-tax adjustments. The tax impacts for each of the adjustments were determined by applying to the pre-tax adjustments the effective income tax rates for the specific legal entities in which the adjustments were recorded.

(o) On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("the Act") was signed into law. The Act significantly changed U.S. tax law, including lowering the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018, and implementing a one-time "deemed repatriation" tax on unremitted earnings accumulated in non-U.S. jurisdictions since 1986. Due to the complexities of accounting for the Act, the SEC issued Staff Accounting Bulletin No. 118 which allows entities to include a provisional estimate of the impact of the Act in its 2017 financial statements. Therefore, based on then currently available information, during 2017 the

Company recorded a provisional estimate of the impact of the Act, which included an income tax benefit of $91.0 million related to the remeasurement of its domestic deferred tax liabilities and deferred tax assets due to the lower U.S. corporate tax rate. During the fourth quarter of 2018, the Company finalized its assessment of the impact of the Act on such domestic deferred tax liabilities and deferred tax assets and recorded an additional income tax benefit of $2.0 million. As the Act is a significant and non-recurring event which is impacting the comparability of the Company's financial statements, the Company has excluded the impact of the adjustments from its adjusted net income and adjusted earnings per share.

(12) Party City brand comp sales include North American e-commerce sales.

(13) Represents the percentage of product costs included in cost of goods sold by our Party City stores and North American retail e-commerce operations which relate to products supplied by our wholesale operations.

(14) Amount for 2014 adjusted to reflect the Company's retrospective adoption during the fourth quarter of 2015 of FASB ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs". Deferred financing costs in the amount of $44.4 million were reclassified from "other assets" to debt as of December 31, 2014.

(15) Excludes redeemable common securities.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

Our Company

We are the leading decorated party goods omni-channel retailer, by revenue, in North America and, we believe, the largest vertically integrated supplier of decorated party goods globally by revenue. With approximately 960 locations (inclusive of franchised stores), we have the only coast-to-coast network of party superstores in the U.S. and Canada and such stores make it easy and fun to enhance special occasions with a differentiated shopping experience and an unrivaled assortment of innovative and exciting merchandise offered at a compelling value. We also operate multiple e-commerce sites, principally under the domain name PartyCity.com. Further, we open a network of approximately 250—300 temporary Halloween City stores, including approximately 50 jointly under the Halloween City and Toy City banners.

In addition to our retail operations, we are also one of the largest global designers, manufacturers and distributors of decorated consumer party products, with items found in over 40,000 retail outlets worldwide, including independent party supply stores, mass merchants, grocery retailers, e-commerce merchandisers and dollar stores. Our products are available in over 100 countries with the United Kingdom, Canada, Germany, Mexico and Australia among the largest end markets for our products outside of the United States.

How We Assess the Performance of Our Company

In assessing the performance of our company, we consider a variety of performance and financial measures for our two operating segments, Retail and Wholesale. These key measures include revenues and gross profit, comparable retail same-store sales and operating expenses. We also review other metrics such as adjusted net income (loss), adjusted net income (loss) per common share – diluted, and adjusted EBITDA. For a discussion of our use of these measures and a reconciliation of adjusted net income (loss) and adjusted EBITDA to net income (loss), please refer to Item 6, "Selected Consolidated Financial Data."

Segments

Our retail segment generates revenue primarily through the sale of our party supplies, which are sold under the Amscan, Designware, Anagram and Costumes USA brand names through Party City, Halloween City and PartyCity.com. During 2018, 79% of the product that was sold by our retail segment was supplied by our wholesale segment and 23% of the product that was sold by our retail segment was self-manufactured.

Our wholesale revenues are generated from the sale of decorated party goods for all occasions, including paper and plastic tableware, accessories and novelties, costumes, metallic and latex balloons and stationery. Our products are sold at wholesale to party goods superstores (including our franchise stores), other party goods retailers, mass merchants, independent card and gift stores, dollar stores and e-commerce merchandisers.

Intercompany sales between the Wholesale and the Retail segment are eliminated, and the wholesale profits on intercompany sales are deferred and realized at the time the merchandise is sold to the retail consumer. For segment reporting purposes, certain general and administrative expenses and art and development costs are allocated based on total revenues.

Financial Measures

Revenues. Revenue from retail store operations is recognized at the point of sale as control of the product is transferred to the customer at such time. Retail e-commerce sales are recognized when the consumer receives the product as control transfers upon delivery. We estimate future retail sales returns and record a provision in the period in which the related sales are recorded based on historical information. Retail sales are reported net of taxes collected.

Under the terms of our agreements with our franchisees, we provide both: 1) brand value (via significant advertising spend) and 2) support with respect to planograms, in exchange for a royalty fee that ranges from 4% to 6% of the franchisees' sales. The Company records the royalty fees at the time that the franchisees' sales are recorded.

For most of our wholesale sales, control transfers upon the shipment of the product as: 1) legal title transfers on such date and 2) we have a present right to payment at such time. Wholesale sales returns are not significant as we generally only accept the return of goods that were shipped to the customer in error or that were damaged when received by the customer. Additionally, due to our extensive history operating as a leading party goods wholesaler, we have sufficient history with which to estimate future sales returns and we use the expected value method to estimate such activity.

Intercompany sales from our wholesale operations to our retail stores are eliminated in our consolidated total revenues.

Comparable Retail Same-Store Sales. The growth in same-store sales represents the percentage change in same-store sales in the period presented compared to the prior year. Same-store sales exclude the net sales of a store for any period if the store was not open during the same period of the prior year. Acquired stores are excluded from same-store sales until they are converted to the Party City format and included in our sales for the comparable period of the prior year. Comparable sales are calculated based upon stores that were open at least thirteen full months as of the end of the applicable reporting period. When a store is reconfigured or relocated within the same general territory, the store continues to be treated as the same store. If, during the period presented, a store was closed, sales from that store up to and including the closing day are included as same-store sales as long as the store was open during the same period of the prior year. Same-store sales for the Party City brand include North American retail e-commerce sales.

Cost of Sales. Cost of sales at wholesale reflects the production costs (i.e., raw materials, labor and overhead) of manufactured goods and the direct cost of purchased goods, inventory shrinkage, inventory adjustments, inbound freight to our manufacturing and distribution facilities, distribution costs and outbound freight to get goods to our wholesale customers. At retail, cost of sales reflects the direct cost of goods purchased from third parties and the production or purchase costs of goods acquired from our wholesale segment. Retail cost of sales also includes inventory shrinkage, inventory adjustments, inbound freight, occupancy costs related to store operations (such as rent and common area maintenance, utilities and depreciation on assets) and all logistics costs associated with our retail e-commerce business.

Our cost of sales increases in higher volume periods as the direct costs of manufactured and purchased goods, inventory shrinkage and freight are generally tied to net sales. However, other costs are largely fixed or vary based on other factors and do not necessarily increase as sales volume increases. Changes in the mix of our products may also impact our overall cost of sales. The direct costs of manufactured and purchased goods are influenced by raw material costs (principally paper, petroleum-based resins and cotton), domestic and international labor costs in the countries where our goods are purchased or manufactured and logistics costs associated with transporting our goods. We monitor our inventory levels on an on-going basis in order to identify slow-moving goods.

Cost of sales related to sales from our wholesale segment to our retail segment are eliminated in our consolidated financial statements.

Wholesale Selling Expenses. Wholesale selling expenses include the costs associated with our wholesale sales and marketing efforts, including merchandising and customer service. Costs include the salaries and benefits of the related work force, including sales-based bonuses and commissions. Other costs include catalogues, showroom rent, travel and other operating costs. Certain selling expenses, such as sales-based bonuses and commissions, vary in proportion to sales, while other costs vary based on other factors, such as our marketing efforts, or are largely fixed and do not necessarily increase as sales volumes increase.

Retail Operating Expenses. Retail operating expenses include all of the costs associated with retail store operations, excluding occupancy-related costs included in cost of sales. Costs include store payroll and benefits, advertising, supplies and credit card costs. Retail expenses are largely variable but do not necessarily vary in proportion to net sales.

Franchise Expenses. Franchise expenses include the costs associated with operating our franchise network, including salaries and benefits of the administrative work force and other administrative costs. These expenses generally do not vary proportionally with royalties and franchise fees.

General and Administrative Expenses. General and administrative expenses include all operating costs not included elsewhere in the statement of operations and comprehensive income. These expenses include payroll and other expenses related to operations at our corporate offices, including occupancy costs, related depreciation and amortization, legal and professional fees and data-processing costs. These expenses generally do not vary proportionally with net sales.

Art and Development Costs. Art and development costs include the costs associated with art production, creative development and product management. Costs include the salaries and benefits of the related work force. These expenses generally do not vary proportionally with net sales.

Development Stage Expenses. Development stage expenses represent start-up activities related to Kazzam, LLC ("Kazzam"). See footnote 21 to the consolidated financial statements in Item 8 for further discussion of Kazzam.

Adjusted EBITDA. We define EBITDA as net income (loss) before interest expense, net, income taxes, depreciation and amortization. We define Adjusted EBITDA as EBITDA, as further adjusted to eliminate the impact of certain items that we do not consider indicative of our core operating performance. We caution investors that amounts presented in accordance with our definition of Adjusted EBITDA may not be comparable to similar measures disclosed by other issuers, because not all issuers calculate Adjusted EBITDA in the same manner. We believe that Adjusted EBITDA is an appropriate measure of operating performance in addition to EBITDA because we believe it assists investors in comparing our performance across reporting periods on a consistent basis by eliminating the impact of items that we do not believe are indicative of our core operating performance. In addition, we use Adjusted EBITDA: (i) as a factor in determining incentive compensation, (ii) to evaluate the effectiveness of our business strategies, and (iii) because the credit facilities use Adjusted EBITDA to measure compliance with certain covenants.

Adjusted Net Income (Loss). Adjusted net income (loss) represents our net income (loss), adjusted for, among other items, intangible asset amortization, non-cash purchase accounting adjustments, amortization of deferred financing costs and original issue discounts, equity based compensation and impairment charges. We present adjusted net income because we believe it assists investors in comparing our performance across reporting periods on a consistent basis by eliminating the impact of items that we do not believe are indicative of our core operating performance.

Adjusted Net Income (Loss) Per Common Share – Diluted. Adjusted net income (loss) per common share – diluted represents adjusted net income (loss) divided by the Company's diluted weighted average common shares outstanding. We present the metric because we believe it assists investors in comparing our per share performance across reporting periods on a consistent basis by eliminating the impact of items that we do not believe are indicative of our core operating performance.

Executive Overview

Total revenues increased 2.4% during 2018 to $2,427.5 million.

Factors Affecting Our Results

Important events that have impacted or will impact the results presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations" include:

Refinancing. During August 2018, the Company executed a refinancing of its debt portfolio and issued $500 million of new senior notes at an interest rate of 6.625%. The notes will mature in August 2026. The Company used the proceeds from the notes to: (i) reduce the outstanding balance under its existing ABL Facility by $90 million and (ii) voluntarily prepay $400 million of the outstanding balance under its existing Term Loan Credit Agreement. Additionally, as part of the refinancing, the Company extended the maturity of the ABL Facility to August 2023 (subject to a springing maturity at an earlier date if the maturity date of certain of our other debt has not been extended or refinanced). As the partial prepayment of the Term Loan Credit Agreement was in accordance with the terms of such agreement, at the time of such prepayment the Company wrote-off a pro-rata portion of the existing capitalized deferred financing costs and original issuance discounts, $1.8 million, for investors who did not participate in the new notes. To the extent that investors in the Term Loan Credit Agreement participated in the new notes, the Company assessed whether the refinancing should be accounted for as an extinguishment on a creditor-by-creditor basis and wrote-off $1.0 million of existing deferred financing costs and original issuance discounts. Additionally, in conjunction with the issuance of the notes, the Company incurred third-party fees (principally banker fees). To the extent that such fees related to investors for whom their original debt was not extinguished, the Company expensed the portion of such fees, $2.3 million in aggregate, that related to such investors. All charges were recorded in "other expense, net" in the Company's consolidated statement of operations and comprehensive income.

Recent Acquisitions. During 2018, we acquired 58 franchise and independent stores. The acquisitions increased net sales for our retail segment by approximately $67 million versus 2017. Additionally, these acquisitions decreased our third-party wholesale sales by $20 million as post-acquisition wholesale sales to such stores are now eliminated as intercompany sales.

Tax Reform. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("the Act") was signed into law. The Act significantly changed U.S. tax law, including lowering the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018, and implementing a one-time "deemed repatriation" tax on unremitted earnings accumulated in non-U.S. jurisdictions since 1986 (the "Transition Tax"). Due to the complexities of accounting for the Act, the SEC issued Staff Accounting Bulletin No. 118 which allows entities to include a provisional estimate of the impact of the Act in its 2017 financial statements. Therefore, based on then currently available information, during 2017 the Company recorded a provisional estimate of the impact of the Act, which included an income tax benefit of $91.0 million related to the remeasurement of its domestic deferred tax liabilities and deferred tax assets due to the lower U.S. corporate tax rate. Additionally, during 2017, the Company recorded income tax expense of $1.1 million as its provisional estimate of the Transition Tax related to the deemed repatriation of unremitted earnings of foreign subsidiaries. During the fourth quarter of 2018, the Company finalized its assessment of the impact of the Act on the Company's domestic deferred tax liabilities and deferred tax assets and recorded an additional income tax benefit of $2.0 million. Additionally, during such quarter, the Company finalized its assessment of the Transition Tax and recorded additional income tax expense of $0.2 million.

Results of Operations

The following tables set forth our operating results and operating results as a percentage of total revenues for the years ended December 31, 2018 and 2017.

	Years Ended December 31,			
	2018		2017	
	(Dollars in thousands, except per share data)			
Revenues:				
Net sales	$2,416,442	99.5%	$2,357,986	99.4%
Royalties and franchise fees	11,073	0.5	13,583	0.6
Total revenues	2,427,515	100.0	2,371,569	100.0
Expenses:				
Cost of sales	1,435,358	59.1	1,395,279	58.8
Wholesale selling expenses	71,502	2.9	65,356	2.8
Retail operating expenses	425,996	17.5	415,167	17.5
Franchise expenses	13,214	0.5	14,957	0.6
General and administrative expenses	172,764	7.1	168,369	7.1
Art and development costs	23,388	1.0	23,331	1.0
Development stage expenses	7,008	0.3	8,974	0.4
Total expenses	2,149,230	88.5	2,091,433	88.2
Income from operations	278,285	11.5	280,136	11.8
Interest expense, net	105,706	4.3	87,366	3.7
Other expense, net	10,982	0.4	4,626	0.2
Income before income taxes	161,597	6.7	188,144	7.9
Income tax expense (benefit)	38,778	1.6	(27,196)	(1.2)
Net income	122,819	5.1	215,340	9.1%
Add: Net income attributable to redeemable securities holder	409	0.0	—	—
Less: Net loss attributable to noncontrolling interests	(31)	0.0	—	—
Net income attributable to common shareholders of Party City Holdco Inc.	$ 123,259	5.1%	$ 215,340	9.1%
Net income per share attributable to common shareholders of Party City Holdco Inc.—basic	$ 1.28		$ 1.81	
Net income per share attributable to common shareholders of Party City Holdco Inc.—diluted	$ 1.27		$ 1.79	

Revenues

Total revenues for 2018 were $2,427.5 million and were $55.9 million, or 2.4%, higher than 2017. The following table sets forth the Company's total revenues for the years ended December 31, 2018 and 2017.

	Years Ended December 31,			
	2018		2017	
	Dollars in Thousands	Percentage of Total Revenues	Dollars in Thousands	Percentage of Total Revenues
Net Sales:				
Wholesale	$1,325,490	54.6%	$1,260,089	53.1%
Eliminations	(711,882)	(29.3)%	(630,692)	(26.6)%
Net wholesale	613,608	25.3%	629,397	26.5%
Retail	1,802,834	74.2%	1,728,589	72.9%
Total net sales	2,416,442	99.5%	2,357,986	99.4%
Royalties and franchise fees	11,073	0.5%	13,583	0.6%
Total revenues	$2,427,515	100.0%	$2,371,569	100.0%

Retail

Retail net sales during 2018 were $1,802.8 million and increased $74.2 million, or 4.3%, compared to 2017. Retail net sales at our Party City stores totaled $1,583.1 million and were $61.4 million, or 4.0%, higher than 2017 due largely to the acquisition of franchise and independent stores. During the year ended December 31, 2018, we acquired 58 franchise and independent stores, opened 15 new stores and closed 10 stores. Global retail e-commerce sales totaled $154.5 million during 2018 and were $2.0 million, or 1.3%, higher than during the corresponding period of 2017. The North American e-commerce sales that are included in our Party City brand comp increased by 0.6% during the year. However, they increased by 17.5% when adjusted for the impact of our "buy online, pick-up in store" program (as such sales are included in our store sales). Sales at our temporary stores (principally Halloween City and Toy City) totaled $65.2 million and were $10.8 million higher than during 2017 driven by Halloween City sales per store increasing 14.1% versus the month of fiscal October 2017.

Same-store sales for the Party City brand (including North American retail e-commerce sales) decreased by 0.7% during 2018. Excluding the impact of e-commerce, same-store sales decreased by 0.8%. Same-store sales percentages were not affected by foreign currency as such percentages are calculated in local currency.

Wholesale

Wholesale net sales during 2018 totaled $613.6 million and were $15.8 million, or 2.5%, lower than 2017. Net sales to domestic party goods retailers and distributors (including our franchisee network) totaled $240.5 million and were $24.5 million, or 9.2%, lower than during 2017. The decrease was principally due to our acquisition of 58 franchise and independent stores during the year ended December 31, 2018; as post-acquisition sales to such stores (approximately $20 million during the corresponding period of 2017) are now eliminated as intercompany sales. Net sales of metallic balloons to domestic distributors and retailers (including our franchisee network) totaled $87.5 million during 2018 and were $1.4 million, or 1.6%, higher than during 2017. Our international sales (which include U.S. export sales and exclude U.S. import sales from foreign subsidiaries) totaled $285.6 million and were $7.3 million, or 2.6%, higher than in 2017. The increase was driven by continued strong performance across European markets and the acquisition of Granmark S.A. de C.V. ("Granmark") in March 2017 and the impact of foreign currency translation (approximately $2 million).

Intercompany sales to our retail affiliates totaled $711.9 million during 2018 and were $81.2 million higher than during the prior year principally due to the higher corporate store count in 2018 and intercompany sales

during 2017 being impacted by carryover inventory from the 2016 Halloween selling season. Intercompany sales represented 53.7% of total wholesale sales during 2018, compared to 50.0% during 2017. The intercompany sales of our wholesale segment are eliminated against the intercompany purchases of our retail segment in the consolidated financial statements.

Royalties and franchise fees

Royalties and franchise fees during 2018 totaled $11.1 million and were $2.5 million lower than during 2017 due to the acquisition of franchise stores.

Gross Profit

The following table sets forth the Company's gross profit for the years ended December 31, 2018 and December 31, 2017.

	Year Ended December 31,			
	2018		2017	
	Dollars in Thousands	Percentage of Net Sales	Dollars in Thousands	Percentage of Net Sales
Retail	$ 801,349	44.4%	$ 763,315	44.2%
Wholesale	179,735	29.3	199,392	31.7
Total	$ 981,084	40.6%	$ 962,707	40.8%

The gross profit margin on net sales at retail during 2018 was 44.4%. Such percentage was 20 basis points higher than during the corresponding period of 2017. The increase was principally due to the continued realization of productivity initiatives positively impacting occupancy costs and increased manufacturing share of shelf (i.e., the percentage of our retail product cost of sales manufactured by our wholesale segment). Our manufacturing share of shelf increased from 22.6% during 2017 to 22.9% during 2018, driven by higher sales of metallic balloons and the scaling up of recent acquisitions in our wholesale business. Our wholesale share of shelf at our Party City stores and our North American retail e-commerce operations (i.e., the percentage of our retail product cost of sales supplied by our wholesale segment) was 78.9% during 2018 and was slightly lower than during 2017.

The gross profit on net sales at wholesale during 2018 and 2017 was 29.3% and 31.7%, respectively. The decrease was principally due to higher logistics and distribution costs and rising commodity costs.

Operating expenses

Wholesale selling expenses were $71.5 million during 2018 and $65.4 million during the corresponding period of 2017. The increase of $6.1 million, or 9.4%, was primarily due to selling costs at Granmark (acquired in March 2017), the impact of foreign currency translation (approximately $1 million) and the impact of wage inflation.

Retail operating expenses during 2018 were $426.0 million and were $10.8 million, or 2.6%, higher than the corresponding period of 2017. The higher store count (discussed above), increased advertising spend and the impact of wage inflation were partially offset by lower labor costs realized as a result of increased productivity and efficiency in our stores. Retail operating expenses were 23.6% and 24.0% of net retail sales during 2018 and 2017, respectively. The decrease was mostly due to the improved labor productivity.

Franchise expenses during 2018 and 2017 were $13.2 million and $15.0 million, respectively. The decrease was principally due to a non-recurring reduction to franchise intangible asset amortization expense as a result of recent franchise store acquisitions.

General and administrative expenses during 2018 totaled $172.8 million and were $4.4 million, or 2.6%, higher than in 2017. Increased one-time third-party consultant costs and the impact of inflation were partially offset by lower incentive compensation costs and 2017 including severance charges related to a Transition and Consulting Agreement entered into with Gerald Rittenberg. General and administrative expenses as a percentage of total revenues was 7.1% during both 2018 and 2017.

Art and development costs were $23.4 million during 2018 and were principally consistent with 2017.

Development stage expenses represent start-up costs related to Kazzam (see footnote 21 to the Company's consolidated financial statements in Item 8 for further discussion).

Interest expense, net

Interest expense, net, totaled $105.7 million during 2018, compared to $87.4 million during 2017. The increase principally relates to the impact of increasing LIBOR rates on our Term Loan Credit Agreement and our ABL Facility, increased borrowings under our ABL Facility due to share repurchases during the fourth quarter of 2017 and, to a lesser extent, the impact of the Company's August 2018 refinancing (see footnote 8 to the Company's consolidated financial statements in Item 8 for further detail).

Other expense, net

Other expense, net, totaled $11.0 million during 2018 and $4.6 million during 2017. The increase was principally due to non-recurring costs associated with the Company's August 2018 debt refinancing:

During August 2018, the Company executed a refinancing of its debt portfolio and issued $500 million of new senior notes at an interest rate of 6.625%. The notes will mature in August 2026. The Company used the proceeds from the notes to: (i) reduce the outstanding balance under its existing ABL Facility by $90 million and (ii) voluntarily prepay $400 million of the outstanding balance under its existing Term Loan Credit Agreement. Additionally, as part of the refinancing, the Company extended the maturity of the ABL Facility to August 2023. As the partial prepayment of the Term Loan Credit Agreement was in accordance with the terms of such agreement, at the time of such prepayment the Company wrote-off a pro-rata portion of the existing capitalized deferred financing costs and original issuance discounts, $1.8 million, for investors who did not participate in the new notes. To the extent that investors in the Term Loan Credit Agreement participated in the new notes, the Company assessed whether the refinancing should be accounted for as an extinguishment on a creditor-by-creditor basis and wrote-off $1.0 million of existing deferred financing costs and original issuance discounts. Additionally, in conjunction with the issuance of the notes, the Company incurred third-party fees (principally banker fees). To the extent that such fees related to investors for whom their original debt was not extinguished, the Company expensed the portion of such fees, $2.3 million in aggregate, that related to such investors.

Income tax expense

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("the Act") was signed into law. The Act significantly changed U.S. tax law, including lowering the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018, and implementing a one-time "deemed repatriation" tax on unremitted earnings accumulated in non-U.S. jurisdictions since 1986 (the "Transition Tax"). Due to the complexities of accounting for the Act, the SEC issued Staff Accounting Bulletin No. 118 which allows entities to include a provisional estimate of the impact of the Act in its 2017 financial statements. Therefore, based on then currently available information, during 2017 the Company recorded a provisional estimate of the impact of the Act, which included an income tax benefit of $91.0 million related to the remeasurement of its domestic deferred tax liabilities and deferred tax assets due to the lower U.S. corporate tax rate. Additionally, during 2017, the Company recorded income tax expense of $1.1 million as its provisional estimate of the Transition Tax related to the deemed repatriation of unremitted earnings of foreign subsidiaries. During the fourth quarter of 2018, the Company

finalized its assessment of the impact of the Act on the Company's domestic deferred tax liabilities and deferred tax assets and recorded an additional income tax benefit of $2.0 million. Additionally, during such quarter, the Company finalized its assessment of the Transition Tax and recorded additional income tax expense of $0.2 million.

The effective income tax rate for the year ended December 31, 2018, 24.0%, is higher than the statutory rate, 21.0%, primarily due to state taxes. See footnote 13 in Item 8 for further discussion.

The following tables set forth our operating results and operating results as a percentage of total revenues for the years ended December 31, 2017 and 2016.

	Years Ended December 31,			
	2017		2016	
	(Dollars in thousands, except per share data)			
Revenues:				
Net sales	$2,357,986	99.4%	$2,266,386	99.3%
Royalties and franchise fees	13,583	0.6	17,005	0.7
Total revenues	2,371,569	100.0	2,283,391	100.0
Expenses:				
Cost of sales	1,395,279	58.8	1,350,387	59.1
Wholesale selling expenses	65,356	2.8	59,956	2.6
Retail operating expenses	415,167	17.5	408,583	17.9
Franchise expenses	14,957	0.6	15,213	0.7
General and administrative expenses	168,369	7.1	152,919	6.7
Art and development costs	23,331	1.0	22,249	1.0
Development stage expenses	8,974	0.4	—	—
Total expenses	2,091,433	88.2	2,009,307	88.0
Income from operations	280,136	11.8	274,084	12.0
Interest expense, net	87,366	3.7	89,380	3.9
Other expense (income), net	4,626	0.2	(2,010)	(0.1)
Income before income taxes	188,144	7.9	186,714	8.2
Income tax (benefit) expense	(27,196)	(1.2)	69,237	3.1
Net income.	$ 215,340	9.1%	$ 117,477	5.1%
Net income per common share—basic	$ 1.81		$ 0.98	
Net income per common share—diluted	$ 1.79		$ 0.98	

Revenues

Total revenues for the year ended December 31, 2017 were $2,371.6 million and were $88.2 million or 3.9% higher than 2016. The following table sets forth our total revenues for the years ended December 31, 2017 and 2016.

	Years Ended December 31,			
	2017		2016	
	Dollars in Thousands	Percentage of Total Revenues	Dollars in Thousands	Percentage of Total Revenues
Net Sales:				
Wholesale	$1,260,089	53.1%	$1,252,218	54.8%
Eliminations	(630,692)	(26.6)%	(626,900)	(27.4)%
Net wholesale	629,397	26.5%	625,318	27.4%
Retail	1,728,589	72.9%	1,641,068	71.9%
Total net sales	2,357,986	99.4%	2,266,386	99.3%
Royalties and franchise fees	13,583	0.6%	17,005	0.7%
Total revenues	$2,371,569	100.0%	$2,283,391	100.0%

Retail

Retail net sales during 2017 were $1,728.6 million and increased $87.5 million, or 5.3%, compared to 2016. Retail net sales at our Party City stores totaled $1,521.7 million and were $92.2 million, or 6.4%, higher than 2016 due to franchise store acquisitions and new store growth. Same-store sales were principally consistent with 2016 excluding the impact of hurricanes and a shift in the Company’s fiscal calendar which caused certain New Year’s Eve sales to shift into the first quarter of fiscal 2018 (see below for further detail). During 2017, we acquired 36 franchise stores and 8 independent stores, opened 16 new stores and closed 7 stores. Global retail e-commerce sales totaled $152.5 million during 2017 and were $0.4 million, or 0.3%, lower than during 2016 as foreign exchange negatively impacted e-commerce sales by $1.2 million. Sales at our temporary Halloween City stores were $54.4 million during 2017 and were $4.3 million, or 7.3%, lower than full-year 2016.

Same-store sales for the Party City brand (including North American retail e-commerce sales) decreased by 0.7%. Approximately 50 basis points of the decrease was due to a shift in the Company’s fiscal calendar which caused certain New Year’s Eve sales to shift into the first quarter of fiscal 2018. Additionally, Hurricanes Harvey and Irma adversely impacted brand comp sales by approximately 30 basis points. Adjusting for the negative impact of both the calendar shift and the hurricanes, results in same store sales were essentially flat with 2016 levels. Excluding the calendar shift and the hurricanes, both transaction count and average transaction dollar size were also principally consistent with full-year 2016.

Excluding the impact of e-commerce, same-store sales decreased by 0.5%. The shift in the Company’s fiscal calendar and the hurricanes negatively impacted same-store sales by 40 basis points and 30 basis points, respectively.

The North American retail e-commerce sales included in our Party City brand comp decreased by 2.2% as a 0.4% increase in transaction count was more than offset by a decrease in average transaction dollar size. Hurricane Harvey and Hurricane Irma adversely impacted the percentage by approximately 40 basis points. The decrease in average transaction dollar size principally related to increased promotional activity, largely related to free delivery of product.

Same-store sales percentages were not affected by foreign currency as such percentages are calculated in local currency.

Wholesale

Wholesale net sales during 2017 totaled $629.4 million and were $4.1 million, or 0.7%, higher than during 2016. Net sales to domestic party goods retailers and distributors (including our franchisee network) totaled $264.9 million and were $35.1 million, or 11.7%, lower than during full-year 2016. The decrease was principally due to our acquisition of 36 franchise stores during the first quarter of 2017; as post-acquisition sales to such stores (approximately $25 million during 2016) are now eliminated as intercompany sales. Additionally, sales to existing franchisees decreased versus the corresponding period of 2016, principally due to carryover inventory from the 2016 Halloween selling season. Further, gift product sales decreased by approximately $4 million due to the continued de-emphasis and product-line refinement of our Grasslands Road gift business. Net sales of metallic balloons to domestic distributors and retailers (including our franchisee network) totaled $86.2 million during 2017 and were $4.2 million, or 5.1%, higher than during 2016 primarily due to organic growth in the category largely associated with product expansion as well as the timing of certain Valentine's Day shipments. Our international sales (which include U.S. export sales and exclude U.S. import sales from foreign subsidiaries) totaled $278.3 million and were $35.0 million, or 14.4%, higher than during full-year 2016, despite a $2 million negative impact from foreign currency translation. The growth was principally attributable to two acquisitions (which contributed approximately $30 million of sales) and category expansion, in part driven by our store-in-store concept with key European and U.K. retailers.

Intercompany sales to our retail affiliates totaled $630.7 million during 2017 and were $3.8 million, or 0.6%, higher than during the corresponding period of 2016. Intercompany sales represented 50.1% of total wholesale sales during both 2017 and 2016. The intercompany sales of our wholesale segment are eliminated against the intercompany purchases of our retail segment in the consolidated financial statements.

Royalties and franchise fees

Royalties and franchise fees for 2017 totaled $13.6 million and were $3.4 million, or 20.1%, lower than during 2016 principally due to the acquisition of 36 franchise stores during the first quarter of 2017.

Gross Profit

The following table sets forth the Company's gross profit for the years ended December 31, 2017 and December 31, 2016.

	Year Ended December 31,			
	2017		2016	
	Dollars in Thousands	Percentage of Net Sales	Dollars in Thousands	Percentage of Net Sales
Retail	$ 763,315	44.2%	$ 711,468	43.4%
Wholesale	199,392	31.7	204,531	32.7
Total	$ 962,707	40.8%	$ 915,999	40.4%

The gross profit margin on net sales at retail during 2017 was 44.2%. Such percentage was 80 basis points higher than during 2016. The benefits of increased share of shelf (i.e., the percentage of our retail product cost of sales supplied by our wholesale segment) and reduced product costs were partially offset by increased promotional activities. Our wholesale share of shelf at our Party City stores and our North American retail e-commerce operations increased from 76.6% during 2016 to 79.6% during 2017.

The gross profit on net sales at wholesale during 2017 and 2016 was 31.7% and 32.7%, respectively. The decrease was principally due to higher distribution costs, as well as sales mix.

Operating expenses

Wholesale selling expenses were $65.4 million during 2017 and $60.0 million during full-year 2016. The $5.4 million, or 9.0%, increase was mostly due to approximately $4.5 million of selling costs at Granmark (acquired in March 2017) and inflationary cost increases. Wholesale selling expenses were 10.4% and 9.6% of net wholesale sales during 2017 and 2016, respectively. The increase was principally due to Granmark's selling expenses, as a percentage of net sales, being higher than the remainder of the Company's wholesale segment.

Retail operating expenses during 2017 were $415.2 million and were $6.6 million, or 1.6%, higher than during 2016. The impact of the increased store count (discussed above) and inflationary cost increases were mostly offset by realized savings associated with improved labor productivity and efficiency in our stores and lower advertising expenses. Retail operating expenses were 24.0% and 24.9% of net retail sales during 2017 and 2016, respectively.

Franchise expenses during 2017 and 2016 were $15.0 million and $15.2 million, respectively.

General and administrative expenses during full-year 2017 totaled $168.4 million and were $15.5 million, or 10.1%, higher than in 2016. The increase was principally due to lower incentive-based compensation during 2016, general and administrative costs at acquired companies (approximately $3 million), and inflationary cost increases. Additionally, 2017 included severance charges related to a retail restructuring and the execution of a consulting agreement with Gerald Rittenberg. General and administrative expenses as a percentage of total revenues increased from 6.7% in 2016 to 7.1% in 2017 principally due to the severance and the lower incentive-based compensation during 2016.

Art and development costs were $23.3 million and $22.2 million during 2017 and 2016, respectively. Such amounts represent 1.0% of total revenues in both periods.

Development stage expenses represent start-up costs related to Kazzam (see footnote 21 to the Company's consolidated financial statements for further detail).

Interest expense, net

Interest expense, net, totaled $87.4 million during 2017, compared to $89.4 million during 2016. The decrease principally reflects a $100 million prepayment of the Company's Term Loan Credit Agreement during the Company's October 2016 refinancing; as well as the impact of the credit spread on such debt being reduced by 25 basis points at such time. The lower Term Loan Credit Agreement interest expense was partially offset by higher outstanding balances under the Company's ABL Facility.

Other expense (income), net

During 2016, other income, net, totaled $2.0 million. Such amount included $7.4 million of foreign currency transaction gains, primarily the impact of the change in the U.S. Dollar from December 31, 2015 to December 31, 2016 and the corresponding re-measurement of the U.S. dollar-denominated receivables and payables of our foreign operations. Excluding such foreign currency gains, 2017 other expense and 2016 other expense were principally consistent.

Income tax (benefit) expense

The Company's effective income tax rate was (14.5)% during 2017 and 37.1% during 2016.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("the Act") was signed into law. The Act significantly changed U.S. tax law, including lowering the U.S. corporate income tax rate from 35% to 21%,

effective January 1, 2018, and implementing a one-time "deemed repatriation" tax on unremitted earnings accumulated in non-U.S. jurisdictions since 1986. Due to the complexities of accounting for the Act, the SEC issued Staff Accounting Bulletin No. 118 which allows entities to include a provisional estimate of the impact of the Act in its 2017 financial statements. Therefore, based on currently available information, during 2017 the Company recorded a provisional estimate of the impact of the Act, which included an income tax benefit of $91.0 million related to the remeasurement of its domestic deferred tax liabilities and deferred tax assets due to the lower U.S. corporate tax rate. Additionally, during 2017, the Company recorded an income tax expense of $1.1 million as its provisional estimate of the Transition Tax related to the deemed repatriation of unremitted earnings of foreign subsidiaries. See footnote 13 to the consolidated financial statements in Item 8 for further discussion of the Act and the Company's 2017 effective income tax rate.

Liquidity and Capital Resources

During August 2015, PCHI redeemed its $700.0 million Old Senior Notes and refinanced its existing $1,125.0 million Old Term Loan Credit Agreement and $400.0 million Old ABL Facility with new indebtedness consisting of: (i) a senior secured term loan facility ("Term Loan Credit Agreement"), (ii) a $540.0 million asset-based revolving credit facility (with a seasonal increase to $640.0 million during a certain period of each calendar year) ("ABL Facility") and (iii) $350.0 million of 6.125% senior notes ("6.125% Senior Notes"). During August 2018, the Company executed a refinancing of its debt portfolio and issued $500 million of new senior notes at an interest rate of 6.625% ("6.625% Senior Notes"). The Company used the proceeds from the 6.625% Senior Notes to: (i) reduce the outstanding balance under the ABL Facility by $90 million and (ii) voluntarily prepay $400 million of the outstanding balance under the Term Loan Credit Agreement. Additionally, as part of the refinancing, the Company extended the maturity of the ABL Facility to August 2023 (subject to a springing maturity at an earlier date if the maturity date of certain of our other debt has not been extended or refinanced).

ABL Facility

The ABL Facility provides for (a) a $500.0 million revolving facility (with a $100.0 million seasonal facility increase during a certain period of each calendar year)(the "Revolving Tranche"), (b) a $40.0 million first-in, last-out tranche (the "FILO Tranche"), (c) a $50.0 million letter of credit sublimit and (d) a $40.0 million swingline loan sublimit.

Under the ABL Facility, the borrowing base at any time equals (a) a percentage of eligible trade receivables, plus (b) a percentage of eligible inventory, plus (c) a percentage of eligible credit card receivables, less (d) certain reserves.

Borrowings under the ABL Facility bear interest at a rate per annum equal to an applicable margin, plus, at our option, either (a) a base rate determined by the reference to the highest of (1) the prime commercial lending rate publicly announced by the administrative agent of the ABL Facility as the "prime rate" as in effect on such day, (2) the federal funds effective rate plus 0.50%, and (3) the LIBOR rate determined by reference to the cost of funds for Eurodollar deposits for an interest period of one month, plus 1.00% or (b) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the specified interest period, as adjusted for certain statutory reserve requirements. The applicable margin for borrowings under the Revolving Tranche of our ABL Facility is 0.50% with respect to base rate borrowings and 1.50% with respect to LIBOR borrowings, subject to a step-down of 0.25%, based on our average historical excess availability under the ABL Tranche. The applicable margin for borrowings under the FILO Tranche of our ABL Facility is 1.50% with respect to base rate borrowings and 2.50% with respect to LIBOR borrowings.

In addition to paying interest on outstanding principal, PCHI is required to pay a commitment fee of 0.25% per annum in respect of unutilized commitments. PCHI must also pay customary letter of credit fees.

The maturity date of the ABL Facility is the earliest of (a) August 2, 2023, (b) the date that is 60 days prior to the final stated maturity date of the Term Loan Credit Agreement if such final stated maturity date has not

been extended or refinanced to a date occurring on or after February 2, 2024, unless the amount of excess availability minus the outstanding indebtedness under the Term Loan Credit Agreement on such date is in excess of $100.0 million, and (c) the date that is 60 days prior to the final stated maturity date of the 6.125% Senior Notes if such final stated maturity date has not been extended or refinanced to a date occurring on or after February 2, 2024, unless the amount of excess availability minus the outstanding amount of 6.125% Senior Notes on such date is in excess of $100.0 million.

All obligations under the ABL Facility are jointly and severally guaranteed by PC Intermediate, PCHI and each existing and future wholly-owned domestic subsidiary of PCHI. PCHI and each guarantor has secured its obligations, subject to certain exceptions and limitations, including obligations under its guaranty, as applicable, by a first-priority lien on its accounts receivable, inventory, cash and certain related assets and a second-priority lien on substantially all of its other assets.

The facility contains negative covenants that, among other things and subject to certain exceptions, restrict the ability of PCHI to:

- incur additional indebtedness;
- pay dividends on capital stock or redeem, repurchase or retire capital stock;
- make certain investments, loans, advances and acquisitions;
- engage in transactions with affiliates;
- create liens; and
- transfer or sell certain assets.

In addition, PCHI must comply with a fixed charge coverage ratio upon the occurrence of an event of default if excess availability under the ABL Facility on any day is less than the greater of: (a) 10% of the lesser of the aggregate commitments and the then borrowing base under the ABL Facility and (b) $40.0 million. The fixed charge coverage ratio is the ratio of (i) Adjusted EBITDA (as defined in the facility) minus maintenance-related capital expenditures (as defined in the facility) to (ii) fixed charges (as defined in the facility).

The ABL Facility also contains certain customary affirmative covenants and events of default.

Borrowings under the ABL Facility totaled $303.5 million at December 31, 2018, excluding the impact of deferred financing costs. The weighted average interest rate for such borrowings was 4.46%. Outstanding standby letters of credit totaled $26.2 million at December 31, 2018 and, after considering borrowing base restrictions, at December 31, 2018 PCHI had $210.3 million of available borrowing capacity under the terms of the facility.

Term Loan Credit Agreement

Borrowings under the Term Loan Credit Agreement bear interest at a rate per annum equal to an applicable rate, plus, at our option, either (a) a base rate determined by the reference to the highest of (1) the prime commercial lending rate publicly announced by the administrative agent of the Term Loan Credit Agreement as the “prime rate” as in effect on such day, (2) the federal funds effective rate plus 0.50%, (3) the LIBOR rate determined by reference to the cost of funds for Eurodollar deposits for an interest period of one month, plus 1.00% and (4) 1.75%, or (b) a LIBOR rate (which shall be no less than 0.75%) determined by reference to the costs of funds for Eurodollar deposits for the specified interest period, as adjusted for certain statutory reserve requirements. The applicable rate for borrowings under the Term Loan Credit Agreement is 1.75% with respect to base rate borrowings and 2.75% with respect to LIBOR borrowings (if PCHI’s senior secured leverage ratio is greater than 3.20:1.00), or 1.50% with respect to base rate borrowings and 2.50% with respect to LIBOR borrowings (if PCHI’s senior secured leverage ratio is less than or equal to 3.20:1:00).

The term loans are subject to mandatory prepayment, subject to certain exceptions, with (i) 100% of net proceeds above a threshold amount of certain asset sales/insurance proceeds, subject to reinvestment rights and certain other exceptions, (ii) 100% of the net cash proceeds of any incurrence of debt other than debt permitted under the Term Loan Credit Agreement, (iii) 50% of Excess Cash Flow, as defined in the agreement, if any (reduced to 25% if PCHI's first lien leverage ratio (as defined in the agreement) is less than 3.50 to 1.00, but greater than 2.50 to 1.00, and 0% if PCHI's first lien leverage ratio is less than 2.50 to 1.00).

The term loans under the Term Loan Credit Agreement mature on August 19, 2022. PCHI is required to repay installments on the loans in quarterly principal amounts of 0.25%, with the remaining amount payable on the maturity date.

The term loans may be voluntarily prepaid at any time without premium or penalty, other than customary breakage costs with respect to loans based on the LIBOR rate.

All obligations under the agreement are jointly and severally guaranteed by PC Intermediate, PCHI and each existing and future wholly-owned domestic subsidiary of PCHI. PCHI and each guarantor has secured its obligations, subject to certain exceptions and limitations, by a first-priority lien on substantially all of its assets (other than accounts receivable, inventory, cash and certain related assets), including a pledge of all of the capital stock held by PC Intermediate, PCHI and each guarantor, and a second-priority lien on its accounts receivable, inventory, cash and certain related assets.

The Term Loan Credit Agreement contains certain customary affirmative covenants and events of default. Additionally, it contains negative covenants which, among other things and subject to certain exceptions, restrict the ability of PCHI to:

- incur additional indebtedness;
- pay dividends on capital stock or redeem, repurchase or retire capital stock;
- make certain investments, loans, advances and acquisitions;
- engage in transactions with affiliates;
- create liens; and
- transfer or sell certain assets.

At December 31, 2018, the outstanding principal amount of term loans under the Term Loan Credit Agreement was $799.9 million, excluding the impact of deferred financing costs, original issue discounts and capitalized call premiums.

6.125% Senior Notes

The 6.125% Senior Notes mature on August 15, 2023. Interest on the notes is payable semi-annually in arrears on February 15 and August 15 of each year.

The notes are guaranteed, jointly and severally, on a senior basis by each of PCHI's existing and future wholly-owned domestic subsidiaries that guarantee the Senior Credit Facilities. The notes and the guarantees are general unsecured senior obligations and are effectively subordinated to all other secured debt to the extent of the assets securing such secured debt.

The indenture governing the 6.125% Senior Notes contains certain covenants limiting, among other things and subject to certain exceptions, PCHI's ability to:

- incur additional indebtedness or issue certain disqualified stock and preferred stock;

- pay dividends or distributions, redeem or repurchase equity;
- prepay subordinated debt or make certain investments;
- engage in transactions with affiliates;
- consolidate, merge or transfer all or substantially all of PCHI's assets;
- create liens; and
- transfer or sell certain assets.

The indenture governing the notes also contains certain customary affirmative covenants and events of default.

PCHI may redeem the 6.125% Senior Notes, in whole or in part, at the following (expressed as a percentage of the principal amount to be redeemed):

Twelve-month period beginning on August 15,	Percentage
2018	103.063%
2019	101.531%
2020 and thereafter	100.000%

Also, if PCHI experiences certain types of change in control, as defined, PCHI may be required to offer to repurchase the 6.125% Senior Notes at 101% of their principal amount.

6.625% Senior Notes

The 6.625% Senior Notes mature on August 1, 2026. Interest on the new notes is payable semi-annually in arrears on February 1st and August 1st of each year.

The notes are guaranteed, jointly and severally, on a senior basis by each of PCHI's existing and future wholly-owned domestic subsidiaries that guarantee the Senior Credit Facilities. The notes and the guarantees are general unsecured senior obligations and are effectively subordinated to all other secured debt to the extent of the assets securing such secured debt.

The indenture governing the notes contains certain covenants limiting, among other things and subject to certain exceptions, PCHI's ability to:

- incur additional indebtedness or issue certain disqualified stock and preferred stock;
- pay dividends or distributions, redeem or repurchase equity;
- prepay subordinated debt or make certain investments;
- engage in transactions with affiliates;
- consolidate, merge or transfer all or substantially all of PCHI's assets;
- create liens; and
- transfer or sell certain assets.

The indenture governing the notes also contains certain customary affirmative covenants and events of default.

On or after August 1, 2021, PCHI may redeem the notes, in whole or in part, at the following (expressed as a percentage of the principal amount to be redeemed):

Twelve-month period beginning on August 1,	Percentage
2021	103.313%
2022	101.656%
2023 and thereafter	100.000%

In addition, PCHI may redeem up to 40% of the aggregate principal amount outstanding on or before August 1, 2021 with the cash proceeds from certain equity offerings at a redemption price of 106.625% of the principal amount. PCHI may also redeem some or all of the notes before August 1, 2021 at a redemption price of 100% of the principal amount plus a premium that is defined in the indenture governing the 6.625% Senior Notes.

Also, if PCHI experiences certain types of change in control, as defined, PCHI may be required to offer to repurchase the notes at 101% of their principal amount.

Other Credit Agreements

At December 31, 2018 and December 31, 2017, borrowings under the foreign facilities totaled $1.7 million and $2.3 million, respectively.

Other Indebtedness

Additionally, we have entered into various capital leases for machinery and equipment. At December 31, 2018 and December 31, 2017 the balances of such leases in our consolidated balance sheets were $3.8 million and $3.3 million, respectively. We also have numerous non-cancelable operating leases for retail store sites, as well as leases for offices, distribution facilities and manufacturing facilities. These leases generally contain renewal options and require us to pay real estate taxes, utilities and related insurance costs.

Liquidity

We expect that cash generated from operating activities and availability under our credit agreements will be our principal sources of liquidity. Based on our current level of operations, we believe that these sources will be adequate to meet our liquidity needs for at least the next 12 months. We cannot assure you, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under the ABL Facility and the Term Loan Credit Agreement in amounts sufficient to enable us to repay our indebtedness or to fund our other liquidity needs. See "Risk Factors— *We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful* ."

Cash Flow Data – Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Net cash provided by operating activities totaled $101.9 million during 2018. Net cash provided by operating activities totaled $267.9 million during 2017. Net cash flows provided by operating activities before changes in operating assets and liabilities were $226.4 million during 2018, compared to $219.3 million during 2017. Changes in operating assets and liabilities during 2018 resulted in a use of cash of $124.5 million. Changes in operating assets and liabilities during 2017 resulted in a source of cash of $48.6 million. The operating assets and liabilities year over year change was principally due to: 2017 benefitting from Halloween carryover inventory from the 2016 Halloween selling season, the increased store count in 2018 and higher interest payments during 2018.

Net cash used in investing activities totaled $150.9 million during 2018, as compared to $141.6 million during 2017. Investing activities during 2018 included $65.3 million paid in connection with acquisitions,

principally related to franchise stores (see Note 5 to the consolidated financial statements for further detail). Capital expenditures during 2018 and 2017 were $85.7 million and $67.0 million, respectively. Retail capital expenditures totaled $51.8 million during 2018 and principally related to initiatives for improving store performance, web re-platforming, investments in new stores and spending on store conversions. Wholesale capital expenditures during 2018 totaled $33.9 million and primarily related to printing plates and dies, as well as machinery and equipment at the Company's manufacturing operations and main distribution center.

Net cash provided by financing activities was $56.2 million during 2018. Net cash used in financing activities was $140.0 million during 2017. The change in net cash provided by/used in financing activities was necessary due to higher cash used in operating activities (see above for further detail).

Cash Flow Data – Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Net cash provided by operating activities totaled $267.9 million and $257.8 million during 2017 and 2016, respectively. Net cash flows provided by operating activities before changes in operating assets and liabilities were $219.3 million during 2017, compared to $234.1 million during 2016. The slight decrease was primarily due to a smaller increase in the Company's deferred rent liability. Changes in operating assets and liabilities during 2017 and 2016 resulted in a source of cash of $48.6 million and $23.7 million, respectively. The source of cash was higher during 2017 principally due to the sell through of carryover inventory from the 2016 Halloween selling season.

Net cash used in investing activities totaled $141.6 million during 2017, as compared to $113.7 million during 2016. Investing activities during 2017 included $74.7 million paid in connection with acquisitions, principally related to franchise stores and Granmark (see footnote 5 to the consolidated financial statements in Item 8. for further detail). Capital expenditures during 2017 and 2016 were $67.0 million and $81.9 million, respectively. Retail capital expenditures totaled $34.5 million during 2017 and principally related to store conversions and information technology-related expenditures. Wholesale capital expenditures during 2017 totaled $32.5 million and primarily related to printing plates and dies, as well as machinery and equipment at the Company's manufacturing operations and main distribution center.

Net cash used in financing activities was $140.0 million during 2017, as compared to $119.7 million during 2016. During 2017, the Company repurchased 23,379,567 shares of common stock for $286.7 million.

Tabular Disclosure of Contractual Obligations

Our contractual obligations at December 31, 2018 are summarized by the year in which the payments are due in the following table (amounts in thousands):

	Total	2019	2020	2021	2022	2023	Thereafter
Long-term debt obligations (a)	$ 1,649,917	$ 12,266	$ 12,266	$ 12,266	$ 763,119	$ 350,000	$ 500,000
Capital lease obligations (a)	3,815	1,050	940	1,154	651	20	0
Operating lease obligations (a)	1,106,910	199,283	181,889	164,628	147,245	118,660	295,205
Transition Tax on unremitted foreign earnings (b)	4,205	0	0	0	0	0	4,205
Minimum product royalty obligations (a)	57,024	30,815	24,222	1,987	0	0	0
Total contractual obligations	$ 2,821,871	$ 243,414	$ 219,317	$ 180,035	$ 911,015	$ 468,680	$ 799,410

(a) See Item 8, "Financial Statements and Supplementary Data," for further detail.

(b) As a result of the Act, the U.S. is transitioning from a worldwide system of international taxation to a territorial tax system, thereby eliminating the U.S. federal tax on foreign earnings. However, the Act

requires a one-time deemed repatriation tax on such earnings and, accordingly, we have recorded a liability related to such requirement. See footnote 13 of Item 8, "Financial Statements and Supplementary Data", for further discussion.

Not included in the above table are borrowings under the ABL Facility of $303.5 million, with a maturity date of 2023, and borrowings under our foreign credit facilities of $1.7 million.

Not included in the above table are $1.3 million of net potential cash obligations associated with unrecognized tax benefits due to the high degree of uncertainty regarding the timing of future cash outflows associated with such obligations. Refer to the notes to the consolidated financial statements which are included elsewhere in this Annual Report on Form 10-K for further information related to unrecognized tax benefits.

Additionally, not included in the above table are expected interest payments associated with the Term Loan Credit Agreement and the senior notes, of approximately $94.5 million in 2019, $93.9 million in 2020, $93.3 million in 2021, $78.9 million in 2022, $46.5 million in 2023 and $85.6 million thereafter. Interest payments are estimates based on our debt's scheduled maturities and stated interest rates or, for variable rate debt, interest rates as of December 31, 2018. Our estimates do not reflect interest payments on the credit facilities or the possibility of additional interest from the refinancing of our debt as such amounts are not determinable.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Effects of Inflation

Although we expect that our operating results will be influenced by general economic conditions, we do not believe that inflation has had a material effect on our results of operations during the periods presented. However, there can be no assurance that our business will not be affected by inflation in the future.

Critical Accounting Policies and Procedures

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the appropriate application of certain accounting policies, many of which require estimates and assumptions about future events and their impact on amounts reported in the financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the consolidated financial statements included herein.

We believe our application of accounting policies, and the estimates inherently required by these policies, are reasonable. These accounting policies and estimates are constantly re-evaluated and adjustments are made when facts and circumstances dictate a change. Historically, we have found the application of accounting policies to be reasonable, and actual results generally do not differ materially from those determined using necessary estimates.

Revenue Recognition

Revenue Transactions – Retail

Revenue from retail store operations is recognized at the point of sale as control of the product is transferred to the customer at such time. Retail e-commerce sales are recognized when the consumer receives the product as control transfers upon delivery. Due to its extensive history operating as the largest party goods retailer in North America, the Company has sufficient history with which to estimate future retail sales returns and it uses the expected value method to estimate such activity.

The transaction price for the majority of the Company's retail sales is based on either: 1) the item's stated price or 2) the stated price adjusted for the impact of a coupon which can only be applied to such transaction. To the extent that the Company charges customers for freight costs on e-commerce sales, the Company records such amounts in revenue. The Company excludes all sales taxes and value-added taxes from revenue.

Under the terms of its agreements with its franchisees, the Company provides both: 1) brand value (via significant advertising spend) and 2) support with respect to planograms, in exchange for a royalty fee that ranges from 4% to 6% of the franchisees' sales. The Company records the royalty fees at the time that the franchisees' sales are recorded. Additionally, although the Company anticipates that future franchise store openings will be limited, when a franchisee opens a new store, the Company receives and records a one-time fee which is earned by the Company for its assistance with site selection and development of the new location. Both the sales-based royalty fee and the one-time fee are recorded in royalties and franchise fees in the Company's consolidated statement of operations and comprehensive income.

Revenue Transactions – Wholesale

For most of the Company's wholesale sales, control transfers upon the Company's shipment of the product. Wholesale sales returns are not significant as the Company generally only accepts the return of goods that were shipped to the customer in error or that were damaged when received by the customer. Additionally, due to its extensive history operating as a leading party goods wholesaler, the Company has sufficient history with which to estimate future sales returns.

In most cases, the determination of the transaction price is fixed based on the contract and/or purchase order. To the extent that the Company charges customers for freight costs, the Company records such amounts in revenue. The Company excludes all sales taxes and value-added taxes from revenue.

The majority of the sales for the Company's wholesale business are due within 30 to 120 days from the transfer of control of the product and substantially all of the sales are collected within a year from such transfer. For all transactions for which the Company expects to collect the transaction price within a year from the transfer of control, the Company does not adjust the consideration for the effects of a significant financing component.

Judgments

Although most of the Company's revenue transactions consist of fixed transaction prices and the transfer of control at either the point of sale (for retail) or when the product is shipped (for wholesale), certain transactions involve a limited number of judgments. For transactions for which control transfers to the customer when the freight carrier delivers the product to the customer, the Company estimates the date of such receipt based on historical shipping times. Additionally, the Company utilizes historical data to estimate sales returns. Due to its extensive history operating as a leading party goods retailer, the Company has sufficient history with which to estimate such amounts.

Product Royalty Agreements

We enter into product royalty agreements that allow us to use licensed designs on certain of our products. These contracts require us to pay royalties, generally based on the sales of such product and may require guaranteed minimum royalties, a portion of which may be paid in advance. We match royalty expense with revenue by recording royalties at the time of sale, at the greater of the contractual rate or an effective rate calculated based on the guaranteed minimum royalty and our estimate of sales during the contract period. Guaranteed minimum royalties paid in advance are recorded in the consolidated balance sheets in either prepaid expenses and other current assets or other assets, depending on the nature of the royalties.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers and franchisees to make required payments. Judgment is required in assessing the ultimate realization

of these receivables, including consideration of our history of receivable write-offs, the level of past due accounts and the economic status of our customers. In an effort to identify adverse trends relative to customer economic status, we assess the financial health of the markets we operate in and perform periodic credit evaluations of our customers and ongoing reviews of account balances and aging of receivables. Amounts are considered past due when payment has not been received within the time frame of the credit terms extended. Write-offs are charged directly against the allowance for doubtful accounts and occur only after all collection efforts have been exhausted. Because we cannot predict future changes in economic conditions and in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates and could impact our allowance for doubtful accounts.

Inventories

Inventories are valued at the lower of cost and net realizable value. In assessing the ultimate realization of inventories, we are required to make judgments regarding, among other things, future demand and market conditions, current inventory levels and the impact of the possible discontinuation of product designs.

We principally determine the cost of inventory using the weighted average method.

We estimate retail inventory shortage for the period between physical inventory dates on a store-by-store basis. Our inventory shortage estimate can be affected by changes in merchandise mix and changes in actual shortage trends. The shrinkage rate from the most recent physical inventory, in combination with historical experience, is the basis for estimating shrinkage.

Long-Lived and Intangible Assets (including Goodwill)

We review the recoverability of our long-lived assets, including finite-lived intangible assets, whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. For purposes of recognizing and measuring impairment, we evaluate long-lived assets/asset groups, other than goodwill, based upon the lowest level of independent cash flows ascertainable to evaluate impairment. If an impairment indicator exists, we compare the undiscounted future cash flows of the asset/asset group to the carrying value of the asset/asset group. If the sum of the undiscounted future cash flows is less than the carrying value of the asset/asset group, we would recognize an impairment loss. The impairment related to long-lived assets is measured as the amount by which the carrying amount of the asset(s) exceeds the fair value of the asset(s). When fair values are not readily available, we estimate fair values using discounted expected future cash flows. Such estimates of fair value require significant judgment, and actual fair value could differ due to changes in the expectations of cash flows or other assumptions, including discount rates.

In the evaluation of the fair value and future benefits of finite long-lived assets attached to retail stores, we perform our cash flow analysis on a store-by-store basis. Various factors including future sales growth and profit margins are included in this analysis. To the extent these future projections or strategies change, the conclusion regarding impairment may differ from the current estimates.

Goodwill is reviewed for potential impairment on an annual basis or more frequently if circumstances indicate a possible impairment.

For purposes of testing goodwill for impairment, reporting units are determined by identifying individual components within our organization which constitute a business for which discrete financial information is available and is reviewed by management. Components within a segment are aggregated to the extent that they have similar economic characteristics. Based on this evaluation, we have determined that our operating segments, wholesale and retail, represent our reporting units for the purposes of our goodwill impairment test.

If it is concluded that it is more likely than not that the fair value of a reporting unit is less than its carrying value, we estimate the fair value of the reporting unit using a combination of a market approach and an income

approach. If such carrying value exceeds the fair value, an impairment loss will be recognized in an amount equal to such excess. The fair value of a reporting unit refers to the amount at which the unit as a whole could be sold in a current transaction between willing parties. The determination of such fair value is subjective, and actual fair value could differ due to changes in the expectations of cash flows or other assumptions including discount rates.

Income Taxes

Temporary differences arising from differing treatment of income and expense items for tax and financial reporting purposes result in deferred tax assets and liabilities that are recorded on the balance sheet. These balances, as well as income tax expense, are determined through management's estimations, interpretation of tax law for multiple jurisdictions and tax planning. However, inherent in the measurement of deferred balances are certain judgments and interpretations of enacted tax laws and published guidance with respect to applicability to our operations. If our actual results differ from estimated results due to changes in tax laws or tax planning, our effective tax rate and tax balances could be affected. As such, these estimates may require adjustment in the future as additional facts become known or as circumstances change. A valuation allowance is established against deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. Accounting Standards Codification Topic 740 prescribes a comprehensive model of how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. In accordance with these requirements, we recognize a tax benefit when a tax position is more-likely-than-not to be sustained upon examination, based solely on its technical merits. We measure the recognized tax benefit as the largest amount of tax benefit that has greater than a 50% likelihood of being realized upon the ultimate settlement with a taxing authority. We reverse previously recognized tax benefits if we determine that the tax position no longer meets the more-likely-than-not threshold of being sustained. We accrue interest and penalties related to unrecognized tax benefits in income tax expense.

Stock-Based Compensation

Accounting for stock-based compensation requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation expense over the service period for awards which are expected to vest.

The value of our stock-based awards is recognized as expense over the service period, net of estimated forfeitures. The estimation of stock awards that will ultimately vest requires judgment and to the extent that actual results or updated estimates differ from our current estimates such revisions will be recorded as cumulative adjustments in the periods during which the estimates are revised. Actual results and future estimates may differ significantly from our current estimates.

The Company grants restricted stock units which vest if certain cash flow and earnings per share targets are met. We recognize compensation expense for such awards if it is probable that the awards will vest. Determining whether it is probable that such awards will vest requires judgment and to the extent that actual results, or revised estimates, differ from our current estimates, such revisions will be recorded as cumulative adjustments in the periods during which the estimates are changed. Actual results and future estimates may differ significantly from our current estimates.

Recently Issued Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-07, "Compensation – Stock Compensation: Improvements to Nonemployee Share-Based Payment

Accounting”. The ASU simplifies the accounting for non-employee share-based payments. The update is effective for the Company during the first quarter of 2019. Although the Company continues to evaluate this pronouncement, it does not believe that it will have a material impact on the Company’s consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities”. The pronouncement amends the existing hedge accounting model in order to enable entities to better portray the economics of their risk management activities in their financial statements. The update is effective for the Company during the first quarter of 2019. Although the Company continues to evaluate this pronouncement, it does not believe that it will have a material impact on the Company’s consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows: Restricted Cash”. The pronouncement requires companies to show changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The Company adopted the pronouncement, which requires retrospective application, during the first quarter of 2018. The impact of such adoption was immaterial to the Company’s consolidated financial statements. See Note 22 for further discussion.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments”. The pronouncement clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The Company adopted the pronouncement during the first quarter of 2018 and such adoption did not have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases”. The ASU requires that companies recognize assets and liabilities for the rights and obligations created by companies’ leases. The update is effective for the Company during the first quarter of 2019. The Company’s current lease portfolio is primarily comprised of store leases, manufacturing and distribution facility leases and office leases. Most of the Company’s leases are operating leases. The Company’s finance leases are not material to its consolidated financial statements. Upon adoption of this standard, the Company will recognize a right of use asset and liability related to substantially all of its operating lease arrangements with terms of greater than twelve months. The Company established a cross-functional team to implement the pronouncement and the team has finalized the implementation of a new software solution and its assessment of the practical expedients and policy elections offered by the standard. Due to the nature of the Company’s business, it is often executing new leases and amending existing leases. Currently, the Company estimates that its right of use asset for its operating leases will be in the range of $740 million to $820 million. Additionally, the Company currently estimates that its liability for its operating leases will be in the range of $820 million to $900 million. The adoption of the pronouncement will not have a material impact on the Company’s consolidated statement of operations and comprehensive income and it will not impact the Company’s compliance with its debt covenants. The FASB has provided companies with a transition option under which they can opt to continue to apply legacy guidance in comparative periods and recognize a cumulative effect adjustment to January 1, 2019 retained earnings (if applicable). The Company has elected the option. The cumulative effect adjustment will not have a material impact on the Company’s consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities”. The update impacts the accounting for equity investments and the recognition of changes in fair value of financial liabilities when the fair value option is elected. The Company adopted the pronouncement during the first quarter of 2018 and such adoption had no impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The pronouncement contains a five-step model which replaces most existing revenue recognition guidance. The new standard became effective for the Company on January 1, 2018. The Company adopted the pronouncement using

the modified retrospective approach. Therefore, on January 1, 2018, the Company adjusted its accounting for certain discounts which are related to the timing of payments by customers of its wholesale business and the Company recorded a cumulative-effect adjustment which reduced retained earnings by less than $0.1 million. Additionally, as of such date, the Company modified its accounting for certain metallic balloon sales of its wholesale segment and started to defer the recognition of revenue on such sales, and the related costs, until the balloons have been filled with helium. As a result, the Company recorded a cumulative-effect adjustment which increased retained earnings by less than $0.1 million. Finally, as of such date, the Company adjusted its accounting for certain discounts on wholesale sales of seasonal product and the Company recorded a cumulative-effect adjustment which reduced retained earnings by less than $0.1 million. See Note 20 for further discussion of the adoption of the pronouncement and the Company’s revenue recognition policy.

Quarterly Results

Despite a concentration of holidays in the fourth quarter of the year, as a result of our expansive product lines and customer base and increased promotional activities, the impact of seasonality on the quarterly results of our wholesale segment has been limited. However, due to Halloween and Christmas, the inventory balances of our wholesale segment are slightly higher during the third quarter than during the remainder of the year. Additionally, the promotional activities of our wholesale business, including special dating terms, particularly with respect to Halloween products sold to retailers and other distributors, result in slightly higher accounts receivable balances during the third quarter. Our retail segment is subject to significant seasonal variations. Historically, our retail segment has realized a significant portion of its revenues, cash flow and net income in the fourth quarter of the year, principally due to our Halloween sales in October and, to a lesser extent, year-end holiday sales. The table below sets forth our historical revenues, gross profit, income (loss) from operations, net income (loss), net income (loss) attributable to common shareholders of Party City Holdco Inc. and net income (loss) per share attributable to common shareholders of Party City Holdco Inc. (Basic and Diluted) for each of the last twelve quarters (dollars in thousands):

	For the Three Months Ended,			
	March 31,	June 30,	September 30,	December 31,
2018:				
Net sales	$505,108	$558,101	$ 550,840	$ 802,393
Royalties and franchise fees	2,716	2,910	2,206	3,241
Gross profit	188,142	228,624	201,199	363,119
Income from operations	22,256	65,451	31,738	158,840
Net (loss) income	(1,163)	28,048	(2,440)	98,374
Net (loss) income attributable to common shareholders of Party City Holdco Inc.	(1,133)	28,487	(2,420)	98,325
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc.—Basic	$ (0.01)	$ 0.30	$ (0.03)	$ 1.03
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc.—Diluted	$ (0.01)	$ 0.29	$ (0.03)	$ 1.02

	For the Three Months Ended,			
	March 31,	June 30,	September 30,	December 31,
2017:				
Net sales	$473,963	$541,653	$ 557,350	$ 785,020
Royalties and franchise fees	3,036	3,225	2,759	4,563
Gross profit	175,244	219,753	199,827	367,883
Income from operations	14,671	60,699	37,388	167,378
Net (loss) income	(4,683)	24,982	10,084	184,957
Net (loss) income attributable to common shareholders of Party City Holdco Inc.	(4,683)	24,982	10,084	184,957
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc.—Basic	$ (0.04)	$ 0.21	$ 0.08	$ 1.59
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc.—Diluted	$ (0.04)	$ 0.21	$ 0.08	$ 1.58

	For the Three Months Ended,			
	March 31,	June 30,	September 30,	December 31,
2016:				
Net sales	$454,286	$515,426	$ 553,382	$ 743,292
Royalties and franchise fees	3,454	3,987	3,568	5,996
Gross profit	166,519	207,561	196,720	345,199
Income from operations	19,556	58,480	36,918	159,130
Net (loss) income	(394)	22,515	10,180	85,176
Net (loss) income attributable to common shareholders of Party City Holdco Inc.	(394)	22,515	10,180	85,176
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc.—Basic	$ (0.00)	$ 0.19	$ 0.09	$ 0.71
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc.—Diluted	$ (0.00)	$ 0.19	$ 0.08	$ 0.71

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

As a result of our variable rate ABL Facility and Term Loan Credit Agreement, our earnings are affected by changes in interest rates.

The Term Loan Credit Agreement provides for two pricing options for outstanding loans: (i) an ABR for any day, a rate per annum equal to the greater of (a) the prime rate in effect on such day, (b) the federal funds effective rate in effect on such day plus 0.5%, (c) the adjusted LIBOR rate plus 1% and (d) 1.75% or (ii) the LIBOR rate, with a LIBOR floor of 0.75%, in each case plus an applicable margin.

If market interest rates for our variable rate indebtedness averaged 2% more than the actual market interest rates during the year ended December 31, 2018, our interest expense for the year would have increased by $27.9 million.

This amount is determined by considering the impact of the hypothetical interest rates on our borrowings. This analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management could potentially take action to mitigate our exposure to the change. However, due to the uncertainty of the specific actions that we would take and their possible effects, the sensitivity analysis assumes no changes in our financial structure.

Foreign Currency Risk

As a result of the sale of our products in foreign markets, our earnings are affected by fluctuations in the value of the U.S. Dollar ("USD") when compared to the values of foreign currencies. Specifically, foreign currency fluctuations impact us in four ways:

1) Certain foreign subsidiaries purchase product or raw materials in U.S. Dollars and sell such product in their local currencies. To the extent that the subsidiaries cannot adjust their local currency selling prices to reflect the strengthening of the U.S. Dollar, the subsidiaries' gross margins are negatively impacted when the related product is sold. The subsidiaries that are impacted by this risk principally operate in the Canadian dollar, Euro, British Pound Sterling, Australian dollar and Mexican Peso. Canadian dollar-based subsidiaries and British Pound Sterling-based subsidiaries each purchase approximately $40 million of USD-denominated product per year. Euro-based subsidiaries purchase approximately $30 million of USD-denominated product per year. Australian Dollar-based subsidiaries purchase approximately $20 million of USD-denominated product per year. Mexican Peso-based subsidiaries purchase approximately $15 million of USD-denominated raw materials/finished goods per year.

2) Certain foreign subsidiaries sell product in U.S. Dollars and manufacture/purchase such product in their local currencies. To the extent that the subsidiaries cannot adjust their selling prices to reflect the weakening of the U.S. Dollar, the subsidiaries' gross margins are negatively impacted when sales occur. The subsidiaries that are impacted by this risk principally operate in the Malaysian Ringgit. Ringgit-based subsidiaries sell approximately $20 million of product in U.S. Dollars on an annual basis.

   We periodically enter into foreign currency forward contracts to hedge against a portion of the earnings impact of the risks discussed in points 1. and 2. See Note 18 of Item 8, "Financial Statements and Supplementary Data," for further detail of our existing contracts. Although we periodically enter into such contracts, we (1) may not be able to achieve hedge effectiveness in order to qualify for "hedge accounting" treatment and, therefore, would record any gain or loss on the mark-to-market of open contracts in our statement of income and (2) may not be able to hedge such risks completely or permanently.

3) During our financial statement close process, we adjust open receivables and payables that are not in the functional currencies of our subsidiaries to the latest foreign currency exchange rates. These receivables and payables are principally generated through the sales and inventory purchases discussed in points 1. and 2. above. The gains and losses created by such adjustments are primarily recorded in our statement of income.

4) Additionally, the financial statements of foreign subsidiaries with functional currencies other than the U.S. Dollar are translated into U.S. Dollars during our financial statement close process. To the extent that the U.S. Dollar fluctuates versus such functional currencies, our consolidated financial statements are impacted. Based on the income from operations for such subsidiaries for the year ended December 31, 2018, a uniform 10% change in such exchange rates versus the U.S. Dollar would have impacted our consolidated income from operations for the year by approximately $1.4 million.

Item 8. Financial Statements and Supplementary Data

PARTY CITY HOLDCO INC.

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All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Party City Holdco Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Party City Holdco Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018 and the related notes and financial statement schedules listed in the Index at Item 15 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 28, 2019 expressed an unqualified opinion thereon.

Adoption of ASU No. 2014-09

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2018 Party City Holdco Inc. changed its method for recognizing revenue as a result of the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), and the amendments in ASUs 2015-14, 2016-08, 2016-10 and 2016-12.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1998.
New York, New York
February 28, 2019

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Party City Holdco Inc.

Opinion on Internal Control over Financial Reporting

We have audited Party City Holdco Inc. and subsidiaries' internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Party City Holdco Inc. and subsidiaries' (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018 and the related notes and financial statement schedules listed in the Index at Item 15 and our report dated February 28, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that

controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

New York, New York
February 28, 2019

PARTY CITY HOLDCO INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 58,909	$ 54,291
Accounts receivable, net	146,983	140,980
Inventories, net	756,038	604,066
Prepaid expenses and other current assets	61,905	77,816
Total current assets	1,023,835	877,153
Property, plant and equipment, net	321,044	301,141
Goodwill	1,656,950	1,619,253
Trade names	568,031	568,681
Other intangible assets, net	60,164	75,704
Other assets, net	12,323	12,824
Total assets	$ 3,642,347	$ 3,454,756
LIABILITIES, REDEEMABLE SECURITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Loans and notes payable	$ 302,751	$ 286,291
Accounts payable	208,149	160,994
Accrued expenses	161,228	176,609
Income taxes payable	25,993	45,568
Current portion of long-term obligations	13,316	13,059
Total current liabilities	711,437	682,521
Long-term obligations, excluding current portion	1,621,963	1,532,090
Deferred income tax liabilities	174,427	175,836
Deferred rent and other long-term liabilities	87,548	91,929
Total liabilities	2,595,375	2,482,376
Redeemable securities	3,351	3,590
Commitments and contingencies		
Stockholders' equity:		
Common stock (93,622,934 and 96,380,102 shares outstanding and 120,788,159 and 119,759,669 shares issued at December 31, 2018 and December 31, 2017, respectively)	1,208	1,198
Additional paid-in capital	922,476	917,192
Retained earnings	495,777	372,596
Accumulated other comprehensive loss	(49,201)	(35,818)
Total Party City Holdco Inc. stockholders' equity before common stock held in treasury	1,370,260	1,255,168
Less: Common stock held in treasury, at cost (27,165,225 shares and 23,379,567 shares at December 31, 2018 and December 31, 2017, respectively)	(326,930)	(286,733)
Total Party City Holdco Inc. stockholders' equity	1,043,330	968,435
Noncontrolling interests	291	355
Total stockholders' equity	1,043,621	968,790
Total liabilities, redeemable securities and stockholders' equity	$ 3,642,347	$ 3,454,756

See accompanying notes to consolidated financial statements.

PARTY CITY HOLDCO INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands, except share and per share data)

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Revenues:			
Net sales	$ 2,416,442	$ 2,357,986	$ 2,266,386
Royalties and franchise fees	11,073	13,583	17,005
Total revenues	2,427,515	2,371,569	2,283,391
Expenses:			
Cost of sales	1,435,358	1,395,279	1,350,387
Wholesale selling expenses	71,502	65,356	59,956
Retail operating expenses	425,996	415,167	408,583
Franchise expenses	13,214	14,957	15,213
General and administrative expenses	172,764	168,369	152,919
Art and development costs	23,388	23,331	22,249
Development stage expenses	7,008	8,974	0
Total expenses	2,149,230	2,091,433	2,009,307
Income from operations	278,285	280,136	274,084
Interest expense, net	105,706	87,366	89,380
Other expense (income), net	10,982	4,626	(2,010)
Income before income taxes	161,597	188,144	186,714
Income tax expense (benefit)	38,778	(27,196)	69,237
Net income	122,819	215,340	117,477
Add: Net income attributable to redeemable securities holder	409	0	0
Less: Net loss attributable to noncontrolling interests	(31)	0	0
Net income attributable to common shareholders of Party City Holdco Inc	$ 123,259	$ 215,340	$ 117,477
Net income per share attributable to common shareholders of Party City Holdco Inc.—Basic	$ 1.28	$ 1.81	$ 0.98
Net income per share attributable to common shareholders of Party City Holdco Inc.—Diluted	$ 1.27	$ 1.79	$ 0.98
Weighted-average number of common shares—Basic	96,133,144	118,589,421	119,381,842
Weighted-average number of common shares—Diluted	97,271,050	119,894,021	120,369,672
Other comprehensive (loss) income, net of tax:			
Foreign currency adjustments	$ (14,479)	$ 17,561	$ (19,770)
Cash flow hedges	1,063	(1,140)	321
Other comprehensive (loss) income, net	(13,416)	16,421	(19,449)
Comprehensive income	109,403	231,761	98,028
Add: Comprehensive income attributable to redeemable securities holder	409	0	0
Less: Comprehensive loss attributable to noncontrolling interests	(64)	0	0
Comprehensive income attributable to common shareholders of Party City Holdco Inc.	$ 109,876	$ 231,761	$ 98,028

See accompanying notes to consolidated financial statements.

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PARTY CITY HOLDCO INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2016, December 31, 2017 and December 31, 2018
(In thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Party City Holdco Inc. Stockholders' Equity Before Common Stock Held In Treasury	Common Stock Held In Treasury	Total Party City Holdco Inc. Stockholders' Equity	Non-Controlling Interests	Total Stockholders' Equity
Balance at December 31, 2015	$ 1,193	$ 904,425	$ 40,189	$ (32,790)	$ 913,017	$ 0	$ 913,017	$ 0	$ 913,017
Net income			117,477		117,477		117,477		117,477
Stock option expense		3,853			3,853		3,853		3,853
Exercise of stock options	2	1,371			1,373			1,373	1,373
Foreign currency adjustments				(19,770)	(19,770)		(19,770)		(19,770)
Excess tax benefit from stock options		518			518		518		518
Impact of foreign exchange contracts				321	321		321		321
Balance at December 31, 2016	$ 1,195	$ 910,167	$ 157,666	$ (52,239)	$ 1,016,789	$ 0	$ 1,016,789	$ 0	$ 1,016,789
Net income			215,340		215,340		215,340		215,340
Stock option expense		5,309			5,309		5,309		5,309
Warrant		421			421		421		421
Adjustment to redeemable securities			(410)		(410)		(410)		(410)
Exercise of stock options	3	1,295			1,298		1,298		1,298
Foreign currency adjustments				17,561	17,561		17,561		17,561
Treasury stock purchases					0	(286,733)	(286,733)		(286,733)
Acquired noncontrolling interest					0		0	355	355
Impact of foreign exchange contracts				(1,140)	(1,140)		(1,140)		(1,140)
Balance at December 31, 2017	$ 1,198	$ 917,192	$ 372,596	$ (35,818)	$ 1,255,168	$ (286,733)	$ 968,435	$ 355	$ 968,790
Cumulative effect of change in accounting principle, net (see Note 2)			(78)		(78)		(78)		(78)
Balance at December 31, 2017, adjusted	$ 1,198	$ 917,192	$ 372,518	$ (35,818)	$ 1,255,090	$ (286,733)	$ 968,357	$ 355	$ 968,712
Net income (loss)			122,850		122,850		122,850	(31)	122,819
Net income attributable to redeemable securities holder			409		409		409		409
Stock option expense		1,744			1,744		1,744		1,744
Restricted stock units — time-based	6	1,168			1,174		1,174		1,174
Directors — non-cash compensation		196			196		196		196
Warrant		(89)			(89)		(89)		(89)
Exercise of stock options	4	2,265			2,269		2,269		2,269
Foreign currency adjustments				(14,446)	(14,446)		(14,446)	(33)	(14,479)
Treasury stock purchases					0	(40,197)	(40,197)		(40,197)
Impact of foreign exchange contracts				1,063	1,063		1,063		1,063
Balance at December 31, 2018	$ 1,208	$ 922,476	$ 495,777	$ (49,201)	$ 1,370,260	$ (326,930)	$ 1,043,330	$ 291	$ 1,043,621

PARTY CITY HOLDCO INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31, 2018	Year Ended December 31, 2017 (Adjusted, see Note 2)	Year Ended December 31, 2016 (Adjusted, see Note 2)
Cash flows provided by operating activities:			
Net income	$ 122,819	$ 215,340	$ 117,477
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	78,575	85,168	83,630
Amortization of deferred financing costs and original issuance discounts	10,989	4,937	5,818
Provision for doubtful accounts	1,213	560	781
Deferred income tax expense (benefit)	4,573	(102,651)	3,401
Deferred rent	5,351	7,287	18,835
Undistributed (income) loss in equity method investments	(369)	(194)	314
Loss on disposal of assets	3	475	14
Non-employee equity based compensation	81	3,033	0
Stock option expense	1,744	5,309	3,853
Restricted stock units expense—time-based	1,174	0	0
Directors—non-cash compensation	196	0	0
Changes in operating assets and liabilities, net of effects of acquired businesses:			
(Increase) decrease in accounts receivable	(10,431)	1,153	(5,898)
(Increase) decrease in inventories	(142,866)	37,175	(42,819)
Decrease (increase) in prepaid expenses and other current assets	16,666	(9,117)	(14,517)
Increase in accounts payable, accrued expenses and income taxes payable	12,138	19,408	86,893
Net cash provided by operating activities	101,856	267,883	257,782
Cash flows used in investing activities:			
Cash paid in connection with acquisitions, net of cash acquired	(65,301)	(74,710)	(31,820)
Capital expenditures	(85,661)	(66,970)	(81,948)
Proceeds from disposal of property and equipment	55	35	35
Net cash used in investing activities	(150,907)	(141,645)	(113,733)
Cash flows provided by (used in) financing activities:			
Repayment of loans, notes payable and long-term obligations	(547,695)	(234,619)	(1,521,218)
Proceeds from loans, notes payable and long-term obligations	652,087	380,092	1,399,717
Excess tax benefit from stock options	0	0	518
Exercise of stock options	2,269	1,298	1,373
Treasury stock purchases	(40,197)	(286,733)	0
Debt issuance costs	(10,294)	0	(130)
Net cash provided by (used in) financing activities	56,170	(139,962)	(119,740)
Effect of exchange rate changes on cash and cash equivalents	(2,308)	3,367	(2,636)
Net increase (decrease) in cash and cash equivalents and restricted cash	4,811	(10,357)	21,673
Cash and cash equivalents and restricted cash at beginning of period	54,408	64,765	43,092
Cash and cash equivalents and restricted cash at end of period	$ 59,219	$ 54,408	$ 64,765
Supplemental disclosure of cash flow information:			
Cash paid during the period:			
Interest	$ 94,472	$ 76,171	$ 86,183
Income taxes, net of refunds	$ 59,156	$ 66,445	$ 26,883

Supplemental information on non-cash activities:

Capital lease obligations of $1,362, $1,553, and $1,623 were incurred during the years ended December 31, 2018, 2017, and 2016, respectively.

See accompanying notes to consolidated financial statements.

PARTY CITY HOLDCO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share)

Note 1 — Organization, Description of Business and Basis of Presentation

Party City Holdco Inc. (the "Company" or "Party City Holdco") is a vertically integrated supplier of decorated party goods. The Company designs, manufactures, sources and distributes party goods, including paper and plastic tableware, metallic and latex balloons, Halloween and other costumes, accessories, novelties, gifts and stationery. The Company's retail operations include approximately 960 specialty retail party supply stores (including franchise stores) in the United States and Canada, operating under the name Party City, e-commerce websites, principally operating under the domain name PartyCity.com, and a network of approximately 250—300 temporary Halloween City stores (including approximately 50 jointly under the Halloween City and Toy City banners). In addition to the Company's retail operations, it is also a global designer, manufacturer and distributor of decorated party supplies, with products found in over 40,000 retail outlets, including independent party supply stores, mass merchants, grocery retailers, e-commerce merchandisers and dollar stores. The Company's products are available in over 100 countries with the United Kingdom, Canada, Germany, Mexico and Australia among the largest end markets outside of the United States.

Party City Holdco is a holding company with no operating assets or operations. The Company owns 100% of PC Nextco Holdings, LLC ("PC Nextco"), which owns 100% of PC Intermediate Holdings, Inc. ("PC Intermediate"). PC Intermediate owns 100% of Party City Holdings Inc. ("PCHI"), which owns most of the Company's operating subsidiaries.

Note 2 — Summary of Significant Accounting Policies

Consolidated Financial Statements

The consolidated financial statements of the Company include the accounts of all majority-owned subsidiaries and controlled entities. All intercompany balances and transactions have been eliminated.

The Company's retail operations define a fiscal year ("Fiscal Year") as the 52-week period or 53-week period ended on the Saturday nearest December 31st of each year, and define their fiscal quarters ("Fiscal Quarter") as the four interim 13-week periods following the end of the previous Fiscal Year, except in the case of a 53-week Fiscal Year when the fourth Fiscal Quarter is extended to 14 weeks. The consolidated financial statements of the Company combine the Fiscal Year and Fiscal Quarters of the Company's retail operations with the calendar year and calendar quarters of the Company's wholesale operations, as the differences are not significant.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Management periodically evaluates estimates used in the preparation of the consolidated financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based on such periodic evaluations.

Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. All credit card transactions that process in less than seven days are classified as cash and cash equivalents.

PARTY CITY HOLDCO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Dollars in thousands, except per share)

Inventories

Inventories are valued at the lower of cost and net realizable value. In assessing the ultimate realization of inventories, the Company makes judgments regarding, among other things, future demand and market conditions, current inventory levels and the impact of the possible discontinuation of product designs.

The Company principally determines the cost of inventory using the weighted average method.

The Company estimates retail inventory shrinkage for the period between physical inventory dates on a store-by-store basis. Inventory shrinkage estimates can be affected by changes in merchandise mix and changes in actual shortage trends. The shrinkage rate from the most recent physical inventory, in combination with historical experience, is the basis for estimating shrinkage.

Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments. Judgment is required in assessing the ultimate realization of these receivables, including consideration of the Company's history of receivable write-offs, the level of past due accounts and the economic status of the Company's customers. In an effort to identify adverse trends relative to customer economic status, the Company assesses the financial health of the markets it operates in and performs periodic credit evaluations of its customers and ongoing reviews of account balances and aging of receivables. Amounts are considered past due when payment has not been received within the time frame of the credit terms extended. Write-offs are charged directly against the allowance for doubtful accounts and occur only after all collection efforts have been exhausted. At December 31, 2018 and 2017, the allowance for doubtful accounts was $2,933 and $2,971, respectively.

Long-Lived and Intangible Assets (including Goodwill)

Property, plant and equipment are stated at cost. Equipment under capital leases is stated at the present value of the minimum lease payments at the inception of the lease. Depreciation is calculated principally on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the asset.

The Company reviews the recoverability of its finite long-lived assets, including finite-lived intangible assets, whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. For purposes of recognizing and measuring impairment, the Company evaluates long-lived assets/asset groups, other than goodwill, based upon the lowest level of independent cash flows ascertainable to evaluate impairment. If an impairment indicator exists, we compare the undiscounted future cash flows of the asset/asset group to the carrying value of the asset/asset group. If the sum of the undiscounted future cash flows is less than the carrying value of the asset/asset group, the Company would recognize an impairment loss. The impairment related to long-lived assets is measured as the amount by which the carrying amount of the asset(s) exceeds the fair value of the asset(s).

In the evaluation of the fair value and future benefits of finite long-lived assets attached to retail stores, the Company performs its cash flow analysis on a store-by-store basis. Various factors including future sales growth and profit margins are included in this analysis.

Goodwill represents the excess of the purchase price of acquired entities over the estimated fair value of the net assets acquired. Goodwill and other intangibles with indefinite lives are not amortized, but are reviewed for impairment annually or more frequently if certain impairment indicators arise.

PARTY CITY HOLDCO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Dollars in thousands, except per share)

The Company evaluates the goodwill associated with its acquisitions, and other intangibles with indefinite lives, for impairment as of the first day of its fourth quarter based on current and projected performance. For purposes of testing goodwill for impairment, reporting units are determined by identifying individual components within the Company's organization which constitute a business for which discrete financial information is available and is reviewed by management. Components within a segment are aggregated to the extent that they have similar economic characteristics. Based on this evaluation, the Company has determined that its operating segments, wholesale and retail, represent reporting units for the purposes of its goodwill impairment test.

If it is concluded that it is more likely than not that the fair value of a reporting unit is less than its carrying value, the Company estimates the fair value of the reporting unit using a combination of a market approach and an income approach. If such carrying value exceeds the fair value an impairment loss will be recognized in an amount equal to such excess. The fair value of a reporting unit refers to the amount at which the unit as a whole could be sold in a current transaction between willing parties.

Deferred Financing Costs

Deferred financing costs are netted against amounts outstanding under the related debt instruments. They are amortized to interest expense over the terms of the instruments using the effective interest method.

Deferred Rent and Rental Expenses

The Company leases its retail stores under operating leases that generally have initial terms of ten years, with two five year renewal options. The Company's leases may have early cancellation clauses, which permit the lease to be terminated if certain sales levels are not met in specific periods, and may provide for the payment of contingent rent based on a percentage of the store's net sales. The Company's lease agreements generally have defined escalating rent provisions, which are reported as a deferred rent liability and expensed on a straight-line basis over the term of the related lease, commencing with the date of possession. In addition, the Company may receive cash allowances from its landlords on certain properties, which are reported as deferred rent and amortized to rent expense over the term of the lease, also commencing with the date of possession. The Company's deferred rent liability at December 31, 2018 and 2017 was $81,634 and $76,994, respectively.

Equity Method Investments

The Company has an investment in Convergram Mexico, S. De R.L. De C.V., a joint venture distributing metallic balloons, principally in Mexico and Latin America. The Company accounts for its 49.9% investment in the joint venture using the equity method of accounting.

Additionally, the Company has an investment in PD Retail Group Limited, a joint venture operating party goods stores in the United Kingdom ("U.K."). The Company accounts for its 50% investment using the equity method of accounting.

Further, the Company has a 28% ownership interest in Punchbowl, Inc., a provider of digital greeting cards and digital invitations. The Company is also accounting for such investment under the equity method.

The Company's investments are included in other assets on the consolidated balance sheet and the results of the investees' operations are included in other expense (income) in the consolidated statement of operations and comprehensive income (loss) (see Note 10).

PARTY CITY HOLDCO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Dollars in thousands, except per share)

Insurance Accruals

The Company maintains certain self-insured workers’ compensation and general liability insurance plans. The Company estimates the required liability for claims under such plans based upon various assumptions, which include, but are not limited to, historical loss experience, projected loss development factors, actual payroll and other data. The required liability is also subject to adjustment in the future based upon changes in claims experience, including changes in the number of incidents (frequency) and changes in the ultimate cost per incident (severity).

Revenue Recognition

Retail

Revenue from retail store operations is recognized at the point of sale as control of the product is transferred to the customer at such time. Retail e-commerce sales are recognized when the consumer receives the product as control transfers upon delivery. Due to its extensive history operating as the largest party goods retailer in North America, the Company has sufficient history with which to estimate future retail sales returns and it uses the expected value method to estimate such activity.

The transaction price for the majority of the Company’s retail sales is based on either: 1) the item’s stated price or 2) the stated price adjusted for the impact of a coupon which can only be applied to such transaction. To the extent that the Company charges customers for freight costs on e-commerce sales, the Company records such amounts in revenue. The Company excludes all sales taxes and value-added taxes from revenue.

Under the terms of its agreements with its franchisees, the Company provides both: 1) brand value (via significant advertising spend) and 2) support with respect to planograms, in exchange for a royalty fee that ranges from 4% to 6% of the franchisees’ sales. The Company records the royalty fees at the time that the franchisees’ sales are recorded. Additionally, although the Company anticipates that future franchise store openings will be limited, when a franchisee opens a new store, the Company receives and records a one-time fee which is earned by the Company for its assistance with site selection and development of the new location. Both the sales-based royalty fee and the one-time fee are recorded in royalties and franchise fees in the Company’s consolidated statement of operations and comprehensive income.

Wholesale

For most of the Company’s wholesale sales, control transfers upon the Company’s shipment of the product. Wholesale sales returns are not significant as the Company generally only accepts the return of goods that were shipped to the customer in error or that were damaged when received by the customer. Additionally, due to its extensive history operating as a leading party goods wholesaler, the Company has sufficient history with which to estimate future sales returns.

In most cases, the determination of the transaction price is fixed based on the contract and/or purchase order. To the extent that the Company charges customers for freight costs, the Company records such amounts in revenue. The Company excludes all sales taxes and value-added taxes from revenue.

The majority of the sales for the Company’s wholesale business are due within 30 to 120 days from the transfer of control of the product and substantially all of the sales are collected within a year from such transfer. For all transactions for which the Company expects to collect the transaction price within a year from the transfer of control, the Company does not adjust the consideration for the effects of a significant financing component.

PARTY CITY HOLDCO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Dollars in thousands, except per share)

Cost of Sales

Cost of sales at wholesale reflects the production costs (i.e., raw materials, labor and overhead) of manufactured goods and the direct cost of purchased goods, inventory shrinkage, inventory adjustments, inbound freight to the Company's manufacturing and distribution facilities, distribution costs and outbound freight to transfer goods to the Company's wholesale customers. At retail, cost of sales reflects the direct costs of goods purchased from third parties and the production costs/purchase costs of goods acquired from the Company's wholesale operations. Retail cost of sales also includes inventory shrinkage, inventory adjustments, inbound freight, occupancy costs related to store operations (such as rent, utilities and common area maintenance), depreciation on assets and all logistics costs (i.e., handling and distribution costs) associated with the Company's e-commerce business.

Retail Operating Expenses

Retail operating expenses include costs associated with the operation of the Company's retail stores (with the exception of occupancy costs, which are included in cost of sales). Retail operating expenses principally consist of employee compensation and benefits, advertising, supplies expense and credit card fees.

Shipping and Handling

Outbound shipping costs billed to customers are included in net sales. The costs of shipping and handling incurred by the Company are included in cost of sales.

Product Royalty Agreements

The Company enters into product royalty agreements that allow the Company to use licensed designs on certain of its products. These contracts require the Company to pay royalties, generally based on the sales of such product, and may require guaranteed minimum royalties, a portion of which may be paid in advance. The Company matches royalty expense with revenue by recording royalties at the time of sale, at the greater of the contractual rate or an effective rate calculated based on the guaranteed minimum royalty and the Company's estimate of sales during the contract period. If a portion of the guaranteed minimum royalty is determined to be unrecoverable, the unrecoverable portion is charged to expense at that time. Guaranteed minimum royalties paid in advance are recorded in the consolidated balance sheets in either prepaid expenses and other current assets or other assets, depending on the nature of the royalties.

Catalog Costs

The Company expenses costs associated with the production of catalogs when incurred.

Advertising

Advertising costs are expensed as incurred. Retail advertising expenses for the years ended December 31, 2018, December 31, 2017, and December 31, 2016 were $68,756, $61,187, and $63,528, respectively.

Variable Interest Entities

When determining whether a legal entity should be consolidated, the Company first determines whether it has a variable interest in the legal entity. If a variable interest exists, the Company determines whether the legal

entity is a variable interest entity due to either: 1) a lack of sufficient equity to finance its activities, 2) the equity holders lacking the characteristics of a controlling financial interest, or 3) the legal entity being structured with non-substantive voting rights. If the Company concludes that the legal entity is a variable interest entity, the Company next determines whether it is the primary beneficiary due to it possessing both: 1) the power to direct the activities of a variable interest entity that most significantly impact the variable interest entity's economic performance, and 2) the obligation to absorb losses of the variable interest entity that potentially could be significant to the variable interest entity or the right to receive benefits from the variable interest entity which could be significant to the variable interest entity. If the Company concludes that it is the primary beneficiary, it consolidates the legal entity.

During 2017, the Company and Ampology, a subsidiary of Trivergence, reached an agreement to form a new legal entity, Kazzam, LLC ("Kazzam"), for the purpose of designing, developing and launching an online exchange platform for party-related services. Although the Company currently only owns 26% of Kazzam's equity, the Company has concluded that: a) Kazzam is a variable interest entity as it has insufficient equity at risk, and b) the Company is its primary beneficiary. Therefore, the Company has consolidated Kazzam into the Company's financial statements.

As part of Ampology's compensation for designing, developing and launching the exchange platform, Ampology received an ownership interest in Kazzam. The interest has been recorded as redeemable securities in the mezzanine of the Company's consolidated balance sheet as, in the future, Ampology has the right to cause the Company to purchase the interest. On a recurring basis, the mezzanine liability is adjusted to the greater of: a) the interest's carrying amount under Accounting Standards Codification ("ASC") Topic 810, "Consolidation", or b) the fair value of the interest.

Art and Development Costs

Art and development costs are primarily internal costs that are not easily associated with specific designs, some of which may not reach commercial production. Accordingly, the Company expenses these costs as incurred.

Derivative Financial Instruments

ASC Topic 815, "Accounting for Derivative Instruments and Hedging Activities", requires that all derivative financial instruments be recognized on the balance sheet at fair value and establishes criteria for both the designation and effectiveness of hedging activities. The Company uses derivatives in the management of interest rate and foreign currency exposure. ASC Topic 815 requires the Company to formally document the assets, liabilities or other transactions the Company designates as hedged items, the risk being hedged and the relationship between the hedged items and the hedging instruments. The Company must measure the effectiveness of the hedging relationship at the inception of the hedge and on an on-going basis.

If derivative financial instruments qualify as fair value hedges, the gain or loss on the instrument and the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in net income during the period of the change in fair values. For derivative financial instruments that qualify as cash flow hedges (*i.e* ., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income and reclassified into net income in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of a cash flow hedge, if any, is determined based on the dollar-offset method (*i.e* ., the gain or loss on the derivative financial instrument in excess of the cumulative

change in the present value of future cash flows of the hedged item) and is recognized in net income during the period of change. As long as hedge effectiveness is maintained, interest rate swap arrangements and foreign currency exchange agreements qualify for hedge accounting as cash flow hedges (see Note 18).

Income Taxes

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities (and operating loss and tax credit carryforwards) applying enacted statutory tax rates in effect for the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the judgment of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Stock-Based Compensation

Accounting for stock-based compensation requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation expense over the service period for awards expected to vest.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists of the Company's foreign currency adjustments and the impact of interest rate swap and foreign exchange contracts that qualify as hedges (see Notes 18 and 19).

Foreign Currency Transactions and Translation

The functional currencies of the Company's foreign operations are the local currencies in which they operate. Foreign currency exchange gains or losses resulting from receivables or payables in currencies other than the functional currencies generally are recognized in the Company's statement of operations and comprehensive income (loss). The balance sheets of foreign subsidiaries are translated into U.S. dollars at the exchange rates in effect on the balance sheet date. The results of operations of foreign subsidiaries are translated into U.S. dollars at the average exchange rates effective for the periods presented. The differences from historical exchange rates are recorded as comprehensive income (loss) and are included as a component of accumulated other comprehensive loss.

Earnings Per Share

Basic earnings per share are computed by dividing net income attributable to common shareholders of Party City Holdco Inc. by the weighted average number of common shares outstanding for the period. Diluted earnings per share are calculated based on the weighted average number of outstanding common shares plus the dilutive effect of stock options and warrants, as if they were exercised, and restricted stock units, as if they vested.

PARTY CITY HOLDCO INC.
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A reconciliation between basic and diluted income per share is as follows:

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Net income attributable to common shareholders of Party City Holdco Inc.:	$ 123,259	$ 215,340	$ 117,477
Weighted average shares — Basic:	96,133,144	118,589,421	119,381,842
Effect of dilutive restricted stock units:	9,661	0	0
Effect of dilutive stock options:	1,128,245	1,304,600	987,830
Weighted average shares — Diluted:	97,271,050	119,894,021	120,369,672
Net income per share attributable to common shareholders of Party City Holdco Inc. — Basic:	$ 1.28	$ 1.81	$ 0.98
Net income per share attributable to common shareholders of Party City Holdco Inc. — Diluted:	$ 1.27	$ 1.79	$ 0.98

During the years ended December 31, 2018, December 31, 2017, and December 31, 2016, 2,394,868 stock options, 2,392,150 stock options and 2,371,876 stock options, respectively, were excluded from the calculations of net income per share attributable to common shareholders of Party City Holdco Inc. – diluted as they were anti-dilutive. Additionally, during the years ended December 31, 2018, December 31, 2017, and December 31, 2016, 596,000 warrants, 596,000 warrants and 0 warrants, respectively, were excluded from the calculations of net income per share attributable to common shareholders of Party City Holdco Inc. – diluted as they were anti-dilutive. Further, during the years ended December 31, 2018, December 31, 2017, and December 31, 2016, 141,400 restricted stock units, 0 restricted stock units and 0 restricted stock units, respectively, were excluded from the calculations of net income per share attributable to common shareholders of Party City Holdco Inc. – diluted as they were anti-dilutive.

Recently Issued Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-07, "Compensation — Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting". The ASU simplifies the accounting for non-employee share-based payments. The update is effective for the Company during the first quarter of 2019. Although the Company continues to evaluate this pronouncement, it does not believe that it will have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities". The pronouncement amends the existing hedge accounting model in order to enable entities to better portray the economics of their risk management activities in their financial statements. The update is effective for the Company during the first quarter of 2019. Although the Company continues to evaluate this pronouncement, it does not believe that it will have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows: Restricted Cash". The pronouncement requires companies to show changes in the total of cash, cash equivalents, restricted cash and

restricted cash equivalents in the statement of cash flows. The Company adopted the pronouncement, which requires retrospective application, during the first quarter of 2018. The impact of such adoption was immaterial to the Company's consolidated financial statements. See Note 22 for further discussion.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments". The pronouncement clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The Company adopted the pronouncement during the first quarter of 2018 and such adoption did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases". The ASU requires that companies recognize assets and liabilities for the rights and obligations created by companies' leases. The update is effective for the Company during the first quarter of 2019. The Company's current lease portfolio is primarily comprised of store leases, manufacturing and distribution facility leases and office leases. Most of the Company's leases are operating leases. The Company's finance leases are not material to its consolidated financial statements. Upon adoption of this standard, the Company will recognize a right of use asset and liability related to substantially all of its operating lease arrangements with terms of greater than twelve months. The Company established a cross-functional team to implement the pronouncement and the team has finalized the implementation of a new software solution and its assessment of the practical expedients and policy elections offered by the standard. Due to the nature of the Company's business, it is often executing new leases and amending existing leases. Currently, the Company estimates that its right of use asset for its operating leases will be in the range of $740,000 to $820,000. Additionally, the Company currently estimates that its liability for its operating leases will be in the range of $820,000 to $900,000. The adoption of the pronouncement will not have a material impact on the Company's consolidated statement of operations and comprehensive income and it will not impact the Company's compliance with its debt covenants. The FASB has provided companies with a transition option under which they can opt to continue to apply legacy guidance in comparative periods and recognize a cumulative effect adjustment to January 1, 2019 retained earnings (if applicable). The Company has elected the option. The cumulative effect adjustment will not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities". The update impacts the accounting for equity investments and the recognition of changes in fair value of financial liabilities when the fair value option is elected. The Company adopted the pronouncement during the first quarter of 2018 and such adoption had no impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". The pronouncement contains a five-step model which replaces most existing revenue recognition guidance. The new standard became effective for the Company on January 1, 2018. The Company adopted the pronouncement using the modified retrospective approach. Therefore, on January 1, 2018, the Company adjusted its accounting for certain discounts which are related to the timing of payments by customers of its wholesale business and the Company recorded a cumulative-effect adjustment which reduced retained earnings by $46. Additionally, as of such date, the Company modified its accounting for certain metallic balloon sales of its wholesale segment and started to defer the recognition of revenue on such sales, and the related costs, until the balloons have been filled with helium. As a result, the Company recorded a cumulative-effect adjustment which increased retained earnings by $8. Finally, as of such date, the Company adjusted its accounting for certain discounts on wholesale sales of seasonal product and the Company recorded a cumulative-effect adjustment which reduced retained earnings by $40. See Note 20 for further discussion of the adoption of the pronouncement and the Company's revenue recognition policy.

PARTY CITY HOLDCO INC.
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Note 3 — Inventories, Net

Inventories consisted of the following:

	December 31, 2018	December 31, 2017
Finished goods	$ 706,327	$ 562,809
Raw materials	33,423	30,346
Work in process	16,288	10,911
	$ 756,038	$ 604,066

See Note 2 for a discussion of the Company's accounting policies for inventories.

Note 4 — Property, Plant and Equipment, Net

Property, plant and equipment, net consisted of the following:

	December 31, 2018	December 31, 2017	Useful lives
Machinery and equipment	$ 216,097	$ 187,937	3-15 years
Buildings	68,810	68,451	40 years
Data processing equipment	82,735	63,354	3-5 years
Leasehold improvements	137,508	120,146	1-10 years
Furniture and fixtures	191,183	177,309	5-10 years
Land	11,069	10,733	
	707,402	627,930	
Less: accumulated depreciation	(386,358)	(326,789)	
	$ 321,044	$ 301,141	

Depreciation expense related to property, plant and equipment, including assets under capital leases, was $66,304, $68,209, and $66,383, for the years ended December 31, 2018, December 31, 2017, and December 31, 2016, respectively. Assets under capital leases are principally included in machinery and equipment in the table above.

Note 5 — Acquisitions

During March 2018, the Company acquired 11 franchise stores, which are located in Maryland, for total consideration (including non-cash consideration) of approximately $17,000. The following summarizes the fair values of the major classes of assets acquired and liabilities assumed: inventories of $3,500, property, plant and equipment of $200, a reacquired right intangible asset in the amount of $4,000, and an asset in the amount of $100 due to leases that are favorable when compared to market rates. The allocation of the purchase price for the business combination, which has been finalized with the exception of the allocation of value to the stores' income tax accounts, was based on the Company's estimate of the fair value of the assets acquired and liabilities assumed. Goodwill, which is tax-deductible, arose due to numerous factors, including the wholesale profit generated via the sale of product from the Company's wholesale operations through the 11 stores. Goodwill also arose due to: the value to the Company of customers knowing that there are party stores in the locations (when

the Company opens a new store, sales are initially lower than those of mature stores and increase over time), the Company's ability to run the stores more efficiently than the franchisee based on the Company's experience with its approximately 800 corporate-owned stores and the assembled workforce at the 11 stores.

Also, during July 2018, the Company acquired an additional 16 franchise stores, which are located in Pennsylvania, for total consideration (including non-cash consideration) of approximately $20,500. The following summarizes the fair values of the major classes of assets acquired and liabilities assumed: inventories of $4,200, property, plant and equipment of $500, a reacquired right intangible asset in the amount of $3,400, and an asset in the amount of $500 due to leases that are favorable when compared to market rates. The allocation of the purchase price for the business combination, which has been finalized with the exception of the allocation of value to the stores' income tax accounts, was based on the Company's estimate of the fair value of the assets acquired and liabilities assumed. Goodwill, which is tax-deductible, arose due to numerous factors, including the wholesale profit generated via the sale of product from the Company's wholesale operations through the 16 stores. Goodwill also arose due to: the value to the Company of customers knowing that there are party stores in the locations (when the Company opens a new store, sales are initially lower than those of mature stores and increase over time), the Company's ability to run the stores more efficiently than the franchisee based on the Company's experience with its approximately 800 corporate-owned stores and the assembled workforce at the 16 stores.

Additionally, during September 2018, the Company acquired 21 franchise stores, which are located in Minnesota, North Dakota and Texas, for total consideration (including non-cash consideration) of approximately $26,300. The following summarizes the fair values of the major classes of assets acquired and liabilities assumed: inventories of $7,500, property, plant and equipment of $500, a reacquired right intangible asset in the amount of $7,300, and an asset in the amount of $200 due to leases that are favorable when compared to market rates. The allocation of the purchase price for the business combination, which has been finalized with the exception of the allocation of value to the stores' income tax accounts, was based on the Company's estimate of the fair value of the assets acquired and liabilities assumed. Goodwill, which is tax-deductible, arose due to numerous factors, including the wholesale profit generated via the sale of product from the Company's wholesale operations through the 21 stores. Goodwill also arose due to: the value to the Company of customers knowing that there are party stores in the locations (when the Company opens a new store, sales are initially lower than those of mature stores and increase over time), the Company's ability to run the stores more efficiently than the franchisee based on the Company's experience with its approximately 800 corporate-owned stores and the assembled workforce at the 21 stores.

Also, during 2018, the Company entered into an agreement to acquire 11 independent stores, which are located in Texas. The Company will take control of the stores one at a time over a period of approximately two years. During 2018, the Company took control of eight of the 11 stores, for total business combination consideration of approximately $4,400. Although the Company is finalizing the allocation of the purchase price for the eight stores, the majority of the value will be ascribed to goodwill. Goodwill, which is tax-deductible, arose due to numerous factors, including the wholesale profit generated via the sale of product from the Company's wholesale operations through the stores. Due to the fact that the stores were independent stores and, therefore, possessed a relatively small percentage of inventory that came from the Company's wholesale operations, going forward the Company will significantly increase such percentage. Additionally, goodwill arose due to: the value to the Company of customers knowing that there are party stores in the locations, the Company's ability to run the stores more efficiently than the current operator based on the Company's experience with its approximately 800 corporate-owned stores and the assembled workforce at the eight stores.

Pro forma financial information has not been presented because the impact of the acquisitions individually, and in the aggregate, is not material to the Company's consolidated financial results.

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Goodwill Changes by Reporting Segment

For the years ended December 31, 2018 and December 31, 2017 goodwill changes were as follows:

	Year Ended December 31, 2018	Year Ended December 31, 2017
Wholesale segment:		
Beginning balance	$ 513,946	$ 491,859
Granmark acquisition	(1,115)	13,241
Print Appeal acquisition	277	3,133
Other acquisitions	132	1,348
Foreign currency impact	(2,750)	4,365
Ending balance	510,490	513,946
Retail segment:		
Beginning balance	1,105,307	1,080,709
Store acquisitions	42,801	23,025
Foreign currency impact	(1,648)	1,573
Ending balance	1,146,460	1,105,307
Total ending balance, both segments	$ 1,656,950	$ 1,619,253

Note 6 — Intangible Assets

The Company had the following other identifiable intangible assets:

	December 31, 2018			
	Cost	Accumulated Amortization	Net Carrying Value	Useful lives
Franchise-related intangible assets	$ 77,377	$ 41,877	$ 35,500	4-19 years
Customer lists and relationships	61,405	41,167	20,238	2-20 years
Copyrights and designs	26,030	25,708	322	5-7 years
Lease agreements	17,830	13,926	3,904	1-17 years
Non-compete agreements	500	300	200	5 years
Total	$ 183,142	$ 122,978	$ 60,164	

	December 31, 2017			
	Cost	Accumulated Amortization	Net Carrying Value	Useful lives
Franchise-related intangible assets	$ 81,600	$ 35,700	$ 45,900	4-19 years
Customer lists and relationships	61,527	36,268	25,259	2-20 years
Copyrights and designs	29,030	27,406	1,624	5-7 years
Lease agreements	16,850	14,229	2,621	1-17 years
Non-compete agreements	500	200	300	5 years
Total	$ 189,507	$ 113,803	$ 75,704	

The Company is amortizing the majority of its intangible assets utilizing accelerated patterns based on the discounted cash flows that were used to value such assets. The amortization expense for finite-lived intangible assets for the years ended December 31, 2018, December 31, 2017, and December 31, 2016 was $12,271, $16,959, and $17,247, respectively. Estimated amortization expense for each of the next five years will be approximately $14,036, $10,877, $8,943, $5,838, and $4,524, respectively.

In addition to the Company’s finite-lived intangible assets, the Company has recorded indefinite-lived intangible assets for the Party City trade name, the Amscan trade name, the Halloween City trade name, the Christys trade name, the Granmark trade name, the partycity.com domain name and the partydelights.co.uk domain name.

Note 7 — Loans and Notes Payable

ABL Facility

The Company has a $540,000 asset-based revolving credit facility (with a seasonal increase to $640,000 during a certain period of each calendar year) (“ABL Facility”) which matures during August 2023 (subject to a springing maturity at an earlier date if the maturity date of certain of the Company’s other debt has not been extended or refinanced). It provides for (a) revolving loans, subject to a borrowing base described below, and (b) letters of credit, in an aggregate face amount at any time outstanding not to exceed $50,000.

Under the ABL Facility, the borrowing base at any time equals (a) a percentage of eligible trade receivables, plus (b) a percentage of eligible inventory, plus (c) a percentage of eligible credit card receivables, less (d) certain reserves.

The ABL Facility generally provides for two pricing options: (i) an alternate base interest rate (“ABR”) equal to the greater of (a) the prime rate, (b) the federal funds rate plus 0.5% or (c) the LIBOR rate plus 1%, in each case, on the date of such borrowing or (ii) a LIBOR based interest rate, in each case plus an applicable margin. The applicable margin ranges from 0.25% to 0.50% with respect to ABR borrowings and from 1.25% to 1.50% with respect to LIBOR borrowings.

In addition to paying interest on outstanding principal, the Company is required to pay a commitment fee of 0.25% per annum in respect of unutilized commitments. The Company must also pay customary letter of credit fees.

All obligations under the ABL Facility are jointly and severally guaranteed by PC Intermediate, PCHI and each existing and future domestic subsidiary of PCHI. PCHI and each guarantor has secured its obligations, subject to certain exceptions and limitations, including obligations under its guaranty, as applicable, by a first-priority lien on its accounts receivable, inventory, cash and certain related assets and a second-priority lien on substantially all of its other assets.

The facility contains negative covenants that, among other things and subject to certain exceptions, restrict the ability of PCHI to:

- incur additional indebtedness;
- pay dividends on capital stock or redeem, repurchase or retire capital stock;
- make certain investments, loans, advances and acquisitions;
- engage in transactions with affiliates;

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- create liens; and
- transfer or sell certain assets.

In addition, PCHI must comply with a fixed charge coverage ratio if excess availability under the ABL Facility on any day is less than the greater of: (a) 10% of the lesser of the aggregate commitments and the then borrowing base under the ABL Facility and (b) $40,000. The fixed charge coverage ratio is the ratio of (i) Adjusted EBITDA (as defined in the facility) minus maintenance-related capital expenditures (as defined in the facility) to (ii) fixed charges (as defined in the facility).

The ABL Facility also contains certain customary affirmative covenants and events of default.

In connection with entering into and amending the ABL Facility, the Company incurred and capitalized third-party costs. All capitalized costs are being amortized over the life of the ABL Facility and are included in loans and notes payable in the Company's consolidated balance sheet. The balance of related unamortized financing costs at December 31, 2018 was $2,459.

Borrowings under the ABL Facility totaled $303,500 at December 31, 2018. The weighted average interest rate for such borrowings was 4.46% at December 31, 2018. Outstanding standby letters of credit totaled $26,178 at December 31, 2018 and, after considering borrowing base restrictions, at December 31, 2018 PCHI had $210,322 of available borrowing capacity under the terms of the facility.

Other Credit Agreements

The Company's subsidiaries have also entered into several foreign asset-based and overdraft credit facilities that provide the Company with additional borrowing capacity. At December 31, 2018 and 2017, there were $1,710 and $2,251 borrowings outstanding under the foreign facilities, respectively. The facilities contain customary affirmative and negative covenants.

Note 8 — Long-Term Obligations

Long-term obligations consisted of the following:

	December 31,	
	2018	2017
Senior secured term loan facility ("Term Loan Credit Agreement")	$ 791,135	$1,196,505
6.125% Senior Notes — due 2023	346,191	345,368
6.625% Senior Notes — due 2026	494,138	0
Capital lease obligations	3,815	3,276
Total long-term obligations	1,635,279	1,545,149
Less: current portion	(13,316)	(13,059)
Long-term obligations, excluding current portion	$1,621,963	$1,532,090

Term Loan Credit Agreement Amendment

During February 2018, the Company amended its Term Loan Credit Agreement. At the time of the amendment, all outstanding term loans were replaced with new term loans for the same principal amount. The

applicable margin for ABR borrowings was lowered from 2.00% to 1.75% and the applicable margin for LIBOR borrowings was lowered from 3.00% to 2.75%. Additionally, based on the terms of the amendment, the ABR and LIBOR margins will drop to 1.50% and 2.50%, respectively, if PCHI's Senior Secured Leverage Ratio, as defined by the agreement, falls below 3.2 to 1.0.

As the Term Loan Credit Agreement is a loan syndication, the Company assessed, on a creditor-by-creditor basis, whether the refinancing should be accounted for as an extinguishment or a modification for each creditor and, during 2018, the Company wrote-off $186 of existing deferred financing costs, a $102 capitalized original issue discount and $58 of capitalized call premium. The write-offs were recorded in other expense in the Company's consolidated statement of operations and comprehensive income. The remaining deferred financing costs, original issue discount and capitalized call premium will continue to be amortized over the life of the Term Loan Credit Agreement, using the effective interest method. Additionally, in conjunction with the amendment, the Company incurred $856 of banker and legal fees, $800 of which were recorded in other expense during 2018. The rest of the costs are being amortized over the term of the debt.

August 2018 Refinancing

During August 2018, the Company executed a refinancing of its debt portfolio and issued $500,000 of new senior notes at an interest rate of 6.625%. The notes will mature in August 2026. The Company used the proceeds from the notes to: (i) reduce the outstanding balance under its existing ABL Facility, which is included in loans and notes payable on the Company's condensed consolidated balance sheet, by $90,000 and (ii) voluntarily prepay $400,000 of the outstanding principal under its existing Term Loan Credit Agreement. Additionally, as part of the refinancing, the Company extended the maturity of the ABL Facility to August 2023 (subject to a springing maturity at an earlier date if the maturity date of certain of the Company's other debt has not been extended or refinanced).

As the partial prepayment of the Term Loan Credit Agreement was in accordance with the terms of such agreement, at the time of such prepayment the Company wrote-off a pro-rata portion of the existing capitalized deferred financing costs and original issuance discounts, $1,824, for investors who did not participate in the new notes. Such amount was recorded in other expense in the Company's consolidated statement of operations and comprehensive income.

To the extent that investors in the Term Loan Credit Agreement participated in the new notes, the Company assessed whether the refinancing should be accounted for as an extinguishment on a creditor-by-creditor basis and wrote-off $968 of existing deferred financing costs and original issuance discounts. Such amount was recorded in other expense in the Company's consolidated statement of operations and comprehensive income.

Additionally, in conjunction with the issuance of the notes, the Company incurred third-party fees (principally banker fees). To the extent that such fees related to investors for whom their original debt was not extinguished, the Company expensed the portion of such fees, $2,270 in aggregate, that related to such investors. Such amount was recorded in other expense in the Company's consolidated statement of operations and comprehensive income. The remainder of the third-party fees, $6,230, have been capitalized and will be amortized over the remaining life of the debt using the effective interest method.

Further, in conjunction with the extension of the ABL Facility, the Company compared the borrowing capacities of the pre-amendment facility and the post-amendment facility, on a creditor-by-creditor basis, and concluded that $29 of existing deferred financing costs should be written-off. Such amount was recorded in other expense in the Company's consolidated statement of operations and comprehensive income. The remaining

capitalized costs, and $986 of new third-party costs incurred in conjunction with the extension, are being amortized over the revised term of the ABL Facility.

Term Loan Credit Agreement

The Term Loan Credit Agreement provides for two pricing options for outstanding loans: (i) an ABR for any day, a rate per annum equal to the greater of (a) the prime rate in effect on such day, (b) the federal funds effective rate in effect on such day plus 0.5%, (c) the adjusted LIBOR rate plus 1% and (d) 1.75% or (ii) the LIBOR rate, with a LIBOR floor of 0.75%, in each case plus an applicable margin. The applicable margin for ABR borrowings ranges from 1.50% to 1.75% and the applicable margin for LIBOR borrowings ranges from 2.50% to 2.75%, depending on PCHI's Senior Secured Leverage Ratio (as defined by the agreement).

The term loans under the Term Loan Credit Agreement mature on August 19, 2022. The Company is required to repay installments on the loans in quarterly principal amounts of 0.25%, with the remaining amount payable on the maturity date.

Additionally, outstanding term loans are subject to mandatory prepayment, subject to certain exceptions, with (i) 100% of net proceeds above a threshold amount of certain asset sales/insurance proceeds, subject to reinvestment rights and certain other exceptions, (ii) 100% of the net cash proceeds of any incurrence of debt other than debt permitted under the Term Loan Credit Agreement, and (iii) 50% of Excess Cash Flow, as defined in the agreement, if any (reduced to 25% if PCHI's first lien leverage ratio (as defined in the agreement) is less than 3.50 to 1.00, but greater than 2.50 to 1.00, and 0% if PCHI's first lien leverage ratio is less than 2.50 to 1.00).

The term loans may be voluntarily prepaid at any time without premium or penalty, other than customary breakage costs with respect to loans based on the LIBOR rate.

All obligations under the agreement are jointly and severally guaranteed by PC Intermediate, PCHI and each existing and future domestic subsidiary of PCHI. PCHI and each guarantor has secured its obligations, subject to certain exceptions and limitations, by a first-priority lien on substantially all of its assets (other than accounts receivable, inventory, cash and certain related assets), including a pledge of all of the capital stock held by PC Intermediate, PCHI and each guarantor, and a second-priority lien on its accounts receivable, inventory, cash and certain related assets.

The Term Loan Credit Agreement contains certain customary affirmative covenants and events of default. Additionally, it contains negative covenants which, among other things and subject to certain exceptions, restrict the ability of PCHI to:

- incur additional indebtedness;
- pay dividends on capital stock or redeem, repurchase or retire capital stock;
- make certain investments, loans, advances and acquisitions;
- engage in transactions with affiliates;
- create liens; and
- transfer or sell certain assets.

At December 31, 2018, the principal amount of term loans outstanding under the Term Loan Credit Agreement was $799,917. Such amount is recorded net of original issue discounts, capitalized call premiums and

deferred financing costs on the Company's consolidated balance sheet. At December 31, 2018, original issue discounts, capitalized call premiums and deferred financing costs totaled $8,782. At December 31, 2018, all outstanding borrowings were based on LIBOR and were at a weighted average interest rate of 5.03%.

6.125% Senior Notes — Due 2023 ("6.125% Senior Notes")

The 6.125% Senior Notes mature on August 15, 2023. Interest on the notes is payable semi-annually in arrears on February 15 and August 15 of each year.

The notes are guaranteed, jointly and severally, on a senior basis by each of PCHI's existing and future wholly-owned domestic subsidiaries. The notes and the guarantees are general unsecured senior obligations and are effectively subordinated to all other secured debt to the extent of the assets securing such secured debt.

The indenture governing the notes contains certain covenants limiting, among other things and subject to certain exceptions, PCHI's ability to:

- incur additional indebtedness or issue certain disqualified stock and preferred stock;
- pay dividends or distributions, redeem or repurchase equity;
- prepay subordinated debt or make certain investments;
- engage in transactions with affiliates;
- consolidate, merge or transfer all or substantially all of PCHI's assets;
- create liens; and
- transfer or sell certain assets.

The indenture governing the notes also contains certain customary affirmative covenants and events of default.

The Company may redeem the notes, in whole or in part, at the following (expressed as a percentage of the principal amount to be redeemed):

Twelve-month period beginning on August 15,	Percentage
2018	103.063%
2019	101.531%
2020 and thereafter	100.000%

Also, if the Company experiences certain types of change in control, as defined, the Company may be required to offer to repurchase the Senior Notes at 101% of their principal amount.

In connection with issuing the notes, the Company incurred and capitalized third-party costs. Capitalized costs are being amortized over the life of the debt and are included in long-term obligations, excluding current portion, in the Company's consolidated balance sheet. At December 31, 2018, $3,809 of costs were capitalized.

6.625% Senior Notes — Due 2026 ("6.625% Senior Notes")

The 6.625% Senior Notes mature on August 1, 2026. Interest on the notes is payable semi-annually in arrears on February 1st and August 1st of each year.

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The notes are guaranteed, jointly and severally, on a senior basis by each of PCHI's existing and future wholly-owned domestic subsidiaries. The notes and the guarantees are general unsecured senior obligations and are effectively subordinated to all other secured debt to the extent of the assets securing such secured debt.

The indenture governing the notes contains certain covenants limiting, among other things and subject to certain exceptions, PCHI's ability to:

- incur additional indebtedness or issue certain disqualified stock and preferred stock;
- pay dividends or distributions, redeem or repurchase equity;
- prepay subordinated debt or make certain investments;
- engage in transactions with affiliates;
- consolidate, merge or transfer all or substantially all of PCHI's assets;
- create liens; and
- transfer or sell certain assets.

The indenture governing the notes also contains certain customary affirmative covenants and events of default.

On or after August 1, 2021, the Company may redeem the notes, in whole or in part, at the following (expressed as a percentage of the principal amount to be redeemed):

Twelve-month period beginning on August 1,	Percentage
2021	103.313%
2022	101.656%
2023 and thereafter	100.000%

In addition, the Company may redeem up to 40% of the aggregate principal amount outstanding on or before August 1, 2021 with the cash proceeds from certain equity offerings at a redemption price of 106.625% of the principal amount. The Company may also redeem some or all of the notes before August 1, 2021 at a redemption price of 100% of the principal amount plus a premium that is defined in the indenture.

Also, if the Company experiences certain types of change in control, as defined, the Company may be required to offer to repurchase the notes at 101% of their principal amount.

In connection with issuing the notes, the Company incurred and capitalized third-party costs. Capitalized costs are being amortized over the life of the debt and are included in long-term obligations, excluding current portion, in the Company's consolidated balance sheet. At December 31, 2018, $5,862 of costs were capitalized.

Other Indebtedness

Additionally, the Company has entered into various capital leases for machinery and equipment. At December 31, 2018 and December 31, 2017 the balances of such leases were $3,815 and $3,276, respectively.

Subject to certain exceptions, PCHI may not make certain payments, including the payment of dividends to its shareholders ("restricted payments"), unless certain conditions are met under the terms of the indentures

governing the senior notes, the ABL Facility and the Term Loan Credit Agreement. As of December 31, 2018, the most restrictive of these conditions existed in the Term Loan Credit Agreement, which limits restricted payments based on PCHI's consolidated net income and leverage ratios. As of December 31, 2018, PCHI had $129,022 of capacity under the debt instrument to make restricted payments. PCHI's parent companies, PC Intermediate, PC Nextco and Party City Holdco, have no assets or operations other than their investments in their subsidiaries and income from those subsidiaries.

At December 31, 2018, maturities of long-term obligations consisted of the following:

	Long-Term Debt Obligations	Capital Lease Obligations	Totals
2019	$ 12,266	$ 1,050	$ 13,316
2020	12,266	940	13,206
2021	12,266	1,154	13,420
2022	763,119	651	763,770
2023	350,000	20	350,020
Thereafter	500,000	0	500,000
Long-term obligations	$ 1,649,917	$ 3,815	$1,653,732

Note 9 — Capital Stock

At December 31, 2018, the Company's authorized capital stock consisted of 300,000,000 shares of $0.01 par value common stock and 15,000,000 shares of $0.01 par value preferred stock.

The changes in common shares outstanding during the three years ended December 31, 2016, December 31, 2017, and December 31, 2018 were as follows:

Common Shares Outstanding at December 31, 2015	119,258,374
Exercise of stock options	257,520
Common Shares Outstanding at December 31, 2016	119,515,894
Treasury stock purchases	(23,379,567)
Exercise of stock options	243,775
Common Shares Outstanding at December 31, 2017	96,380,102
Issuance of restricted shares	589,736
Treasury stock purchases	(3,785,658)
Issuance of shares to directors	13,249
Exercise of stock options	425,505
Common Shares Outstanding at December 31, 2018	93,622,934

During the year ended December 31, 2018, the Company acquired 3,785,658 treasury shares for $40,197. Additionally, during the year ended December 31, 2017, the Company acquired 23,379,567 treasury shares for $286,733. The shares are included in "common stock held in treasury" in the Company's consolidated balance sheet.

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Note 10 — Other Expense (Income), net

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Other expense (income), net consists of the following:			
Undistributed (income) loss in equity method investments	$ (369)	$ (194)	$ 314
Foreign currency losses (gains)	24	466	(7,417)
Debt refinancings (see Note 8)	6,237	0	1,458
Corporate development expenses	4,387	2,660	3,290
Other, net	703	1,694	345
Other expense (income), net	$ 10,982	$ 4,626	$ (2,010)

Note 11 — Employee Benefit Plans

Certain subsidiaries of the Company maintain defined contribution plans for eligible employees. The plans require the subsidiaries to match from approximately 11% to 100% of voluntary employee contributions to the plans, not to exceed a maximum amount of the employee's annual salary, ranging from 5% to 6%. Expense for the plans for the years ended December 31, 2018, December 31, 2017, and December 31, 2016 totaled $6,454, $6,565, and $5,792, respectively.

Note 12 — Equity Incentive Plans

Party City Holdco has adopted the Amended and Restated 2012 Omnibus Equity Incentive Plan (the "2012 Plan") under which it can grant incentive awards in the form of stock appreciation rights, restricted stock and common stock options to certain directors, officers, employees and consultants of Party City Holdco and its affiliates. A committee of Party City Holdco's Board of Directors, or the Board itself in the absence of a committee, is authorized to make grants and various other decisions under the 2012 Plan. The maximum number of shares reserved under the 2012 Plan is 15,316,000 shares.

Time-based options

Party City Holdco grants time-based options to key eligible employees and outside directors. In conjunction with the options, the Company recorded compensation expense of $1,744, $5,309, and $3,853 during the years ended December 31, 2018, December 31, 2017, and December 31, 2016, respectively.

The fair value of time-based options granted during the year ended December 31, 2018 was estimated on the grant date using a Black-Scholes option valuation model based on the assumptions in the following table:

Expected dividend rate	0%
Risk-free interest rate	2.66% to 2.97%
Volatility	26.94% to 28.46%
Expected option term	5 years — 6.5 years

As Party City Holdco's stock only recently started trading publicly, the Company determined volatility based on the average historical volatility of guideline companies. Additionally, as there is not sufficient historical exercise data to provide a reasonable basis for determining the expected terms of the options, the Company estimated such expected terms based on the assumption that options will be exercised at the mid-point of the vesting of the options and the completion of the contractual lives of such options.

The Company has based its estimated forfeiture rate on historical forfeitures for time-based options as the number of options given to each of the various levels of management is principally consistent with historical grants and forfeitures are expected to be materially consistent with past experience.

The Company's time-based options principally vest 20% on each anniversary date. The Company records compensation expense for such options on a straight-line basis. As of December 31, 2018, there was $3,731 of unrecognized compensation cost, which will be recognized over a weighted-average period of approximately 30 months.

Performance-based options

During 2013, Party City Holdco granted performance-based stock options to key employees and independent directors. For performance-based options, vesting is contingent upon Thomas H. Lee Partners, L.P. ("THL") achieving specified investment returns when it sells its ownership stake in Party City Holdco. Since the sale of THL's shares cannot be assessed as probable before it occurs, no compensation expense has been recorded for the performance-based options that have been granted. As of December 31, 2018, 3,035,200 performance-based options were outstanding. Based on a Monte Carlo simulation and the following assumptions, the options have an average grant date fair value of $3.09 per option:

Expected dividend rate	0%
Risk-free interest rate	1.86%
Volatility	52.00%
Expected option term	5 years

As Party City Holdco's stock was not publicly traded when the performance-based options were granted, the Company determined volatility based on the average historical volatility of guideline companies.

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The following table summarizes the changes in outstanding stock options for the years ended December 31, 2016, December 31, 2017, and December 31, 2018.

	Options	Average Exercise Price	Average Fair Value of Time-Based Options at Grant Date	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 31, 2015	8,517,645				
Granted	484,950	$ 15.78	$ 4.68		
Exercised	(257,520)	5.33			
Forfeited	(283,249)	10.05			
Outstanding at December 31, 2016	8,461,826	8.74		$ 46,214	6.9
Granted	101,444	14.38	4.46		
Exercised	(243,775)	5.33			
Forfeited	(294,734)	9.47			
Outstanding at December 31, 2017	8,024,761	8.89		40,634	6.0
Granted	187,080	14.63	4.98		
Exercised	(425,505)	5.33			
Forfeited	(859,162)	7.84			
Outstanding at December 31, 2018	6,927,174	$ 9.39		$ 4,089	5.2
Exercisable at December 31, 2018	2,788,424	$ 11.05		$ (2,993)	5.4
Expected to vest at December 31, 2018 (excluding performance-based options)	1,103,550	$ 16.35		$ (7,031)	7.1

The intrinsic value of options exercised was $3,351, $1,972 and $2,726 for the years ended December 31, 2018, December 31, 2017, and December 31, 2016, respectively. The fair value of options vested was $2,819, $4,354, and $4,110, during the years ended December 31, 2018, December 31, 2017, and December 31, 2016, respectively.

Restricted stock and Restricted Stock Units

During 2018, the Company started granting restricted stock and restricted stock units to certain executives, senior leaders and the Company's independent directors. To the extent that the awards vest, the participants receive shares of the Company's stock.

Of the awards that were granted, 201,270 awards vest solely based on service conditions. To the extent that such awards vest, one share of stock is issued for each award.

Additionally, the Company granted awards which vest if certain cash flow and earnings per share targets are met. Depending on the achievement of such targets, a maximum of 1,217,974 shares could be issued due to such awards.

The service-based awards vested 1/3 on January 1, 2019 and will vest 1/3 each on January 1, 2020 and January 1, 2021. During the year ended December 31, 2018, the Company recorded $1,174 of compensation expense related to the service-based awards.

The performance-based awards vest if certain cash flow and earnings per share targets are met for the three-year period from January 1, 2018 to December 31, 2020. The Company recognizes compensation expense for such awards if it is probable that the performance conditions will be achieved. Based on the Company's results for the year ended December 31, 2018 and its projections for the years ending December 31, 2019 and December 31, 2020, as of December 31, 2018 the Company concluded that it was not probable that such performance conditions will be met and, therefore, the Company did not record any compensation expense for the awards during the year ended December 31, 2018.

The Company has based its estimated forfeiture rate for the restricted stock units and restricted stock on historical forfeitures for the Company's time-based stock options as the number of awards given to each of the various levels of management is principally consistent with historical stock option grants and forfeitures are expected to be materially consistent with past experience.

As of December 31, 2018, there was $1,817 of unrecognized compensation cost for the service-based awards.

Note 13 — Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 ("the Act") was signed into law. The Act significantly changed U.S. tax law, including lowering the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018, and implementing a one-time "deemed repatriation" tax on unremitted earnings accumulated in non-U.S. jurisdictions since 1986 (the "Transition Tax"). Due to the complexities of accounting for the Act, the SEC issued Staff Accounting Bulletin ("SAB") No. 118 which allowed entities to include a provisional estimate of the impact of the Act in their 2017 financial statements. Therefore, based on information that was available at the time, during the fourth quarter of 2017, the Company recorded a provisional estimate of the impact of the Act, which included an income tax benefit of $90,965 related to the remeasurement of its domestic net deferred tax liabilities and deferred tax assets due to the lower U.S. corporate tax rate. Additionally, during such quarter, the Company recorded a net income tax expense of $1,132 as its provisional estimate of the Transition Tax related to the deemed repatriation of unremitted earnings of foreign subsidiaries. During the fourth quarter of 2018, the Company finalized its assessment of the impact of the Act on the Company's domestic net deferred tax liabilities and deferred tax assets and recorded an income tax benefit of $2,049. Additionally, during such quarter, the Company finalized its assessment of the Transition Tax and recorded additional income tax expense of $151.

Additionally, the Act subjects a U.S. shareholder to current tax on "global intangible low-taxed income" ("GILTI") of its controlled foreign corporations. GILTI is based on the excess of the aggregate of a U.S. shareholder's pro rata share of net income of its controlled foreign corporations over a specified return. Under U.S. GAAP, an accounting policy election can be made to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years, or to provide for the tax expense related to GILTI in the year during which the tax is incurred as a period expense only. The Company has elected to account for GILTI in the year during which the tax is incurred.

A summary of domestic and foreign income before income taxes follows:

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Domestic	$ 132,482	$ 153,280	$ 152,800
Foreign	29,115	34,864	33,914
Total	$ 161,597	$ 188,144	$ 186,714

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The income tax expense (benefit) consisted of the following:

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Current:			
Federal	$ 20,609	$ 61,890	$ 50,851
State	5,726	6,267	8,121
Foreign	7,870	7,298	6,864
Total current expense	34,205	75,455	65,836
Deferred:			
Federal	6,194	(101,774)	3,290
State	(880)	(796)	(906)
Foreign	(741)	(81)	1,017
Total deferred expense (benefit)	4,573	(102,651)	3,401
Income tax expense (benefit)	$ 38,778	$ (27,196)	$ 69,237

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred income tax assets and liabilities consisted of the following:

	December 31, 2018	December 31, 2017
Deferred income tax assets:		
Inventory reserves and capitalization	$ 8,664	$ 7,064
Allowance for doubtful accounts	709	746
Accrued liabilities	7,087	8,130
Equity based compensation	3,431	3,145
Federal tax loss carryforwards	743	960
State tax loss carryforwards	1,554	1,726
Foreign tax loss carryforwards	14,034	14,151
Foreign tax credit carryforwards	5,397	6,412
Deferred rent and lease incentives	13,565	9,867
Other	3,433	166
Deferred income tax assets before valuation allowances	58,617	52,367
Less: valuation allowances	(21,879)	(24,073)
Deferred income tax assets, net	$ 36,738	$ 28,294
Deferred income tax liabilities:		
Depreciation	$ 23,720	$ 13,855
Trade Name	145,767	145,066
Amortization of goodwill and other assets	38,712	42,297
Foreign earnings expected to be repatriated	1,132	586
Other	826	1,176
Deferred income tax liabilities	$210,157	$202,980

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The Company nets all of its deferred income tax assets and liabilities on a jurisdictional basis and classifies them as noncurrent on the balance sheet. In the Company's December 31, 2018 consolidated balance sheet, $1,008 was included in "other assets, net" and $174,427 was included in deferred income tax liabilities. In the Company's December 31, 2017 consolidated balance sheet, $1,150 was included in "other assets, net" and $175,836 was included in deferred income tax liabilities.

Management assesses the available positive and negative evidence to estimate if sufficient taxable income will be generated to realize existing deferred tax assets. On the basis of this evaluation, a valuation allowance was recorded to reduce the total deferred tax assets to an amount that will, more-likely-than-not, be realized in the future. The valuation allowance, and the net change during the year, relate primarily to foreign net operating loss carryforwards and foreign tax credit carryforwards, the latter of which principally resulted from the Transition Tax.

As of December 31, 2018, the Company had foreign tax-effected net operating loss carryforwards in Germany of $9,079, the United Kingdom of $3,740, and Australia of $589, all of which have an unlimited carryforward; as well as $626 from other foreign countries, which expire at different dates. In addition, the U.S. federal net operating loss carryforwards begin to expire in 2032, the U.S. state net operating loss carryforwards begin to expire in 2022 and the foreign tax credit carryforwards begin to expire in 2020.

The difference between the Company's effective income tax rate and the U.S. statutory income tax rate is as follows:

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Tax provision at U.S. statutory income tax rate	21.0%	35.0%	35.0%
State income tax, net of federal income tax	2.4	1.9	2.5
Domestic production activities deduction	0.0	(1.4)	(1.0)
Valuation allowances	0.6	2.1	0.5
GILTI and Foreign-Derived Intangible Income	1.1	0.0	0.0
Foreign earnings	0.2	(1.7)	2.3
U.S. — foreign rate differential	0.4	(1.9)	(2.4)
Transition Tax on unremitted foreign earnings, net	0.1	0.6	0.0
Effect of the Act on Federal deferred income tax assets and liabilities	(1.3)	(48.4)	0.0
Other	(0.5)	(0.7)	0.2
Effective income tax rate	24.0%	(14.5)%	37.1%

Transition Tax on Unremitted Foreign Earnings: As a result of the Act, the U.S. transitioned from a worldwide system of international taxation to a territorial tax system, thereby eliminating the U.S. federal tax on foreign earnings. However, the Act required a one-time deemed repatriation tax on such earnings and, accordingly, during the fourth quarter of 2017, the Company provisionally recorded a Transition Tax of $11,500 related to such requirement. Prior to the fourth quarter of 2017, the Company recorded deferred income tax liabilities for certain foreign earnings which were expected to be remitted to the U.S. in future periods. Therefore,

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the expense that was recorded due to the deemed repatriation tax, $11,500, was mostly offset by the reversal of previously recorded deferred income tax liabilities on unremitted foreign earnings, $10,368. During the fourth quarter of 2018, the Company finalized its assessment of the Transition Tax and recorded additional income tax expense of $151. $4,205 of the Transition Tax remains unpaid and is recorded in “deferred rent and other long-term liabilities” in the Company’s consolidated balance sheet. The Company has elected to pay the Transition Tax over eight annual installments without interest. A deferred tax liability, in the amount of $1,130, is recorded on the Company’s consolidated balance sheet due to the impact of foreign withholding taxes and state income taxes on the future repatriation of certain foreign earnings. No provision has been made for deferred taxes related to any other remaining historical outside basis differences in the Company’s non-U.S. subsidiaries.

Effect of the Act on Federal Deferred Income Tax Assets and Liabilities: The deferred federal income tax benefit for the year ended December 31, 2017 includes a $90,965 provisional benefit due to the Act changing the U.S. corporate income tax rate from 35% to 21%. During the fourth quarter of 2018, the Company finalized its assessment of the impact of the Act on the Company’s domestic net deferred tax liabilities and deferred tax assets and recorded an income tax benefit of $2,049. See above for further discussion.

Other differences between the effective income tax rate and the federal statutory income tax rate are composed primarily of reserves for unrecognized tax benefits, non-deductible meals and entertainment expenses, and benefits related to the exercise of stock options.

The following table summarizes the activity related to the Company’s gross unrecognized tax benefits:

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Balance at beginning of year	$ 855	$ 913	$ 765
Increases related to current period tax positions	40	100	444
Increases (decreases) related to prior period tax positions	495	(158)	339
Decreases related to settlements	0	0	(635)
Decreases related to lapsing of statutes of limitations	(70)	0	0
Balance at end of year	$ 1,320	$ 855	$ 913

The Company’s total unrecognized tax benefits that, if recognized, would impact the Company’s effective tax rate were $1,320 and $855 at December 31, 2018 and 2017, respectively. As of December 31, 2018, we do not believe that there are any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company has accrued $129 and $73 for the potential payment of interest and penalties at December 31, 2018 and 2017, respectively. Such amounts are not included in the table above.

The IRS is currently conducting an examination of the year ended December 31, 2015. For U.S. state income tax purposes, tax years 2014-2018 generally remain open; whereas for non-U.S. income tax purposes, tax years 2013-2018 generally remain open.

Note 14 — Commitments, Contingencies and Related Party Transactions

Lease Agreements

At December 31, 2018, future minimum lease payments under all operating leases consisted of the following:

	Future Minimum Operating Lease Payments
2019	$ 199,283
2020	181,889
2021	164,628
2022	147,245
2023	118,660
Thereafter	295,205
	$ 1,106,910

The future minimum lease payments included in the table above do not include contingent rent based upon sales volumes or other variable costs (such as maintenance, insurance and taxes).

Rent expense for the years ended December 31, 2018, December 31, 2017, and December 31, 2016 was $270,604, $255,615, and $235,790, respectively, and included immaterial amounts of expense related to contingent rent.

Litigation

The Company is a party to certain claims and litigation in the ordinary course of business. The Company does not believe that any of these proceedings will result, individually or in the aggregate, in a material adverse effect upon its financial condition or future results of operations.

Product Royalty Agreements

The Company has entered into product royalty agreements, with various licensors of copyrighted and trademarked characters and designs, which are used on the Company’s products, which require royalty payments based on sales of the Company’s products, and, in some cases, include annual minimum royalties.

At December 31, 2018, the Company’s commitment to pay future minimum product royalties was as follows:

	Future Minimum Royalty Payments
2019	$ 30,815
2020	24,222
2021	1,987
2022	0
2023	0
Thereafter	0
	$ 57,024

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Product royalty expense for the years ended December 31, 2018, December 31, 2017, and December 31, 2016 was $51,002, $46,242, and $43,914, respectively.

Related Party Transactions

In the normal course of business, the Company buys and sells party goods from/to certain equity method investees. Such activity is immaterial to the Company's consolidated financial statements.

Note 15 — Segment Information

Industry Segments

The Company has two identifiable business segments. The Wholesale segment designs, manufactures, contracts for manufacture and distributes party goods, including paper and plastic tableware, metallic and latex balloons, Halloween and other costumes, accessories, novelties and stationery throughout the world. The Retail segment operates specialty retail party supply stores in the United States and Canada, principally under the names Party City and Halloween City, and it operates e-commerce websites, principally through the domain name PartyCity.com.

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The Company's industry segment data for the years ended December 31, 2018, December 31, 2017, and December 31, 2016 are as follows:

	Wholesale	Retail	Consolidated
Year Ended December 31, 2018			
Revenues:			
Net sales	$1,325,490	$1,802,834	$ 3,128,324
Royalties and franchise fees	0	11,073	11,073
Total revenues	1,325,490	1,813,907	3,139,397
Eliminations	(711,882)	0	(711,882)
Net revenues	$ 613,608	$1,813,907	$ 2,427,515
Income from operations	$ 45,180	$ 233,105	$ 278,285
Interest expense, net			105,706
Other expense, net			10,982
Income before income taxes			$ 161,597
Depreciation and amortization	$ 28,368	$ 50,207	$ 78,575
Capital expenditures	$ 33,890	$ 51,771	$ 85,661
Total assets	$1,346,856	$2,295,491	$ 3,642,347

	Wholesale	Retail	Consolidated
Year Ended December 31, 2017			
Revenues:			
Net sales	$1,260,089	$1,728,589	$ 2,988,678
Royalties and franchise fees	0	13,583	13,583
Total revenues	1,260,089	1,742,172	3,002,261
Eliminations	(630,692)	0	(630,692)
Net revenues	$ 629,397	$1,742,172	$ 2,371,569
Income from operations	$ 68,130	$ 212,006	$ 280,136
Interest expense, net			87,366
Other expense, net			4,626
Income before income taxes			$ 188,144
Depreciation and amortization	$ 30,520	$ 54,648	$ 85,168
Capital expenditures	$ 32,490	$ 34,480	$ 66,970
Total assets	$1,050,620	$2,404,136	$ 3,454,756

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	Wholesale	Retail	Consolidated
Year Ended December 31, 2016			
Revenues:			
Net sales	$1,252,218	$1,641,068	$ 2,893,286
Royalties and franchise fees	0	17,005	17,005
Total revenues	1,252,218	1,658,073	2,910,291
Eliminations	(626,900)	0	(626,900)
Net revenues	$ 625,318	$1,658,073	$ 2,283,391
Income from operations	$ 91,920	$ 182,164	$ 274,084
Interest expense, net			89,380
Other income, net			(2,010)
Income before income taxes			$ 186,714
Depreciation and amortization	$ 29,695	$ 53,935	$ 83,630
Capital expenditures	$ 26,854	$ 55,094	$ 81,948

Geographic Segments

Export sales of metallic balloons of $23,567, $22,812, and $23,631 during the years ended December 31, 2018, December 31, 2017, and December 31, 2016, respectively, are included in domestic sales to unaffiliated customers below. Intercompany sales between geographic areas primarily consist of sales of finished goods and are generally made at cost plus a share of operating profit.

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The Company's geographic area data follows:

	Domestic	Foreign	Eliminations	Consolidated
Year Ended December 31, 2018				
Revenues:				
Net sales to unaffiliated customers	$2,015,899	$400,543	$ 0	$ 2,416,442
Net sales between geographic areas	65,416	110,185	(175,601)	0
Net sales	2,081,315	510,728	(175,601)	2,416,442
Royalties and franchise fees	11,073	0	0	11,073
Total revenues	$2,092,388	$510,728	$ (175,601)	$ 2,427,515
Income from operations	$ 264,440	$ 13,845	$ 0	$ 278,285
Interest expense, net				105,706
Other expense, net				10,982
Income before income taxes				$ 161,597
Depreciation and amortization	$ 70,011	$ 8,564		$ 78,575
Total long-lived assets (excluding goodwill, trade names and other intangible assets, net)	$ 292,632	$ 40,735		$ 333,367
Total assets	$3,339,155	$303,192	$ 0	$ 3,642,347

	Domestic	Foreign	Eliminations	Consolidated
Year Ended December 31, 2017				
Revenues:				
Net sales to unaffiliated customers	$1,962,697	$395,289	$ 0	$ 2,357,986
Net sales between geographic areas	54,268	64,585	(118,853)	0
Net sales	2,016,965	459,874	(118,853)	2,357,986
Royalties and franchise fees	13,583	0	0	13,583
Total revenues	$2,030,548	$459,874	$ (118,853)	$ 2,371,569
Income from operations	$ 252,270	$ 27,866	$ 0	$ 280,136
Interest expense, net				87,366
Other expense, net				4,626
Income before income taxes				$ 188,144
Depreciation and amortization	$ 76,970	$ 8,198		$ 85,168
Total long-lived assets (excluding goodwill, trade names and other intangible assets, net)	$ 277,791	$ 36,174		$ 313,965
Total assets	$3,131,256	$323,500	$ 0	$ 3,454,756

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	Domestic	Foreign	Eliminations	Consolidated
Year Ended December 31, 2016				
Revenues:				
Net sales to unaffiliated customers	$1,917,158	$349,228	$ 0	$ 2,266,386
Net sales between geographic areas	51,916	80,776	(132,692)	0
Net sales	1,969,074	430,004	(132,692)	2,266,386
Royalties and franchise fees	17,005	0	0	17,005
Total revenues	$1,986,079	$430,004	$ (132,692)	$ 2,283,391
Income from operations	$ 257,774	$ 16,310	$ 0	$ 274,084
Interest expense, net				89,380
Other income, net				(2,010)
Income before income taxes				$ 186,714
Depreciation and amortization	$ 77,176	$ 6,454		$ 83,630

Note 16 — Quarterly Results (Unaudited)

Despite a concentration of holidays in the fourth quarter of the year, as a result of the Company’s expansive product lines and customer base and increased promotional activities, the impact of seasonality on the quarterly results of the Company’s wholesale operations has been limited. However, due to Halloween and Christmas, the inventory balances of the Company’s wholesale operations are slightly higher during the third quarter than during the remainder of the year. Additionally, the promotional activities of the Company’s wholesale business, including special dating terms, particularly with respect to Halloween products sold to retailers and other distributors, result in slightly higher accounts receivable balances during the third quarter. The Company’s retail operations are subject to significant seasonal variations. Historically, the Company’s retail operations have realized a significant portion of their revenues, cash flow and net income in the fourth quarter of the year, principally due to Halloween sales in October and, to a lesser extent, year-end holiday sales.

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The following table sets forth our historical revenues, gross profit, income (loss) from operations, net income (loss), net income (loss) attributable to common shareholders of Party City Holdco Inc., and net income (loss) per share attributable to common shareholders of Party City Holdco Inc.—Basic and Diluted for each of the following quarters:

	For the Three Months Ended,			
2018:	**March 31,**	**June 30,**	**September 30,**	**December 31,**
Revenues:				
Net sales	$505,108	$558,101	$ 550,840	$ 802,393
Royalties and franchise fees	2,716	2,910	2,206	3,241
Gross profit	188,142	228,624	201,199	363,119
Income from operations	22,256	65,451	31,738	158,840
Net (loss) income	(1,163)	28,048	(2,440)	98,374
Net (loss) income attributable to common shareholders of Party City Holdco Inc.	(1,133)	28,487	(2,420)	98,325
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc.—Basic	$ (0.01)	$ 0.30	$ (0.03)	$ 1.03
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc.—Diluted	$ (0.01)	$ 0.29	$ (0.03)	$ 1.02

	For the Three Months Ended,			
2017:	**March 31,**	**June 30,**	**September 30,**	**December 31,**
Revenues:				
Net sales	$473,963	$541,653	$ 557,350	$ 785,020
Royalties and franchise fees	3,036	3,225	2,759	4,563
Gross profit	175,244	219,753	199,827	367,883
Income from operations	14,671	60,699	37,388	167,378
Net (loss) income	(4,683)	24,982	10,084	184,957
Net (loss) income attributable to common shareholders of Party City Holdco Inc.	(4,683)	24,982	10,084	184,957
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc.—Basic	$ (0.04)	$ 0.21	$ 0.08	$ 1.59
Net (loss) income per share attributable to common shareholders of Party City Holdco Inc.—Diluted	$ (0.04)	$ 0.21	$ 0.08	$ 1.58

Note 17 — Fair Value Measurements

The provisions of ASC Topic 820, "Fair Value Measurement", define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

During 2017, the Company acquired a 28% ownership interest in Punchbowl, Inc. (“Punchbowl”), a provider of digital greeting cards and digital invitations. At such time, the Company provided Punchbowl’s other investors with the ability to “put” their interest in Punchbowl to the Company at a future date. The Company is adjusting such put liability to fair value on a recurring basis. The liability represents a Level 3 fair value measurement as it is based on unobservable inputs.

During 2017, the Company and Ampology, a subsidiary of Trivergence, reached an agreement to form a new legal entity, Kazzam, LLC (“Kazzam”), for the purpose of designing, developing and launching an online exchange platform for party-related services. As part of Ampology’s compensation for designing, developing and launching the exchange platform, Ampology received an ownership interest in Kazzam. The interest has been recorded as redeemable securities in the mezzanine of the Company’s consolidated balance sheet as, in the future, Ampology has the right to cause the Company to purchase the interest. On a recurring basis, the liability is adjusted to the greater of the current fair value or the original fair value at the time at which the ownership interest was issued (adjusted for any subsequent changes in the ownership interest percentage). As of December 31, 2018, the original value was greater and, therefore, the liability is not included in the table below. As of December 31, 2017, the then current fair value was greater and, therefore, the liability is included in the table below. Such amount represents a Level 3 fair value measurement as it is based on unobservable inputs.

The following table shows assets and liabilities as of December 31, 2018 that are measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total as of December 31, 2018
Derivative assets	$ 0	$ 115	$ 0	$ 115
Derivative liabilities	0	0	0	0
Punchbowl put liability	0	0	316	316

The following table shows assets and liabilities as of December 31, 2017 that are measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total as of December 31, 2017
Derivative assets	$ 0	$ 95	$ 0	$ 95
Derivative liabilities	0	99	0	99
Kazzam liability	0	0	3,590	3,590
Punchbowl put liability	0	0	2,122	2,122

Certain amounts in the December 31, 2017 table above have been adjusted to conform with current year presentation.

The majority of the Company’s non-financial instruments, which include goodwill, intangible assets, inventories and property, plant and equipment, are not required to be carried at fair value on a recurring basis. However, if certain triggering events occur (or at least annually for goodwill and indefinite-lived intangible

assets), a non-financial instrument is required to be evaluated for impairment. If the Company determines that the non-financial instrument is impaired, the Company would be required to write down the non-financial instrument to its fair value. The carrying amounts for cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities approximated fair value at December 31, 2018 because of the short-term maturities of the instruments and/or their variable rates of interest.

The carrying amounts and fair values of borrowings under the Term Loan Credit Agreement and the senior notes as of December 31, 2018 are as follows:

	Carrying Amount	Fair Value
Term Loan Credit Agreement	$ 791,135	$765,920
6.125% Senior Notes — due 2023	346,191	343,662
6.625% Senior Notes — due 2026	494,138	452,235

The fair values of the Term Loan Credit Agreement and the senior notes represent Level 2 fair value measurements as the debt instruments trade in inactive markets. The carrying amounts for other long-term debt approximated fair value at December 31, 2018 based on the discounted future cash flows of each instrument at rates currently offered for similar debt instruments of comparable maturity.

Note 18 — Derivative Financial Instruments

The Company is directly and indirectly affected by changes in certain market conditions. These changes in market conditions may adversely impact the Company’s financial performance and are referred to as market risks. The Company, when deemed appropriate, uses derivatives as a risk management tool to mitigate the potential impact of certain market risks. The primary market risks managed through the use of derivative financial instruments are interest rate risk and foreign currency exchange rate risk.

Interest Rate Risk Management

As part of the Company’s risk management strategy, the Company periodically uses interest rate swap agreements to hedge the variability of cash flows on floating rate debt obligations. Accordingly, interest rate swap agreements are reflected in the consolidated balance sheets at fair value and the related gains and losses on these contracts are deferred in equity and recognized in interest expense over the same period in which the related interest payments being hedged are recognized in income. The Company did not utilize interest rate swap agreements during the years ended December 31, 2018, December 31, 2017 or December 31, 2016.

Foreign Exchange Risk Management

A portion of the Company’s cash flows is derived from transactions denominated in foreign currencies. In order to reduce the uncertainty of foreign exchange rate movements on transactions denominated in foreign currencies, including the British Pound Sterling, the Canadian Dollar, the Euro, the Malaysian Ringgit, the Australian Dollar, and the Mexican Peso, the Company enters into foreign exchange contracts with major international financial institutions. These forward contracts, which typically mature within one year, are designed to hedge anticipated foreign currency transactions, primarily inventory purchases and sales. For contracts that qualify for hedge accounting, the terms of the foreign exchange contracts are such that cash flows from the contracts should be highly effective in offsetting the expected cash flows from the underlying forecasted transactions.

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The foreign currency exchange contracts are reflected in the consolidated balance sheets at fair value. At December 31, 2018 and 2017, the Company had foreign currency exchange contracts that qualified for hedge accounting. No components of these agreements were excluded in the measurement of hedge effectiveness. As these hedges are 100% effective, there is no current impact on earnings due to hedge ineffectiveness. The Company anticipates that substantially all unrealized gains and losses in accumulated other comprehensive loss related to these foreign currency exchange contracts will be reclassified into earnings by June 2020.

The following table displays the fair values of the Company's derivatives at December 31, 2018 and December 31, 2017:

	Derivative Assets				Derivative Liabilities			
	December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017	
	Balance Sheet Line	Fair Value	Balance Sheet Line	Fair Value	Balance Sheet Line	Fair Value	Balance Sheet Line	Fair Value
Foreign Exchange Contracts	(a) PP	$115	(a) PP	$95	(b) AE	$0	(b) AE	$99

(a) PP = Prepaid expenses and other current assets
(b) AE = Accrued expenses

The following table displays the notional amounts of the Company's derivatives at December 31, 2018 and December 31, 2017:

Derivative Instrument	December 31, 2018	December 31, 2017
Foreign Exchange Contracts	$ 10,942	$ 21,672

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Note 19 — Changes in Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss consisted of the following:

	Year Ended December 31, 2018		
	Foreign Currency Adjustments	Impact of Foreign Exchange Contracts, Net of Taxes	Total, Net of Taxes
Balance at December 31, 2017	$ (35,610)	$ (208)	$(35,818)
Other comprehensive (loss) income before reclassifications, net of income tax	(14,446)	1,432	(13,014)
Amounts reclassified from accumulated other comprehensive loss to the consolidated statement of operations and comprehensive income, net of income tax	0	(369)	(369)
Net current-period other comprehensive (loss) income	(14,446)	1,063	(13,383)
Balance at December 31, 2018	$ (50,056)	$ 855	$(49,201)

	Year Ended December 31, 2017		
	Foreign Currency Adjustments	Impact of Foreign Exchange Contracts, Net of Taxes	Total, Net of Taxes
Balance at December 31, 2016	$ (53,171)	$ 932	$(52,239)
Other comprehensive income (loss) before reclassifications, net of income tax	17,561	(1,044)	16,517
Amounts reclassified from accumulated other comprehensive loss to the consolidated statement of operations and comprehensive income, net of income tax	0	(96)	(96)
Net current-period other comprehensive income (loss)	17,561	(1,140)	16,421
Balance at December 31, 2017	$ (35,610)	$ (208)	$(35,818)

	Year Ended December 31, 2016		
	Foreign Currency Adjustments	Impact of Foreign Exchange Contracts, Net of Taxes	Total, Net of Taxes
Balance at December 31, 2015	$ (33,401)	$ 611	$(32,790)
Other comprehensive (loss) income before reclassifications, net of income tax	(19,770)	1,080	(18,690)
Amounts reclassified from accumulated other comprehensive loss to the consolidated statement of operations and comprehensive income, net of income tax	0	(759)	(759)
Net current-period other comprehensive (loss) income	(19,770)	321	(19,449)
Balance at December 31, 2016	$ (53,171)	$ 932	$(52,239)

Note 20 — Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". The pronouncement contains a five-step model which replaces most existing revenue recognition guidance. The Company adopted the standard on January 1, 2018 via a modified retrospective approach and recognized the cumulative effect of the adoption as an adjustment to January 1, 2018 retained earnings.

Revenue Transactions — Retail

Revenue from retail store operations is recognized at the point of sale as control of the product is transferred to the customer at such time. Retail e-commerce sales are recognized when the consumer receives the product as control transfers upon delivery. Due to its extensive history operating as the largest party goods retailer in North America, the Company has sufficient history with which to estimate future retail sales returns and it uses the expected value method to estimate such activity.

The transaction price for the majority of the Company's retail sales is based on either: 1) the item's stated price or 2) the stated price adjusted for the impact of a coupon which can only be applied to such transaction. To the extent that the Company charges customers for freight costs on e-commerce sales, the Company records such amounts in revenue. The Company has chosen the pronouncement's policy election which allows it to exclude all sales taxes and value-added taxes from revenue.

Under the terms of its agreements with its franchisees, the Company provides both: 1) brand value (via significant advertising spend) and 2) support with respect to planograms, in exchange for a royalty fee that ranges from 4% to 6% of the franchisees' sales. The Company records the royalty fees at the time that the franchisees' sales are recorded. Additionally, although the Company anticipates that future franchise store openings will be limited, when a franchisee opens a new store, the Company receives and records a one-time fee which is earned by the Company for its assistance with site selection and development of the new location. Both the sales-based royalty fee and the one-time fee are recorded in royalties and franchise fees in the Company's consolidated statement of operations and comprehensive income.

Revenue Transactions — Wholesale

For most of the Company's wholesale sales, control transfers upon the Company's shipment of the product. Wholesale sales returns are not significant as the Company generally only accepts the return of goods that were shipped to the customer in error or that were damaged when received by the customer. Additionally, due to its extensive history operating as a leading party goods wholesaler, the Company has sufficient history with which to estimate future sales returns.

In most cases, the determination of the transaction price is fixed based on the contract and/or purchase order. To the extent that the Company charges customers for freight costs, the Company records such amounts in revenue. The Company has chosen the pronouncement's policy election which allows it to exclude all sales taxes and value-added taxes from revenue.

The majority of the sales for the Company's wholesale business are due within 30 to 120 days from the transfer of control of the product and substantially all of the sales are collected within a year from such transfer. For all transactions for which the Company expects to collect the transaction price within a year from the transfer of control, the Company applies one of the pronouncement's practical expedients and does not adjust the consideration for the effects of a significant financing component.

PARTY CITY HOLDCO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Dollars in thousands, except per share)

Judgments

Although most of the Company's revenue transactions consist of fixed transaction prices and the transfer of control at either the point of sale (for retail) or when the product is shipped (for wholesale), certain transactions involve a limited number of judgments. For transactions for which control transfers to the customer when the freight carrier delivers the product to the customer, the Company estimates the date of such receipt based on historical shipping times. Additionally, the Company utilizes historical data to estimate sales returns. Due to its extensive history operating as a leading party goods retailer, the Company has sufficient history with which to estimate such amounts.

Other Revenue Topics

During the years ended December 31, 2018, December 31, 2017, and December 31, 2016, impairment losses recognized on receivables and contract assets arising from the Company's contracts with customers were immaterial.

As a significant portion of the Company's revenue is either: 1) part of a contract with an original expected duration of one year or less, or 2) related to sales-based royalties promised in exchange for licenses of intellectual property, the Company has elected to apply the optional exemptions in paragraphs ASC 606-10-50-14 through ASC 606-10-50-14A.

Additionally, the Company has elected to apply the practical expedient which allows companies to recognize the incremental costs of obtaining a contract as an expense if the amortization period of the asset that the entity otherwise would have recognized would have been one year or less.

Disaggregation of Revenue

The following table summarizes revenue from contracts with customers for the years ended December 31, 2018, December 31, 2017, and December 31, 2016:

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Retail Net Sales:			
Party City Stores	$ 1,583,134	$ 1,521,661	$ 1,429,435
Global E-commerce	154,481	152,465	152,876
Temporary Stores	65,219	54,463	58,757
Total Retail Net Sales	$ 1,802,834	$ 1,728,589	$ 1,641,068
Royalties and Franchise Fees	11,073	13,583	17,005
Total Retail Revenue	$ 1,813,907	$ 1,742,172	$ 1,658,073
Wholesale Net Sales:			
Domestic	$ 328,056	$ 351,109	$ 381,999
International	285,552	278,288	243,319
Total Wholesale Net Sales	$ 613,608	$ 629,397	$ 625,318
Total Consolidated Revenue	$ 2,427,515	$ 2,371,569	$ 2,283,391

Financial Statement Impact of Adopting the Pronouncement

All of the Company's revenue is recognized from contracts with customers and, therefore, is subject to the pronouncement.

The Company adopted the pronouncement using a modified retrospective approach and applied the guidance to all contracts as of January 1, 2018. On such date, the Company reduced its retained earnings by $78, reduced its accounts receivable by $141, increased its inventory by $11, reduced its accrued expenses by $26, increased its deferred tax asset by $28 and increased its income taxes payable by $2. The cumulative adjustment principally related to certain discounts within the Company's wholesale business.

Additionally, the adoption of the pronouncement impacted the Company's financial statements for the year ended December 31, 2018 as it decreased pre-tax income by $22 during the period.

Note 21 — Kazzam, LLC

During the first quarter of 2017, the Company and Ampology, a subsidiary of Trivergence, reached an agreement to form a new legal entity, Kazzam, LLC ("Kazzam"), for the purpose of designing, developing and launching an online exchange platform for party-related services. The website allows consumers to select, schedule and pay for various services (including entertainment, activities and food) all through a single portal.

Although the Company currently owns only 26% of Kazzam's equity, the Company has concluded that: a) Kazzam is a variable interest entity as it has insufficient equity at risk, and b) the Company is its primary beneficiary. Therefore, the Company has consolidated Kazzam into the Company's financial statements. Further, as the Company is currently funding all of Kazzam's start-up activities via a loan to Kazzam (which will be repaid when the venture is profitable), the Company is recording 100% of Kazzam's operating results in "development stage expenses" in the Company's consolidated statement of operations and comprehensive income.

As part of Ampology's compensation for designing, developing and launching the exchange platform, Ampology received an ownership interest in Kazzam. The interest has been recorded in redeemable securities in the mezzanine of the Company's consolidated balance sheet as, in the future, Ampology has the right to cause the Company to purchase the interest.

Note 22 — Restricted Cash

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows: Restricted Cash". The pronouncement requires companies to show changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in their statement of cash flows. The Company adopted the pronouncement, which requires retrospective application, during the first quarter of 2018.

As a result, the Company's statement of cash flows for the year ended December 31, 2017 has been adjusted to include $155 of restricted cash at December 31, 2016 and $117 of restricted cash at December 31, 2017. The restricted cash, which principally relates to funds that are required to be spent on advertising, is included in "prepaid expenses and other current assets" in the Company's consolidated balance sheet. Therefore, in the Company's adjusted consolidated statement of cash flows for the year ended December 31, 2017, the change in "prepaid expenses and other current assets" has been adjusted from a cash outflow of $9,079 to a cash outflow of $9,117.

PARTY CITY HOLDCO INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Dollars in thousands, except per share)

Additionally, the Company's statement of cash flows for the year ended December 31, 2016 has been adjusted to include $173 of restricted cash at December 31, 2015 and $155 of restricted cash at December 31, 2016 and the change in "prepaid expenses and other current assets" has been adjusted from a cash outflow of $14,499 to a cash outflow of $14,517.

The Company's December 31, 2018 consolidated balance sheet included $58,909 of cash and cash equivalents and $310 of restricted cash, and the Company's December 31, 2017 consolidated balance sheet included $54,291 of cash and cash equivalents and $117 of restricted cash. Restricted cash is recorded in "prepaid expenses and other current assets".

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SCHEDULE I—CONDENSED FINANCIAL INFORMATION OF REGISTRANT
PARTY CITY HOLDCO INC.

(Parent company only)

CONDENSED BALANCE SHEETS
(Dollars in thousands)

	December 31, 2018	December 31, 2017
ASSETS		
Other assets (principally investment in and amounts due from wholly-owned subsidiaries)	$ 1,046,681	$ 972,025
Total assets	$ 1,046,681	$ 972,025
LIABILITIES, REDEEMABLE SECURITIES AND STOCKHOLDERS' EQUITY		
Total liabilities	$ 0	$ 0
Redeemable securities	3,351	3,590
Stockholders' equity:		
Common stock ($0.01 par value; 93,622,934 and 96,380,102 shares outstanding and 120,788,159 and 119,759,669 shares issued at December 31, 2018 and December 31, 2017, respectively)	1,208	1,198
Additional paid-in capital	922,476	917,192
Retained earnings	495,777	372,596
Accumulated other comprehensive loss	(49,201)	(35,818)
Total stockholders' equity before common stock held in treasury	1,370,260	1,255,168
Less: Common stock held in treasury, at cost (27,165,225 shares and 23,379,567 shares at December 31, 2018 and December 31, 2017, respectively)	(326,930)	(286,733)
Total stockholders' equity	1,043,330	968,435
Total liabilities, redeemable securities and stockholders' equity	$ 1,046,681	$ 972,025

See accompanying notes to these condensed financial statements.

PARTY CITY HOLDCO INC. (Parent company only)

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Dollars in thousands)

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Equity in net income of subsidiaries	$ 122,850	$ 215,340	$ 117,477
Net income	$ 122,850	$ 215,340	$ 117,477
Add: Net income attributable to redeemable securities holder	409	0	0
Net income attributable to common shareholders of Party City Holdco Inc.	$ 123,259	$ 215,340	$ 117,477
Other comprehensive (loss) income, net	(13,383)	16,421	(19,449)
Comprehensive income	109,467	231,761	98,028
Comprehensive income attributable to redeemable securities holder	409	0	0
Comprehensive income attributable to common shareholders of Party City Holdco Inc.	$ 109,876	$ 231,761	$ 98,028

See accompanying notes to these condensed financial statements.

PARTY CITY HOLDCO INC. (Parent company only)

CONDENSED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Cash flows provided by (used in) operating activities:			
Net income	$ 122,850	$ 215,340	$ 117,477
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in net income of subsidiaries	(122,850)	(215,340)	(117,477)
Change in due to/from affiliates	37,928	285,435	(1,373)
Net cash provided by (used in) operating activities	37,928	285,435	(1,373)
Cash flows (used in) provided by financing activities:			
Treasury stock purchases	(40,197)	(286,733)	0
Exercise of stock options	2,269	1,298	1,373
Net cash (used in) provided by financing activities	(37,928)	(285,435)	1,373
Net change in cash and cash equivalents	0	0	0
Cash and cash equivalents at beginning of period	0	0	0
Cash and cash equivalents at end of period	$ 0	$ 0	$ 0

See accompanying notes to these condensed financial statements.

PARTY CITY HOLDCO INC. (Parent company only)

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Dollars in thousands)

Note 1 — Basis of presentation and description of registrant

Party City Holdco Inc. (“Party City Holdco”) Schedule I, Condensed Financial Information of Registrant, provides all parent company information that is required to be presented in accordance with the SEC rules and regulations for financial statement schedules. The consolidated financial statements of Party City Holdco are included elsewhere. The parent-company financial statements should be read in conjunction with the consolidated financial statements and the notes thereto.

Party City Holdco does not conduct any separate operations and acts only as a holding company. Its share of the net income of its unconsolidated subsidiaries is included in its statements of income using the equity method.

Since all material stock requirements, dividends and guarantees of the registrant have been disclosed in the consolidated financial statements, the information is not required to be repeated in this schedule.

Note 2 — Dividends from subsidiaries

No cash dividends were paid to Party City Holdco by its subsidiaries during the years included in these financial statements.

SCHEDULE II

PARTY CITY HOLDCO INC.
VALUATION AND QUALIFYING ACCOUNTS
The Years Ended December 31, 2016, December 31, 2017, and December 31, 2018
(Dollars in thousands)

	Beginning Balance	Write-Offs	Additions	Ending Balance
Allowance for Doubtful Accounts:				
For the year ended December 31, 2016	$ 2,343	$ 441	$ 781	$ 2,683
For the year ended December 31, 2017	2,683	272	560	2,971
For the year ended December 31, 2018	2,971	1,251	1,213	2,933
Sales Returns and Allowances:				
For the year ended December 31, 2016	$ 655	$ 80,317	$ 80,128	$ 466
For the year ended December 31, 2017	466	83,865	83,879	480
For the year ended December 31, 2018	480	86,727	86,988	741

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2018. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of December 31, 2018, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d - 15(f) promulgated under the Exchange Act, as a process designed by, or under the supervision of a company's chief executive officer and chief financial officer, or persons performing similar functions, and effected by a company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the consolidated financial statements.

In designing and evaluating our disclosure controls and procedures, we and our management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their stated objectives. We review on an ongoing basis and document our disclosure controls and procedures, and our internal control over financial reporting, and we may from time to time make changes in an effort to enhance their effectiveness and ensure that our systems evolve with our business.

Under the supervision of our Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of our internal control over financial reporting based on the framework in Internal Control —

Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on the evaluation performed, management concluded that its internal control over financial reporting, based on the COSO framework, was effective, at the reasonable assurance level, as of December 31, 2018. Our independent registered public accounting firm, Ernst & Young LLP, issued an attestation report on the effectiveness of our internal control over financial reporting. The Ernst & Young LLP report is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Executive Officers of the Registrant

The information required by this item will be set forth in our proxy statement for our 2019 Annual Meeting of shareholders (to be filed within 120 days after December 31, 2018) (the “Proxy Statement”), and is incorporated herein by reference.

Item 11. Executive Compensation

Information required by this item will be set forth in our Proxy Statement, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item will be set forth in our Proxy Statement, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Party Transactions and Director Independence

Information required by this item will be set forth in our Proxy Statement, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information required by this item will be set forth in our Proxy Statement, and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report.

1. *Financial Statements* . The financial statements are set forth under Item 8, “Financial Statements and Supplementary Data,” of this Annual Report on Form 10-K.

2. *Financial Statement Schedules* . Schedule I, Condensed Financial Information of Registrant, and Schedule II, Valuation and Qualifying Accounts, is filed as part of this Annual Report on Form 10-K and should be read in conjunction with the financial statements and notes thereto contained in Item 8, “Financial Statements and Supplementary Data.”

All other financial statements and financial statement schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instruction, are not material or are not applicable and, therefore, have been omitted.

3. *Exhibits* .

Exhibit Index

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Party City Holdco Inc.’s Form 8-K dated April 21, 2015)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Party City Holdco Inc.’s Form 8-K dated April 21, 2015)
4.1	Specimen common stock certificate (incorporated by reference to Exhibit 4.1 to Party City Holdco Inc.’s Registration Statement on Form S-1 dated March 26, 2015)
4.2	Indenture, dated as of August 19, 2015, among Party City Holdings Inc., as Issuer, and Wilmington Trust, National Association, as Trustee (incorporated by reference to Exhibit 4.1 of Party City Holdco Inc.’s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2015)
4.3	First Supplemental Indenture, dated as of August 19, 2015, among the Guarantors named therein and Wilmington Trust, National Association, as Trustee (incorporated by reference to Exhibit 4.2 of Party City Holdco Inc.’s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2015)
4.4	Form of 6.125% Senior Notes due 2023 (incorporated by reference to Exhibit 4.1 of Party City Holdco Inc.’s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2015)
4.5*	Seconded Amended and Restated Stockholders Agreement among Party City Holdco Inc., THL PC Topco, L.P., and certain other stockholders of Party City Holdco Inc.
4.6	Amended and Restated Registration Rights Agreement among Party City Holdco Inc., THL PC Topco, L.P., Advent-Party City Acquisition Limited Partnership and certain other stockholders of Party City Holdco Inc. (incorporated by reference to Exhibit 4.1 to Party City Holdco Inc.’s Form 8-K dated April 21, 2015)
4.7	Indenture, dated as of August 2, 2018, among Party City Holdings Inc., as Issuer, and Wilmington Trust, National Association, as Trustee (incorporated by reference to Exhibit 4.1 of Party City Holdco Inc.’s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 6, 2018)

Exhibit Number	Description
4.8	First Supplemental Indenture, dated as of August 2, 2018, among the Guarantors named therein and Wilmington Trust, National Association, as Trustee (incorporated by reference to Exhibit 4.2 of Party City Holdco Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 6, 2018)
4.9	Form of 6.625% Senior Notes due 2026 (incorporated by reference to Exhibit 4.1 of Party City Holdco Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 6, 2018)
10.1	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.2 to Party City Holdco Inc.'s Registration Statement on Form S-1 dated March 26, 2015)
10.2†	Transition and Consulting Agreement between Party City Holdco. Inc. and Gerald C. Rittenberg, dated March 15, 2017 (incorporated by reference to Exhibit 10.1 to Party City Holdco Inc.'s Current Report on Form 8-K dated March 17, 2017)
10.3†	Amended and Restated Employment Agreement between Party City Holdings Inc., Party City Holdco. Inc. and James M. Harrison, dated May 8, 2018 (incorporated by reference to Exhibit 10.1 of Party City Holdco Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 9, 2018)
10.4†	Amended and Restated Employment Agreement between Party City Holdings Inc., Party City Holdco Inc. and Daniel J. Sullivan, dated May 8, 2018 (incorporated by reference to Exhibit 10.2 of Party City Holdco Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 9, 2018)
10.5	Term Loan Credit Agreement, dated as of August 19, 2015, among PC Intermediate Holdings, Inc., Party City Holdings Inc., Party City Corporation, the subsidiaries of the borrowers from time to time party thereto, the financial institutions party thereto, as the Lenders, and Deutsche Bank AG New York Branch, as Administrative Agent (incorporated by reference to Exhibit 10.1 of Party City Holdco Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2015)
10.6	Pledge and Security Agreement, dated as of August 19, 2015, among Party City Holdings Inc., Party City Corporation, PC Intermediate Holdings, Inc., the Subsidiary Parties from time to time party thereto and Deutsche Bank AG New York Branch, in its capacity as administrative agent and collateral agent for the lenders party to the Term Loan Credit Agreement (incorporated by reference to Exhibit 10.2 of Party City Holdco Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2015)
10.7	ABL Credit Agreement, dated as of August 19, 2015, among PC Intermediate Holdings, Inc., Party City Holdings Inc., Party City Corporation, the subsidiaries of the borrowers from time to time party thereto, the financial institutions party thereto, as the Lenders, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.3 of Party City Holdco Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2015)
10.8	Pledge and Security Agreement, dated as of August 19, 2015, among Party City Holdings Inc., Party City Corporation, PC Intermediate Holdings, Inc., the Subsidiary Parties from time to time party thereto and JPMorgan Chase Bank, N.A., in its capacity as administrative agent and collateral agent for the lenders party to the ABL Credit Agreement (incorporated by reference to Exhibit 10.4 of Party City Holdco Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2015)
10.9	Intercreditor Agreement, dated as of August 19, 2015, among PC Intermediate Holdings, Inc., Party City Holdings Inc., Party City Corporation, the other Grantors from time to time party thereto, JPMorgan Chase Bank, N.A., as ABL Facility Agent, and Deutsche Bank AG New York Branch, as Term Loan Agent (incorporated by reference to Exhibit 10.5 of Party City Holdco Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2015)

Exhibit Number	Description
10.10†	Party City Holdco Amended and Restated 2012 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.17 to Party City Holdco Inc.'s Registration Statement on Form S-1 dated April 6, 2015)
10.11†	Party City Holdco Inc. Executive Annual Incentive Plan (incorporated by reference to Exhibit 10.21 to Party City Holdco Inc.'s Registration Statement on Form S-1 dated March 26, 2015)
10.12†	Party City Holdco Inc. Non-Employee Director Compensation Program (incorporated by reference to Exhibit 10.2 of Party City Holdco Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 8, 2018)
10.13†	Form of Nonqualified Stock Option Award Agreement (Non-Employee Directors) under the Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.23 to Party City Holdco Inc.'s Registration Statement on Form S-1 dated March 26, 2015)
10.14†	Form of Nonqualified Stock Option Award Agreement (Employees) under the Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.24 to Party City Holdco Inc.'s Registration Statement on Form S-1 dated March 26, 2015)
10.15	First Amendment to Term Loan Credit Agreement, dated as of October 20, 2016, by and among Party City Holdings Inc., Party City Corporation, PC Intermediate Holdings, Inc., Deutsche Bank AG New York Branch as administrative agent and the various lenders parties thereto (incorporated by reference to Exhibit 10.1 of Party City Holdco Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 24, 2016)
10.16†	Form of Unrestricted Stock Award Agreement (Non-Employee Directors) under the Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.18 of Party City Holdco Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2018)
10.17†	Amended and Restated Employment Agreement between Party City Holdings Inc., Party City Holdco Inc. and Ryan Vero, dated May 8, 2018 (incorporated by reference to Exhibit 10.3 of Party City Holdco Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 9, 2018)
10.18†	Form of Restricted Stock Award Agreement (Time and Performance-Based Vesting) under the Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.20 of Party City Holdco Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2018)
10.19†	Form of Restricted Stock Unit Award Agreement (Time and Performance-Based Vesting) under the Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.21 of Party City Holdco Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2018)
10.20†	Form of Non-Employee Director Restricted Stock Unit Agreement under the Party City Holdco Inc. Amended and Restated 2012 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.22 of Party City Holdco Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2018)
10.21	First Amendment to ABL Credit Agreement, dated as of August 2, 2018, among PC Intermediate Holdings, Inc., Party City Holdings Inc., Party City Corporation, the subsidiaries of the borrowers from time to time party thereto, the financial institutions party thereto, as the Lenders, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 of Party City Holdco Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 6, 2018)

Exhibit Number	Description
10.22	Second Amendment to Term Loan Credit Agreement, dated as of February 16, 2018, by and among Party City Holdings Inc., Party City Corporation, PC Intermediate Holdings, Inc., Deutsche Bank AG New York Branch as administrative agent and the various lenders parties thereto (incorporated by reference to Exhibit 10.1 of Party City Holdco Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 20, 2018)
10.23†*	Employment Agreement between Party City Holdings Inc., Party City Holdco Inc. and Michael P. Harrison, dated December 28, 2018
10.24	Separation Agreement and General Release by and among Party City Holdings Inc., Party City Holdco Inc. and Gregg A. Melnick, dated August 30, 2018 (incorporated by reference to Exhibit 10.1 of Party City Holdco Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 8, 2018).
21.1*	List of Subsidiaries of Party City Holdco Inc.
23.1*	Consent of Independent Registered Public Accounting Firm
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	Interactive Data Files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets at December 31, 2018 and December 31, 2017; (ii) the Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2018, 2017 and 2016; (iii) the Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016; (iv) the Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; and (v) the Notes to the Consolidated Financial Statements.

† Management contract of compensatory plan or arrangement
* Filed herewith.

Item 16. Form 10-K Summary

None.

SIGNATURES

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

PARTY CITY HOLDCO INC.

By: /s/ Daniel J. Sullivan
Daniel J. Sullivan
Chief Financial Officer

Date: February 28, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ James M. Harrison James M. Harrison	Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2019
/s/ Daniel J. Sullivan Daniel J. Sullivan	Chief Financial Officer (Principal Financial Officer)	February 28, 2019
/s/ Michael A. Correale Michael A. Correale	Chief Accounting Officer (Principal Accounting Officer)	February 28, 2019
/s/ Norman S. Matthews Norman S. Matthews	Chairman of the Board and Director	February 28, 2019
/s/ Todd M. Abbrecht Todd M. Abbrecht	Director	February 28, 2019
/s/ Steven J. Collins Steven J. Collins	Director	February 28, 2019
/s/ William S. Creekmuir William S. Creekmuir	Director	February 28, 2019
/s/ Douglas A. Haber Douglas A. Haber	Director	February 28, 2019
/s/ Lisa K. Klinger Lisa K. Klinger	Director	February 28, 2019
/s/ Michelle Millstone-Shroff Michelle Millstone-Shroff	Director	February 28, 2019
/s/ Gerald C. Rittenberg Gerald C. Rittenberg	Director	February 28, 2019
/s/ Morry J. Weiss Morry J. Weiss	Director	February 28, 2019

Exhibit 4.5

SECOND AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

by and among

PARTY CITY HOLDCO INC.,

THL PC TOPCO, L.P.

and

THE OTHER STOCKHOLDERS THAT ARE SIGNATORIES HERETO

Dated as of March 12, 2018

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SECOND AMENDED AND RESTATED STOCKHOLDERS AGREEMENT

This SECOND AMENDED AND RESTATED STOCKHOLDERS AGREEMENT (as it may be amended from time to time in accordance with the terms hereof, the " Agreement ") dated as of March 12, 2018 is made by and among Party City Holdco Inc., a Delaware corporation (the " Company "), THL PC Topco, L.P. (the " THL Party ", which term includes any Affiliates of the foregoing which own Stock from time to time) and the Persons listed as Management Holders on the signature pages hereto.

RECITALS

WHEREAS, on July 27, 2012, the THL Party, Advent-Party City Acquisition Limited Partnership, a Delaware limited partnership (the " Advent Party "), the Company and certain other parties entered into a Stockholders Agreement (the " Original Agreement ");

WHEREAS, on April 21, 2015, the Company consummated an initial public offering (the " IPO ") of its shares of Common Stock pursuant to an underwriting agreement dated April 15, 2015 and amended and restated the Original Agreement (the " Amended and Restated Agreement ");

WHEREAS, in December 2017, the Advent Party sold all of its shares of Common Stock and, as a result, ceased to be a party to the Amended and Restated Agreement; and

WHEREAS, on the date hereof, the parties hereto desire to amend and restate the Amended and Restated Agreement in order to remove provisions applicable to the Advent Party and to set forth their agreement with respect to certain rights and obligations associated with ownership of shares of capital stock of the Company.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and obligations hereinafter set forth, the parties hereby agree as follows:

Section 1. Definitions .

1.1. Definitions . As used herein, the following terms shall have the following meanings:

" Advent Party " has the meaning ascribed to such term in the Recitals.

" Affiliate " means with respect to any Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person, where "control" means the possession, directly or indirectly, of the power to direct the management and policies of a Person whether through the ownership of voting securities, contract or otherwise. For the avoidance of doubt, neither the Company nor any Person controlled by the Company shall be deemed to be an Affiliate of any Stockholder or of any Affiliate of any Stockholder.

" Amended and Restated Agreement " has the meaning set forth in the Recitals.

"Agreement" has the meaning ascribed to such term in the Preamble.

"Board" means the board of directors of the Company.

"Cause" shall have the meaning set forth below, except with respect to any Management Holder who is employed by the Company or one of its Subsidiaries pursuant to an effective written employment agreement, if any, between the Company and/or one of its Subsidiaries and such Management Holder in which there is a definition of "Cause," in which event the definition of "Cause" as set forth in such employment agreement shall be deemed to be the definition of "Cause" herein solely for such Management Holder and only for so long as such employment agreement remains effective. In all other events, the term "Cause" shall mean the Board has determined, in its reasonable judgment, that any one or more of the following has occurred: (a) the Management Holder shall have been convicted of, or shall have pleaded guilty or nolo contendere to, any felony or any crime involving dishonesty or moral turpitude; (b) the Management Holder shall have committed any fraud, theft, embezzlement, misappropriation of funds, breach of fiduciary duty or act of dishonesty; (c) the Management Holder shall have breached in any material respect any of the provisions of any agreement between the Management Holder and the Company or its Affiliates, including, without limitation, this Agreement; (d) the Management Holder shall have engaged in conduct likely to make the Company or any of its Affiliates subject to criminal liabilities other than those arising from the Company's normal business activities; or (e) the Management Holder shall have willfully engaged in any other conduct that involves a breach of fiduciary obligation on the part of the Management Holder or otherwise could reasonably be expected to have a material adverse effect upon the business, interests or reputation of the Company or any of its Affiliates.

"Certificate of Incorporation" means the certificate of incorporation of the Company as in effect from time to time.

"Chief Executive Officer" means the chief executive officer of the Company then in office.

"Common Stock" means the common stock, par value $0.01 per share, of the Company and any and all securities of any kind whatsoever of the Company which may be issued after the date of this Agreement in respect of, or in exchange for, such shares of common stock of the Company pursuant to a merger, consolidation, stock split, stock dividend or recapitalization of the Company or otherwise.

"Common Stock Equivalents" means all securities convertible into, or exchangeable or exercisable for (at any time or upon the occurrence of any event or contingency and without regard to any vesting or other conditions to which such securities may be subject) (i) shares of Common Stock or (ii) other Equity Securities convertible into, or exchangeable or exercisable for (at any time or upon the occurrence of any event or contingency and without regard to any vesting or other conditions to which such securities may be subject), Common Stock.

"Company" has the meaning ascribed to such term in the Preamble.

"Equity Securities" means any capital Stock or other equity security of the Company or any of its Subsidiaries, including Common Stock and Common Stock Equivalents.

"GAAP" means generally accepted accounting principles in the United States as in effect from time to time.

"Group" means two or more Persons who agree to act together for the purpose of acquiring, holding, voting or disposing of Stock.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"IPO" has the meaning set forth in the Recitals.

"Issue" means to issue or in any other way directly or indirectly sell or exchange, or agree to issue, sell or exchange, any security or any legal or beneficial interest therein.

"Majority Management Holders" means the Senior Management Holders holding a majority of the aggregate Voting Shares held by the Senior Management Holders.

"Management Holder" means any current or former director, officer or employee of the Company or any of its Subsidiaries (or any Affiliate of such Person (other than the THL Party and the THL Directors)) who is a Stockholder and any Permitted Management Holder Transferee who is a Stockholder.

"Maximum Tag-Along Sale Number" has the meaning ascribed to such term in Section 4.2.

"Minimum Percentage" means, at any given time, a fraction (expressed as a percentage), with the numerator being the number of shares, in the aggregate, held by such Stockholder at such time and the denominator being the number of shares of Common Stock, in the aggregate, held by such Stockholder immediately following the closing of the IPO (including any additional closing pursuant to the underwriters' over-allotment option).

"Necessary Action" means, with respect to any party and a specified result, all actions (to the extent such actions are permitted by law and within such party's control) necessary to cause such result, including (i) voting or providing a written consent or proxy with respect to the Common Stock, (ii) causing the adoption of stockholders' resolutions and amendments to the organizational documents of the Company, (iii) executing agreements and instruments, and (iv) making, or causing to be made, with governmental, administrative or regulatory authorities, all filings, registrations or similar actions that are required to achieve such result.

"Original Agreement" has the meaning set forth in the Recitals.

"Option Plan" means the Company's 2012 Omnibus Equity Incentive Plan, as amended from time to time.

"Option Stock" means Common Stock received upon the exercise of Common Stock Equivalents (including Plan Options and Plan Stock Appreciation Rights).

" Permanent Disability " shall have the meaning set forth below, except with respect to any Management Holder who is employed by the Company or one of its Subsidiaries pursuant to an effective written employment agreement, if any, between the Company and/or one of its Subsidiaries and such Management Holder in which there is a definition of "Permanent Disability," in which event the definition of "Permanent Disability" as set forth in such employment agreement shall be deemed to be the definition of "Permanent Disability" herein solely for such Management Holder and only for so long as such employment agreement remains effective. In all other events, the term "Permanent Disability" shall mean: a determination by independent competent medical authority (selected by the Board) that the Management Holder is unable to perform his duties and in all reasonable medical likelihood such inability shall continue for a consecutive period of 90 days or for a period in excess of 120 days in any 365 day period.

" Permitted Management Holder Transferee " means any transferee who obtained Stock as a direct or indirect result of a Permitted Management Transfer by a Management Holder.

" Permitted Management Transfer " means any Transfer of Stock by a Management Holder (i) to spouses, children, and exclusive benefit trusts, in each case, so long as such Management Holder retains voting control of such Stock, (ii) to the Company or (iii) upon the death of an individual Management Holder, pursuant to the terms of any trust or will of the deceased individual Management Holder or by the laws of intestate succession.

" Person " means any individual, corporation, limited liability company, limited or general partnership, joint venture, association, joint-stock company, trust, unincorporated organization, governmental entity or agency or other entity of any kind or nature.

" Plan Options " means, options to purchase Common Stock of the Company pursuant to the Option Plan.

" Plan Stock Appreciation Rights " means the right to receive Common Stock or cash payments in connection with the appreciation of a specified number of shares of Common Stock pursuant to the Option Plan.

" Proprietary Information " has the meaning ascribed to such term in Section 6 .

" Registration Rights Agreement " means the Amended and Restated Registration Rights Agreement, dated April 21, 2015, among the Company, the THL Party, the Advent Party and certain other parties, as amended from time to time.

" SEC " means the Securities and Exchange Commission or such other federal agency which at such time administers the Securities Act.

" Securities Act " means the Securities Act of 1933, as amended, and the rules and regulations of the SEC issued under such act, as they may from time to time be in effect.

" Senior Management Holders " means the Management Holders who, as of April 21, 2015, each hold at least 56,000 shares of Common Stock and each of whom is an "accredited investor" (as defined in Rule 501(a) under the Securities Act) or, if not an accredited investor, has retained a "purchaser representative" (as defined in Rule 501(h) under the Securities Act) or has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of the action(s) contemplated.

"Stock" means any shares of Common Stock or of any other class or series of authorized capital stock of the Company, whether owned, issued or authorized on the date of this Agreement or hereafter, including any Option Stock but excluding any Plan Options.

"Stockholders" means the parties to this Agreement (other than the Company) and any other subsequent holder of Stock who agrees to be bound by the terms of this Agreement.

"Subsidiary" means, with respect to any Person, (i) any corporation, limited liability company, partnership or other entity of which shares of capital stock or other ownership interests having ordinary voting power to elect a majority of the board of directors or other similar managing body of such corporation, limited liability company, partnership or other entity are at the time directly or indirectly owned or controlled by such Person, or (ii) the management of which is otherwise controlled, directly or indirectly, by such Person.

"Tag-Along Notice" has the meaning ascribed to such term in Section 4.2.

"Tag-Along Offeror" has the meaning ascribed to such term in Section 4.2.

"Tag-Along Period" has the meaning ascribed to such term in Section 4.2.

"Tag-Along Sale Number" has the meaning ascribed to such term in Section 4.2.

"Tag-Along Right" has the meaning ascribed to such term in Section 4.2.

"Tag-Along Sale" means any Transfer of Stock pursuant to the exercise of Tag-Along Rights.

"Tag-Along Stockholders" has the meaning ascribed to such term in Section 4.2.

"Tagging Stockholders" has the meaning ascribed to such term in Section 4.2.

"Third Party Sale" means a sale, other than pursuant to a sale under an effective registration statement filed with the SEC, of Stock to a single third party in which the THL Party proposes to sell to the third party at least 50% of its Stock.

"THL Director" means a director designated by the THL Party.

"THL Party" has the meaning ascribed to such term in the Preamble.

"THL Stockholder Party" has the meaning ascribed to such term in Section 7.

"THL Supplemental Director" has the meaning ascribed to such term in Section 3.1(a)(ii).

"Total Tag-Along Shares" has the meaning ascribed to such term in Section 4.2.

" Transition and Consulting Agreement " means the Transition and Consulting Agreement, dated March 15, 2017, between the Company and Gerald C. Rittenberg.

" Transfer " means to transfer, sell, assign, distribute, pledge, encumber, hypothecate, assign, exchange, or in any other way directly or indirectly dispose of, in whole or in part, either voluntarily or involuntarily, including by gift, by way of merger (forward or reverse) or similar transaction, by operation of law or otherwise, any security or any legal or beneficial interest therein, including the grant of an option or other right or interest that would result in the transferor no longer having the economic consequences of ownership in, or the power to vote, such security.

" Trigger Date " has the meaning ascribed to such term in Section 3.1(d)

" Voting Shares " means, at any time, any securities of the Company, the holders of which are generally entitled to vote for the election of directors to the Board (including all outstanding shares of Common Stock).

1.2. General Interpretive Principles . When a reference is made in this Agreement to a Section, Schedule or Exhibit such reference shall be to a Section of, or a Schedule or Exhibit to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words " include ," " includes " or " including " are used in this Agreement, they shall be deemed to be followed by the words " without limitation ." The words " hereof ," " herein " and " hereunder " and words of similar import when used in this Agreement shall refer to this Agreement as a whole (including the Schedules and Exhibits) and not to any particular provision of this Agreement. All terms defined in this Agreement shall have the defined meanings when used in any document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and, except as otherwise expressly provided or unless the context otherwise requires, any noun or pronoun shall be deemed to cover all genders. Any statute, rule, order or regulation defined or referred to in this Agreement or in any agreement or instrument that is referred to in this Agreement shall mean such statute, rule, order or regulation as from time to time amended, updated, modified, supplemented or superseded, including by succession of comparable successor statutes, rules, orders or regulations and references to all attachments thereto and instruments incorporated therein. Where specific language is used to clarify by example a general statement contained herein, such specific language shall not be deemed to modify, limit or restrict in any manner the construction of the general statement to which it relates. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any party.

Section 2. Methodology for Calculations . Except as otherwise expressly provided in this Agreement, for purposes of calculating (a) the amount of outstanding shares of Common Stock as of any date and (b) the amount of shares of Common Stock owned by a Person hereunder (and the percentage of the outstanding shares of Common Stock owned by a Person hereunder), no Common Stock Equivalents of the Company shall be treated as having been converted, exchanged or exercised. In the event of any stock split, stock dividend, reverse stock

split, any combination of the shares of Stock or any similar event, with respect to all references in this Agreement to a Stockholder or Stockholders holding a number of shares of Stock, the applicable number shall be appropriately adjusted to give effect to such stock split, stock dividend, reverse stock split, any combination of the shares of Stock or similar event.

Section 3. Corporate Governance .

3.1. Board of Directors .

(a) THL Party Representation.

(i) For so long as the THL Party holds a number of shares of Common Stock representing the Minimum Percentages shown below, the Company shall, and the Management Holders shall take all Necessary Action to, include in the slate of nominees recommended by the Board for election as directors at each applicable annual or special meeting of stockholders at which directors are to be elected, or pursuant to a written consent, that number of individuals designated by the THL Party that, if elected, will result in the THL Party having the number of directors serving on the Board that is shown below.

Minimum Percentage	Number of THL Directors
30% or greater	3
Less than 30% but greater than or equal to 15%	2
Less than 15% but greater than or equal to 5%	1

(ii) In addition, for so long as the THL Party holds a number of shares of Common Stock representing the Minimum Percentages shown below, the Company shall, and the Management Holders will take all Necessary Action to, include in the slate of nominees recommended by the Board for election as directors at each applicable annual or special meeting of stockholders at which directors are to be elected, or pursuant to a written consent, that number of individuals designated by the THL Party that, if elected, will result in the having the number of directors, in addition to the directors designated in accordance with Section 3.1(a)(i) , serving on the Board that is shown below (each, a " THL Supplemental Director ").

Minimum Percentage	Number of THL Supplemental Directors
50% or greater	2
Less than 50% but greater than or equal to 40%	1

(b) The Chief Executive Officer will serve on the Board, and the THL Party agrees to vote in favor of the Chief Executive Officer as a director. Gerald C. Rittenberg will serve on the Board through the Consulting Period (as defined in the Transition and Consulting Agreement) and the THL Party agrees to vote in favor of Mr. Rittenberg as a director through the Consulting Period.

(c) In the event that a vacancy is created at any time by the death, disability, retirement, resignation or removal of any THL Director, the Company hereby agrees to take all Necessary Action to cause the vacancy created thereby to be filled as soon as practicable by a THL Director for so long as the THL Party has the right to designate an individual for nomination to the Board under this Agreement.

(d) For so long as the THL Party holds a majority of the outstanding shares of Common Stock (the " Trigger Date "), any director of the Company may be removed with our without cause by holders of a majority of the outstanding shares of Common Stock. At and following the Trigger Date, directors may only be removed for cause by the affirmative vote of the holders of at least 75 percent of the voting power of the outstanding Stock.

(e) Subject to Section 3.1(a)(ii), the Board shall not, and the Company will take all Necessary Action to ensure that the Board shall not, consist of fewer than three or greater than 15 directors, the exact number of directors to be determined from time to time by resolution adopted by the affirmative vote of a majority of the Board, including the THL Directors.

(f) Upon any decrease in the number of directors that the THL Party is entitled to designate for nomination to the Board, the THL Party shall take all Necessary Action to cause the appropriate number of THL Directors to offer to tender resignation. If such resignation is then accepted by the Board, the Company and the THL Party shall take all Necessary Action to cause the authorized size of the Board to be reduced accordingly.

(g) Except as required by applicable law, the business and affairs of the Company shall be managed by or under the direction of the Board. At all meetings of the Board, a quorum shall consist of not less than a number of directors holding a majority of the votes held by all directors; provided , that until the Trigger Date, the attendance of at least one THL Director shall be required for a quorum to be present. At each meeting of the Board (or committee thereof) at which a quorum is present, each director shall be entitled to one vote on each matter to be voted on at such meeting. All actions of the Board shall require the affirmative vote of at least a majority of the votes held by all directors present at such meeting. Subject to applicable law, any action that may be taken at a meeting of the Board may also be taken by written consent of the members of the Board in lieu of a meeting.

(h) The Company and the THL Party shall take all Necessary Action to ensure that the composition of the Board complies with all applicable law and stock exchange rules upon loss of the "controlled company" exemption under the applicable stock exchange rules.

3.2. Expenses and Indemnification . The Company shall pay the reasonable out-of-pocket expenses incurred by each member of the Board in connection with performing his or her duties as a member of the Board, including the reasonable out-of-pocket expenses incurred by such person for attending meetings of the Board or any committee thereof or meetings of any board of directors or other similar managing body (and any committee thereof) of any Subsidiary of the Company. The Company shall obtain customary director and officer liability insurance on commercially reasonable terms.

Section 4. Restrictions on Transfers of Stock by Stockholders; Tag-Along Rights .

4.1. No Stockholder shall Transfer any Stock other than (i) pursuant to a Permitted Management Transfer, (ii) with the prior written consent of the THL Party, (iii) pursuant to a Tag-Along Sale or (iv) to any Person either (A) pursuant to the exercise of registration rights

under the Registration Rights Agreement, or (B) pursuant to an exemption from registration under the Securities Act, provided , that, until the Minimum Percentage of the THL Party is less than 10 percent, no Transfers shall be permitted under this clause (iv) if, after giving effect to any such Transfers, the Minimum Percentage held by such Stockholder and his Permitted Management Holder Transferee is less than the Minimum Percentage of the THL Party.

4.2. In the event that the THL Party enters into an agreement to Transfer Stock pursuant to a Third Party Sale, the THL Party shall give written notice (the " Tag-Along Notice ") of such Transfer to each other Stockholder that is not an Affiliate of the THL Party (the " Tag-Along Stockholders "), which shall specifically identify the identity of the offeror in the Third Party Sale (the " Tag-Along Offeror "), the number of shares of Stock that is to be Transferred by the THL Party to the Tag-Along Offeror (the " Tag-Along Sale Number "), the maximum number of shares of Stock that the Tag-Along Offeror is willing to purchase (the " Maximum Tag-Along Sale Number "), the purchase price therefor, and a summary of the other material terms and conditions of the proposed Transfer. For a period ending on the fifth (5) day after the delivery of the Tag-Along Notice (the " Tag-Along Period "), each Tag-Along Stockholder shall have the right (the " Tag-Along Right "), at the same price per share to be paid to and upon the same terms offered to the THL Party, to sell to the Tag-Along Offeror, that number of shares of Stock of such Tag-Along Stockholder as is equal to the product of (x) a fraction, the numerator of which is the Tag-Along Sale Number and the denominator of which is the aggregate number of shares of Stock owned as of the date of the Tag-Along Notice by the THL Party and its Affiliates and (y) the number of shares of Stock owned by such Tag-Along Stockholder as of the date of the Tag-Along Notice; provided that the number of shares of Stock required to be purchased from such Tag-Along Stockholder by the Tag-Along Offeror shall be subject to reduction in accordance with the last sentence of this Section 4.2 . A copy of the Tag-Along Notice shall promptly be sent to the Company. The Tag-Along Rights may be exercised in whole or in part at the option of each of the Tag-Along Stockholders (all Tag-Along Stockholders who exercise such Tag-Along Rights, together with the THL Party, the " Tagging Stockholders "). Notice of any Tag-Along Stockholder's intention to exercise such Tag-Along Rights, in whole or in part, shall be evidenced by a writing signed by such Tag-Along Stockholder and delivered to the Tag-Along Offeror and the Company prior to the end of the Tag-Along Period, setting forth the number of shares of Stock that such Tag-Along Stockholder elects to Transfer. In the event that the number of shares of Stock proposed to be Transferred to a Tag-Along Offeror (the " Total Tag-Along Shares ") is greater than the Maximum Tag-Along Sale Number, each Tagging Stockholder shall be entitled to Transfer to the Tag-Along Offeror only that number of shares of Stock that is equal to (A) the number of shares that it sought or elected, as applicable, to be Transferred to such Tag-Along Offeror by such Tagging Stockholder, multiplied by (B) a fraction the numerator of which is the Maximum Tag-Along Sale Number and the denominator of which is the Total Tag-Along Shares.

4.3. All Transfers of Stock to the Tag-Along Offeror pursuant to this Section 4 shall be consummated contemporaneously at the offices of the Company on the later of (i) a mutually satisfactory business day as soon as practicable, but in no event more than sixty (60) days after the expiration of the Tag-Along Period, or (ii) the tenth (10) business day following the expiration or termination of all waiting periods under the HSR Act or receipt of other regulatory approvals applicable to such Transfers, or at such other time and/or place as the THL Party and the Tag-Along Offeror may agree. If applicable, the delivery of certificates or other instruments evidencing such Stock duly endorsed for transfer shall be made on such date against payment of the purchase price for such Stock.

Section 5. Financial and Business Information . For so long as the THL Party, together with its Affiliates, has the right to designate a member of the Board, the Company shall provide to the THL Party the following information (i) unaudited consolidated quarterly financial reports of the Company and its consolidated subsidiaries prepared in accordance with GAAP for the first three fiscal quarters of each year, which shall be provided at the same time that the Company provides such financial reports to the Company's lenders and no later than 60 days after the end of such fiscal quarter, (ii) audited consolidated annual financial reports of the Company and its consolidated subsidiaries prepared in accordance with GAAP, which shall be provided at the same time that the Company is required to provide such financial reports to the Company's lenders and no later than 120 days after the end of the Company's fiscal year, (iii) an annual consolidated budget for the Company and its Subsidiaries as approved by the Board no later than 90 days after the end of the Company's fiscal year, (iv) complete copies of the quarterly information packages distributed to the Company's lenders at the same time the Company provides such information packets to the Company's lenders and no later than 60 days after the end of each fiscal quarter and (v) all information that is provided to the Board in connection with any meeting thereof, which information shall be provided to the THL Party at the same time it is provided to the Board; provided , however , that the THL Party receiving information pursuant to this Section 5 shall comply with the requirements of Section 6 herein.

Section 6. Confidentiality . Each Stockholder shall maintain the confidentiality of any confidential and proprietary information of the Company, including any information received by the THL Party pursuant to Section 5 hereof (" Proprietary Information "), using the same standard of care, but in no event less than reasonable care, as it applies to its own confidential information; provided , however , that a Stockholder may disclose Proprietary Information (a) to its representatives in connection with monitoring its investment in the Company, (b) to any Affiliate, partner, limited partner, member, trustee, investor or related investment fund of such Stockholder and its and their respective investors, limited partners, directors, employees and consultants, in each case, in the ordinary course of business, or (c) as may otherwise be required by law, rule, regulation or self-regulatory organization, and further provided , that (i) such Proprietary Information provided pursuant to clauses (a) to (c) above is identified prior to disclosure by the Stockholder to the recipient as requiring confidential treatment, and (ii) the disclosing Stockholder shall be responsible for the acts and omissions related to the Proprietary Information of any Person to whom such Stockholder discloses Proprietary Information (other than pursuant to clause (c) above). " Proprietary Information " shall not include any information (a) that is publicly available (other than as a result of dissemination by such Stockholder) or a matter of public knowledge generally, (b) that was known to such Stockholder on a non-confidential basis, without, to such Stockholders' knowledge, breach of any third party's confidentiality obligations, prior to its disclosure by the Company, or (c) that is or was independently developed or conceived by such Stockholder without use of the Proprietary Information.

Section 7. Corporate Opportunities . To the fullest extent permitted by applicable law, the Company, on behalf of itself and its Subsidiaries, and each of the Stockholders, hereby renounces any interest, duty or expectancy of the Company and its Subsidiaries in, or in being

offered an opportunity to participate in, business opportunities that are from time to time presented to the THL Party, any Affiliate of the THL Party or any director (or director of any Subsidiary of the Company) designated by any of the foregoing (each a " THL Stockholder Party ") even if the opportunity is one that the Company or its Subsidiaries might reasonably be deemed to have pursued or had the ability or desire to pursue if granted the opportunity to do so and each THL Stockholder Party shall have no duty to communicate or offer such business opportunity to the Company and to the fullest extent permitted by applicable law, shall not be liable to the Company or any of its Subsidiaries for breach of any fiduciary or other duty, as a director or otherwise, by reason of the fact that such THL Stockholder Party pursues or acquires such business opportunity, directs such business opportunity to another Person or fails to present such business opportunity, or information regarding such business opportunity, to the Company or its Subsidiaries.

Section 8. Termination . Section 3 shall terminate automatically (without any action by any party hereto) as to the THL Party upon the time at which the THL Party no longer has the right to designate an individual for nomination to the Board under this Agreement; provided , that the provision in Section 3.2 shall survive such termination. The remainder of this Agreement shall terminate automatically (without any action by any party hereto) as to each Stockholder when such Stockholder ceases to hold any Shares; provided , that this Agreement shall terminate with respect to each such Management Holder at such time when (i) such Management Holder is not a director, officer or employee of the Company or any of its Subsidiaries (or any Affiliate of such Person (other than the THL Party and the THL Directors)), (ii) such Management Holder holds less than 1% of the Company's outstanding shares of Common Stock and (iii) except where such Management Holder is terminated without Cause or for Good Reason (to the extent defined in any applicable employment agreement), six months have elapsed since such Management Holder was a director, officer or employee of the Company or any of its Subsidiaries.

Section 9. Further Assurances . At any time or from time to time after the date of this Agreement, the parties agree to cooperate with each other, and at the request of any other party, to execute and deliver any further instruments or documents and to take all such further action as the other party may reasonably request in order to evidence or effectuate the consummation of the transactions contemplated hereby and to otherwise carry out the intent of the parties hereunder.

Section 10. Amendment and Waiver . Except as otherwise provided herein, no modification, amendment or waiver of any provision of this Agreement shall be effective against the Company or any Stockholder unless such modification, amendment or waiver is approved in writing by the THL Party. Notwithstanding the foregoing, no amendment shall be made or waiver granted in a manner that adversely affects (i) the Management Holders' rights hereunder, to the extent that such amendment or waiver has a material and disproportionate impact or effect on the Management Holders' as a Group as compared to the other Stockholders, without the prior written consent of the Majority Management Holders, or (ii) any particular Management Holder's rights or obligations hereunder to the extent (and only to the extent) such particular Management Holder would be uniquely and adversely affected by such amendment or waiver, without the written consent of such Management Holder. The failure of any party to enforce any of the provisions of this Agreement shall in no way be construed as a waiver of such provisions and shall not affect the right of such party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

Section 11. Entire Agreement. This Agreement, the Registration Rights Agreement and the other writings referred to herein or delivered pursuant hereto or which make specific reference to this Section 11 form a part hereof and contain the entire agreement and understanding among the parties hereto with respect to the subject matter hereof and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof in any way.

Section 12. Successors and Assigns. Except as otherwise provided herein, this Agreement shall bind and inure to the benefit of and be enforceable by the Company and its successors and assigns and each Stockholder and its successors, permitted assigns, heirs and personal representatives. Subject to compliance with the provisions of this Agreement, (i) the THL Party shall, at any time and without the consent of any other party hereto, have the right to assign all or part of its rights and obligations under this Agreement to one or more of its Affiliates or (ii) each Stockholder shall, at any time and without the consent of any other party hereto, have the right to assign all or part of its rights and obligations under this Agreement to any Person to whom such Stockholder Transferred Stock in accordance with this Agreement. Upon any such permitted assignment, such assignee shall have and be able to exercise and enforce all rights of the assigning party which are assigned to it and, to the extent such rights are assigned, any reference to the assigning Stockholder shall be treated as a reference to the assignee.

Section 13. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but this Agreement shall be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

Section 14. Remedies. Each party hereto shall be entitled to enforce its rights under this Agreement specifically, to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights existing in its favor. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that each party may in its sole discretion apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive relief (without posting a bond or other security) in order to enforce or prevent any violation of the provisions of this Agreement.

Section 15. Notices. All notices, requests, consents and other communications hereunder to any party shall be deemed to be sufficient if contained in a written instrument delivered in person or by telecopy (with a confirmatory copy sent by different means within three business days of such notice), nationally recognized overnight courier or first class registered or certified mail, return receipt requested, postage prepaid, addressed to such party at the address set forth below and to any subsequent holder of Stock subject to this Agreement at such address as indicated by the Company's records, or at such address or to the attention of such other person as may hereafter be designated in writing by such party to the other parties:

if to the Company to:

Party City Holdco Inc.
80 Grasslands Road
Elmsford, NY 10523
Facsimile: (914) 345-2056
Attention: Daniel Sullivan
Email: dsullivan@amscan.com

with a copy (which shall not constitute notice) to:

Party City Holdco Inc.
80 Grasslands Road
Elmsford, NY 10523
Facsimile: (914) 784-4339
Attention: Joseph J. Zepf
Email: jzepf@amscan.com

and

Ropes & Gray LLP
1211 Avenue of the Americas
New York, NY 10036
Facsimile: (646) 728-2554
Attention: Michael Littenberg
Email: michael.littenberg@ropesgray.com

if to the THL Party, to:

c/o Thomas H. Lee Partners, L.P.
100 Federal Street, 35th Floor
Boston, MA 02110
Facsimile: (617) 227-3514
Attention: Todd M. Abbrecht and Joshua M. Nelson
Email: TAbbrecht@THL.com
JNelson@THL.com

with a copy (which shall not constitute notice) to:

Ropes & Gray LLP
1211 Avenue of the Americas
New York, NY 10036
Facsimile: (646) 728-2554
Attention: Michael Littenberg
Email: michael.littenberg@ropesgray.com

if to any Management Holder, to: such address indicated in the records of the Company:

with a copy (which shall not constitute notice) to:

Ropes & Gray LLP
1211 Avenue of the Americas
New York, NY 10036
Facsimile: (646) 728-2554
Attention: Michael Littenberg
Email: michael.littenberg@ropesgray.com

All such notices, requests, consents and other communications will be deemed to have been given hereunder when received.

Section 16. Governing Law; Submission to Jurisdiction; Waiver of Jury Trial.

(a) This Agreement, including the validity hereof and the rights and obligations of the parties hereunder, all amendments and supplements hereto and the transactions contemplated hereby, and all actions or proceedings arising out of or relating to this Agreement, of any nature whatsoever, shall be construed in accordance with and governed by the domestic substantive laws of the State of Delaware without giving effect to any choice of law or conflicts of law provision or rule that might otherwise cause the application of the domestic substantive laws of any other jurisdiction. The parties hereto hereby irrevocably submit to the exclusive jurisdiction of the state and federal courts located in the Borough of Manhattan within the State of New York in connection with any dispute arising out of or relating to this Agreement or any of the transactions contemplated hereby (except for actions to enforce a judgment rendered by a state or federal court located in the Borough of Manhattan within the State of New York in connection with any dispute that arises out of this Agreement or any of the transactions), and each party hereby irrevocably waives, to the fullest extent permitted by applicable law, any objection which they may now or hereafter have to the laying of venue of any such dispute brought in such court or any defense of inconvenient forum or lack of personal jurisdiction in respect of such dispute. Each of the parties hereto agrees that a judgment rendered in any such dispute may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(b) Each party hereto hereby waives to the fullest extent permitted by applicable law any right it may have to a trial by jury in respect of any legal proceeding directly or indirectly arising out of, under or in connection with this Agreement or any transaction contemplated hereby. Each party hereto (i) certifies that no representative, agent or attorney of any other party has represented, expressly or otherwise, that such other party would not, in the event of litigation, seek to enforce the foregoing waiver and (ii) acknowledges that it and the other parties hereto have been induced to enter into this Agreement by, among other things, the mutual waivers and certifications in this Section 16.

Section 17. No Publicity.

(a) None of the Stockholders or the Company shall issue any public announcements or make any published statements regarding this Agreement, or the subject matter hereof, without the prior written consent of the THL Party; provided, that, this Section 17(a) shall not

limit disclosures by any Stockholder if such disclosure is requested or required by applicable law or any governmental entity or self-regulatory organization having jurisdiction over such Stockholder or its Affiliates or any of its respective representatives or advisers, or that such Stockholder deems advisable to provide to such a governmental entity or self-regulatory organization, in each case whether in connection with an audit, examination or otherwise.

(b) The Company shall not, and shall ensure that its Affiliates and its and their respective officers, directors, employees and other representatives do not, without the prior written consent of the THL Party, (i) use in advertising, publicity or otherwise the name of the THL Party, or any of its Affiliates, or the name of any member, stockholder, partner, manager or employee of the THL Party or any of its Affiliates or any trade name, trademark, trade device, logo, service mark, symbol or any abbreviation, contraction or simulation thereof owned or used by the THL Party or any of its Affiliates, (ii) represent, directly or indirectly, that any product or any service provided by the Company or any Affiliate of the Company has been approved, endorsed, recommended or provided by, or in association with, the THL Party or any of its Affiliates after the date of this Agreement, or (iii) except as required by law, disclose the fact that the THL Party is a Stockholder of the Company.

Section 18. Company Logo. The Company hereby grants the THL Party permission to use the Company's and its Subsidiaries' name and logo in marketing materials. The THL Party, or Affiliates of the THL Party, as applicable, shall include a trademark attribution notice giving notice of the Company's ownership of its trademarks in the marketing materials in which the Company's or any of its Subsidiaries' name and logo appear.

Section 19. Descriptive Headings. The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

Section 20. Conflicting Agreements. Other than with respect to proxies or powers of attorney that the THL Party may have granted or grant to an Affiliate of the THL Party, each Stockholder represents and warrants that such Stockholder has not granted and is not a party to any proxy, voting trust or other agreement which conflicts with any provision of this Agreement, and no holder of Stock shall grant any proxy or become party to any voting trust or other agreement which conflicts with any provision of this Agreement.

Section 21. Counterparts. This Agreement may be executed in separate counterparts each of which shall be an original and all of which taken together shall constitute one and the same agreement.

[*Remainder of Page Intentionally Left Blank*]

IN WITNESS WHEREOF, the parties hereto have executed this Second Amended and Restated Stockholders Agreement as of the day and year first written above.

PARTY CITY HOLDCO INC.

By: /s/ Daniel Sullivan
Name: Daniel Sullivan
Title: Chief Financial Officer

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

THE THL PARTY:

THL PC TOPCO, L.P.

By: THL Equity Advisors VI, LLC,
its general partner

By: Thomas H. Lee Partners, L.P.,
its sole member

By: Thomas H. Lee Advisors, LLC,
its general partner

By: THL Holdco, LLC,
its managing member

By: /s/ Todd M. Abbrecht
Name: Todd M. Abbrecht
Title: Managing Director

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

CHARLES ARTHUR RITTENBERG 2008 TRUST

By: /s/ Gerald C. Rittenberg
Name: Gerald C. Rittenberg
Title: Trustee

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

JACK DOLLIVER RITTENBERG 2013 TRUST

By: /s/ Gerald C. Rittenberg
Name: Gerald C. Rittenberg
Title: Trustee

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

Table of Contents

MANAGEMENT HOLDER:

THEODORE FREDERICK RITTENBERG 2014 TRUST

By: /s/ Gerald C. Rittenberg
Name: Gerald C. Rittenberg
Title: Trustee

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

CRAIG M. RITTENBERG SELF-SETTLED TRUST U/A/D JUNE 28, 2008

By: /s/ Gerald C. Rittenberg
Name: Gerald C. Rittenberg
Title: Trustee

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

GARRETT J. RITTENBERG SELF-SETTLED TRUST U/A/D JUNE 28, 2008

By: /s/ Gerald C. Rittenberg
Name: Gerald C. Rittenberg
Title: Trustee

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

GERALD C. RITTENBERG

/s/ Gerald C. Rittenberg
Gerald C. Rittenberg

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

BJM 2 LLC

By: /s/ James M. Harrison
Name: James M. Harrison
Title: Managing Member

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

RITTS ENTERPRISES LLC

By: /s/ Gerald Rittenberg
Name: Gerald Rittenberg
Title: Managing Member

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

JAMES M. HARRISON

/s/ James M. Harrison

James M. Harrison

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

/s/ Gregg Melnick

Gregg Melnick

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

MELNICK 2008 FAMILY TRUST

By: /s/ Gregg Melnick
Name: Gregg Melnick
Title: Trustee

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

/s/ Diane Spaar

Diane Spaar

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

ETHAN REES SPAAR IRREVOCABLE TRUST

By: /s/ Diane Spaar
Name: Diane Spaar
Title: Trustee

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

JULIA ROSE SPAAR IRREVOCABLE TRUST

By: /s/ Diane Spaar
Name: Diane Spaar
Title: Trustee

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

KEITH ALAN SPAAR JR. IRREVOCABLE TRUST

By: /s/ Diane Spaar
Name: Diane Spaar
Title: Trustee

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

WILLA ANNE SPAAR IRREVOCABLE TRUST

By: /s/ Diane Spaar
Name: Diane Spaar
Title: Trustee

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

/s/ Steven Skiba
Steven Skiba

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

MANAGEMENT HOLDER:

/s/ Michael Correale

Michael Correale

[SIGNATURE PAGE TO STOCKHOLDERS AGREEMENT]

Exhibit 10.23

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (" **Agreement** "), dated as of December 28, 2018, by and between Party City Holdings Inc., a Delaware corporation (the " **Company** "), Party City Holdco Inc., a Delaware corporation (" **Holdco** "), and Michael P. Harrison (the " **Executive** ") and effective as of December 17, 2018 (the " **Effective Date** ").

WHEREAS, the Company, Holdco and the Executive desire to set forth in this Agreement the terms and conditions under which the Executive will continue to be employed as the Senior Vice President and General Manager of the North American Consumer Products Division of the Company and Holdco effective as of the Effective Date.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Employment Period . The Company and Holdco shall employ the Executive, and the Executive agrees to, and shall, serve the Company and Holdco, on the terms and conditions set forth in this Agreement, for the period beginning on the Effective Date and ending on December 31, 2020, unless sooner terminated as set forth hereinafter (the " **Employment Period** ").

2. Position and Duties .

(a) During the Employment Period, the Executive shall serve as the Senior Vice President and General Manager of the North American Consumer Products Division of the Company and of Holdco with such duties and responsibilities as are assigned to him by the bylaws or Board of Directors of Holdco (the " **Board** ") or the Chief Executive Officer of the Company (the " **CEO** ") consistent with his position as Senior Vice President and General Manager of the North American Consumer Products Division of the Company and Holdco, including, as the Board or the CEO may request, without additional compensation, to serve as an officer or director of certain of the subsidiaries and other affiliates of Holdco and/or the Company. During the Employment Period, the Executive shall report to the CEO.

(b) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive shall devote his full attention and time during normal business hours to the business and affairs of the Company and Holdco and shall use his reasonable best efforts to carry out the responsibilities assigned to the Executive faithfully and efficiently. It shall not be considered a violation of the foregoing for the Executive to (i) serve on civic or charitable boards or committees, (ii) deliver lectures, fulfill speaking engagements or teach at educational institutions, (iii) serve on the board of directors of other companies, so long as the Board approves such appointments (such approval not to be unreasonably withheld), or (iv) manage personal investments, so long as such activities do not compete with and are not provided to or for any entity that competes with or intends to compete with the Company, Holdco or any of their respective subsidiaries and affiliates and do not interfere with the performance of the Executive's responsibilities as an employee of the Company or Holdco in accordance with this Agreement.

3. Compensation .

(a) Base Salary . During the Employment Period, the Executive shall receive from the Company an annual base salary of $400,000.00 (as such amount may be increased from time to time, in the sole discretion of the Board or the Compensation Committee of the Board (the " **Committee** "), the " **Annual Base Salary** "), payable in regular intervals in accordance with the Company's customary payroll practices in effect during the Employment Period.

(b) Annual Bonus . In addition to the Annual Base Salary, during the Employment Period, the Executive shall be eligible to receive annual bonus compensation (the " **Annual Bonus** ") consistent with the Company's bonus plan for key executives as in effect from time to time (the " **Bonus Plan** "). The Annual Bonus (including any pro rata portion thereof, to the extent payable under this Agreement), if any, shall be paid no later than two and one-half months following the end of the calendar year to which such Annual Bonus corresponds. During the Employment Period, the target amount of the Annual Bonus shall be 55% of the Annual Base Salary (the " **Target Bonus Amount** ") and the maximum amount of the Annual Bonus shall be 100% of the Annual Base Salary, with the actual amount of the Annual Bonus, if any, to be determined by the Board or the Committee in accordance with the Bonus Plan. Except as otherwise provided in Section 5 of this Agreement, for any year during which the Executive is employed by the Company and Holdco for less than the entire calendar year (including a year in which the Executive's employment is terminated), the Annual Bonus, if any, shall be determined based on actual performance, pro-rated for the period during which the Executive was employed during such calendar year (based on the number of days in such calendar year the Executive was so employed divided by 365), as determined in good faith by the Board or the Committee.

(c) Other Benefits; Car Allowance . During the Employment Period: (i) the Executive shall be eligible to participate in all incentive, savings and retirement plans, practices, policies and programs of the Company and shall be entitled to paid vacation, to the same extent and on the same terms and conditions as peer executives; and (ii) the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in, and shall receive all benefits under, all other welfare benefit plans, practices, policies and programs provided by the Company (including, to the extent provided, without limitation, medical, prescription, dental, disability, employee life insurance, group life insurance, accidental death and travel accident insurance plans and programs) to the same extent and on the same terms and conditions as peer executives. The term "peer executives" means the Executive Chairman, Chief Executive Officer and Senior Vice Presidents of the Company, if such positions exist, and if such positions do not exist, the definition of the term "peer executives" shall be determined by the Board or the Committee in good faith. During the Employment Period, the Company will pay the Executive a monthly car allowance equal to $600, which will be paid not later than thirty (30) days after the end of the month to which it relates.

(d) Incentive Equity Grants . The Executive is eligible to receive incentive equity grants under the Company's new equity compensation program for senior executives, subject to the terms of such program as in effect from time to time and with any grants under such program in the discretion of the Board or the Committee.

(e) Expenses . During the Employment Period, the Executive shall be entitled to receive reimbursement for all reasonable travel and other expenses incurred by the Executive in carrying out the Executive's duties under this Agreement; provided that the Executive complies with the policies, practices and procedures of the Company for submission of expense reports, receipts, or similar documentation of such expenses.

(f) Indemnification . During and after the Employment Period, the Executive shall be entitled to all rights to indemnification available under the by-laws or certificate of incorporation of Holdco and the Company, or to which he may otherwise be entitled, through the Company, Holdco and/or any of their respective subsidiaries and affiliates, in accordance with their respective terms.

4. Termination of Employment.

(a) Death or Permanent Disability . The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. The Company or Holdco shall be entitled to terminate the Executive's employment because of the Executive's Permanent Disability during the Employment Period. **" Permanent Disability** " means that the Executive (i) is unable to perform his duties under this Agreement by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Company; or (iii) has been determined to be totally disabled by the Social Security Administration. A termination of the Executive's employment by the Company or Holdco for Permanent Disability shall be communicated to the Executive by written notice and shall be effective on the 30th day after receipt of such notice by the Executive (the " **Disability Effective Date** "), unless the Executive returns to full-time performance of the Executive's duties in accordance with the provisions of Section 2 before such 30th day. In the event of a dispute as to whether the Executive has suffered a Permanent Disability, the final determination shall be made by a licensed physician selected by the Board and acceptable to the Executive in the Executive's reasonable judgment.

(b) Other than Death or Disability . The Company or Holdco may terminate the Executive's employment at any time during the Employment Period with or without Cause upon notice to the Executive.

(c) Good Reason . The Executive may terminate his employment at any time during the Employment Period for Good Reason, upon prior written notice to the Company setting forth in reasonable detail the nature of such Good Reason, as set forth below. For purposes of this Agreement, " **Good Reason** " is defined as any one or more of the following: any attempt to relocate the Executive to a work location that is more than 100 miles from the Company's offices in Elmsford, New York; any material diminution in the nature or scope of the Executive's responsibilities or duties as defined under this Agreement (provided that a change in reporting relationships resulting from the direct or indirect control of the Company or Holdco (or a successor corporation) by another corporation or other person(s) shall not be deemed to

constitute "Good Reason"); any material breach by the Company or any affiliate of the Company of any provision of this Agreement or any other written agreement with the Executive, which breach is not cured within twenty (20) days following written notice by the Executive to the Company; or any material failure of the Company to provide the Executive with at least the Annual Base Salary and/or any other compensation or benefits in accordance with the terms of Section 3 hereof, other than an inadvertent failure which is cured within ten (10) business days following written notice from the Executive specifying in reasonable detail the nature of such failure. Notwithstanding the foregoing, the appointment of an interim executive responsible for management of North American Consumer Products Division of the Company and of Holdco during and for any period of the Executive's disability (which may potentially result in a Permanent Disability) will not be considered " **Good Reason** " (so long as the Executive continues to be compensated pursuant to the terms of this Agreement), until the occurrence of a Permanent Disability as defined in Section 4(a). The Executive's employment will only be deemed to have been terminated for Good Reason if he gives written notice to the Company setting forth in reasonable detail the nature of such Good Reason, and terminates employment within sixty (60) days of the date of the later of the first occurrence and the Executive's knowledge of the circumstances giving rise to Good Reason (to the extent the Company has not previously cured the circumstances giving rise to Good Reason).

(d) Change in Control. If there occurs a " **Change in Control** " (as hereinafter defined) during the Employment Period, and the Executive is not offered employment on substantially similar terms by Holdco or one of its continuing affiliates immediately thereafter, then, for all purposes of this Agreement, the Executive's employment shall be deemed to have been terminated by the Company in a manner qualifying as a " **Change in Control Termination** " effective as of the date of such Change in Control; provided , however , that neither the Company nor Holdco shall have any obligation to the Executive under this Section 4 if the Executive is hired or offered employment on substantially similar terms by the purchaser of the stock or assets of Holdco or the Company, if the Executive's employment hereunder is continued by Holdco or one of its continuing affiliates, or if the Executive does not actually terminate employment. Further, if the Company terminates the Executive's employment without Cause or the Executive terminates his employment for Good Reason, in either case, within six (6) months prior to, or twenty-four (24) months following, the consummation of such Change in Control (the " **Change in Control Protection Period** "), the Executive shall be deemed to have had a Change in Control Termination. As used herein, a " **Change in Control** " shall be deemed to have occurred solely upon the occurrence of any of the following events:

(i) a change in the ownership of Holdco within the meaning of Treasury Regulation Section 1.409A-3(i)(5)(v) as in effect on the date hereof; or

(ii) a change in the ownership of all or substantially all of Holdco's assets within the meaning of Treasury Regulation Section 1.409A-3(i)(5)(vii) as in effect on the date hereof.

Notwithstanding anything to the contrary set forth in d(i) or (ii) hereinabove, no Change in Control shall be deemed to have occurred so long as affiliates of Thomas H. Lee Partners continue to own at least 50% of the stock of Holdco in the aggregate.

(e) Date of Termination . The " **Date of Termination** " means the date of the Executive's death, the Disability Effective Date or the date on which the termination of the Executive's employment by the Company and Holdco, or by the Executive, is effective, as the case may be, including by reason of the expiration of the Employment Period.

5. Obligations of the Company Upon Termination .

(a) By the Company Upon the Executive ' s Death or Permanent Disability . If the Executive dies during the Employment Period or the Company or Holdco terminates the Executive's employment due to the Executive's Permanent Disability, the Company shall pay the Executive or his legal representative:

(i) the Executive's accrued but unpaid cash compensation (the " **Accrued Obligations** "), which shall equal the sum of (1) any portion of the Executive's Annual Base Salary through the Date of Termination that has not yet been paid; (2) any Annual Bonus that the Executive has earned for a prior full calendar year that has ended prior to the Date of Termination but which has not yet been calculated and paid; (3) any accrued but unpaid vacation pay and (4) any unreimbursed expenses incurred prior to the Date of Termination, including any then unreimbursed car allowance for each month or partial month of employment; and

(ii) a pro rata Annual Bonus for the year of death or termination, calculated and paid in accordance with Section 3(b).

The Accrued Obligations shall be paid in cash within thirty (30) days of the Date of Termination (other than the amount described in clause (2) of the definition of Accrued Obligations, which shall be paid in accordance with Section 3(b)). Notwithstanding anything to the contrary set forth herein, the Executive shall not be entitled to any payment pursuant to clause (ii) of this Section 5(a) unless the Executive (or the Executive's beneficiary previously designated in writing to the Company or, if no such beneficiary has been so designated, the Executive's estate, as applicable) shall have, at the written request of the Company or Holdco, executed a release of any and all legal claims substantially in the form attached hereto as Exhibit A (which form may be modified by the Company to the extent necessary to reflect execution by a person other than the Executive) (the " **Release** ") no later than twenty-one (21) days (or, if so instructed by the Company, forty-five (45) days) following the Date of Termination (which period shall be sixty-five (65) days following the Date of Termination in the case of a termination of the Executive's employment due to his death) and shall not have revoked the Release in accordance with its terms. The Company shall provide the final Release promptly in connection with any termination of the Executive's employment hereunder.

(b) By the Company for Cause. If the Executive's employment is terminated by the Company or Holdco for "Cause" (as hereinafter defined), then the Executive shall be entitled to only the payment of the Accrued Obligations which shall be paid to the Executive in cash in a lump sum within thirty (30) days of the Date of Termination (other than the amount described in clause (2) of the definition of Accrued Obligations, which shall be paid in accordance with Section 3(b)) and neither the Company nor Holdco shall have any further obligation under this Agreement, except as expressly provided herein. For purposes of this

Agreement, " **Cause** " shall mean (1) conviction of the Executive by a court of competent jurisdiction of a felony (excluding felonies under any state or local vehicle and traffic code); (2) any act of intentional fraud in connection with his duties under this Agreement; (3) any act of gross negligence or willful misconduct with respect to the Executive's duties under this Agreement and (4) any act of willful disobedience in violation of specific reasonable directions of the Board or the CEO consistent with the Executive's duties; provided , in the case of clause (3) or (4), that the Executive has not cured the circumstances giving rise to "Cause" within fifteen (15) days of the date the Company gives notice to the Executive of its intent to terminate his employment on such basis.

(c) By the Company for any reason other than Cause or by the Executive for Good Reason . If the Executive's employment is terminated during the Employment Period (i) by the Company or Holdco other than for Cause, death or Permanent Disability or (ii) by the Executive for Good Reason, in each case, except if such termination is a Change in Control Termination, the Company shall pay to the Executive (A) the Accrued Obligations, paid in cash within thirty (30) days of the Date of Termination (other than the amount described in clause (2) of the definition of Accrued Obligations, which shall be paid in accordance with Section 3(b)); (B) a pro rata Annual Bonus for the year of termination, calculated and paid in accordance with Section 3(b); and (C) a severance payment (the " **Severance Payment** "), in an amount equal to the Executive's then current Annual Base Salary. The Severance Payment shall be payable in cash in the form of salary continuation over the twelve (12) months following the Date of Termination, with the first payment(s) being payable in arrears on the date that is sixty (60) days following the Date of Termination. Notwithstanding anything to the contrary set forth herein, the Executive shall not be entitled to any payment pursuant to clauses (B) or (C) of this Section 5(c) unless the Executive shall have executed the Release not later than twenty-one (21) days (or, if so instructed by the Company, forty-five (45) days) following the Date of Termination and shall not have revoked the Release in accordance with its terms. The Company shall provide the final Release promptly in connection with any termination of the Executive's employment hereunder.

(d) Change in Control Termination . Notwithstanding anything to the contrary set forth herein, in the event of a Change in Control Termination:

(i) the Company shall pay to the Executive the Accrued Obligations;

(ii) the Company shall pay to the Executive:

(A) an amount equal to two (2) times the sum of (1) Executive's then current Annual Base Salary and (2) the target Annual Bonus,

(B) an amount equal to a pro rata Annual Bonus for the year of termination, calculated and paid in accordance with Section 3(b), and

(C) provided that the Executive timely elects to continue his coverage in the Company's group health plan under the federal law known as "COBRA", a monthly amount equal to that portion of the monthly health premiums for such coverage paid by the Company on behalf of the Executive prior to the date of the Change in Control Termination until the date that is twelve (12) months following the date of the Change in Control Termination (the " **Health Continuation Benefits** "); and

(iii) any stock options, restricted stock, restricted stock units, performance stock units or similar awards granted on or after January 1, 2014 (or any awards or rights issued in exchange for such grants in connection with a Change in Control or otherwise) shall be treated as follows: (A) such awards or rights that vest solely based on the Executive's continued service over time shall immediately become fully vested as of the date of the Change in Control Termination and (B) such awards or rights that vest upon the occurrence of specified performance metrics, shall be treated as earned and vest as follows: (1) if the full performance period has elapsed as of the date of the Change in Control Termination, such awards and rights shall be earned based on actual achievement of the applicable performance goals, as provided in the applicable award agreement and shall immediately become vested without pro-ration and (2) otherwise, such awards and rights shall be earned based on assumed achievement of the applicable performance goals at 100% of the performance target, as provided in the applicable award agreement, and shall immediately vest as to a prorated portion of each such award or right based on the number of days of the Executive's actual employment or other service with the Company prior to the Change in Control Termination during the applicable full performance period; provided, that, if the Executive does not experience a Change in Control Termination prior to the end of the applicable original performance period, such awards and rights shall be earned based on assumed achievement of the applicable performance goals at 100% of the performance target, as provided in the applicable award agreement, and shall be eligible to vest as of the last day of the applicable original performance period without pro-ration, subject to the terms of the applicable award agreement. Any stock options, restricted stock, restricted stock units, performance stock units or similar awards granted on or after January 1, 2014 (or any awards or rights issued in exchange for such grants in connection with a Change in Control or otherwise) that do not vest after application of the preceding sentence shall be immediately forfeited without payment due thereon. For the avoidance of doubt, upon the occurrence of a Change in Control Termination, the vesting of any stock option granted prior to January 1, 2014 (or awards or rights issued in exchange therefor) shall be determined pursuant to the terms of the applicable award agreement.

Notwithstanding the foregoing, in the event that the Health Continuation Benefits would subject the Executive or the Company to any tax or penalty under the ACA or Section 105(h) of the Code (as defined below), or applicable subsequent regulations, guidance or successor statutes, the Executive and the Company agree to work together in good faith to restructure the Health Continuation Benefits in a manner that avoids such adverse consequences. All amounts payable hereunder (except the Annual Bonus which is payable in accordance with Section 3(b), the Accrued Obligations, which shall be calculated and paid in a lump sum in cash within thirty (30) days of the date of the Change in Control Termination and the Health Continuation Benefits, which shall be paid as described above in this Section 5(d)) shall be paid in cash in a lump sum on the date that is the later of sixty (60) days following the date of the Change in Control Termination or sixty (60) days following the consummation of the Change in Control (except that, if the Change in Control Termination occurs due to a qualifying termination within six (6) months prior to a Change in Control, such payment will be made over the twenty-four (24) months following the Date of Termination, with the first payment(s) being payable in arrears on the date that is sixty (60) days following the Date of Termination). Notwithstanding anything to

the contrary set forth herein, the Executive shall not be entitled to any payment or benefit pursuant to clauses (ii) or (iii) of this Section 5(d) unless the Executive shall have, at the written request of the Company or Holdco, executed the Release no later than twenty-one (21) days (or, if so instructed by the Company, forty-five (45) days) following the date of the Change in Control Termination and shall not have revoked such release in accordance with its terms.

(e) By the Executive other than for Good Reason . If during the Employment Period the Executive terminates his employment with the Company and Holdco other than for Good Reason, the Company shall pay the Accrued Obligations to the Executive in a lump sum in cash within thirty (30) days of the Date of Termination (other than the amount described in clause (2) of the definition of Accrued Obligations, which shall be paid in accordance with Section 3(b)) and neither the Company nor Holdco shall have any further obligation under this Agreement except as expressly provided herein.

(f) Expiration of the Term . Unless otherwise terminated pursuant to any of the foregoing clauses of this Section 5, the Executive's employment hereunder will automatically terminate at the expiration of the Employment Period and the Company shall pay to the Executive the Accrued Obligations; provided, however, that if the Company allows the Executive's employment to terminate due to an expiration of the Employment Period occurring during the Change in Control Protection Period, the Executive will be deemed to have had a Change in Control Termination and will be entitled to the payments and benefits described in Section 5(d) above and shall not otherwise receive payment under this Section 5(f). The Accrued Obligations shall be paid to the Executive in a lump sum in cash within thirty (30) days of the Date of Termination (other than the amount described in clause (2) of the definition of Accrued Obligations, which, for the avoidance of doubt, shall be the Annual Bonus for the calendar year in which the Employment Period expires and which shall be paid in accordance with Section 3(b)). Upon expiration of the Employment Period, no Severance Payment will be due and no further Restriction Period shall apply.

6. Section 409A . The parties intend for the compensation provided under this Agreement to comply with, or be exempt from, the provisions of Section 409A of the Internal Revenue Code of 1986, as amended (the " **Code** ") (together with the regulations thereunder, " **Section 409A** "). Notwithstanding the foregoing, in no event shall the Company, Holdco or any of their respective affiliates have any liability to the Executive or to any other person claiming rights under this Agreement relating to the failure or alleged failure of any payment or benefit under this Agreement to comply with, or be exempt from, the provisions of Section 409A.

(a) Definitions . For purposes of this Agreement, all references to "termination of employment" and similar or correlative phrases shall be construed to require a "separation from service" (as defined in Section 1.409A-1(h) of the Treasury regulations after giving effect to the presumptions contained therein), and the term "specified employee" means an individual determined by Holdco to be a specified employee under Treasury regulation Section 1.409A-1(i).

(b) Certain Delayed Payments . If any payment or benefit hereunder constituting "nonqualified deferred compensation" subject to Section 409A would be subject to subsection (a)(2)(B)(i) of Section 409A (relating to payments made to "specified employees" of

publicly-traded companies upon separation from service), any such payment or benefit to which the Executive would otherwise be entitled during the six (6) month period following the Executive's separation from service will instead be provided or paid without interest on the first business day following the expiration of such six (6) month period, or if earlier, the date of the Executive's death.

(c) Separate Payments . Each payment made under this Agreement shall be treated as a separate payment.

(d) Reimbursements . Notwithstanding anything to the contrary in this Agreement, any reimbursement that constitutes or could constitute nonqualified deferred compensation subject to Section 409A will be subject to the following additional requirements: (i) the expenses eligible for reimbursement will have been incurred during the term of this Agreement, (ii) the amount of expenses eligible for reimbursement during any calendar year will not affect the expenses eligible for reimbursement in any other taxable year; (iii) reimbursement will be made not later than December 31 of the calendar year following the calendar year in which the expense was incurred; and (iv) the right to reimbursement will not be subject to liquidation or exchange for any other benefit.

7. Full Settlement . The Company's obligations to make the payments provided for in, and otherwise to perform its obligations under, this Agreement shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced, regardless of whether the Executive obtains other employment.

8. Confidential Information . The Executive shall hold in a fiduciary capacity for the benefit of the Company and Holdco all secret or confidential information, knowledge or data relating to the Company, Holdco or any of their affiliates and their respective businesses that the Executive obtains during the Executive's employment by the Company and Holdco (whether before, during or after the Employment Period) and that is not public knowledge (other than as a result of the Executive's violation of this Section 8) (" **Confidential Information** "). The Executive shall not communicate, divulge or disseminate Confidential Information at any time during or after the Executive's employment with the Company and Holdco, except with the prior written consent of the Company or as otherwise required by law. For the avoidance of doubt, (a) nothing contained in this Agreement or any other agreement containing confidentiality provisions or other restrictive covenants in favor of any of Holdco, the Company or any affiliate of either of them, restricts or in any other way affects the Executive's communicating with any governmental agency or entity, or communicating with any official or staff person of a governmental agency or entity, concerning matters relevant to the governmental agency or entity and (b) the Executive will not be held criminally or civilly liable under any federal or state trade secret law for disclosing a trade secret (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney, solely for the purpose of reporting or investigating a suspected violation of law, or (ii) in a complaint or other document filed under seal in a lawsuit or other proceeding; provided that notwithstanding this immunity from liability, the Executive may be held liable if the Executive unlawfully accesses trade secrets by unauthorized means.

9. Noncompetition; Nonsolicitation .

(a) Noncompetition . During the Employment Period, and following termination of the Executive's employment with the Company, Holdco and any of their affiliates, during the "Restriction Period" (as hereinafter defined), the Executive shall not directly or indirectly participate in or permit his name directly or indirectly to be used by or become associated with (including as an advisor, representative, agent, promoter, independent contractor, provider of personal services or otherwise) any person, corporation, partnership, firm, association or other enterprise or entity (a "person") that is, or intends to be, engaged in any business which is in competition with any business of the Company, Holdco or any of their respective subsidiaries or affiliates in any geographic area in which the Company, Holdco or any of their respective subsidiaries or affiliates operate, compete or are engaged in such business or at such time intend so to operate, compete or become engaged in such business (a " **Competitor** "); provided , however , that the foregoing will not prohibit the Executive from participating in or becoming associated with a person if (i) less than 10% of the consolidated gross revenues of such person, together with its affiliates, derive from activities or businesses that are in competition with any business of the Company or any of its subsidiaries or affiliates (a " **Competitive Business** ") and (ii) the Executive does not, directly or indirectly, participate in, become associated with, or otherwise have responsibilities that relate to the conduct or operations of, any Competitive Business that is conducted by such person or a division, group, or subsidiary or affiliate of such person. For purposes of this Agreement, the term "participate" includes any direct or indirect interest, whether as an officer, director, employee, partner, sole proprietor, trustee, beneficiary, agent, representative, independent contractor, consultant, advisor, provider of personal services, creditor, or owner (other than by ownership of less than five percent of the stock of a publicly-held corporation whose stock is traded on a national securities exchange or in an over-the-counter market).

(b) Nonsolicitation . During the Employment Period, and during the Restriction Period following termination of employment, the Executive shall not, directly or indirectly, encourage or solicit, or assist any other person or firm in encouraging or soliciting, any person or firm that during the three-year period preceding such termination of the Executive's employment with the Company and Holdco (or, if such action occurs during the Employment Period, on the date such action was taken) is or was engaged in a business relationship with the Company or Holdco, any of their respective subsidiaries or affiliates to terminate its relationship with the Company or Holdco or any of their respective subsidiaries or affiliates or, in the case of any such person, to engage in a business relationship with a Competitor.

(c) No Hire . During the Employment Period, and during the Restriction Period following termination of employment, the Executive will not, except with the prior written consent of the Company, directly or indirectly, induce any employee of the Company, Holdco or any of their respective subsidiaries or affiliates to terminate employment with such entity, and will not, directly or indirectly, either individually or as owner, agent, employee, consultant or otherwise, employ, offer employment or cause employment to be offered to any

person (including employment as an independent contractor) who is or was employed by the Company, Holdco or any of their respective subsidiaries or affiliates unless such person shall have ceased to be employed by such entity for a period of at least twelve months. For purposes of this Section 9(c), "employment" shall be deemed to include rendering services as an independent contractor and "employees" shall be deemed to include independent contractors.

(d) Restriction Period. The term " **Restriction Period"** as used herein, shall mean the one-year period (except, in the case of a Change in Control Termination (or a deemed Change in Control Termination under Section 5(f)), in which case such period shall be the two-year period) immediately following the Date of Termination (other than a termination at the expiration of the Employment Period).

(e) Return of Confidential Information . Promptly following the Executive's termination of employment, including due to expiration of the Employment Period, the Executive shall return to the Company all property of the Company, Holdco and their respective subsidiaries and affiliates, and all copies thereof, in the Executive's possession or under his control, including, without limitation, all Confidential Information in whatever media such Confidential Information is maintained.

(f) Injunctive Relief . The Executive acknowledges and agrees that the Restriction Period and the covenants and obligations of the Executive in Section 8 and this Section 9 with respect to noncompetition, nonsolicitation and confidentiality and with respect to the property of the Company and its subsidiaries and affiliates, and the territories covered thereby, are fair and reasonable and the result of negotiation. The Executive further acknowledges and agrees that the covenants and obligations of the Executive in Section 8 and this Section 9 with respect to noncompetition, nonsolicitation and confidentiality and with respect to the property of the Company, Holdco and their respective subsidiaries and affiliates, and the territories covered thereby, relate to special, unique and extraordinary matters and that a violation of any of the terms of such covenants and obligations will cause the Company, Holdco and their respective subsidiaries and affiliates irreparable injury for which adequate remedies are not available at law. Therefore, the Executive agrees that the Company and Holdco shall be entitled to an injunction, restraining order or such other equitable relief as a court of competent jurisdiction may deem necessary or appropriate to restrain the Executive from committing any violation of such covenants and obligations. These injunctive remedies are cumulative and are in addition to any other rights and remedies the Company and Holdco may have at law or in equity. If, at the time of enforcement of Section 8 and/or this Section 9, a court holds that any of the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope, and/or geographical area legally permissible under such circumstances will be substituted for the period, scope and/or area stated herein.

10. Successors .

(a) This Agreement is personal to the Executive and shall not be assignable by the Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives and heirs and successors.

(b) This Agreement shall inure to the benefit of and be binding upon Holdco, the Company and their respective successors and assigns.

11. Section 280G . In the event that the Company undergoes a change in control at a time when it (or any affiliate of the Company, including Holdco, that would be treated, together with the Company, as a single corporation under Section 280G of the Code and the regulations thereunder) has stock that is readily tradeable on an established securities market (within the meaning of Section 280G of the Code and the regulations thereunder), if all, or any portion, of the payments provided under this Agreement, either alone or together with other payments or benefits which the Executive receives or is entitled to receive from the Company or an affiliate, could constitute an "excess parachute payment" within the meaning of Section 280G of the Code, then the Executive shall be entitled to receive (i) an amount limited so that no portion thereof shall fail to be tax deductible under Section 280G of the Code (the " **Limited Amount** "), or (ii) if the amount otherwise payable hereunder, together with the other payments or benefits the Executive is so entitled to receive, (without regard to clause (i)) reduced by the excise tax imposed by Section 4999 of the Code and all other applicable federal, state and local taxes (with income taxes all computed at the highest applicable marginal rate) is greater than the Limited Amount reduced by all taxes applicable thereto (with income taxes all computed at the highest marginal rate), the amount otherwise payable hereunder. If it is determined that the Limited Amount will maximize the Executive's after-tax proceeds, payments and benefits shall be reduced to equal the Limited Amount in the following order: (i) first, by reducing cash severance payments, (ii) second, by reducing other payments and benefits to which Q&A 24(c) of Section 1.280G-1 of the Treasury Regulations does not apply, and (iii) finally, by reducing all remaining payments and benefits, with all such reductions done on a pro rata basis. All determinations made pursuant this Section 11 will be made at the Company's expense by the independent public accounting firm most recently serving as the Company's outside auditors or such other accounting or benefits consulting group or firm as the Company may designate.

12. Miscellaneous .

(a) This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective heirs, successors and legal representatives.

(b) All notices and other communications under this Agreement shall be in writing and shall be given by hand delivery to the other party or by overnight courier or by registered or certified mail, return receipt requested, postage prepaid, or by facsimile (with receipt confirmation), addressed as follows:

If to the Executive:	Michael Harrison At his most recent address shown in the Company's records

If to the Company:	Party City Holdings Inc. 80 Grasslands Road Elmsford, NY 10523 Attention: Corporate Secretary Fax no.: (914) 345-2056

or to such other address as either party furnishes to the other in writing in accordance with this Section 12(b). Notices and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) Notwithstanding any other provision of this Agreement, the Company may withhold from amounts payable under this Agreement all federal, state, local and foreign taxes that are required to be withheld by applicable laws or regulations. In addition, the obligations of the Company under this Agreement shall be conditional on compliance with this Section 12(d), and the Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Executive.

(e) Any party's failure to insist upon strict compliance with any provision of, or to assert any right under, this Agreement shall not be deemed to be a waiver of such provision or right or of any other provision of or right under this Agreement.

(f) The Executive acknowledges that this Agreement, together with the Exhibit hereto and the other agreements referred to herein except as modified herein or therein, supersedes all other agreements and understandings, both written and oral, between the Executive, on one hand, and the Company and Holdco, on the other, with respect to the subject matter hereof, including, without limitation, the Prior Employment Agreement and any amendments or restatements thereto. Upon effectiveness of this Agreement, the Prior Employment Agreement and any amendments or restatements thereto shall terminate and be of no further force and effect.

(g) This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which shall together constitute one and the same instrument.

(h) Provisions of this Agreement shall survive any termination of employment if so provided herein or if necessary or desirable to accomplish the purposes of other surviving provisions, including, without limitation, the obligations of the Executive under Sections 8 and 9 hereof.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF , the Executive has hereunto set the Executive's hand and, pursuant to the authorization of their respective boards of directors, the Company and Holdco have each caused this Agreement to be executed in its name on its behalf, all as of the day and year first above written.

PARTY CITY HOLDINGS INC.

By: /s/ Daniel J. Sullivan
Name: Daniel J. Sullivan
Title: CFO

PARTY CITY HOLDCO INC.

By: /s/ Daniel J. Sullivan
Name: Daniel J. Sullivan
Title: CFO

/s/ Michael P. Harrison
MICHAEL P. HARRISON

[Signature Page to Employment Agreement]

Exhibit A

FORM OF RELEASE OF CLAIMS

This Release of Claims is provided by me, Michael P. Harrison (or by my designated beneficiary or estate, in the event of my death during my employment), pursuant to the Employment Agreement between me, Party City Holdings, Inc. (the "Company") and Party City Holdco Inc. ("Holdco") dated as of ____________________(the "Employment Agreement").

This Release of Claims is given in consideration of the severance benefits to be provided to me (or, in the event of my death during my employment, to my designated beneficiary) in connection with the termination of my employment under Section 5 of the Employment Agreement (the "Separation Payments"), which are conditioned on my signing this Release of Claims and to which I am not otherwise entitled, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged. On my own behalf and that of my heirs, executors, administrators, beneficiaries, representatives and assigns, and all others connected with or claiming through me, I hereby release and forever discharge the Company from any and all causes of action, rights or claims of any type or description, known or unknown, which I have had in the past, now have or might have, through the date of my signing of this Release of Claims. This includes, without limitation, any and all causes of action, rights or claims in any way resulting from, arising out of or connected with my employment by the Company or the termination of that employment or pursuant to any federal, state or local law, regulation or other requirement, including without limitation Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the fair employment practices statutes of the state or states in which I have provided services to the Company or any other federal, state, local or foreign law, all as amended, any contracts of employment, any tort claims, or any agreements, plans or policies.

For purposes of this Release of Claims, the word "Company" always includes the Company, Holdco the subsidiaries and affiliates of the Company or Holdco and all of their respective past, present and future officers, directors, trustees, shareholders, employees, employee benefit plans and any of the trustees or administrators thereof, agents, general and limited partners, members, managers, investors, joint venturers, representatives, predecessors, successors and assigns, and all others connected with any of them, both individually and in their official capacities.

Nothing in this Release of Claims shall be construed to prohibit me from filing a charge with or participating in any investigation or proceeding conducted by the federal Equal Employment Opportunity Commission or a comparable state or local agency, except that I hereby agree to waive my right to recover monetary damages or other individual relief in any charge, complaint or lawsuit filed by me or by anyone else on my behalf.

Nothing in this Release of Claims is intended to or does waive or release any rights I may have with respect to (i) coverage under liability insurance or indemnification rights provided or maintained by the Company during, or applicable to, my employment with the Company, or

under any other obligation or policy of insurance maintained by the Company in accordance with their respective terms; (ii) any other defense or indemnity right under applicable law; (iii) the enforcement of the right to any payment or benefits due upon the termination of my employment in accordance with the express terms of the Employment Agreement or (iv) any right or claim that cannot, by law, be waived or released through this Release of Claims.

Also excluded from the scope of this Release of Claims is any right to benefits that were vested or eligible for continuation under the Company's employee benefit plans on the date on which my employment with the Company terminated, in accordance with the terms of such plans.

In signing this Release of Claims, I give the Company assurance that I have returned to the Company any and all documents, materials and information related to the business, whether present or otherwise, of the Company and all keys and other property of the Company that were in my possession or control, all as required by and consistent with Section 9(e) of the Employment Agreement. I agree that I will not, for any purpose, attempt to access or use any computer or computer network or system of the Company, including without limitation their electronic mail systems. I further acknowledge that I have disclosed to the Company all passwords necessary or desirable to enable the Company to access all information which I have password-protected on its computer network or system.

In signing this Release of Claims, I agree that I have been paid in full all compensation due to me, whether for services rendered by me to the Company or otherwise, through the date on which my employment with the Company terminated and that, exclusive only of the Separation Payments [and the Accrued Obligations, as defined in the Employment Agreement], no further compensation of any kind shall be due to me by the Company, whether arising under the Employment Agreement or otherwise, in connection with my employment or the termination thereof. I also agree that except for any right I and my eligible dependents may have to continue participation in the Company's health and dental plans under the federal law commonly known as COBRA, my right to participate in any employee benefit plan of the Company will be determined in accordance with the terms of such plan.

I acknowledge that my eligibility for the Separation Payments is not only contingent on my signing and returning this Release of Claims to the Company in a timely manner and not revoking it thereafter, but also is subject to my compliance with the covenants contained in the Employment Agreement.

In signing this Release of Claims, acknowledge that I have not relied on any promises or representations, express or implied, that are not set forth expressly in this Release of Claims. I further acknowledge that I am waiving and releasing any rights I may have under the Age Discrimination in Employment Act of 1967, as amended ("ADEA"), and that this waiver and release is knowing and voluntary and is being done with a full understanding of its terms. I agree that the consideration given for this wavier and release is in addition to anything of value to which I was already entitled. I further acknowledge that I have been advised by this writing as required by the ADEA that:

1. I have the right to and am advised by the Company to consult with an attorney prior to executing this Release of Claims; and I acknowledge that I have had sufficient time to consider this Release of Claims and to consult with an attorney, if I wished to do so, or to consult with any other person of my choosing before signing;

2. I may not sign this Release of Claims prior to the termination of my employment, but that I may consider the terms of this Release of Claims for up to twenty-one (21) days (or, if the Company so instructs, forty-five (45) days) from the later of the date my employment with the Company terminates or the date I receive this Release of Claims;

3. I have seven (7) days following my execution of this Release of Claims to revoke this Release of Claims; and

4. This Release of Claims shall not be effective until the revocation period has expired.

Intending to be legally bound, I have signed this Release of Claims under seal as of the date written below.

Signature: ____Date signed: ______________________________

Party City Holdings Inc.

____
Name:
Title:

Party City Holdco Inc.

____
Name:
Title:

Exhibit 21.1

List of Subsidiaries of Party City Holdco Inc.

Name	State/Country of Organization or Incorporation
Amscan Asia Limited	Hong Kong
Amscan Custom Injection Molding, LLC	Delaware
Amscan de Mexico S.A. de C.V.	Mexico
Amscan Europe GmbH	Germany
Amscan Holdings Limited	United Kingdom
Amscan Inc.	New York
Amscan International Limited	United Kingdom
Amscan Mauritius Company Limited	Mauritius
Amscan NM Land, LLC	Delaware
Amscan Party Goods Pty. Limited	Australia
Amscan Purple Sage, LLC	Delaware
Am-Source, LLC	Rhode Island
Anagram Eden Prairie Property Holdings LLC	Delaware
Anagram France S.C.S.	France
Anagram International Holdings, Inc.	Minnesota
Anagram International Inc.	Minnesota
Anagram International LLC	Nevada
Baja Pacific Paper, S. de R.L. de C.V.	Mexico
Balloon Agencies Pty Ltd.	Australia
Christy Dressup Limited	United Kingdom
Christy’s By Design Limited	United Kingdom
Christy Garments and Accessories Limited	United Kingdom
Convergram de Mexico S. de R.L. (49.9% owned)	Mexico
Eastlake Manufacturing de Mexico S.A. de C.V.	Mexico
Everts Malaysia SDN BHD	Malaysia
Festival S.A.	Madagascar
Granmark S.A. de C.V. (85% owned)	Mexico
Guangzhou Christy Trading Company Limited	China
Kazzam, LLC (26% owned)	Delaware
M-G Novelty Company	Oklahoma
Party City Australia Pty. Limited	Australia
Party City Canada Inc.	Ontario
Party City Corporation	Delaware
Party City Holdings Inc.	Delaware
Party Delights Ltd.	United Kingdom
Party HQ Ltd. (71% owned)	United Kingdom
Party Horizon Inc.	Delaware
PC Nextco Holdings, LLC	Delaware
PC Nextco Finance, Inc.	Delaware
PC Intermediate Holdings, Inc.	Delaware
PD Retail Group Ltd. (50% owned)	United Kingdom
Print Appeal, Inc. (60% owned)	Texas
Punchbowl, Inc. (28% owned)	Delaware
Riethmüller (Polska) Sp.z.o.o.	Poland
Travis Designs Limited	United Kingdom
Trisar, Inc.	California

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements (Form S-3 No. 333-213492, S-8 No. 333-203725) of Party City Holdco Inc. of our reports dated February 28, 2019, with respect to the consolidated financial statements and schedules of Party City Holdco Inc. and the effectiveness of internal control over financial reporting of Party City Holdco Inc. included in this Annual Report (Form 10-K) of Party City Holdco Inc. for the year ended December 31, 2018.

/s/ Ernst & Young LLP

New York, New York
February 28, 2019

Exhibit 31.1

Section 302 Certification

I, James M. Harrison, certify that:

1. I have reviewed this annual report on Form 10-K of Party City Holdco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2019

/s/ James M. Harrison
James M. Harrison
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Section 302 Certification

I, Daniel J. Sullivan, certify that:

1. I have reviewed this annual report on Form 10-K of Party City Holdco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2019

/s/ Daniel J. Sullivan
Daniel J. Sullivan
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Party City Holdco Inc. (the "Company") on Form 10-K for the year ended December 31, 2018, as filed with the Securities and Exchange Commission (the "Report"), I, James M. Harrison, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James M. Harrison
James M. Harrison
Chief Executive Officer

Date: February 28, 2019

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Party City Holdco Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Party City Holdco Inc. (the "Company") on Form 10-K for the year ended December 31, 2018, as filed with the Securities and Exchange Commission (the "Report"), I, Daniel J. Sullivan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Daniel J. Sullivan
Daniel J. Sullivan
Chief Financial Officer

Date: February 28, 2019

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Party City Holdco Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.